



**OKHAHLAMBA LOCAL
MUNICIPALITY**

**ASSETS MANAGEMENT POLICY
&
PROCEDURE**

2020/21

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1) VISION:

- To ensure the effective and efficient process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of Okhahlamba Local Municipality's assets to maximize their service delivery potential and benefits and to minimize their related risks and costs over their entire life.

2) STATEMENT

- The Okhahlamba Local Municipality believes that an Asset Management Policy is essential to ensure effective and efficient acquisition and utilization of public monies and accountability thereof is heavily dependent upon accurate recording and accounting.

3) AIM:

- This policy will lay down broad guidelines for consistent, effective and efficient asset management principles of Okhahlamba Local Municipality.

4) OBJECTIVES:

- Specifying Council's practice regarding accounting for assets.
- Ensure consistency in accounting treatment.
- To assist officials in understanding their legal and managerial responsibilities with regard to key asset functions such as:
 - safeguarding of assets,
 - maintaining assets,
 - establishing and maintaining a management, accounting and information system
 - that accounts for the assets of the municipality.
 - asset valuation principles in accordance with GRAP.
 - establishing and maintaining systems of internal controls over assets.
 - establishing and maintaining asset registers.
 - clarifying responsibilities and accountabilities for the asset management process.

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5) DEFINITIONS:

a) Assets

- Are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

b) Asset Register

- Is a record of information on each asset that supports the effective and technical management of the assets and meets statutory requirements.

c) Accounting Standards Board

- Is required in terms of the Municipal Finance Management Act, Act no.1 of 1999 to determine Generally Recognized Accounting Practice referred to as Standards of Generally Recognized Accounting Practice (GRAP). The ASB must determine GRAP for municipalities.

d) Asset Categories

- These are:
 - i. **Infrastructure Assets** - are any assets that are part of a network or system.
 - a. They are specialized in nature and do not have alternative uses.
 - b. They are immovable and they may be subject to constraints on disposal.
 - c. Example: - roads, sewerage purification plants, water reticulation schemes and electricity.
 - ii. **Heritage Assets** - are culturally, environmentally and historically significant resources, i.e. works of art, historical buildings and monuments, archaeological sites, conservation areas and nature reserves and meets the criteria of GRAP103
 - iii. **Investment Properties** - are properties that are acquired for economical and capital gains i.e. office, parks and underdeveloped land acquired for the purpose of resale in future years.
 - iv. **Other Assets** - are assets utilized in normal operations, i.e. plant and equipment, motor vehicles and furniture and fittings.
 - v. **Intangible assets** - are identifiable non-monetary assets without physical substance and will meet the criteria of GRAP 31.

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e) **Capitalization**

- Is the recognition of expenditure as an asset in the asset register. All assets with a life cycle of greater than one year are treated as capital assets and entered into an asset register from which reporting in the financial statement (specifically the Statement of Financial Position) is extracted.

f) **Carrying amount**

- Is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

g) **Class of Property, Plant and Equipment**

- Means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

h) **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 recognized in accordance with specific requirements of other Standards of Generally Recognized Accounting Practices (GRAP).

i) **Accumulated Surplus/Deficit (Capital Replacement Reserve)**

- This is an internal reserve, which is cash based and which is specifically used to purchase assets.

j) **Depreciation**

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

k) **Depreciable amount**

- This is the cost of an asset, or other amount substituted for the cost less its residual value.

l) **EFF (External Financing Fund)**

- This is a collective fund of external loans taken up and which is used to finance assets.

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m) **Fair value**

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

n) **Historical Value**

- This refers to the original cost of acquisition or construction.

o) **Impairment Loss**

- An impairment loss of cash – generating assets is the amount by which the carrying amount of an asset exceeds its recoverable amount.
- An impairment loss of non - cash generating assets is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

p) **Property, Plant and Equipment**

Are tangible assets that:

- Are held for use in the production or supply of goods or services, for rental to others, or for other administrative purposes, and
- Are expected to be used during more than one reporting period.

q) **Recoverable amount**

- Is the amount that the municipality expects to recover from the future use of an asset, including the residual value on disposal.

r) **Residual value**

- The residual value of an asset is the estimated amount that a municipality would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

s) **Replacement Value**

- The amount which is needed in current terms to replace a fixed asset.

t) **Useful life**

The useful life of an asset is either:

- the period over which an asset is expected to be available for use by the municipality or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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u) **Contributed Assets**

- Means items received by the Okhahlamba Local Municipality in the form of a donation.

v) **NARC**- New asset receipt capture form

AT- Asset transfer form

DIR- Departmental inventory register

END-USER- is the person whom assets are located to

6) **STATUTORY AND REGULATORY FRAMEWORK**

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, 1998
- Municipal Systems Act, 2000
- Division of Revenue Act (enacted annually)
- Municipal Finance Management Act No 56 of 2003

Also, this policy must comply with the standards specified by the Accounting Standards Board. The relevant currently recognized accounting standards include:

- GRAP 17 Property, plant or equipment
GRAP 13 Leases Assets
- GRAP 16 Investment property
- GRAP 100 Non-current Assets held for Sale and Discontinued Operations
- GRAP 31 Intangibles
- GRAP 103 Heritage Assets
- GRAP 101 Agriculture
- GRAP 21 & 26 Impairment

7) **RESPONSIBILITIES AND ACCOUNTABILITIES**

The purpose of this section is to prescribe the responsibilities of the various functionaries within OLM

7.1 **The Accounting Officer (Municipal Manager)**

The Accounting Officer (Municipal Manager) or his duly delegated representative is responsible to ensure implementation and compliance with the responsibilities prescribed in section 63 of the MFMA.

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- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are valued in accordance with standards of generally recognized accounting practice;
- The municipality has and maintains a system of internal control of assets, including an asset register; and
- The senior managers and their teams comply with this policy.
- In consultation with the asset managers, he approves the temporary or permanent transfer of a movable asset between departments as determined in the "Delegation of Authority to officials of the Okhahlamba Local Municipality".

7.2 The Chief Financial Officer (Director: Finance)

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

The Chief Financial Officer must take reasonable steps to ensure that:

- i. Appropriate systems of financial management and internal control are established and carried out diligently;
- ii. The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- iii. Any unauthorized, irregular or fruitless or wasteful expenditure and losses resulting from criminal or negligent conduct are prevented;
- iv. The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained at standards sufficient to satisfy the requirements of the Auditor-General.
- v. Financial processes are established and maintained to ensure that the municipality's financial resources are optimally utilized through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- vi. The managers and asset champions are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- vii. The policy and supporting procedures or guidelines are established, maintained and effectively communicated;
- viii. The Chief Financial Officer may delegate or otherwise assign responsibility for performing the functions but he/she will remain accountable for ensuring these activities are performed.

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7.3 ASSET ACCOUNTANT

- a) The accountant being someone reporting directly to the Director Finance and has the functional accountabilities for the physical management of a particular set of assets in order to achieve the municipalities strategic objectives relevant to their directorate.
- b) End-users shall be directly responsible for the physical safeguarding of any fixed asset controlled or used by the end-user in question. In exercising this responsibility, end-users shall adhere to the stipulations of this policy as well as any other written directives issued by the chief financial officer to the end-user in question, or generally to all end-users, in regard to the control of or safeguarding of the municipality's fixed assets.

Asset Accountant should:

- i. ensure that employees in their departments adhere to the approved Asset Management Policy;
- ii. ensure that all assets are procured in terms of the SCM Policy;
- iii. ensure that council are properly informed about any contributed(donated) assets and that approval from council is obtained timeously
- iv. ensure that the contributed asset is recorded on the Asset Register
- v. ensure that employees with delegated authority have been nominated to implement and maintain physical control over assets in their departments. Although authority has been delegated, responsibility remains with the respective Directors of the departments and overall accountability with the end-users of that department;
- vi. ensure that the termination of service asset verification form for staff, is duly completed and submitted to the Human Resource Management Directorate;
- vii. ensure that assets are properly maintained in accordance with their respective asset maintenance policy;
- viii. ensure that, where applicable, all their movable assets as reflected on the Fixed Asset Register are barcoded to exercise control;
- ix. ensure that all end-users fill in the AT form within 8 working hours of any changes in the status of assets under the end-user's control;
- x. ensure that transfers between departments within directorates are administered internally;
- xi. ensure that a complete asset verification of all inventory and asset items is performed bi-annually;

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- xii. ensure that all obsolete, damaged and unused assets, supported by relevant asset and condemnation forms, are handed in at the Asset Management Department without delay;
- xiii. ensure that all assets are safeguarded against loss/theft by the end-users and that they are adequately insured; and
- xiv. ensure that location changes are made timeously and location/room information are updated frequently on the Asset Register.
- xv. Ensure that Assets Lost Control register is updated monthly.

7.4 Asset Champions

Asset Champions are officials appointed by the Asset Accountant within the Asset Management Directorate.

The Asset Champion must:

- i. Assist the Asset Accountant in performing his/her functions and duties.
- ii. Ensure that all new assets (purchased or donated) are recorded on the NARC form.
- iii. Ensure that the Asset Register is up to date
- iv. Ensures that all their movable assets, where applicable, are barcoded.
- v. Ensure that asset listings are verified and kept up to date.
- vi. Assist Accountant Assets with the bi-annual verification of movable assets by making sure that the assets, as per asset listing, are at the correct locations, that these locations are accessible when the verification of assets takes place and provides a full report on any missing assets to the Asset Accountant.
- vii. Notify the Accountant Assets when he/she identifies obsolete and redundant assets so that these assets can be written off.

The following require the written recommendation of the Asset Accountant and approval of Finance Manager on the prescribed form:

- a) The permanent transfer of all movable assets between departments.

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b) The writing off or disposal of obsolete or redundant assets must be approved by council resolution.

7.5 Finance Department: Asset Management Division

- i. Is the asset registrar of the municipality and shall ensure that a complete, accurate and up to date asset register is maintained that conforms to the GRAP specifications.
- ii. Ensures that physical asset verification is performed bi-annually to all departments to verify the assets on the asset register. The results of this verification must be reported to the CFO.
- iii. Will perform reconciliations between the asset register and the General Ledger on a monthly basis.
- iv. Ensures adequate bar codes and equipment to exercise the function relating to assets control is available at all times.
- v. Will ensure that all audit queries are resolved in a timely manner.
- vi. Dispose of asset in accordance with the SCM policy
- vii. Handles the administrative functions with regards to the transfers received.

7.6 The responsibility of the Budget and Treasury

- i. Ensure that a clear description is provided with each project and the appropriate funding source is identified.
- ii. Release capital funds only after receiving written authority and a clear and concise description of the item to be purchased.
- iii. Ensure that any changes in the capital budget, with regards to funds transferred or project description changes are communicated to the Asset Management Division.

7.7 The Human Resources Management Department.

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

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8) **SAFEGUARDING OF ASSETS**

Custody and Security

- i. All barcoded assets shall be tracked by physical location through the Asset Register.
- ii. A physical asset verification process shall be performed every year and all departments will be verified simultaneously.
- iii. During assets verification all assets listed should be presented by the end-user, failure to do so the responsible end-user will be held responsible and disciplinary actions will be launched.
- iv. It is a responsibility of all assets end-users to safeguard municipal assets, if any asset is damaged or lost by the end-user, he/she must report in writing to Asset Management Section within 8 working hours and report the lost to the SAPS, failure to do so the end-user will be held responsible and disciplinary actions will be launched.
- v. The coordination of the process and verification of the assets will rest with the Asset control department and all departments are responsible to see that the assets under their control are available during the verification process.

Communication

- i. End-users are responsible to report any stolen or damage property to the Asset Management Department in writing and report the lost to the SAPS within 8 working hours and produce police report from the police station.
- ii. All changes must be accurately recorded on the AT forms and reported to the Asset Management Department within 8 working hours.
- iii. Asset Management Department should report any stolen or damaged assets to the insurance within 10 days
- iv. Any discrepancies between the Asset Register and the physical inventory must be reconciled and motivated by the relevant departments where discrepancies were noted.

9) **PROCEDURE WITH REGARD TO CONTRIBUTED ASSET**

ASSETS Governance

- i. The authority to endorse and approve acceptance of assets contributed to the Okhahlamba Local Municipality vests with Council as such assets have an impact on future operational costs.

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

Procedures

- i. Once Council has approved the donation, the departments must:
- ii. Notify the Finance Department of any assets contributed, by submitting the Council approved report including the cost/fair value of the contributed asset so that the asset can be recorded and capitalized at the appropriate value.

10) FINANCIAL MANAGEMENT

Pre-Acquisition Planning

Before a capital project is included in the draft municipal budget for approval, the Asset Manager must prove that they have considered:

- The projected acquisition and implementation cost over all the financial years until the project is operational;
- The future operational costs and revenue on the project, including tax and tariff implications;
- The financial sustainability of the project over its economical life span including revenue generation and subsidization requirements;
- The physical and financial stewardship of the asset through all stages in its economical life span including acquisition, installation, maintenance, operations, disposal and rehabilitation; and
- The inclusion of the capital project in the Integrated Development Plans and future budgets.

The Chief Financial Officer is accountable to ensure that the Asset Managers receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

Approval to acquire Property, Plant and Equipment:

Funds can only be invested with a capital project if:

- The funds have been appropriated in the capital budget;
- The project, including the total cost and funding sources, has been approved by the Council;
- The Director: Finance confirms that funding is available for that specific project;
- The Supply Chain Management prescripts/procedures have been adhered to.
- Any contract that will impose financial obligations more than two years beyond the budget year is appropriately disclosed.

The funding sources of Assets:

Within the municipality's ongoing financial, legislative or administrative capacity, the Chief Financial Officer will establish and maintain the funding

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strategies that optimize the municipality's ability to achieve its Strategic Objectives as stated in the Integrated Development Plan.

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

- The Accumulated Surplus/Deficit (Capital Replacement Reserve)
- The External Financing Fund (EFF).
- Grants, Subsidies and Public Contributions.
- Fair value

The sources of finance that may be utilized to finance assets are utilized in accordance with the provisions of S19 of the Municipal Finance Management Act.

a) **Accumulated Surplus/Deficit (The Capital Replacement Reserve)**

The Council must annually approve the basis and the amounts for which contributions should be appropriated to the Accumulated Surplus/Deficit in conjunction with the availability of funds and the requirements of the capital program for that financial year.

The funds in the Accumulated Surplus/Deficit are accumulated by:

- An annual contribution from revenue
- The cash backed profit on the sale/disposal of assets

When an amount is advanced to a borrowing service to finance the acquisition of an asset, the money must be transferred to the Accumulated Surplus created for the purpose of acquiring a specific asset and the accumulated funds in the Accumulated Surplus/Deficit must be reduced by the amount of the advance.

The balance of the accumulated funds in the Accumulated Surplus/Deficit will therefore represent the amount that is available to finance assets in future periods. This balance must be cash backed at all times.

The balance in the Accumulated Surplus is transferred to the income statement over the estimated life of assets financed by the Accumulated Surplus/Deficit to offset the depreciation charge included in the income statement relating to fixed assets.

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b) **The External Financing Fund (EFF)**

When loans are obtained from external sources, they must be paid into the EFF. The corresponding cash should be invested until utilized for the purpose of acquiring assets. When the external loan is utilized to finance assets in a service entity it should be recorded in an “advances” account in the EFF.

Where a loan has a fixed period the installments should be calculated to determine the cash that should be set aside in the EFF. This is done so that there will be sufficient money to repay the loan when it matures as well as any interest charges as they occur.

When the loan is an annuity loan, the cash required to be paid into the EFF should be based on the actual loan repayments. Once the money has been received by the EFF, the cash would be used to repay the loan.

When the EFF is consolidated with the various services, the “advances made” account in the EFF will contra with the “advances received” account in the various service entities.

Loan finance option

A municipality should ensure that a loan satisfies the requirements of legislation on incurring debt. In particular, municipalities should ensure that long-term debt is:

- Incurred only for the purposes of capital expenditure for the purpose of achieving the objectives stated in section 152 of the Constitution (MFMA S46);
- incurred in line with its capital budget (MFMA S19 and S46(2));
- Is incurred only after the anticipated debt repayment schedule has been submitted to council (MFMA S46(3)(b)(i));
- Included in the liabilities register and
- Satisfies the other requirements of sections 19, 46 and 63 of the MFMA, the MSA and the Constitution.

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c) **Grants, Subsidies and Public Contributions (Capital Receipts)**

Unutilized conditional grants are reflected on the Balance Sheet as a Creditor called Creditor (Unspent and Receipts). They represent unspent government grants, subsidies and contributions from the public. This creditor always has to be backed by cash.

The following provisions are set for the creation and utilization of this creditor:

- The cash which backs up the creditor is invested until it is utilized.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the council's interest it is recognized as interest earned in the income statement.
- Whenever an asset is purchased out of the unutilized conditional grant an amount equal to the cost price of the asset purchased is transferred from the Unutilized Capital Receipts into the income statement as revenue. Thereafter an equal amount is transferred on the statement of changes in equity to a reserve called an Accumulated Surplus/Deficit (Future Depreciation Reserve). This reserve is equal to the remaining depreciable value (book value) of assets purchased out of the Unutilized Capital Receipts. The Future Depreciation Reserve is used to offset depreciation charged on assets purchased out of the Unutilized Capital Receipts to avoid double taxation of the consumers.
- If a profit is made on the sale of assets previously purchased out of Unutilized Capital Receipts the profit on these assets sold is reflected in the notes to the income statement and is then treated in accordance with Council policy.

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

Disposal of assets

- The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide the minimum level of basic municipal services, unless such asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic municipal services must not be compromised as a result of the disposal of the asset.
- 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.

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- 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.
- 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.
- Directors shall report in writing to the Director: Finance on 31 May of each financial year on all fixed assets controlled or used by the directorate concerned which such Director wishes to alienate by public auction or public tender. The Director: Finance shall thereafter consolidate the requests received from the various directorates, and shall promptly report such consolidated information to the council or the Municipal Manager of the municipality, as the case may be, recommending the process of alienation to be adopted.
- Once the fixed assets are alienated, the Director: Finance shall de-recognize the asset from the accounting records and the fixed asset register.

Loss, theft, destruction or impairment of fixed assets

Finance Department: Asset Management Division shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the end-user in question is promptly reported in writing to the Director: Finance, to the internal auditor, and in cases of suspected theft or malicious damage, also to the South African Police Service.

11) ACCOUNTING FOR ASSETS

Capitalization of Assets

Okhahlamba Local Municipality does not capitalize an asset based on a capitalization cost threshold, but recognizes an asset when it complies with the definition of an asset as stipulated in GRAP 17 and

- The cost of the asset to the municipality can be measured reliably;

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition (GRAP 17.22).

Assets will only be capitalized in the asset register on completion or finalization of the project.

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Projects to be completed over more than one financial year will be initially disclosed in the asset register and financial statements as “Work in Progress” thereafter only on completion the asset will be capitalized and depreciated.

Assets will be recorded in the asset register continuously on completion thereof and bar-coded with an aluminium label where appropriate for identification.

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 capitalized (GRAP 17.19-.20):

- Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in an entity recognizes in the carrying amount of an item property, plant and equipment the cost replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the de-recognition provision of this Standard (GRAP 17.19).
- A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed (GRAP 17.20)

Computer software will be capitalized and classified as intangible assets.

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MAINTENANCE

Maintenance Strategy

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

Departments/End-user Responsibilities

Each Department/end-users is responsible for ensuring:

- i. That all tangible assets under their control are maintained in a good working condition. The departments must take adequate care that the working environments for the various assets are appropriate and suitable for such types of tangible assets.
- ii. That their assets are not misused or used for personal use or benefit.
- iii. That repair and maintenance costs incurred is reviewed and properly controlled.
- iv. The development of a maintenance program according to their operating budget resources. The program must provide a schedule of the repairs and maintenance to be done. The program must also consist of planned and unplanned repairs and maintenance to be performed.

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	<ul style="list-style-type: none">● Restoring an asset so that it can continue to be used for its intended purpose
<ul style="list-style-type: none">● Replacing an existing asset	<ul style="list-style-type: none">● Maintaining an asset so that it can be used for the period for which it was initially intended.
<ul style="list-style-type: none">● Enhancing an existing asset so that its use is expanded	
<ul style="list-style-type: none">● Further developing an existing asset so that its original useful life is extended	

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When assets are capitalized a distinction should be made on whether the new asset is purchased to replace an existing asset or whether it is a total new asset that is purchased.

Assets held under leases

- **Finance leases** - are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the fixed asset register. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.
- **Operating leases** are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the municipality.

INVESTMENT PROPERTY

- An item shall be recognised as investment property if it meets the definition. Investment property is recorded at cost.
- Disclosable value measured at recognition:
 - initially at acquisition cost plus transaction cost, or nominal value
 - where acquired at no cost or nominal value, fair value at acquisition is deemed to be cost for disclosure;
 - if held under a lease and classified as Investment Property, is the lower of fair value and the present value of the minimum lease payments
- Cost value is determined according to the requirements of the GRAP standard on Investment Property.
- Assets classified as Investment Property shall be re-defined once such assets usage changes.

Fair value

- Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the Statement of Financial Performance at such fair value.

Depreciation

- Depreciation will be done in accordance with the GRAP frame work
- The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.
- Okhahlamba Local Municipality's depreciation method will be the straight-line method for all assets of the Council unless otherwise agreed to in writing by the Director: Finance.
- Depreciation shall be calculated from the day the fixed asset is available for use (commissioning date) (GRAP 17.65).
- If the cost of land includes the cost of site dismantlement, removal and restoration, the portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it (GRAP 17.69).

Review of residual value and useful life

- The residual value and useful life of an asset should be reviewed at least at each reporting date (GRAP 17.61).
- If the review indicates that a change has taken place and expectations differ from previous estimates, the changes should be accounted for as a change in the accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.
- The remaining useful life of capital assets should be reviewed annually and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.
- This review should be done by the asset manager in conjunction with the impairment review.
- The review of useful life is a check to see if there is any evidence to suggest that expected life should be changed.
- The Table of Useful Lives is provided in the MFMA Local Government Capital Asset Management Guideline (Refer to Annexure A). These should be used as a guide to the minimum useful lives only because actual asset lives experienced greatly exceed those recommend lives.
- The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount (GRAP 17.64).

Impairment of assets

The accounting treatment relating to impairment losses is outlined as follows in GRAP 17:

- The carrying amount (Book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.
- Recoverable amount is the higher of a cash – generating asset’s net selling price and its value in use.
- When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognized as an expense immediately.
- The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on 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 work 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.

The following may be indicators that an item of PPE has become impaired:

- The asset has been damaged.
- The asset has become technologically obsolete.
- The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
- Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.

Procedure to identify, budget and account for impairment losses:

- The following needs to be done to ensure that impairment losses that are identified by the above indicators are budgeted for during the operating budget cycle and are accounted for in the next financial year. The following steps will have to be performed during the operating budget cycle:

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- Finance Directorate - Asset Control section shall issue a memo to all directorates requesting them to identify assets that:
 - a) Are in a state of damage at the start of the operating budget cycle;
 - b) Are technologically obsolete at the start of the operating budget cycle; This can be facilitated if directorates require that Finance Directorate - Asset Control - section to supply them with a Fixed Asset Register printout pertaining to major assets showing the remaining useful lives of assets. The directorates can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout.
 - c) Have remained idle for a considerable period either prior to them being put into uses at the start of the operating budget cycle or during their useful life;
 - d) 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;

- The recoverable amounts of these assets need to be calculated by calculating the Net selling Price per asset as defined above.
- The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
- The impairment loss needs to be budgeted for.

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

- Directorates will identify and inform Finance Directorate - Asset Control section of assets that:
 - a) Are in a state of damage at year-end,
 - b) Are technologically obsolete at year-end. This can be facilitated if directorates require Finance Directorate - Asset Control section to supply them with a Fixed Asset Register printout pertaining to major assets showing the remaining useful lives of assets. The directorates can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout.
 - c) Have remained idle for a considerable period either prior to them being put into uses at year-end or during their useful life
 - d) 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

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housing developments. The recoverable amounts of these assets need to be calculated by calculating the Net selling Price per asset as defined above.

The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.

The impairment loss needs to be accounted for by identifying the relevant funding source.

Disclosure requirements relating to impairment losses:

All material impairment losses need to be disclosed in the notes to the income statement as a separately disclosed item. They are normally disclosed as part of the note on the amounts that are included in the calculation of the Net Surplus or Deficit for the year.

DISPOSAL AND RETIREMENTS

Governance

Section 14 and 90 of the MFMA governs the disposal of assets. This section provides inter alia:

- The council may not dispose of assets that are utilized to provide minimum level of basic municipal services.

Assets other than those utilized to provide minimum level of basic service may be disposed of subject to Council approval.

- An item of property, plant or equipment should be eliminated from the Statement of Financial Position, on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its disposal, in accordance with GRAP 100.
- Gains or losses arising from the retirement or disposal of an item of property, plant or equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the Statement of Financial Performance.

Procedures

- a. Any items declared obsolete or damaged will be handed in to the Finance department - Asset Control section for safekeeping.

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- b. No items will be received by the finance department, Asset Control section without a completed AT form and attached condemnation forms, counter signed by Finance Directorate - Asset Control section, describing the status of the item and the reason for writing-off the item.
 - c. Departments must ensure that assets are disposed of in terms of the SCM policy.
 - d. It is the responsibility of each directorate to ensure that all such assets to be disposed of are delivered to and received at the Finance Directorate - Asset Control section.
 - e. Approval for the disposal of assets is considered by the Municipal Manager only after a recommendation has been obtained from the following persons:
 - i. Vehicles and Plant - The Fleet Manager and applicable Directorate;
 - ii. Computers - Information Technology Manager;
 - iii. Other Items - Directors (Asset Managers) within the different directorates.
 - f. After the approval of the Municipal Manager has been obtained, any vehicle written off must be deregistered immediately.
 - g. All asset items lost, stolen or damaged must be reported to the Finance Directorate – Insurance section as well as Finance Directorate - Asset Control section by completing the **AT** form.
 - h. All asset items lost or stolen also need to be reported to the SAPS by the relevant department.
- An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from when it is disposed of.
 - Gains and losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the income statement.

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The accounting treatment relating to the profit or loss on the sale of property, plant & equipment is outlined in GRAP 17. The following is a summary of the relevant aspects:

Profits and losses, which are disclosed in total in the financial statements, are calculated by use of the following formula: -

<i>Proceeds</i>	Sales value, trade-in value or proceeds received from insurance if the asset was damaged or stolen.
<i>Less: Carrying value</i>	Cost, or if valued, revaluation amount, less accumulated depreciation up to the date of sale or when asset can no longer be used for its intended purpose.
<i>Equals PROFIT or</i>	If proceeds greater than carrying value, or
<i>Equals LOSS</i>	If proceeds less than carrying value.

12) INTERNAL CONTROL OVER ASSETS

- Establishment and Management of the Financial Asset Register:

The Chief Financial Officer will establish and maintain the Asset Register containing key financial data on each item of Property, Plant or Equipment that satisfies the criterion for recognition as per the accounting standards.

Each Asset Manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition of all assets in the asset register.

Each Asset Manager must appoint an Asset Champion in each Department/Section which will be responsible to ensure that the asset listings are verified and kept up to date in collaboration with the Director: Finance.

- Contents of the Fixed Asset Register

The fixed asset register shall be maintained in the format determined by the Director: Finance, which format shall comply with the requirements of generally recognized accounting practice (GRAP) and any other accounting requirements which may be prescribe Directors under whose control any fixed asset falls shall promptly provide Director: Finance in writing with any information required to compile the fixed asset change which may occur in respect of such information.

Contents of the Financial Asset Register:

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- The details included in the Asset Register will include:
- The depreciation methods used
- The useful life
- Depreciation charge
- The carrying amount
- The accumulated depreciation
- Additions, disposals and transfers
- Date of acquisition
- Date of disposal (if relevant)
- Increase or the decrease resulting from re-valuations (if relevant)
- Source of Finance
- Asset Description
- Location
- The responsible Asset Manager and Asset Champion
- Historical cost of the asset
- Asset classification
- Asset ID
- Condition of asset
- Residual value

Internal Controls over the Financial Asset Registers

- Controls around their asset register should be sufficient to provide an accurate, reliable and up to date account of assets under their control to the standards specified by the Chief Financial Officer and required by the Auditor-General.
- Controls around the asset registers should be sufficient to provide Directors with an accurate, reliable and up to date account of assets under their control to the standards specified by the Director: Finance and required by relevant legislation.

These controls will include the physical management and recording of all acquisition, assignments, transfers, losses and disposals of assigned assets as well as regular asset counts and systems audits to confirm the adequacy of controls.

Identification of fixed assets:

The Municipal Manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerized fixed asset register.

Transfers, Reallocation or Reassignment of Property, Plant or Equipment

- a. An Asset Manager retains management accountability and control for a particular asset until another Asset Manager in writing does accept

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responsibility for that asset, and the Chief Financial Officer endorses the transfer.

- b. The Asset Manager must advise the Chief Financial Officer on the prescribed form whenever an asset is permanently or temporarily reallocated or reassigned from one location to another.
- c. The form must be completed and signed by both the sender and receiver according to the Council's Delegation of Authority.
- d. The Director: Finance will appropriately amend the Asset Register with all approved transfers.
- e. Assets must solely and exclusively be used for the purpose of the Council's business.

Verification of fixed assets

- a. Finance Department: Asset Management Division shall at least twice during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the directorate concerned.
- b. Finance Department: Asset Management Division shall promptly and fully report in writing to the Director: Finance in the format determined by the Director: Finance, 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 Director: Finance not later than 30 June of the year in question.

Asset listings

- a. The Asset Accountant must submit each quarter for the financial year, asset listings of capitalised assets to Senior Accountant.
- b. At all times these asset listings should indicate the assets in particular location and should be easily accessible.
- c. When employees get appointed or resign from any specific post the relevant asset listings must be verified and accordingly endorsed by the Asset Champions for the specific workplace.
- d. All changes on asset listing sheets must be reported in writing to the Accountant Assets within 8 hours of when change took place.

Assets Loss Control register

This register will be updated monthly and it contains information of all assets lost and damaged and the responsible person for such.

13) FINANCIAL DISCLOSURE

Assets must be disclosed in respect of each class of property, plant and equipment, in accordance with Generally Recognized Accounting Practice.

14) CLASSIFICATION OF ASSETS

Any asset recognized as an asset under this policy will be classified according to categories as per the Fixed Asset Register. All fixed assets should be classified under the following headings in the Asset Register:

Property, plant and equipment:

- Developed and Undeveloped Land (not held as investment assets) Buildings
- Infrastructure assets (assets which are part of a network of similar assets)
- Furniture and fittings
- Computer Equipment
- Transport Assets
- Plant and equipment
- Heritage assets (culturally significant resources)

Investment property

- Investment assets (resources held for capital or operational gain)

Intangibles

- Computer Software

ANNUAL REVIEW ON THE POLICY

This policy will be reviewed and updated annually or whenever legislative or accounting standards amendments significantly change the requirements pertaining to asset management in general and the administration of property, plant and equipment at a sooner event.

GENERAL

This policy does not overrule the requirement to comply with other policies like supply chain management, tendering or budget policies. The Chief Financial Officer will provide guidance or recommend an amendment to this policy to comply with the essence and understanding of the policies, regulations or legislation being conflicted.

COMMENCEMENT

01 July 2020

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15) ANNEXURE (FIXED ASSET LIVES)

INFRASTRUCTURE ASSETS

The following is the list of infrastructure assets, with the estimated useful life in years indicated in brackets in each case

❖ Electricity		
Power stations	(30)	
Cooling towers		(30)
Transformer kiosks	(30)	
Meters	(20)	
Load control equipment	(20)	
Switchgear	(20)	
Supply and reticulation networks	(20)	
Mains	(20)	
❖ Roads		
Motorways	(15)	
Other roads	(10)	
Traffic islands		(10)
Traffic lights	(20)	
Street lights	(25)	
Overhead bridges	(30)	
Storm water drains	(20)	
Brigdes,subway and culverts		(30)
Car parks	(20)	
Bus terminals	(20)	
❖ Water		
Mains	(20)	
Supply and reticulation networks	(20)	
Reservoirs and storage tanks	(20)	
Meters		(15)
Rights(that is, the right water From a particular source belonging To another party)		
❖ Gas		
Supply and reticulation networks	(20)	
Storage tanks	(20)	
Mains	(20)	
Meters	(20)	

❖ Sewerage

Sewer mains	(20)	
Outfall sewers		(20)
Sewage purification works	(20)	
Sewerage pumps	(15)	
Sludge Machines	(15)	
❖ Pedestrian malls		
Footways	(20)	
Kerbing	(20)	
Paving		(20)
❖ Airports		
Runways	(20)	
Aprons		(20)
Taxi ways	(20)	
Airport and radio beacons	(20)	
❖ Security measures		
Access control systems		(5)
Security systems	(5)	
Security fencing	(3)	

COMMUNITY ASSETS

The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets

❖ Buildings and other assets		
Ambulance stations	(30)	
Aquariums	(30)	
Beach Developments	(30)	
Care centres	(30)	
Cemeteries	(30)#	
Civic theatres		(30)
Clinics and Hospitals	(30)	
Community centres	(30)	
Fire Stations	(30)	
Game reserves	and rest camps	(30)
Indoor sports	(30)	
Libraries	(30)	
Museums and art galleries	(30)	
Parks	(30)	
Public conveniences and bath houses		(30)
Recreations centres	(30)	
Sports and related stadiums	(30)	

Zoos	(30)
❖ Recreation facilities	
Bowling greens	(20)
Tennis courts	(20)
Swimming pools	(20)
Golf courses	(20)
Jukskei pitches	(20)
Outdoor sports facilities	(20)
Organs (that is pipe organs that are Fixtures in a municipal hall or other centre)	(20)
Lakes and dams	(20)
Fountains	(20)
Food lighting	(20)

HERITAGE ASSETS

The following is a list of at least some typical heritage assets encountered in the municipal environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

- Museum exhibits
- Works of art(which will include paintings and sculptures)
- Public statues
- Historical buildings or other historical structures (such as war memorials)
- Historical sites(for example, an Iron age kiln, historical battle site or site of a historical settlement)

INVESTMENT ASSETS

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality. However the following will be among the most frequently encountered

- Office parks(which have been developed by the municipality itself or jointly between the municipality and one more parties) (30)
- Shopping centres (again developed along similar lines) (30)

- Housing developments(that is, developments financed by and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit (30)

OTHER ASSETS

The following is a list of other assets, again showing the estimated useful life in years in brackets

- ❖ Buildings
 - Abattoirs (30)
 - Asphalt plant (30)
 - Cable stations (30)
 - Caravan parks (30)
 - Compact stations (30)
 - Hostel used to accommodate the public Or tourists
 - Hostels used to accommodate the public Or tourists
 - Hostels for municipal employees (30)
 - Housing schemes (30)
 - Kilns (30)
 - Laboratories (30)
 - Fresh produce and other markets (30)
 - Nurseries (30)
 - Office buildings (30)
 - Old age homes (30)
 - Quarries (30) #
 - Tip sites (30) #
 - Training Centres (30)
 - Transport facilities (30)
 - Workshops and depots (30)

- ❖ Office equipment
 - Computer hardware (5)
 - Computer software (3-5)
 - Office Machines (3-5)
 - Air conditioners (5-7)

- ❖ Furniture and fittings
 - Chairs (7-10)
 - Tables and desks (7-10)
 - Cabinets and cupboard (7-10)

- ❖ Bins and Containers
 - Household refuse bins (5)

Bulk refuse containers	(10)
❖ Emergency equipment	
Fire hoses	(5)
Other firefighting equipment	(10)
Emergency lights	(5)
❖ Motor vehicles	
Ambulances	(5-10)
Fire engines	(20)
Buses	(15)
Trucks and light delivery vehicles	(5-7)
Ordinary motor vehicles	(3)
❖ Plant and equipment	
Graders	(10-15)
Tractors	(10-15)
Mechanical horses	(10-15)
Farm equipment	(5)
Lawn mowers	(2)
Compressors	(5)
Laboratory equipment	(5)
Radio equipment	(5)
Firearms	(5)
Telecommunications equipment	(5)
Cable cars	(15)
Irrigation systems	(15)
Cremators	(15)
Lathes	(15)
Filling Equipment	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(15)
Pulverising mills	(15)
• OTHER	
Aircrafts	(15)
Watercraft	(15)