

**ALFRED
MUNICIPALITY**

NZO

DISTRICT



ALFRED NZO
DISTRICT MUNICIPALITY

**FIXED ASSET MANAGEMENT
POLICY**

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ANDM FIXED ASSET MANAGEMENT POLICY

POLICY APPROVAL

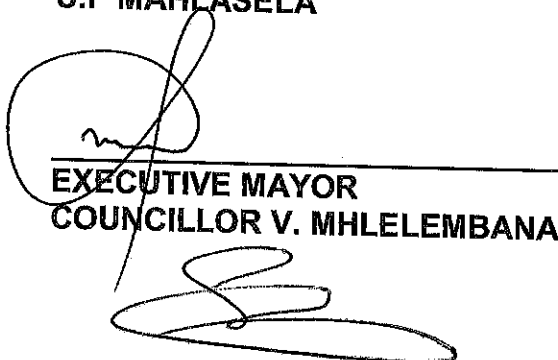
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**ACTING MUNICIPAL MANAGER
U.P MAHLASELA**



**EXECUTIVE MAYOR
COUNCILLOR V. MHLELEMBANA**

**SPEAKER
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ANDM FIXED ASSET MANAGEMENT POLICY

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1. DEFINITIONS

Accounting Officer means the Municipal Manager appointed in terms of 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

Agricultural Produce is the harvested product of the municipality's biological assets.

Biological Assets are defined as living animals or plants.

Capital Assets (assets) are items of Biological Assets, Intangible Assets, Investment Property, Heritage Assets or Property, Plant or Equipment defined in this Policy.

Carrying Amount is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

Chief Financial Officer (CFO) means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

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.

Depreciable Amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair Value is the amount for which an asset could be exchanged or a liability between knowledgeable, willing parties in an arm's length transaction.

GAAP are standards of Generally Accepted Accounting Practice.

GRAP are standards of Generally Recognised Accounting Practice.

Heritage Assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

Infrastructure Assets are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

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Intangible Assets are defined as identifiable non-monetary assets without physical substance.

Investment Properties are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

Land and Buildings are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

MFMA refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

Other Assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

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

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

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

Recoverable Service Amount is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

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

Useful Life is:-

- (a) The period of time 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's accounting officer.

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2. EXECUTIVE SUMMARY

The Fixed Asset Management Policy governs the management of assets owned by ANDM (both operationally and financially) so as to ensure that they are managed, controlled, safeguarded and maintained in an efficient and effective manner. Furthermore, the purpose of this policy is to stipulate the accounting treatment of assets.

3. OBJECTIVES

2.1 The MFMA was introduced with the objective of improving accounting in the municipal sector in keeping with global trends. The asset management policy is to be used to ensure that Council adopt appropriate and correct, accounting and control of fixed assets owned and controlled by Alfred Nzo Municipality.

2.2 This policy has been designed to provide detailed procedures, to ensure that management and employees within the municipality understand their respective responsibilities and duties.

2.3 The objective of this Asset Management Policy is to ensure that assets of the Municipality are properly managed and accounted for by –

- Providing a formal set of financial procedures that can be implemented to ensure the Alfred Nzo Municipality's asset policy objectives are achieved;
- Applying asset management principles in a consistent manner and in accordance with legal requirements and recognized good practice;
- Complying with Council's accounting policies and Generally Recognized Accounting Practices;
- Ensuring that effective controls are communicated to management and staff through clear and comprehensive written document;
- Ensuring that accurate and essential information is recorded;
- Treating assets correctly in the Municipality Financial Statements;
- Ensuring that asset are safe guarded and adequately insured;
- Optimizing asset usage and emphasize a culture of accountability over assets.

4. LEGAL REQUIREMENTS

4.1 COSTITUTION AND LEGAL FRAMEWORK

4.1.1 This policy must comply with all relevant legislative requirements including –

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- (a) The Constitution of the Republic of South Africa, 1996;
- (b) The Municipal Systems Act, 2000; and
- (c) The Municipal Finance Management Act, 2003

4.1.2 The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects –

- (a) Providing democratic and accountable government for local communities;
- (b) Ensuring the provision of services to communities in a sustainable manner;
- (c) Promoting social and economic development;
- (d) Promoting a safe and healthy environment; and
- (e) Encouraging the involvement of communities and community organizations in matter of local government

4.1.3 The manner in which a Municipality manages its assets is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable. Section 55(2) of the MSA also emphasizes the responsibility and accountability of the Municipal Manager, as accounting officer of the Municipality, for all assets of the Municipality.

4.1.4 The Municipal Finance Management Act (MFMA) section 63 requires municipalities to utilize and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager by the requirement to ensure that –

- (a) The Municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- (b) The Municipality's assets are valued in accordance with standards of generally recognized accounting practice; and
- (c) The Municipality has and maintains a system of internal control of assets and liabilities.

4.1.5 Requirements regarding asset disposals are set out in sections 14 and 90 of the MFMA while section 75(1) (h) requires that certain information regarding assets disposed of is placed on the Municipality's website. Also developed in terms of the MFMA, the Municipal Asset Transfer Regulations is applicable to all municipalities and municipal entities transferring and disposing of capital assets, or granting a right to use, control or manage capital assets.

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4.1.6 In addition, the Municipal Supply Chain Management Regulation no. 27636 has specific requirements regarding the disposal of capital assets.

4.1.7 The Occupational Health and Safety Act requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its assets safe.

4.2 ACCOUNTING STANDARDS

4.2.1 The MFMA requires municipalities to comply with the standards of Generally Recognised Accounting Practice (GRAP), in line with international practice. The following Standards of GRAP significantly affects the recognition and measurement of assets within the municipal environment –

- (a) GRAP 12 – Inventories;
- (b) GRAP 13 – Leases and more specifically, deemed finance leases;
- (c) GRAP 16 – Identification of items to be treated as Investment Properties;
- (d) GRAP 17 – Property Plant and Equipment;
- (e) GRAP 21 – Impairment of non-cash-generating assets;
- (f) GRAP 26 – Impairment of cash-generating assets;
- (g) GRAP 27 – Agriculture;
- (h) GRAP 31 – Intangible assets and more specifically the treatment of items of software; and
- (i) GRAP 103 – Heritage assets

5. ROLES AND RESPONSIBILITY

The Budget and Treasury Department is responsible for updating the policy on an annual basis. All departments are responsible for submitting requests to change, enhance or improve the existing policy. Requests must be submitted to the Asset Management throughout the year. The requests must be evaluated by the Asset Management on an annual basis and any changes agreed upon must be effected by the Budget and Treasury Department and presented to the Council on an annual basis. Advice on recommended internal control procedures and interpretation of this document may be obtained from the HOD. It is critical that all changes made to the policy and procedures are properly and timeously communicated.

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5.1 ROLE OF MUNICIPAL MANAGER

- (a) The Municipal Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets.
- (b) The Municipal Manager shall ensure that –
- i. The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality;
 - ii. The Municipality's assets are valued in accordance with the standards of generally recognised accounting practice (GRAP);
 - iii. The Municipality has and maintains a system of internal control of assets, including an asset register; and
 - iv. Heads of departments and their teams comply with this policy.
- (c) 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 this policy is effectively applied upon adoption by Council. To this end, the Municipal Manager shall be responsible for the preparation, in consultation with the CFO and Heads of departments, of procedures and processes to ensure that this policy is applied effectively and efficiently.

5.2 ROLE OF CHIEF FINANCIAL OFFICER

- (a) The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment made in the municipal assets is safeguarded and maintained
- (b) The CFO shall also ensure, in exercising his / her financial responsibilities, that –
- i. Appropriate systems of financial management and internal control are established and carried out for all assets;
 - ii. Processes are established to ensure the appropriate measurement and valuation of different asset types as required by relevant standards of GRAP
 - iii. The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently
 - iv. All revenue due to the Municipality related to municipal assets is collected, for example rental income from leasing of immovable assets;
 - v. The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of effective management;

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- vi. Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- vii. The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- viii. The Head of departments and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- ix. All acquisitions of assets are in accordance with the Supply Chain Management Policy; and
- x. This policy and support procedures are established, maintained and effectively communicated

(c) The CFO may delegate or otherwise assign responsibilities for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be the asset registrar of the Municipality, and shall ensure that a complete, accurate and up-to-date computerised asset register is maintained. No amendments, deletions or additions to the asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO

5.3 ROLE OF HEADS OF DEPARTMENTS

(a) Heads of departments (manager directly accountable to the Municipal Manager) shall ensure that –

- i. Appropriate systems of physical management and control are established and carried out for all assets;
- ii. The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- iii. Procedures are adopted and implemented in conformity with this policy to produce reliable data to be captured into the municipal asset register;
- iv. All employees in their Directorates adhere to the approved Asset Management Policy and Procedures;
- v. Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- vi. The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;

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- vii. They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the Municipality's strategic objectives; and
- viii. They manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

(c) Head of department may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

5.4 ROLE OF MANAGER ASSETS and LIABILITIES

(a) The CFO shall delegate the following duties to Manager: Assets and Liabilities–

- i. Ensuring that council assets are accounted for in accordance with Generally Recognised Accounting Practice (GRAP);
- ii. Ensuring that the general ledger is reconciled to the asset register;
- iii. Reviewing the reconciliation between the general ledger and the asset register; and
- iv. 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.
- v. No amendments to the asset register shall be made other than those authorised by Manager: Assets and the Chief Financial Officer
- vi. A centralised asset register is implemented and maintained;
- vii. Physical asset verification is performed quarterly to verify movable assets on the asset register. The results of this verification must be reported to the CFO (or delegated official);
- viii. Proper accounting processes and procedures are implemented in conformity with the municipal financial policies and the MFMA to produce reliable data for inclusion in the municipal asset register; and
- ix. The asset management systems, processes and controls can provide an accurate, reliable and up-to-date account of assets under their control.

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(b) Assistant Manager: Assets may delegate or otherwise assign responsibility for performing these functions, but he / she will remain accountable for ensuring that these activities are performed.

4.3 ROLE OF HUMAN RESOURCES

The Human Resources Management Department shall ensure that no monies are paid out to staff on termination of their service prior to receiving the relevant asset resignation form signed off by the relevant directorate.

6. FIXED ASSET

A fixed asset is an asset, either movable or immovable, owned by or under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year, which cost or fair value can be measured reliably. For the purposes of this policy, fixed assets will include the following:

- Property, Plant and Equipment (as defined in GRAP 17),
- Intangible Assets (as defined in GRAP 31),
- Investment Property (as defined in GRAP 16),
- Heritage Assets (as defined in GRAP 103),
- Biological assets (GRAP 101), as well as
- Assets held under a finance lease, in accordance with the principles contained in GRAP 13.

6.1 FORMAT OF FIXED ASSET REGISTER

The fixed asset register must be maintained in the format determined by the Chief Financial Officer, which format must comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements that may be prescribed. The fixed asset register must reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the supplier from which the asset was acquired
- the location of the asset
- the department(s) or vote(s) within which the assets will be used
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property

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- the identification number, as determined in compliance with paragraph 16 below
- the original cost, or the revalued amount determined in compliance with paragraph 31 below, or the fair value if no costs are available
- the (last) revaluation date of the fixed assets subject to revaluation
- the revalued value of such fixed assets where applicable
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- the current insurance arrangements
- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- the date on which the asset is disposed of
- the disposal price
- the date on which the asset is retired from use, if not disposed of.

6.2 All heads of departments under whose control any fixed asset falls must promptly provide the Chief Financial Officer in writing with any information required to compile the fixed asset register, and must promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

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

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

7. CLASSIFICATION OF FIXED ASSETS

The Chief Financial Officer must ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments must in writing

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provide the Chief Financial Officer with such information or assistance as is required to compile a proper classification:

7.1 PROPERTY, PLANT AND EQUIPMENT

- Land (not held as investment assets)
- Infrastructure assets (assets which are part of a network of similar assets)
- Community assets (resources contributing to the general well-being of the community)
- Other assets (ordinary operational resources)

7.2 HERITAGE ASSETS

- culturally significant resources

7.3 INTANGIBLE ASSETS

- intangible resources

7.4 INVESTMENT PROPERTY

7.4.1 Investment assets must be accounted for in terms of GRAP 16 and must not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position. Investment assets must comprise land or buildings (or part 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. The classification of an investment property is based on management's judgement, and in accordance with GRAP 16 requirements. The following types 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 or buildings generating cash flows in the form of rentals (on a commercial basis). The rent earned does not have to market related for the property to be classified as investment property.
- (c) Land held for a currently undetermined future use.
- (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.

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(e) Property that is being constructed or developed for future use as investment property.

7.4.2 The following types of municipal property may be NOT be classified as Investment Property:

- (a) Land or buildings generating cash flows in the form of rentals, where rental income earned is below market value, and the asset is held for service delivery rather than to generate a commercial return.
- (b) 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.
- (c) Property held for sale within the next 12 months, if the criteria in GRAP 100 are met. This property is classified as non-current assets held for sale.\
- (d) Property being constructed or developed on behalf of the Provincial Government: Housing Department.
- (e) 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.
- (f) 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.
- (g) Property that is leased to another entity under a finance lease.
- (h) Property held to provide a social service and which also generates cash inflows. For example, if 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 GRAP 17 on accounting for PPE.
- (i) 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.

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- (j) 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.

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

7.4.4 Investment assets must be accounted for in terms of GRAP 16 and must initially be measured at its cost. Transaction costs must 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.

7.4.5 Investment assets must not be depreciated, but must be valued annually, at reporting date to determine their fair (market) value. Investment assets must be recorded in the statement of financial position at such fair value. Adjustments to the previous year's recorded fair value must be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned. A professional valuer must be engaged by the municipality to undertake such valuations.

7.5 BIOLOGICAL ASSETS

Accounting for biological assets must take place in accordance with the requirements of GRAP 101.

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

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

Records of the details of biological assets must be kept in a separate of the fixed assets register or in a separate accounting record altogether and such details must reflect the information which the Chief Financial Officer, in consultation with the head of Department concerned and the internal auditor, deems necessary for accounting and control purposes.

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

8. FIXED ASSETS TREATED AS INVENTORY

8.1 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, must be accounted for as inventory. These must not be included in either property, plant and equipment or investment property in the municipality's statement of financial position.

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

9. RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER

9.1 A heritage asset that qualifies for recognition as a fixed asset must be measured at its cost or, where a heritage asset is acquired through a non-exchange transaction; its cost must be measured and be recorded in the fixed asset register at its fair value, as determined by the Chief Financial Officer.

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

9.3 For purposes of compiling the statement of financial position, the existence of such heritage assets must be disclosed by means of an appropriate note.

10. RECOGNITION OF DONATED ASSETS

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned must be recorded in the fixed asset register at its fair value, as determined by the Chief Financial Officer.

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11. SAFEKEEPING OF ASSETS

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

11.2 In exercising this responsibility, every head of Department must adhere to any written directives issued by the Chief Financial Officer to the Department in question, or generally to all Departments, about the control of or safekeeping of the municipality's fixed assets.

12. IDENTIFICATION AND ACQUISITION OF FIXED ASSETS

12.1 The Chief Financial Officer must ensure that the municipality maintains a fixed asset identification system, which must be operated in conjunction with its computerised fixed asset register.

12.2 The identification system must be determined by the Chief Financial Officer, acting in consultation with the Municipal Manager and other heads of Departments, and must comply with any legal prescriptions, as well as any recommendations of the Auditor-General or National Treasury, and must be decided upon within the context of the municipality's budgetary and human resources.

12.3 Every head of Department must 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.

12.4 The acquisition of fixed assets must be effected in terms of the Municipality's Supply Chain Management Policy. All requisitions for acquiring movable assets must be approved by the Asset Management Unit using the approved Asset Requisition Form. All movable assets must be delivered to the Municipal Stores closest to the Municipal Office/Location in which the asset is intended to operate. Only the Stores Officials may accept delivery of Municipal movable assets. The stores must inform the purchasing department, IT Department (for IT equipment) and the Asset Management of assets that have been delivered. In respect of motor vehicles the Fleet Management Office must be informed.

12.5 Acquisition of Infrastructure Assets must be effected by the Project Management Unit in terms of the Supply Chain Management Policy. Infrastructure Assets must be capitalised onto the Fixed Asset Register in the financial year completed and principles of GRAP 17 must apply. Work-in-Progress in respect of infrastructure assets must be accounted for as Property, Plant and Equipment in the Statement of Financial Position.

12.6 Up on acquisition of movable assets (i.e furniture and other office equipment) the specification for such assets will be different and according to the employee's position held at the municipality. For example all senior managers will be procured quality leather office

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chairs and executive desks. The asset management section will assist every department to procure furniture and office equipment efficiently and effectively with compliance to the municipal procurement policy and in accordance to procurement plan for that particular financial year

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

Every head of Department must 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, Accounting Officer and Asset Management, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

14. CAPITALISATION CRITERIA: MATERIAL VALUE

14.1 The capitalisation threshold is a policy decision of the municipality and is the value above which assets are capitalised and reported in the financial statements as tangible or intangible capital assets as opposed to being expensed in the year of acquisition. As a result, the threshold has a significant impact on the size of the asset register and the complexity of asset management. However the capitalisation threshold is regarded as a deviation from GRAP standards and must be determined annually by comparison against materiality and at a level that will ensure that the municipality does not deviate materially from the requirements of GRAP 17.

14.2 The municipality has decided to discontinue the use of a threshold in order to be fully compliant with GRAP 17 as the threshold may result in a material misstatement of the asset register where a significant amount of assets are below the threshold

14.3 Items meeting the definition of an asset as well as the recognition criteria in terms of GRAP 17 must be capitalised as fixed assets in the Municipal Fixed Asset Register (FAR). The discretion of the Chief Financial Officer may be applied regarding whether or not to capitalise items meeting this definition but are considered consumable items in terms of GRAP 12. These items include:

- Plastic chairs
- Computer accessories (flash drive, keyboard, mouse etc. these must be capitalized with the cost of the CPU or laptop)
- Cellphones
- Blinds
- Stationery items (staplers, punches, calculators, paper trays etc)

15. CAPITALISATION CRITERIA: INTANGIBLE ITEMS

An Intangible item must be recognised as a fixed asset, acting in strict compliance with the criteria set out in GRAP 102, and the Chief Financial Officer may decide that specific items be recognised as Property, Plant and Equipment where such seemingly intangible item forms an integral part of an item of Property, Plant and Equipment.

16. CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES

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

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

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

17. MAINTENANCE PLANS (Specialized Equipment)

Every Head of Department must ensure that a maintenance/rehabilitation plan in respect of every infrastructure assets with a value of R200 000 (two hundred thousand rand) or more is prepared and submitted to the Municipal Manager for approval.

If so directed by the Municipal Manager, the maintenance plan must be submitted to the Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The head of Department controlling or using the infrastructure asset in question, must annually report to the Council, not later than in July, of the extent to which the relevant maintenance

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plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned, and if the asset was impaired to any extent.

18. DEFERRED MAINTENANCE

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see paragraph 22 above), the Chief Financial Officer must investigate the extent of and possible implications of such deferred maintenance, as well as any proposed by the applicable head of Department in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer must 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 must recalculate the annual depreciation expenses accordingly.

19. GENERAL MAINTENANCE OF FIXED ASSETS

Every head of Department must be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in paragraph 22 and 23 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

20. DEPRECIATION OF FIXED ASSETS

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

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.

Residual values must be determined upon initial recognition of assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

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The residual value of assets must be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews must be accounted for as a change in accounting estimates in terms of GRAP 3.

Changes in residual values must be approved by the Chief Financial Officer. The Chief Financial Officer must ensure that residual values, and changes thereof, are properly recorded and accounted for in the fixed asset register and the general ledger.

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

Depreciation must 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.

Depreciation must be calculated from the month in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the month in which the fixed asset is brought into use, and thereafter, depreciation charges must be calculated monthly.

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

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

21. RATE OF DEPRECIATION

The Chief Financial Officer must in line with MFMA guidelines assign an estimated useful operating life to each depreciable asset recorded on the municipality's fixed asset register. In determining such a useful life the Chief Financial Officer must adhere to the useful lives set out in the annexure to this policy (see paragraph 31 below).

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

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22. METHOD OF DEPRECIATION

Except in those cases specifically identified in paragraph 24 below, the Chief Financial Officer must depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

23. AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS

The remaining useful life of assets shall be revised, if there is an indication that the expectations about the residual value and the useful of an asset have changed the preceding reporting date. Changes emanating from such reviews must be accounted for as a change in accounting estimates in terms of GRAP 3.

Each head of Department must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the Chief Financial Officer.

The Chief Financial Officer must ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.

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

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

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

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

24. ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES

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

The Chief Financial Officer must only employ this method of depreciation if the head of Department controlling or using the fixed asset in question gives a written undertaking to the Municipal Manager to provide:

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

The head of Department concerned must moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.

Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer must inform the Council of the municipality of the decision in question.

25. IMPAIRMENT OF ASSETS

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Assets must be reviewed annually for all assets with impairment indicators. The following serve as examples of impairment indicators:

- Significant decline in market value;
- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and
- The loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (such as through inadequate maintenance).

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The Chief Financial Officer must with the assistance of all heads of Department ensure that professionally qualified valuers or other professionals with appropriate qualifications perform annual impairment surveys for all assets that show impairment indicators.

The CFO must ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the asset register and the general ledger.

Where the carrying value is less than the recoverable amount for an asset, such reduction must be recorded as an impairment loss against the operating account of the Department concerned.

Impairment of assets must be recognised as an expense in the statement of financial performance, unless it reverses a previous revaluation in which case it must be charged to the revaluation reserve. The reversal of previous impairment losses recognised as an expense is recognised as an income.

The depreciation applicable to the asset concerned will thereafter be effected against the reduced carrying amount over the remaining estimated life of such asset.

26. CARRYING VALUES OF FIXED ASSETS

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

The only exceptions to this rule must be revalued assets (see paragraph 32 below) and heritage assets in respect of which no value is recorded in the fixed asset register (see paragraph 14 above).

27. REVALUATION OF FIXED ASSETS

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

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The Chief Financial Officer must adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the Chief Financial Officer is satisfied that such value reflects the fair value of the fixed asset concerned.

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

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

The Chief Financial Officer must ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's accumulated surplus. An adjustment of the aggregate transfer must be made at the end of each financial year, if necessary (see paragraph 29 above).

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

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

28. VERIFICATION OF FIXED ASSETS

The Asset Management Unit in consultation with every head of Department must on a quarterly basis or at least once annually, and in compliance with the relevant written directives

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issued by the Chief Financial Officer, undertake a comprehensive verification of all movable fixed assets controlled or used by the Department concerned. Random checks of high risks assets will be performed monthly. During the verification process, the condition of fixed assets must be assessed for indicators of impairment and for any evidence that changes in remaining useful lives must be effected.

The directives issued by the Chief Financial Officer must stipulate the date(s) when such verification must be undertaken and completed and such date(s) must be as close as possible to the end of each financial year.

The Asset Management Unit must 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, and the resultant report must be submitted to the Chief Financial Officer not later than 30 June of the year in question.

29. ALIENATION OF FIXED ASSETS

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

Every head of Department must report in writing to the Chief Financial Officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the Department concerned which such head of Department wishes to alienate. The Chief Financial Officer must thereafter consolidate the requests received from the various Departments, and must promptly report such consolidated information to the Municipal Manager, indicating the process of alienation to be adopted in accordance with 20 of the municipality's supply chain management policy.

The Chief Financial Officer must ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R50 000 (fifty thousand rand) takes place in compliance with 14 of the Municipal Finance Management Act, 2004 (see paragraph 40 below).

Once the fixed assets are alienated, the Chief Financial Officer must delete the relevant records from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference must be recognised as a loss in the statement of financial performance of the Department or vote concerned. If the proceeds of the alienation, on the

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other hand, are more than the carrying value of the fixed asset concerned, the difference must be recognised as a gain in the statement of financial performance of the Department or vote concerned.

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

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state must take place in accordance with the above procedures, except that the process of alienation must be by private treaty in accordance with 20 of the municipality's supply chain management policy.

The Chief Financial Officer must in July of every year report to the Council of the municipality details of all fixed assets disposed of during the immediately preceding financial year.

30. OTHER WRITE-OFFS OF FIXED ASSETS

A fixed asset other than when disposed of in accordance with paragraph 28 above, and even though fully depreciated, must be written off by the Chief Financial Officer only on the recommendation of the head of Department controlling or using the asset concerned, and with the approval of the Municipal Manager.

Every head of Department must report to the Chief Financial Officer on 31 October and 30 April of each financial year on any fixed assets which such head of Department wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer must consolidate all such reports, and must promptly submit a recommendation to the Council of the municipality on the fixed assets to be written off.

The only reasons for writing off fixed assets, other than the alienation of such fixed assets, must be the loss (including where the asset cannot be physically verified), theft, and destruction or material impairment of the fixed asset in question.

In every instance where a not fully depreciated fixed asset is written off, the Chief Financial Officer must immediately debit to such Department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also paragraph 25).

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31. REPLACEMENT NORMS

This paragraph deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

(a) Assets that are replaced shall be derecognised at their carrying value. The replacement asset shall be accounted for as a separate new asset. Costs incurred to replace the asset shall be split between costs to dispose of the old asset, which shall be expensed as part of the de-recognition, and costs to install the new asset, which shall be capitalised against the new asset.

(b) The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly. Heads of Department shall ensure that replacement expenditure is correctly budgeted for in the capital budget and expensed against this budget.

32. INSURANCE OF FIXED ASSETS

The Chief Financial Officer must ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

The Chief Financial Officer must annually determine the premiums payable by Departments in respect of the assets under their control.

The Chief Financial Officer must determine the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation must take due cognisance of the budgetary resources of the municipality.

The Chief Financial Officer must annually submit a report to the Council of the municipality for approval on any insurance cover which it is deemed necessary to procure for the municipality's assets.

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33. ANNEXURE: FIXED ASSET LIVES

INFRASTRUCTURE ASSETS

The following are categories of infrastructure assets with estimated useful life in years:

*	Electricity	2 - 80
*	Roads	10 - 100
*	Water	10 - 100
*	Gas	10 - 50
*	Sewerage	2 - 85
*	Security measures	3 - 5

COMMUNITY ASSETS

The following are categories of community assets, showing again estimated useful lives:

*	Sports Facilities	20 - 30
*	Recreation facilities	20 - 30
*	Other Facilities	20 - 30

HERITAGE ASSETS N/A

INVESTMENT ASSETS N/A

BIOLOGICAL ASSETS N/A

LAND AND BUILDING

The following are land and building, showing again estimated useful lives:

*	Land	N/A
*	Buildings	10 - 40

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OTHER ASSETS

The following are categories of other assets, again showing estimated useful life in years:

*	Office Equipment	2- 10
*	Computer Equipment	2-10
*	Computer Software	2 - 8
*	Furniture and Fittings	2- 20
*	Bins and Containers	5 - 10
*	Emergency Equipment	2 - 15
*	Motor Vehicles	2 - 10
*	Specialised Vehicles	5 - 15
*	Plant and Equipment	2 - 20
*	Park homes	20- 40

34. ANNEXURE: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003

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

A municipality may alienate any other capital asset, but provided:

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

35. INTERPRETATION OF THE POLICY

All words contained in this policy shall have the ordinary meaning attached thereto, unless the definition or context indicates otherwise.

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Any dispute on interpretation of this policy shall be declared in writing by any party concerned.

The Municipal Manager shall give a final interpretation of this policy in case of written dispute.

If the party concerned is not satisfied with the interpretation, a dispute may then be pursued with the Council.

36. PERMANENT/TEMPORAL WAIVER OR SUSPENSION OF THE POLICY

This policy may be partly or wholly waived or suspended by the Municipal Council on temporary or permanent basis.

The Municipal Manager/Council may under circumstances of emergency temporarily waive this policy subject to reporting of such waiver or suspension to Council.

37. COMPLIANCE AND ENFORCEMENT

Violation of or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

It will be the responsibility of Council to enforce compliance with this policy.

38. AMENDMENT AND/OR ABOLITION OF THIS POLICY

This policy may be amended or repealed by Council as it may deem necessary.

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