



# Asset Management Policy



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### PREAMBLE

- Section 63 of the Municipal Finance Management Act Number 56 of 2003 governs Asset and Liability Management and states the following:

#### **Asset and liability management**

**63.** (1) The accounting officer of a municipality is responsible for the management of— 10

- (a) the assets of the municipality, including the safeguarding and the maintenance of those assets; and
- (b) the liabilities of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure— 15

- (a) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- (b) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and 20
- (c) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The Municipal Finance Management Act Number 56 of 2003 will be the legislative framework for the Asset Management Policy whilst Generally Recognised Accounting Practice (GRAP) will be the accounting framework.

- The Municipal Council of Langeberg is in terms of the MFMA and GRAP obliged to adopt an Asset Management Policy to regulate the effective management of all council's assets.
- **And whereas** the Municipal Manager as accounting officer of municipal funds, assets and liabilities is responsible for the effective implementation of the asset management policy which regulates the acquisition, safeguarding, maintenance of all assets and disposal of assets where the assets are no longer used to provide a minimum level of basic service as regulated in terms of section 14 of the MFMA.
- **And whereas** these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes in meeting the municipality's operational requirements.
- **Now therefore** the municipal council of the Langeberg Municipality adopts this asset management policy:

## 1. DEFINITIONS

- 1.1 **Accounting Officer** means the Municipal Manager appointed in terms of Section 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 Section 55 of the Local Government: Municipal Systems Act 2000 (Act no 32 of 2000).
- 1.2 **Agricultural Produce** is the harvested product of the municipality's biological assets.
- 1.3 **Biological Assets** are defined as living animals or plants.
- 1.4 **Capital Assets** are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant and Equipment defined in this Policy and are resources controlled by the municipality as a result of past events and from which future economic benefit or service potential are expected to flow.
- 1.5 **Carrying Amount** is the amount at which an asset is recognised after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.
- 1.6 **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.
- 1.7 **Community Assets** are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- 1.8 **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.
- 1.9 **Depreciable Amount** is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
- 1.10 **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.
- 1.11 **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.

- 1.12 **GAAP** are standards of Generally Accepted Accounting Practice.
- 1.13 **GRAP** are standards of Generally Recognised Accounting Practice.
- 1.14 **Heritage Assets** are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- 1.15 An **Impairment Loss** of a capital asset is the amount by which the carrying amount of the asset exceeds its recoverable amount.
- 1.16 **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.
- 1.17 **Intangible Assets** are defined as identifiable non-monetary assets without physical substance.
- 1.18 **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.
- 1.19 **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.
- 1.20 **Leased Assets** are assets held under a finance lease and shall be recognised as a capital asset as the Municipality has control over such an asset even though it does not necessarily own the asset.
- 1.21 **MFMA** refers to the Local Government: Municipal Finance Management Act (Act no 56 of 2003).
- 1.22 **Municipal Valuation** means the official valuation of an immovable property as reflected in the municipality's valuation roll.
- 1.23 **Other Assets** are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
- 1.24 **Property, Plant and Equipment (PPE)** are tangible assets that:-
- Are held by the municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
  - Are expected to be used during more than one period.

- 1.25 **Recoverable Amount** is the higher of a cash-generating asset's net selling price and its value in use.
- 1.26 **Recoverable Service Amount** is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.
- 1.27 **Residual Value** of an asset is the estimated amount that an entity 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.
- 1.28 **Useful Life** is:-
- The period of time over which an asset is expected to be used by the municipality; or
  - The number of production or similar units expected to be obtained from the asset by the municipality's Accounting Officer.

## 2. OBJECTIVE

- 2.1 The MFMA was introduced with the objective of improving accounting in the municipal sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector.
- 2.2 The purpose of this Asset Management Policy is to prescribe to all custodians at the Municipality mandatory procedures for the financial and logistical management of assets, and to:
- provide a formal set of financial procedures that can be implemented to ensure that Langeberg Municipality's asset policies are achieved and are in compliance with the MFMA, GRAP and other related legislation;
  - ensure that effective controls are communicated to management and staff through clear and comprehensive written documentation, and
  - ensure that the Municipality safeguards and controls the assets of the municipality;
  - optimise asset usage; and
  - emphasise a culture of accountability over assets,

### **3. SCOPE OF THE POLICY**

The Asset Management Policy shall incorporate the following:

- a) role of the accounting officer;
- b) role of the chief financial officer
- c) the acquisition of assets;
- d) recognition of assets;
- e) the maintenance of assets,
- f) asset disposals, including transfers, sales and write-offs;
- g) insurance of assets;
- h) other general procedures;

### **4. ACCOUNTING OFFICER**

As Accounting Officer of the municipality, the Municipal Manager shall be the principal custodian of all the municipality's assets, and shall be responsible for ensuring that the Asset Management Policy and Procedures are scrupulously applied and adhered to in terms of section 63 of the Municipal Finance Management Act 2003.

The Municipal Manager as accounting officer is responsible for the management, safeguarding and maintenance of all assets of the municipality in the most, effective and efficient manner.

The Municipal Manager may delegate the responsibilities placed on him/her to any official directly accountable to him/her.

## **5. CHIEF FINANCIAL OFFICER**

- The Chief Financial Officer (CFO) shall be the capital asset registrar of the municipality and shall ensure that a complete, accurate and up-to-date electronic Asset Register is maintained.
- No amendments, deletions or additions to the Asset Register shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.
- The Chief Financial Officer is responsible to the Municipal Manager to ensure that the financial investment in the municipality's assets is safeguarded and is responsible to ensure that:
  - Appropriate systems of financial management and internal control are established and carried out diligently;
  - 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;
  - Processes are established and maintained to ensure that the municipality's financial resources are optimally utilised through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;
  - Directors are appropriately advised on their powers and duties pertaining to the financial administration of assets;
  - The policy and supporting procedures or guidelines are established, maintained and effectively communicated.

### **6.1 Pre-Acquisition Planning**

#### **6.1.1 General**

Acquisition of assets refers to the purchase of assets by buying, building (construction) or leasing.

#### **6.1.2 Policy**

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

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset meet the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 101 and GRAP 102);
- The asset has been budgeted for;

- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset;
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and
- The most suitable and appropriate type, brand, model, etc. has been selected.

#### 6.1.3 *Procedures and Rules*

- The CFO shall ensure that all acquired assets are appropriately insured.
- Before a capital project is included in the draft municipal budget for approval, the various directors 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 various directors receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.
- *Approval to Acquire Assets*  
 Funds can only be invested with a capital project if:
  - ❑ They have been appropriated in the capital budget;
  - ❑ The project, together with the total project cost, has been approved by the Council;
  - ❑ The Chief Financial Officer confirms that funding is available for that specific project; and
  - ❑ Any contract that will impose financial obligations more than two years beyond the budget year is appropriately disclosed.
- *Funding of Capital Projects*



Within the municipality's ongoing financial, legislative or administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its Strategic Objectives as stated in the Integrated Development Plan.

The following three main sources can be utilized to acquire assets, namely:

- The Capital Replacement Reserve (CRR)
- The External Financing Fund (EFF)
- Grants, Subsidies and Public Contributions

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of S19 of the MFMA.

(a) Capital Replacement Reserve (CRR):

The Municipal Manager must annually approve the basis and the amounts for which contributions should be appropriated to the CRR in conjunction with the availability of funds and the requirements of the capital program for that financial year.

The funds in the CRR 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 (CRR) created for the purpose of acquiring a specific asset and the accumulated funds in the CRR must be reduced by the amount of the advance.

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

(b) 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 instalments 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.

(c) Grants, Subsidies and Public contributions (Capital Receipts)

Unutilised conditional grants are reflected on the Statement of Financial Position as a Creditor called Creditor (Unutilised Conditional Grants). 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 utilisation of this creditor:

- The cash which backs up the creditor is invested until it is utilised.
- 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 recognised as interest earned in the Statement of Financial Performance.
- Whenever an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the Unutilised Capital Receipts into the Statement of Financial Performance as revenue. Thereafter for internal management accounting purposes an equal amount is transferred on the statement of changes in equity to a reserve called a future depreciation reserve (FDR). This reserve is equal to the remaining depreciable value (book value) of assets purchased out of the Unutilised Capital Receipts. The FDR is used to offset depreciation charged on assets purchased out of the Unutilised Capital Receipts to avoid double taxation of the consumers.
- If a profit is made on the sale of assets previously purchased out of Unutilised Capital Receipts the profit on these assets sold is reflected in the notes to the Statement of Financial Performance and is then treated in accordance with budget and accounting policy.

- *Capitalisation of Assets*

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

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

### *6.2.1 General*

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the municipality in the past.

### *6.2.2 Policy*

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.

Work in progress shall be flagged as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

### *6.2.3 Procedures and Rules*

- The Managers of Department shall ensure that a form is completed and submitted to the Asset Control Department that includes the details of the work in progress relating to the work in progress.
- The Managers of Department shall notify the Asset Control Unit when the works have been completed and the assets can be recognised.
- The Managers of Department shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the asset register.

## **6.3 Self-Constructed Assets**

### *6.3.1 General*

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

### *6.3.2 Policy*

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

### *6.3.3 Procedures and Rules*

- Managers of Department shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.
- Managers of Department shall open a job card for each infrastructure project constructed by the municipality.
- On completion of the infrastructure project, the Managers of Department shall ensure that all costs (both direct and indirect) associated with the construction of the assets be summed and be capitalised to the assets that make up the project.

## **6.4 Donated Assets**

### *6.4.1 General*

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

### *6.4.2 Policy*

Donated assets should be valued at fair value, reflected in the asset register, and depreciated as normal assets.

#### 6.4.3 *Procedures and Rules*

- All donated assets must be approved by the Municipal Manager and ratified by Council prior to acceptance.
- Management of the municipality must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the municipality.
- The conditions associated with the donation must be agreed upon and signed by the Municipal Manager.
- Municipal officers must first get approval from the Municipal Manager prior to accepting any donation.

### 7. **RECOGNITION**

#### 7.1 **Classification of Capital Assets**

##### 7.1.1 *General*

When accounting for Capital Assets, the municipality should follow the various standards of GRAP relating to the Capital Assets. An item is recognised in the statement of financial position as a Capital Asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Capital Assets are classified into the following categories for financial reporting purposes:

##### (1) Property, Plant and Equipment (GRAP 17)

- Land and Buildings (land and buildings not held as investment and not attached to infrastructure, community, leased, housing or heritage assets)
- Infrastructure Assets (immovable assets that are used to provide basic services)
- Community Assets (resources contributing to the general well-being of the community)
- Leased Assets (assets held in terms of finance leases)
- Housing Assets (rental stock or housing stock not held for capital gain)
- Heritage Assets (culturally significant resources)
- Other Assets (ordinary operational resources)

##### (2) Intangible Assets (GRAP 102)

- Intangible Assets (assets without physical substance held for ordinary operational resources)

- (3) Investment Property (GRAP 16)  
Investment Assets (resources held for capital or operational gain)

- (4) Biological Assets (GRAP 101)
- Biological Assets (livestock and plants held)

When accounting for Current Assets (that is of capital nature), the municipality should follow the various standards of GRAP relating to these assets. Current Assets (with a capital nature) are classified into the following categories for financial reporting purposes:

- (5) Land Inventories (GRAP 12)
- Land Inventories (land or buildings owned or acquired with the intention of selling such property in the ordinary course of business)

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.

To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified.

#### *7.1.2 Policy*

The asset classification specified by GRAP shall be adhered to as a minimum standard.

#### *7.1.3 Procedures and Rules*

- The CFO shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.
- The CFO shall inform the Managers of Departments of the classification requirements.
- Every Manager of a Department shall ensure that all assets under their control are classified correctly.

## **7.2 Identification of Capital Assets**

### *7.2.1 General*

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.

### *7.2.2 Policy*

An asset identification system shall be operated and applied in conjunction with the asset register. As far as practicable, every individual asset shall have a unique identification number.

### *7.2.3 Procedures and Rules*

- The CFO shall develop and implement an asset identification system, while acting in consultation with the Managers of Departments.
- The Managers of Departments shall ensure that all the assets under their control are correctly identified.
- As far as practicable, all movable assets must be bar-coded or uniquely marked.
- Immovable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.

## **7.3 Initial measurement**

### *7.3.1 General*

A Capital Asset should be recognised as an asset in the financial and asset records when:

- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;
- The cost is above any municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Any item that qualifies for recognition as an asset should initially be recognized at its cost, but if cost is not available initial recognition shall be at fair value.

Spare parts and servicing equipment are usually carried as inventory in terms of the Standard of GRAP on *Inventories* and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than

one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Further guidance for the recognition of assets is provided below:

#### **7.3.1.1 Capitalisation Threshold**

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 should therefore be determined annually against the municipality's materiality framework and must be determined at a level that will ensure that the municipality do not deviate materially from the requirements of GRAP 17.

The capitalisation threshold should not be applied to the components of an asset, but should be applied to the value of the capital asset as a whole. If the threshold is applied at component level, the asset register would be incomplete in the sense that an asset recorded as such would not be a complete asset.

The municipality should take the following into account when considering a capitalisation threshold:

- The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
- The cost of maintaining financial and management information on assets when the threshold is very low;
- The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied;
- The size of the municipality or the size of its service areas when setting capitalisation thresholds levels. Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.

Every Manager of a Department shall, however, ensure that any moveable asset item with a value less than R500 (VAT Excl) and with an estimated useful life of more than one year, shall be recorded on an Inventory Listing and must be forwarded to the Asset Management Section. Every Manager of a Department shall moreover ensure that the existence of items recorded on such inventory stock lists are physically verified from time to time, and at least once in every financial year, and any amendments which are made to such inventory stock lists pursuant to such stock verifications shall be retained for audit purposes.



### **7.3.1.2 Calculation of Initial Cost Price**

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Purchase costs (less any discounts given)
- Costs of Employee Benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Capital Asset
- Site development cost;
- Initial Delivery and Handling Costs;
- Installation Costs;
- Professional fees such as for architects and engineers;
- Import duties
- Non-refundable taxes
- Contract fees
- The Estimated Cost of Dismantling and removing the asset and restoring the site; and

Administration and other overhead costs cannot be regarded as directly attributable costs and can therefore not be included in the cost price. Therefore the costs related directly to the administrative process surrounding a tender, such as the tender costs and advertisement costs, cannot be regarded as capital expenses.

The cost relating to the preliminary planning and feasibility studies of a project can only be included in the capital budget if it can be reliably measured and if it is probable that a future economic benefit or service potential will flow to the municipality. The municipality should be able to prove that the project will be undertaken and that the cost is a directly attributable cost of bringing the asset to its working condition for its intended use.

When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

### **7.3.1.3 Subsequent Expenses**

Only expenses incurred on the enhancement of an 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 an asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of an asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and shall not be capitalised, irrespective of the quantum of the expenses concerned.

#### **7.3.1.4 Leased Assets**

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as a Capital Asset.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

#### **7.3.2 Policy**

All assets shall be correctly recognised as assets and capitalised at the correct value.

The capitalisation threshold will be determined annually by the municipality. All assets with values less than the capitalisation threshold and with values smaller than R250 shall be recorded in a minor assets inventory.

#### **7.3.3 Procedures and Rules**

- Every Manager of a Department shall ensure that all assets under their control are correctly accounted for and recognised as assets.
- The Council shall specify which kinds of leases the municipality may enter into.
- The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.
- Every Manager of a Department shall keep a timesheet system for internal staff to capture professional time spent on infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalisation cost of the Capital Asset.

## **7.4 Subsequent measurement**

### **7.4.1 General**

After initial recognition of Property, plant and Equipment, the municipality values its assets using the cost model, unless a specific decision have been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation model.

When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.

When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

### **7.4.2 Procedures and Rules**

- The CFO shall ensure that all Property, Plant and Equipment are correctly recorded in the asset register and revaluated (if applicable) in terms of the municipality's policies.

**The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:-**

Capital Expenditure	Maintenance
<ul style="list-style-type: none"> <li>▪ Acquiring a new asset</li> <li>▪ Replacing an existing asset</li> <li>▪</li> <li>▪ Further developing an existing asset so that its original useful life is extended</li> <li>▪ Enhancing an existing asset so that its use is expanded</li> <li>▪ the expenditure enhances the service provision of that capital asset (with the exclusion of operational running maintenance);</li> <li>▪ increases the useful life of that capital asset (beyond its original life);</li> <li>▪ increases that capital asset capacity (beyond its original capacity);</li> <li>▪ increases the performance of the capital asset (beyond the original performance);</li> <li>▪ increases the functionality of that capital asset;</li> <li>▪ reduces the future ownership costs of that capital asset significantly; or</li> <li>▪ increases the size of the asset or changes its shape.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Restoring an asset so that it can continue to be used for its intended purpose</li> <li>▪ Maintaining an asset so that it can be used for the period for which it was initially intended.</li> </ul>

## 7.5 Asset Register

### 7.5.1 General

An asset register is a database of information related to all the assets under the control of the municipality. The asset register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the asset register. The minimum data requirements for the asset register are as follows:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use

- 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 immovable property
- the stand number, in the case of immovable property
- where applicable, the identification number
- the original cost, or the revalued amount determined in compliance with part below, or the fair value if no costs are available
- the (last) revaluation date of the assets subject to revaluation
- the revalued value of such assets
- who did the (last) revaluation
- 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 is required to perform basic municipal services
- 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.

Each directorate must annually issue a certificate indicating that all assets have been accounted for and checked against the asset register and a report any deviations to the accounting officer.

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing-off such an asset.

The total annual depreciation as obtained from the asset register must be included as a cost in the municipal operating budget.

All assets must be depreciated over their useful life as prescribed below:

<b>INFRASTRUCTURE ASSETS</b>	<b>USEFUL ASSET LIFE</b>		<b>USEFUL ASSET LIFE</b>
<b>AIRPORTS:</b>		<b>ROADS:</b>	
Airports/Radio Beacons	20	Bridges, subways & culverts	30
Aprons	20	Bus terminals	20
Runways	20	Car parks	20
Taxiways	20	Motorways	20-50
<b>ELECTRICITY:</b>		Other roads	10
Cooling towers	30	Overhead bridges	30
Load control equipment	50	Stormwater drains	20
Mains	40-50	Street Lighting	25
Meters	50	Traffic islands	10
Power stations	30	Traffic lights	20
Supply/reticulations	20	<b>PEDESTRIAN MALLS:</b>	
Switchgear equipment	20	Footways	20
Transformer Kiosks	45-50	Kerbing	20
<b>SEWERAGE:</b>		Paving	20
Outfall sewers	60	<b>WATER:</b>	
Purification works	15-100	Mains	15-100
Sewerage pumps	15-50	Meters	50
Sewers	60	Reservoirs & Tanks	15-50
Sludge machines	15	Supply/reticulation	60-100

<b>COMMUNITY ASSETS</b>	<b>USEFUL ASSET LIFE</b>		<b>USEFUL ASSET LIFE</b>
<b>BUILDINGS:</b>		<b>RECREATION FACILITIES:</b>	
Cemeteries	30	Bowling greens	20
Civic theatres	30	Floodlighting	20
Community centres / halls	30	Golf courses	20

Fire stations	30	Jukskei pitches	20
Game Reserves /	30	Lakes and dams	20
Rest Camps			
Indoor sport centres	30	Outdoor sports facilities	20
Libraries	30	Swimming pools	20
Parks	30	Tennis courts	20
Recreation centres	30	<b>SECURITY MEASURES:</b>	
Stadiums	30	Access control	5
		Fencing	3
		Security systems	5
<b>OTHER ASSETS</b>			
<b>BINS AND CONTAINERS:</b>		<b>FURNITURE &amp; FITTINGS:</b>	
Bulk containers	10	Cabinets/cupboards	7
Household refuse bins	5	Chairs	7
<b>BUILDINGS:</b>		Miscellaneous	7
Caravan parks	30	Tables/desks	7
Housing schemes	30	<b>OFFICE EQUIPMENT:</b>	
Office buildings	30	Air conditioners	5
Workshops	30	Computer hardware	5
<b>EMERGENCY EQUIPMENT:</b>		Computer software	3
Emergency lights	5	Office machines	3
Fire fighting equipment	15	<b>PLANT AND EQUIPMENT:</b>	
Fire hoses	5	Conveyers	15
<b>MOTOR VEHICLES:</b>		Compressors	5
Aircraft	15	Communication equipment	5
Buses	15	Firearms	5
Fire engines	20	Graders	10-15
Motor cycles	3	Irrigation systems	10
Motor vehicles	5-7	Laboratory equipment	5
Trucks/bakkies	5-7	Lawnmowers	5
Watercraft	15	Tractors	10

### 7.5.2 *Policy*

An asset register shall be maintained for all assets. In some cases, such as Investment Properties and Intangible Assets, separate asset registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The asset register should be continuously updated and asset records should be reconciled to the general ledger on a monthly basis.

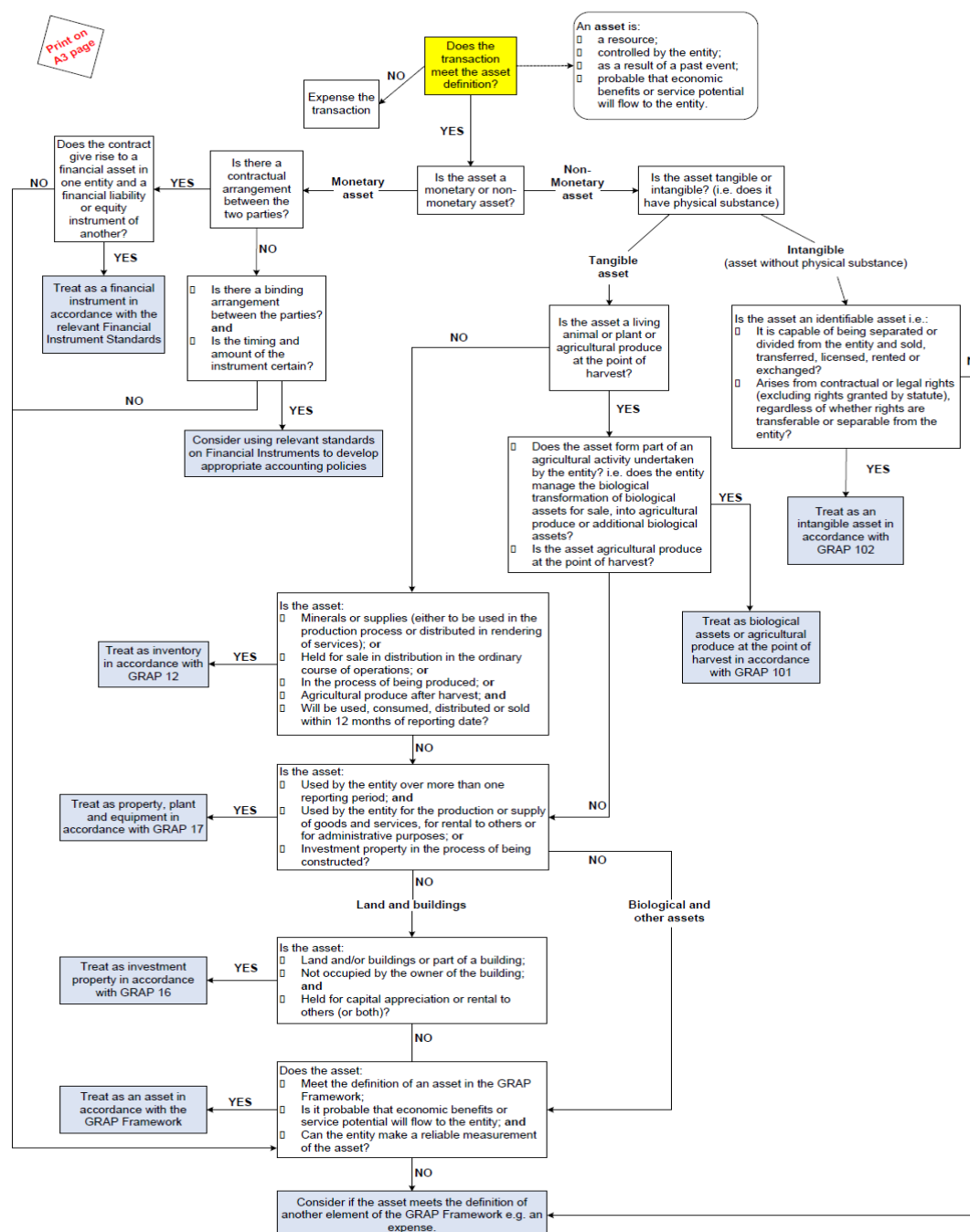
### 7.5.3 *Procedures and Rules*

- The CFO must define the format of the asset register in consultation with the Managers of Departments and must ensure that the asset register format complies with legislative requirements.
- The CFO must ensure that a defined process and forms exist to update and maintain the asset register.
- All Managers of departments under whose control any asset falls shall provide the CFO in writing with any information required to compile the Asset Register, and shall advise the CFO in writing, within 24 hours of any material change which may occur in respect of such information.
- An asset shall be capitalised, that is, recorded in the Asset Register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as an asset.



## 7.6 ASSET TYPES

The following asset decision tree shall be applied:



## **8.1 Property, plant and equipment: Land and Buildings**

### **8.1.1 General**

*Land and Buildings* comprise any land and buildings held (by the owner or by the lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes. Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Properties. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business.

### **8.1.2 Policy**

Land and buildings shall be treated using the revaluation model.

Land shall be accounted for at fair value, and shall not be depreciated. Land on which infrastructure and community assets are located shall be identified separately and disclosed together with the infrastructure and community assets. Land not registered in the name of the municipality but controlled by the municipality by virtue of owner-occupied buildings thereon, shall be recognised at fair value.

Buildings shall be accounted for at fair value, less any accumulated depreciation and any accumulated impairment losses.

### **8.1.3 Procedures and Rules**

- The CFO shall ensure that all land and buildings are correctly recorded in the asset register and revaluated in terms of the municipality's policies.
- The CFO shall ensure the recognition and measurement of *Land and Buildings* in terms of GRAP 17.

## **8.2 Property, plant and equipment: Infrastructure Assets**

### **8.2.1 General**

*Infrastructure Assets* comprise assets used for the delivery of infrastructure-based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Many infrastructure assets form part of a greater facility, e.g. a pump in a pump station.

### Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that meets the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very costly when dealing with assets that are very numerous in nature e.g. water meters, street signs, household connections, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data. The different levels of detail are shown below:

- **Level 1:** Service level (e.g. Robertson Water Supply)
- **Level 2:** Network level (e.g. Montagu Pump Stations)
- **Level 3:** Facility level (e.g. Robertson Drift Irrigation Pump Station)
- **Level 4:** Asset type level (e.g. Mechanical Equipment in Robertson Drift Irrigation Pump Station)
- **Level 5:** Component (maintenance item) level (e.g. Pump 1 in Robertson Drift Irrigation Pump Station)
- **Level 6:** Spare Part level (e.g. Bearing of Pump 1 in Robertson Drift Irrigation Pump Station)

The preferred level of detail for the accounting and technical management of infrastructure is level 5 above.

The compilation of a detailed infrastructure asset register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing asset registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high risk assets, such as pump stations, treatment works, etc.

#### *8.2.2 Policy*

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

the depreciation methods applied to infrastructure assets will be reviewed regularly, but the cost related to such reviews will be measured against benefits derived to ensure value for money. Such reviews will have to be performed at least once in a three year cycle.

*Infrastructure Assets* shall be recorded under the following main categories;

- Electricity;
- Water
- Roads;
- Sanitation;
- Stormwater; and
- Solid Waste.

#### 8.2.3 *Procedures and Rules*

- The CFO shall define the level of detail of the infrastructure asset register in consultation with the Managers of a Department.
- The CFO shall prepare an improvement process that defines the target level of detail for each infrastructure asset type with the target year of implementation in consultation with the Managers of a Department.
- The CFO shall ensure that all infrastructure assets are reviewed in terms of the municipality's policies.
- The CFO shall ensure the recognition and measurement of *Infrastructure Assets* in terms of GRAP 17.

### 8.3 **Property, plant and equipment: Community Assets**

#### 8.3.1 *General*

*Community Assets* include a variety of assets used to provide services to the community. These assets include building assets such as aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks, etc. Community assets also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

#### 8.3.2 *Policy*

Community assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

*Community Assets* shall be recorded under the following main categories;

- Recreational Facilities;

- Sporting Facilities; and
- Other Facilities.

#### 8.3.3 *Procedures and Rules*

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

### 8.4 **Property, plant and equipment: Housing Assets**

#### 8.4.1 *General*

Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.

#### 8.4.2 *Policy*

Housing assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

*Housing Assets* shall be recorded under the following main categories;

- Rental Schemes; and
- Selling Schemes.

#### 8.4.3 *Procedures and Rules*

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

### 8.5 **Property, plant and equipment: Heritage Assets**

#### 8.5.1 *General*

A *Heritage Asset* is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

Archaeological sites;

Conservation areas;

Historical buildings or other historical structures (such as war memorials);

Historical sites (for example, historical battle site or site of a historical settlement);

Museum exhibits;

Public statues; and

Works of art (which will include paintings and sculptures).

#### *8.5.2 Policy*

- Heritage assets are valued at cost less accumulated depreciation and accumulated impairment losses. No depreciation shall be charged against such assets. If the cost price of heritage assets is not known, then the heritage asset will be valued at fair value.
- If no original costs or fair values are available in the case of one or more or all heritage assets, the CFO 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 Asset Register without an indication of the costs or fair value concerned.

#### *8.5.3 Procedures and Rules*

- For reporting purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note in the asset register.
- The CFO, in consultation with the Managers of Departments, shall ensure that all heritage assets are appropriately recorded and valued in terms of the municipality's policies.

### **8.6 Property, plant and equipment: Other Assets**

#### *8.6.1 General*

*Other Assets* include a variety of assets that are of indirect benefit to the communities they serve. These assets include office equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, plant and equipment.

#### *8.6.2 Policy*

*Other Assets* are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.

*Other Assets* shall be recorded under the following main categories;

- Bins and Containers;
- Emergency Equipment;
- Furniture and Fittings;
- Motor Vehicles;
- Office Equipment;
- Plant and Equipment;

- Specialised Vehicles;
- Watercraft; and
- Other Assets.

#### 8.6.3 *Procedures and Rules*

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

### 8.7 **Intangible Assets**

#### 8.7.1 *General*

*Intangible Assets* can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost, valuation roll, servitudes and mining rights.

#### 8.7.2 *Policy*

*Intangible Assets* are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset, except for those assets with infinite useful lives such as water rights. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 102 have been met.

#### 8.7.3 *Procedures and Rules*

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

### **Investment Property**

#### 8.8.1 *General*

*Investment Property* comprise of land or buildings (or parts of buildings) or both, held by the municipality as owner, or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

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

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

The classification of an investment property is based on management's judgement; the following criteria will be applied to distinguish investment properties from owner-occupied property or property held for resale:

Investment property	PPE	Non-current assets held for sale
the asset generates its own cash flows in the form of rentals (on a commercial basis)	rental income earned is below market value, and the asset is held for service delivery rather than to generate a commercial return	land and other properties held for sale within the next 12 months, if the criteria in GRAP 100 are met
the asset is held for capital appreciation	the asset is held to achieve service delivery objectives rather than to earn rental or for capital appreciation	
investment property that is being redeveloped for continued use as an investment property	property that is being constructed or developed for future use as investment property  (until the asset meets the definition of investment property it is accounted for as PPE)	
Land held for an undetermined use	owner occupied-property such as office buildings and residential buildings occupied by staff members  (assets used by employees, irrespective of whether or not the employees pay rent at market rates, are owner-occupied)	

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

- 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.
- Land held for a currently undetermined future use.
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.



- (d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

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

- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.
- (b) Property being constructed or developed on behalf of the Provincial Government: Housing Department.
- (c) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.
- (d) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner-occupied property.
- (e) Property that is being constructed or developed for future use as investment property. The relevant GRAP standard on accounting for PPE (GRAP17) applies to such property until construction or development is complete, at which time the property becomes investment property and the Standard on investment property applies. However, the Standard on investment property does apply to existing investment property that is being redeveloped for continued future use as investment property.
- (f) Property that is leased to another entity under a finance lease.
- (g) Property held to provide a social service and which also generates cash inflows. For example, council holds a large housing stock (letting units) used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with the GRAP standard on accounting for PPE.
- (h) Property held by council to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property.
- (i) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

#### **8.7.4 Policy**

*Investment Property* shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality’s Statement of Financial Position. Investment Property shall initially be measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

After initial recognition, all investment property shall be measured at fair value. The fair value of investment property shall be determined annually at reporting date in terms of the municipality's Accounting Policy. The fair value should reflect market conditions and circumstances as at the reporting date.

#### 8.7.5 *Procedures and Rules*

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

### 8.8 **Biological Assets**

#### 8.8.1 *General*

*Biological Assets* are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. **Managed agricultural activity** such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market.

Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

### 8.8.2 Policy

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

### 8.8.3 Procedures and Rules

- The CFO, in consultation with the Managers of Departments, shall ensure that all biological assets obtained from a managed agricultural activity, such as livestock and crops, are valued at 30 June each year by a recognised valuator in the line of the biological assets concerned.
- The CFO shall ensure the recognition and measurement of *Biological Assets* in terms of GRAP 101.

## 8.9 Assets Classified as Held-for Sale

### 8.9.1 General

A non-current asset shall be classified as *Assets Held-for-Sale* if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

For the sale to be highly probable, management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

### 8.9.2 Policy

Assets identified for disposal by way of a sale transaction, be it by public auction, bidding process or sales agreement, within 12 months of the date of identification shall be classified as *Assets Held-for-Sale* and transferred from the home asset category to held-for-sale category. Such assets shall be measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated any further upon classification as held-for-sale.

The municipality shall not classify a non-current asset that is to be abandoned as held-for-sale because its carrying amount will be recovered principally through continuing use.

### 8.9.3 *Procedures and Rules*

- The CFO shall ensure that assets held-for-sale are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.
- The CFO shall ensure the recognition and measurement of *Assets Held-for-Sale* in terms of GRAP 100.

## 8.10 **Land Inventories**

### 8.10.1 *General*

*Land Inventories* comprise 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.

### 8.10.2 *Policy*

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's Statement of Financial Position. Land Inventories shall be valued annually at reporting date at the lower of its carrying value or net realisable value, except where they are held for:

- (a) distribution at no charge or for a nominal charge, or
- (b) consumption in the production process of goods to be distributed at no charge or for a nominal charge, then they shall be measured at the lower of cost and current replacement cost.

### 8.10.3 *Procedures and Rules*

- The CFO shall ensure that land inventory properties are recorded in the Inventory Register.
- The CFO shall ensure the recognition and measurement of *Land Inventories* in terms of GRAP 12.

## 8.11 **Minor Assets**

### 8.11.1 *General*

*Minor Assets* comprise movable assets not capitalised in terms of the threshold policy of the municipality. However, these assets must still be controlled, safeguarded and verified by the municipality. They are not capitalised for the number of assets compared to their value does not warrant the complex procedures applicable to asset management, rendering a manageable asset register by concentrating on what is material and significant to the municipality's operation.

### *8.11.2 Policy*

Minor assets shall be expensed in the Statement of Financial Performance and not be capitalised. However, these assets shall be bar-coded for identification purposes and recorded at cost in the Minor Asset Inventory Listing. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions, except in the cases where losses are recovered by means of insurance claims or recoveries from disciplinary actions.

### *8.11.3 Procedures and Rules*

The CFO shall ensure that minor assets are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

## **9 MAINTENANCE OF ASSETS**

### **9.1 Useful life of Assets**

#### *9.1.1 General*

*Useful Life* of assets is defined in section 1 of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular classes of assets. Should the municipality decide on a useful life outside the given parameters, the National Treasury (OAG) should be approached and provided with a motivation, for its agreement of the rate utilised. The calculation of useful life is based on a particular level of planned maintenance.

#### *9.1.2 Policy*

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

#### *9.1.3 Procedures and Rules*

- Managers of Departments must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the CFO.

- The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.
- The CFO shall ensure that the *Remaining Useful Life* of an asset shall be reviewed at each reporting date.

## 9.2 Residual Values

### 9.2.1 General

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.

### 9.2.2 Policy

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to 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. Assets typically not sold by the municipality are infrastructure and community assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

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

### 9.2.3 Procedures and Rules

- Managers of Departments must determine the reasonable residual values of the assets under their control. Changes in residual values must be approved by the CFO.
- The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.
- The CFO shall ensure that the *residual value* of an asset shall be reviewed at each reporting date.

## 9.3 Depreciation / Amortisation of Assets

### 9.3.1 General

*Depreciation / Amortisation* is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable

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

The depreciation method used **must** reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

- Straight-line;
- Diminishing Balance; and
- Sum of the Units.

#### 9.3.2 *Policy*

All assets, except land and heritage assets, shall be depreciated over their reasonable useful lives. The *residual value* and the *useful life* of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality, or expected to be so controlled or used during the ensuing financial year.

Depreciation shall 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 of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, the procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

#### 9.3.3 *Procedures and Rules*

- Managers of Departments must ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year.
- Managers of Departments must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards of useful life must be motivated in writing to the Municipal Manager and provided to the CFO.

- In the case of an asset which is not listed in the asset classification list, the Manager of a Department shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.
- Alternative depreciation methods may be used in exceptional cases, if motivated by the Manager of a Department controlling the asset to the Municipal Manager and in consultation with the CFO. The Manager of an Department must then provide the CFO with sufficient statistical information to make estimates of depreciation expenses for each financial year.
- The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the asset register and the general ledger.
- The CFO shall ensure that the *residual value*, *useful life* and *depreciation method* of an asset shall be reviewed at each reporting date.

## 9.4 Impairment Losses

### 9.4.1 General

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. For example:

- 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).

The impairment amount is calculated as the difference between the *carrying value* and the *recoverable service value*. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

If the asset is carried at a revalued amount (in the case of investment property, infrastructure and community assets) the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property,



plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

#### *9.4.2 Policy*

Assets shall be reviewed annually for impairment. Impairment of assets shall be recognised as an expense, unless it reverses a previous revaluation in which case it should be charged to the *Revaluation Surplus*. The reversal of previous impairment losses recognised as an expense, is recognised as an income.

#### *9.4.3 Procedures and Rules*

- The CFO, in consultation with the Managers of Departments must ensure that professionally qualified valuers or other professionals with appropriate qualifications must perform annual impairment surveys.
- The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the asset register and the general ledger.

### **9.5 Maintenance of Assets in the Asset Register**

#### *9.5.1 General*

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

### 9.5.2 Policy

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are individually identified in the asset register.

### 9.5.3 Procedures and Rules

- Managers of Departments responsible for the control and utilisation of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.
- Managers of Departments shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- The Managers of Departments shall report to the Council annually of the extent to which the approved **maintenance plan** has been complied with and the extent of deferred maintenance.
- The Managers of Departments shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes;
- The Managers of Departments shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

## 9.6 Renewal of Assets

### 9.6.1 General

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However, if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

### 9.6.2 Policy

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

### 9.6.3 *Procedures and Rules*

- The CFO, in consultation with Managers of Departments, must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.
- Managers of Departments shall ensure that renewals expenditure are correctly budgeted for in the capital budget and expensed against this budget.
- Managers of Departments must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

## 9.7 **Replacement of Assets**

### 9.7.1 *General*

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.

### 9.7.2 *Policy*

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

### 9.7.3 *Procedures and Rules*

- The CFO, in consultation with Managers of Departments, must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.
- Managers of Departments shall ensure that replacement expenditure are correctly budgeted for in the capital budget and expensed against this budget.

## 10 **ASSET DISPOSAL**

When assets are sold, disposed of, transferred or purchased after approval by Council:

- the asset register must be updated; and
- the journal entries to record the sale, disposal, transfer or purchase must be processed.

Asset disposals must be in accordance with the Supply Chain Management Policy and the Asset Transfer Regulations released in September 2008.

## **10.1 Transfer of Assets**

### *10.1.1 General*

The processes and rules for the transfer of a capital asset to another municipality, municipal entity or national / provincial organ of state are governed by an MFMA regulation namely “the Local Government: Municipal Asset Transfer Regulations”.

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed asset register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building or office to another; and
- One entity to another.

### *10.1.2 Policy*

The transfer of assets shall be controlled by a transfer process and the asset register shall be updated.

### *10.1.3 Procedures and Rules*

- The Managers of Departments must ensure that whenever an asset are being transferred, all asset transfer information is captured onto the asset transfer form, completed in full and forwarded to the Accountant: Asset Management.
- The CFO must ensure that a process is in place to capture and record asset transfer data.
- Staff of the municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.
- No person shall transfer any IT equipment without the knowledge and written consent of the Accountant: Asset Management and the IT Department.
- The Manager of a Department must immediately report to the CFO of any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.
- Municipal staff required to remove equipment from the building, i.e. computer equipment, furniture, etc. for repair or any other reason need to obtain a permit from a delegate of the CFO. Failure to produce such a permit will result in the unauthorised removing of equipment.

## **10.2 Exchange of Assets**

### *10.2.1 General*

According to GRAP 17.33 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

- (a) The exchange transaction lacks commercial substance; or
- (b) The fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

### *10.2.2 Policy*

The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

### *10.2.3 Procedures and Rules*

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The CFO shall approve all asset exchanges in consultation with the relevant Manager of a Department.

## **10.3 Disposal of Assets**

### *10.3.1 General*

Disposal is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

The MFMA (sections 14 and 90) and the Municipal Supply Chain Management Regulation no 27636 have specific requirements regarding the disposal of capital assets. Specifically:

- A municipality may not ...” permanently dispose of a capital asset needed to provide the minimum level of basic municipal services”.

- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

#### 10.3.2 Policy

There are various methods of disposal. Different disposal methods will be needed for different types of assets. Before deciding on a particular disposal method, the following should be considered:

- The nature of the asset
- The potential market value
- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in price
- Its ability to support wider Government programmes
- Environmental considerations
- Market conditions
- The asset's life

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution
- Sale to another institution
- Letting to another institution
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the asset register.

#### 10.3.3 Procedures and Rules

- Every Manager of a Department shall report in writing to the CFO on 31 October and 30 April of each financial year on all assets which they wish to alienate and the proposed method of alienation.
- The CFO shall consolidate the requests received from the various departments, and shall promptly report the consolidated information to the Municipal Manager of the municipality, recommending the process of alienation to be adopted.

- The Council shall ensure that the alienation of any capital asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004. The Act states that the municipality may not alienate any capital asset required to provide a minimum level of service. The municipality may alienate any other capital asset, provided the Council has considered the fair market value and the economic and community value to be received in exchange for the asset.
- Selling: Assets to be sold shall be sold in terms of paragraph 9.4 below.
- Donations: Donations may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager for approval.
- Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- Once the assets are alienated, the CFO shall write-off the relevant assets in the asset register.
- The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.
- The CFO must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

## **10.4 Selling of Assets**

### *10.4.1 General*

Selling of assets refers to the public sale of municipal assets approved for alienation.

### *10.4.2 Policy*

All assets earmarked for sale must be sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

Assets earmarked for sale, shall be reclassified as Assets Held-for-Sale and shall not attract any further depreciation.

Sold assets shall be written-off in the asset register.

### 10.4.3 Procedures

- A request for assets to be sold must be submitted to the Municipal Manager and approved by Council. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 9.3 above.
- Assets earmarked for sale shall be reclassified as Assets Held-for-Sale.
- Auctioneers may be engaged either on a quotation basis or by tender depending on the goods to be alienated.
- Bidding: Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.
- Tenders: Tenders shall be invited according to the municipality's tender procedures.
- Once the assets are sold, the CFO shall write-off the relevant assets in the asset register.
- If the proceeds of the sales are less than the carrying value recorded in the asset register, such difference shall be recognised as a loss for the department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain for the department or vote concerned in the statement of financial performance.
- Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

## 10.5 Writing-off of Assets

### 10.5.1 General

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

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is outdated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.



### 10.5.2 *Policy*

The only reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question.

### 10.5.3 *Procedures and Rules*

- Every Manager of a Department shall report to the CFO on 31 October and 30 April of each financial year on any assets which such Manager of a Department wishes to have written-off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Municipal Manager on the assets to be written off.
- An asset, even though fully depreciated, shall be written-off only on the recommendation of the Manager of a Department controlling or using the asset concerned, and with the approval of the Municipal Manager.
- In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.
- Assets that are replaced should be written-off and removed from the asset register.

## 11 **INSURANCE**

### 11.1 *General*

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

### 11.2 *Policy*

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against fire and allied perils.

### 11.3 *Procedures and Rules*

- The CFO will ensure that all assets are properly insured in terms of the policy.
- The CFO shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.
- The risk assessment must be based on a loss probability analysis. Professional assistance must be obtained if required.

- Assets must be insured internally or externally and coverage must be based on the loss probability analysis. Contracting with regard to insurance cover must be in accordance with the Supply Chain Management Policy and the stipulations of the Municipal Finance Management Act.
- All insurance claims must be assessed by a committee of council or an official, charged with the responsibility, to determine whether the damage to the assets can be recovered from possible third parties involved.
- All insurance claims must be recorded in an insurance register.

## 12 GENERAL PROCEDURES

- All assets will be recorded in an asset register by the assets control section situated in the department of the Manager: Budget Office.
- The Asset Control Section must be notified **within 7 days** of any of the following possible movements which affect the status of assets entrusted to a department:-
  - new purchases;
  - donations received;
  - additions/improvements;
  - departmentally manufactured items;
  - auctions;
  - loss or damage;
  - transfers;
  - resignations.
- When a donation is received or an item is manufactured departmentally the item will be recorded in the asset register at market value or a value determined by the Manager: Budget Office.
- An asset acquisition form (Annexure "B") must be completed in full referring to the purchase date, purchase price, vote or order number, description of the asset and the location barcode by the responsible department for each item created in terms of section 13(6) and submit to the asset control section.
- The disposal of goods or material by council will take place in terms of the conditions prescribed in Section 9 of this policy subject to the following additional procedures:-
  - a) any items declared obsolete or to be written-off must be handed in at the municipal stores for safekeeping;
  - b) no items will be received by the stores or authorization be given for replacement, without a completed asset form (Annexure "A") describing the status of the item and the reason for writing-off the item duly signed off by the applicable director;
  - c) the official in charge of the stores section must forward the asset form to the asset control section;

- d) the Chief Financial Officer or his/her nominee will circulate a list of unused items to enable departments to identify and obtain items which could be utilised by them;
- e) the Chief Financial Officer will compile a list of the items to be auctioned and present it to the respective directorates;
- f) the execution of the above-mentioned requirements will be subject to the following criteria:

*Vehicles and Plant* – The fleet manager upon technical advice may approve the writing-off of vehicles and plant.

*Computers* – The Network Administrator may approve the writing-off of computer equipment.

*Other items* – All other items which cannot be utilised and are to be written-off, must be approved by the respective directors.

*Unused items* – Items which are still usable but not required by a department, must be transferred to and handed in at the municipality stores section for safekeeping.

Items reflected in the asset register will only be written-off after an approval has been obtained from the head of the department.

- All inventory or asset items lost or damaged must be reported to the asset control section, accompanied by a report explaining the nature/circumstances of lost and/or damage. A list with all inventory items and furniture per office must be attached behind the door of the office for reconciliation and verification purposes during stock taking and as a management tool.
- The replacement of an item lost or damaged must be treated as a new purchase on receipt of a completed asset acquisition form.
- Upon the termination of the services of an employee the director or his duly delegated authority must certify that all assets entrusted to the employee are in good order and handed in where required.
- The certificate produced in terms of the paragraph above must be forwarded to the human resource department which in turn will issue a pay clearance certificate to the salary section.
- Any loss of, or damage to assets allocated to an employee must be reported to the Chief Financial Officer within 48 hours after the loss or damage was detected. Damage to or loss of assets which can be ascribed to negligence must be recovered from such an employee.

#### **SHORT TITLE**

This policy will be referred to as the Asset Management Policy of the Langeberg Municipality.