

ANNEXURE B



CAPE WINELANDS DISTRICT
MUNICIPALITY • MUNISIPALITEIT • UMASIPALA

ASSET MANAGEMENT POLICY

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1. Definitions

- 11 **Accounting Officer** – means the Municipal Manager appointed in terms of Section 82 of the Municipal Structures Act 1998 (Act 117 of 1998).
- 12 **Accumulated Depreciation** – comprises the collective sum of all annual depreciation charges raised from the date of acquisition of an asset up to a specific balance sheet date during the assets useful life.
- 13 **Acquisition Date** – refers to the actual date the asset was purchased or constructed or, where this information is not available, it is the assumed date determined by taking into account the assets age and condition. Acquisition dates must be decided upon in order to determine backlog depreciation.
- 14 **“Assets”** – are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. Their net book value (cost less accumulated depreciation) is included in the balance sheet and accounting records. These assets are normally funded on the capital budget and are then capitalized in the year of acquisition or completion.
- 15 **Benchmark Treatment** – refers to the periodical review of the carrying amount of an item or a group of items of Property, Plant and Equipment (PPE) in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The treatment is set out in detail in GRAP 17.
- 16 **Capitalization Policy** – as it refers to all assets where the recognition criteria in terms of GRAP 17 para.11 have been met. The cost of these items of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
 - (b) the cost or fair value of the item can be measured reliably
- 17 **Carrying Amount** – is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon.
- 18 **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 in terms of sec 80(2)(a) of the *MFMA*.
- 19 **Community Assets** are defined as any asset that contributes to the community’s well-being. Examples are Parks, Libraries and Fire Stations.
- 110 **Cost** – is the amount of cash or equivalents paid or the fair value of or any other consideration given to acquire an asset at the time of its acquisition or construction.
- 111 **Depreciable Amount** – is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
- 112 **Depreciation Method** – refers to the methods of calculating depreciation. For example, the Straight-Line method applied to motor vehicles and the Units of Production method applied to tip sites.
- 113 **Depreciation** – is the systematic allocation of the annual depreciable amount of an asset over its useful life.
- 114 **Fair Value** – is the amount for which an asset could be exchanged between two knowledgeable, willing parties in an arm’s length transaction.

- 1.15 **Head Of Department** – shall be the Executive Director appointed in terms of S56 of the MFMA to manage a service or departmental function for which he/she is directly responsible to the Municipal Manager.
- 1.16 **Heritage Assets** – are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- 1.17 **Infrastructure Assets** – are defined as any asset that is part of a network of similar assets, which are connected to perform a specific function. Examples are roads, water reticulation and purification schemes, sewerage reticulation and treatment, transport terminals and car parks.
- 1.18 **Inventories** - are assets:
- a. held for sale in the ordinary course of municipal activities,
 - b. in the process of production for such sale, or
 - c. in the form of materials or supplies to be consumed in the production process or in the rendering of services.
- 1.19 **Investment Properties** – are defined as properties that are acquired from economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
- 1.20 **Other Assets** – are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles, personal computers, furniture and fittings.
- 1.21 **Net realizable value** - is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
- 1.22 **Property, Plant and Equipment** – are tangible assets that:-

- a. are held by the municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- b. are expected to be used during more than one period.

123 **Recoverable Amount** – is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

124 **Residual Value** – Residual Value – is the net amount the municipality would currently obtain for an asset at the end of its useful life after deducting the expected costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

125 **Useful Life** – refers to the life span of an asset and is either:-

- a. the period of time measured in years over which an asset is expected to be used by the municipality, or
- b. the number of production or similar units expected to be obtained from the asset by the municipality' Chief Financial Officer.

2. Compliance with laws and legislation

21 Section 63(1) of the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) requires that a municipality establish an appropriate and effective controls to ensure the adequate safeguarding and maintenance of Council's assets.

3. Objectives of the policy

31 This policy sets out the procedures to be followed by the Accounting Officer, Executive Directors and their staff, to whom functions are delegated, for the management of the Cape Winelands District Municipality's assets and the reporting to Council on such functions wherever applicable.

- 32 The objective of this policy is further aimed at improving the custodianship over all categories assets and institute steps for the proper administration and accounting of assets.
- 33 This policy has been prepared in terms of the following applicable GRAP Standards:
- 3.4.1 GRAP 17 (*Property, Plant and Equipment*);
 - 3.4.2 GRAP 9 (*Inventory*);
 - 3.4.3 GRAP 13 (*Leases*);
 - 3.4.4 GRAP 16 (*Investment Property*);
 - 3.4.5 GRAP 21 (*Impairment of Non-Cash Generating Assets*);
 - 3.4.6 GRAP 26 (*Impairment of Cash Generating Assets*);
 - 3.4.7 GRAP 31 (*Intangible Assets*); and
 - 3.4.8 GRAP 103 (*Heritage Assets*).
- 34 These assets will be used in the production or supply of goods and services or for administrative purposes in providing services to all the residents within the community of the Cape Winelands District Municipality and must accordingly be protected and maintained over their respective useful lives.
- 35 All municipal property, plant and equipment are classified into infrastructure assets, community assets and other assets. Heritage assets, Intangible Assets and Investment Properties are classified separately.
- 36 The policy will enable Council to reflect the market value of the fixed assets.

4. Role of the Accounting Officer

- 4.1 As accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality's assets, and shall be responsible for ensuring that the asset management

policy is scrupulously applied and adhered to. He/she must ensure that:-

- 4.1.1 *The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality.*
- 4.1.2 *The Municipality's assets are valued in accordance with standards of Generally Recognized Accounting Practice (GRAP).*
- 4.1.3 *The Municipality has and maintains a system of internal control of assets, including an asset register.*
- 4.1.4 *Executive Managers and other officials comply with this policy.*

5. Role of the Chief Financial Officer

- 51 The chief financial officer shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained.
- 52 No amendments, deletions or additions to the fixed asset register shall be made other than by the chief financial officer or by an official acting under the written instruction of the chief financial officer.
- 53 He/she must ensure that:-
 - 5.3.1 Appropriate systems of financial management and internal control are established and carried out diligently.
 - 5.3.2 The financial and other resources of the Municipality assigned to him/her are utilized effectively, efficiently, economically and transparently.
 - 5.3.3 Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.
 - 5.3.4 The systems, processes and registers required to substantiate the financial values of the Municipality's assets are maintained to standards sufficient to satisfy the requirements of effective management.

- 5.3.5 Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- 5.3.6 The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- 5.3.7 The executive directors and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

6. Role of the Executive Director

61 The Executive Directors must ensure that:

- 6.1.1 *Appropriate systems of physical management and control are established and carried out for assets in their area of responsibility.*
- 6.1.2 *The Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently.*
- 6.1.3 *The assets under their control must be properly safeguarded and maintained to the required level and that risk management systems must exist and be maintained.*
- 6.1.4 *Any unauthorized, irregular or fruitless or wasteful utilization and losses resulting from criminal or negligent conduct are prevented.*
- 6.1.5 *Their management systems and controls can provide an accurate, reliable and up to date account of assets under their control.*
- 6.1.6 *They are able to justify that their plans, budgets, purchasing, maintenance and disposal decisions for assets optimally achieve the Municipality's strategic objectives.*
- 6.1.7 *The purchase of assets complies with all municipal policies and procedures.*
- 6.1.8 *All moveable property, plant and equipment is duly processed and identified and inspected as being in order before it is received into their stewardship.*

- 6.1.9 *All moveable assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these assets and regular stock takes to ensure that no losses have occurred. Any known losses should be immediately reported to the Chief Financial Officer.*
- 6.1.10 *Assets are appropriately utilized for the purpose for which the municipality acquired them.*
- 6.1.11 *The Executive Directors may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring that these activities are performed*

7. Format of the 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 information if available and applicable:
- 7.2.1 *a brief description of each asset;*
 - 7.2.2 *Unique asset number;*
 - 7.2.3 *the date on which the asset was acquired or brought into use or ready for use pending of the category of asset;*
 - 7.2.4 *SCOA item (When applicable);*
 - 7.2.5 *the date on which the asset was acquired or brought into use or ready for use pending of the category of asset;*
 - 7.2.6 *the location of the asset (GPS Coordinates, if available);*
 - 7.2.7 *the department(s) or vote(s) within which the assets will be used;*
 - 7.2.8 *the title deed number, in the case of land and buildings;*
 - 7.2.9 *the stand number (Erf. No.), in the case of fixed property;*
 - 7.2.10 *where applicable, the identification number, as determined in compliance with part 11 below;*

- 7.2.11 *the original cost, or the revalued amount determined in compliance with part 26 below, or the fair value if no costs are available;*
 - 7.2.12 *the (last) revaluation date of the fixed assets subject to revaluation;*
 - 7.2.13 *the revalued value of such fixed assets;*
 - 7.2.14 *who did the (last) revaluation;*
 - 7.2.15 *accumulated depreciation to date;*
 - 7.2.16 *the depreciation charge for the current financial year;*
 - 7.2.17 *the carrying value of the asset;*
 - 7.2.18 *the method and rate of depreciation;*
 - 7.2.19 *impairment losses incurred during the financial year (and the reversal of such losses, where applicable);*
 - 7.2.20 *the source of financing;*
 - 7.2.21 *Ward classification (When applicable);*
 - 7.2.22 *the current insurance arrangements;*
 - 7.2.23 *whether the asset is required to perform basic municipal services;*
 - 7.2.24 *whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements;*
 - 7.2.25 *the date on which the asset is disposed of;*
 - 7.2.26 *the disposal price;*
 - 7.2.27 *the date on which the asset is retired from use and transferred to non-current assets held for sale;*
 - 7.2.28 *financial leases should also be included in the asset register as assets subject to finance leases*
- 7.3 All executive directors under whose control any asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the fixed asset register, and shall promptly advise the chief financial officer in writing of any

material change which may occur in respect of such information.

- 7.4 If the asset is constructed over a period of time, it shall be recorded as work-in-progress (for example and unfinished road) until it is available for use, thereafter it shall be appropriately capitalised as an asset in the fixed assets register.
- 7.5 A fixed asset shall remain in the fixed assets register for as long as it is in physical existence.

8 Classification of assets

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

8.2 Property, plant and equipment

8.1.1 *land and buildings (not held as investment assets)*

8.1.2 *infrastructure assets (assets which are part of a network of similar assets)*

8.1.3 *community assets (resources contributing to the general well-being of the community)*

8.1.4 *other assets (ordinary operational resources)*

8.3 Inventories

8.3.1 *housing (rental stock or housing stock not held for capital gain)*

8.4 Investment properties

8.4.1 *investment assets (resources held for capital or operational gain)*

8.5 Heritage Assets

8.5.1 *heritage assets (culturally significant resources)*

8.6 Intangible Assets

8.6.1 *Intangible Assets – (assets without physical substance)*

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

8.8 Finance Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

9 Investment Properties

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

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

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

9.4 Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value.

9.5 Investment assets shall be recorded in the balance sheet at such fair value.

9.6 Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in

the accounting records of the department or service controlling the assets concerned.

- 9.7 Property being constructed or developed on behalf of third parties. For example, the Department of Housing may enter into construction contracts with entities external to its government (see the Standard of GRAP on Construction Contracts).
- 9.8 An expert valuer shall be engaged by the municipality to undertake such valuations.

10 Fixed assets recognised as inventory

- 10.1 Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory (see the Standard of GRAP on Inventories), and not included in either property, plant and equipment or investment property in the municipality's statement of position.
- 10.2 Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

11 Recognition of Heritage assets in the fixed asset register

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

- 11.2 For Statement of Financial Position purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

12 Recognition of assets received for no consideration

- 12.1 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 Accounting Officer.

13 Recognition of finance lease assets

13.1 Initial recognition

At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine: if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.

13.2 Subsequent measurement

13.2.1 Minimum lease payment

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.

13.2.2 Depreciation

A finance lease gives rise to a depreciation expense for depreciable assets as well as finance expenses for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with the Standard of GRAP on Property, Plant and Equipment and Intangible Assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

13.3 Disclosure - Leases

Lessees shall, in addition to meeting the requirements of the Standard of GRAP on Financial Instruments: Disclosure and Presentation, make the following disclosures for finance lease:

- 13.3.1 *for each class of asset, the net carrying amount at the reporting date,*
- 13.3.2 *a reconciliation between the total of future minimum lease payments at the reporting date, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods:*
 - 13.3.2.1 *not later than one year,*
 - 13.3.2.2 *later than one year and not later than five years, and*
 - 13.3.2.3 *later than five years,*
- 13.3.3 *contingent rents recognised as an expense in the period,*
- 13.3.4 *the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date,*

- 13.3.5 a general description of the lessee's material leasing arrangements including, but not limited to, the following:*
- 13.3.5.1 the basis on which contingent rent payable is determined,*
- 13.3.5.2 the existence and terms of renewal or purchase options and escalation clauses, and*
- 13.3.5.3 restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt and further leasing, and*
- 13.3.6 the depreciation and the finance charge relating to the leased asset shall be included as part of the total depreciation and finance charges respectively.*

14 Safeguarding of assets

- 14.1 Every executive director of each department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.
- 14.2 In exercising this responsibility, every executive director shall adhere to any written directives issued by the Accounting Officer to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's fixed assets.
- 14.3 With reference to assets that have been identified as redundant, a review of the condition should be performed by the Executive Director determine whether these items should be replaced or repaired where possible.
- 14.4 All assets as mentioned in 14.3 should clearly be identified and stored in a demarcated storeroom with only the Chief Financial Officer or a delegated official having access to the area

15 Identification of assets

- 15.1 The Accounting Officer shall ensure that Council maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.
- 15.2 The identification system shall be determined by the Accounting Officer, acting in consultation with the Chief Financial Officer and other heads of departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report(s), and shall be decided upon within the context of the municipality's budgetary and human resources.
- 15.3 Every Executive Director of a department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

16. Procedure in case of loss, theft, destruction or impairment of assets

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

17 Recognition Criteria: Intangible assets

- 17.1 Intangible assets are treated in accordance with the provisions of Standard of GRAP on *Intangible Assets*. In accordance with these provisions intangible assets are initially recorded at their cost price and are subsequently amortised over their useful lives. An annual impairment exercise should be performed as required by the Standard.
- 17.2 An intangible asset is defined as an identifiable non – monetary asset without physical substance held for use in the production

or supply of goods or services, for rental, to others, or for administrative purposes. Examples of intangible assets are: computer software that is not an integral part of the related hard ware and mineral rights.

18 Capitalisation criteria: Reinstatement, Maintenance and other expenses

- 18.1 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.
- 18.2 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 quantum of the expenses concerned.
- 18.3 Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised. Such expenses may include but need not be limited to import duties, forward cover costs, transportation, installation, assembly and communication costs.
- 18.4 The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:-

CAPITAL EXPENDITURE	MAINTENANCE
<ul style="list-style-type: none"> • Acquiring a new asset • Replacing an existing asset • Enhancing an existing asset so that its use is expanded • Further developing an existing assets so that its original useful life is extended 	<ul style="list-style-type: none"> • Restoring an asset so that it can continue to be used for its intended purposes • Maintaining an asset so that it can be used for the period for which it was initially intended

19 Maintenance plans

- 19.1 Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R250 000 (two hundred and fifty thousand rand) or more is promptly prepared and submitted to the council of the municipality for approval.
- 19.2 Every Executive Director should ensure that the infrastructure assets are kept in an operative condition to maintain the asset in question over its original estimate useful life.

Commented [MJ1]: Delete this paragraph as this is done annually before construction of any infrastructure assets are acquired

Commented [MJ2]: Delete this paragraph as this is done annually. Not aware of any such reports that are submitted to council on an annual basis

20 Deferred Maintenance

- 20.1 If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 19 above), the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.
- 20.2 Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.
- 20.3 Every Executive Director should ensure that the maintenance budgets are utilised in order for assets to be kept in good condition and that the maintenance plans and its progress be reported to Council on a regular basis.
- 20.4 If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

21 General maintenance of assets

- 21.1 Every executive director shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 19 and part 20 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

22 Depreciation of assets

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

- 22.2 Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.
- 22.3 Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.
- 22.4 Depreciation shall be calculated from the 1st day of the month following the month in which the asset was brought into use.
- 22.5 Depreciation shall be calculated on cost less residual values.
- 22.6 Residual values are applicable on all assets. Initial acquisition of an asset – The residual value of an asset will be assessed with reference to the current cost, in an active open market, of a similar asset of the age and in the condition expected at the end of that asset’s useful life under a willing buyer, willing seller transaction. In the absence of an active open market, the residual value of an asset will be deemed to be nil unless other information exists, at the date of initial recognition, which would indicate that another value would fairly reflect the residual value of the asset at the end of its useful life. Examples of an active open market include the second-hand vehicle market as well as the realty market. For motor vehicles, the Trans Union Dealers Guide should be used to determine the residual values on vehicles as this guide represents the current value of second- hand vehicles. On acquisition of land and buildings, an assessment must be made, based on the asset’s maintenance plan of the estimated condition of the asset at the end of its economic useful life. This assessment will then be compared to the assets current condition in order to identify what percentage the condition of the asset will be deteriorated at the end of its economic useful life. This percentage will then be used to calculate the residual value as being that percentage of the current value of the asset.

Subsequent measurement – The Chief Financial Officer must assess at each reporting date whether there is any indication that the municipality’s expectations about the residual value of an asset have changed since the preceding reporting date. Any

change(s) shall be accounted for as a change in an accounting estimate in accordance with GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors. Indications of a change in residual value includes, but is not limited to changes in market values in the active open market, changes in the estimated useful life of the asset, the addition of newer models in the market, the ceasing of the production of a range of assets in the market or a decision to sell the asset at an earlier date the end of its estimated useful life.

(This proposed adjustment may result in paragraph 25.2 no longer being required.)

Prior to the recording of capitalised assets in the fixed asset register, each asset's residual value must be approved by the Chief Financial Officer or the Deputy Director: Financial Statements and Reporting for inclusion in the fixed asset register.

- 22.7 Each head of department, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be controlled or used during the ensuing financial year.
- 22.8 The procedures to be followed in accounting and budgeting for the amortisation (depreciation) of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

23 Rate of depreciation

- 23.1 Each Manager needs to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:
- The program that will optimize the expected long term costs of owning that asset;

- Economic obsolescence because it is too expensive to maintain;
- Functional obsolescence because it no longer meets the municipality's needs,
- Technological obsolescence;
- Social obsolescence due to changing demographics; and
- Legal obsolescence due to statutory constraints.

23.2 A schedule of useful lives is included as an annexure. These should be used as a guide only because asset lives experienced may greatly vary from those recommended lives.

23.3 In the case of an item of PPE or Intangible Asset which is not listed in this annexure, the relevant head of department in consultation with the Chief Financial Officer shall determine a useful operating life and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.

23.4 Spares purchased specifically for a particular asset or class of assets at the time of the initial acquisition and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

24 Method of depreciation

24.1 Except in those cases specifically identified in part 37 below, the Accounting Officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question (Cost less residual value divided by the useful operating life).

24.2 On an annual basis the executive directors performing an impairment exercise to determine the fair value of assets where indication exists of possible damage or change in present value of future cash flows.

- 24.3 The depreciation method applicable to a class of asset must be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method must be changed to reflect the changed pattern.
- 24.4 When such a change in depreciation method is necessary the change must be reflected as a change in the accounting estimate and the depreciation charge for the current and future periods should be adjusted.

25 Review of asset lives and impairment of assets

- 25.1 Only the Chief Financial Officer in consultation with the responsible Manager may amend the useful operating life or the residual value assigned to any asset.
- 25.2 The Chief Financial Officer shall amend the useful operating life or the residual value assigned to any 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.
- 25.3 If the value of an asset item of PPE 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 written off from the date in which such diminution in value occurs.
- 25.4 Similarly, if an item of PPE has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the item has physically ceased to exist, it shall be written off in the fixed asset register.
- 25.5 In all of the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the item of PPE or intangible asset in question.
- 25.6 The useful life and the residual value of an item of property, plant or equipment must be reviewed annually and if these

revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods must be adjusted and the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

- 25.7 Additional depreciation not budgeted for as a result of unforeseeable or unavoidable circumstances must be provided for in an adjustments budget and, if such circumstances arises close to the end of the financial year and there will not be time for Council to consider the adjustments before the end of the financial year, may in advance be approved by the Mayor in terms of Section 29 of the MFMA, provided that any other provisions of the MFMA be complied with.

26 Alternative methods of depreciation in specific instances

- 26.1 The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services. This method is only applicable on municipalities with cemeteries.
- 26.2 The Chief Financial Officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the Municipal Manager to provide:
- estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and
 - actual statistical information, for each financial year.
- 26.3 The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.
- 26.4 Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer shall inform Council of the decision in question.

27 Carrying value of assets

- 27.1 Subsequent to initial recognition as an asset, an item of property, plant or equipment should be carried at its cost of acquisition or revalued amounts less any accumulated depreciation and accumulated impairments.
- 27.2 The only exceptions to this rule shall be investment assets as well as heritage assets.

28 Verification of assets

- 28.1 Every executive director of department shall at least twice during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.
- 28.2 Every executive director of department shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.

29 Disposal of assets

- 29.1 Every executive director of department, together with the asset management department shall at least once every financial year

undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

29.2 The municipality may transfer ownership or otherwise dispose of an asset other than one contemplated above or moveable assets having an estimated carrying value above R100 000, but only after the Council, in a meeting open to the public:

29.2.1 *Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and*

29.2.2 *Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.*

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

29.4 The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality and the Asset Transfer Regulations.

29.5 The transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.

29.6 Once assets are alienated, the Chief Financial Officer shall in terms of GRAP adjust the asset register for the current year and shall, for the ensuing year, delete the asset from the accounting records and the asset register.

29.7 If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the Statement of Financial Performance of the department or vote concerned.

29.8 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 Statement of Financial Performance of the department or vote concerned.

29.9 All assets earmarked for write-off must be sold on a public auction or tender once the following steps have been followed:

29.9.1 *a notice was published in the local press of the municipality's intention to sell the asset;*

29.9.2 *in the case of computer equipment the provincial department of education is first approached to determine within 30 days if any of the local schools are interested in the equipment;*

29.9.3 *in the case where no such schools are interested in the computer equipment it must be donated to non-profit organisations who will have to motivate why the equipment must be donated to them;*

29.9.4 *In the case of an public auction an independent auctioneer was appointed to hold the auction; and*

29.9.5 *In the case of a public tender the prescribed tender procedures were followed.*

30 Write-off of assets

30.1 The Accounting Officer in consultation with the Chief Financial Officer will regulate all write-offs of assets.

30.2 Every head of department shall report to the Chief Financial Officer on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation.

30.3 The Chief Financial Officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

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

31 Impairment Losses

- 31.1 The carrying amount of an item or a group of identical items of Property, Plant and Equipment, Intangible Assets and Investment Property should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.
- 31.2 The recoverable amount is the amount that the municipality expects to recover from the future use of the asset including its residual value on disposal. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non- distributable reserve.
- 31.3 The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification works is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.
- 31.4 The following may be indicators that an asset is impaired:
- 31.4.1 *The asset has been damaged;*
 - 31.4.2 *The asset has become technologically obsolete;*
 - 31.4.3 *The asset remains idle for a considerable period either prior to it being put into use or during its useful life; and*
 - 31.4.4 *Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.*

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

31.5.1 Departments will identify and inform CFO – Asset Control of assets that:

31.5.1.1 Are in a state of damage at year end;

31.5.1.2 Are technologically obsolete at year end;

31.5.1.3 Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life;

31.5.1.4 Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is land that is purchased at market value and is to be utilized for subsidized housing developments.

31.5.2 The recoverable amounts of these assets need to be determined by calculating the net selling price per asset as defined above.

31.5.3 The impairment loss per asset is the difference between the net selling price and the carrying value of the asset.

32 Subsequent increase in recoverable amount

32.1 A subsequent increase in the recoverable amount of an asset, previously impaired due to a decline in the carrying amount, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

32.2 The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

33 Replacement – Norms and standards

33.1 The Accounting Officer, in consultation with the Chief Financial Officer and executive directors of departments, shall formulate norms and standards for the replacement of all normal operational fixed assets.

33.2 The Accounting Officer in consultation with the Chief Financial Officer shall establish an Asset Adjudication Committee to regulate the replacement and acquisition of assets

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33.3 Assets will only be replaced under the following circumstances:

33.3.1 Vehicles

33.3.1.1 In cases of material impairment

33.3.1.2 If the asset is stolen.

33.3.1.3 Vehicles are replaced at the end of their normal useful life

33.3.1.4 If the net current value of a new asset, discounted over its useful life, is less than the net current value of the existing asset, discounted over the same period.

34.3.2 Personal Computers, Screens and Laptops

34.3.2.1 Personal computers, screens and laptops are replaced at every third year or the end of their useful lives depending on the condition of the asset.

34.3.2.2 In cases of material impairment

34.3.2.3 If the asset is stolen.

34.3.3 Furniture and Equipment

34.3.3.1 In cases of material impairment

34.3.3.2 If the cost to repair the damaged asset is more than the net book value of the specific asset

34.3.3.3 If the net current value of a new asset, discounted over its useful life, is less than the net current value of the existing asset, discounted over the same period.

34.3.4 Office Machines

34.3.4.1 In cases of material impairment

34.3.4.2 *If the cost to repair the damaged asset is more than the net book value of the specific asset*

If the net current value of a new asset, discounted over its useful life, is less than the net current value of the existing asset, discounted over the same period.

34 Office furniture and equipment for new posts created on the micro structure

34.1 New office equipment and furniture will be bought for officials to be appointed in new posts if not available.

35 Insurance of assets

35.1 In terms of the System of Delegations the Chief Financial Officer must ensure that all movable and immovable fixed assets of the municipality are sufficiently insured.

35.2 Council's insurance brokers should be notified immediately of changes in the following **specified** items on the insurance portfolio, because the insurance premium changes in relation to the change on the portfolio:

35.2.1 *A change in the number of laptops insured*

35.2.2 *A change in the number of vehicles*

35.2.3 *A change in the number of people insured against aids*

35.2.4 *When buildings are bought or sold*

36 Annexure: Useful lives

36.1 Depreciation is calculated on cost, using the straight line, method, over the estimated useful lives of the assets.

36.2 Heritage assets, which are defined as culturally significant resources are not depreciated as they are regarded as having an infinite life. Land is also not depreciated for the same reason.

36.3 The Chief Financial Officer must assess at each reporting date whether there is any indication that the municipality's expectations about the standard useful lives for each class of asset have changed since the preceding reporting date. Indications that the municipality's expectations about the standard useful lives for each class of asset have changed mainly include the number of assets acquired during the year whose estimated useful lives were changed from the standard useful life to a more specific useful life. Such changes indicate that the existing expectations are no longer in line with what is actually taking place. A change to the standard estimated useful lives of each class of assets will not necessarily result in changes to the estimated useful lives of existing assets however, such an adjustment is considered an indicator that the estimated useful lives of assets may require an amendment in the fixed asset register.

