



**THEMBELIHLE**

LOCAL MUNICIPALITY  
PLAASLIKE MUNISIPALITEIT  
U-MASIPALA WASEKUHLENI

# **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

## **1. INTRODUCTION**

### **1.1 AIM OF THIS DOCUMENT**

This document is provided to assist management and employees of THEMBELIHLE Municipality to implement and maintain consistent, effective and efficient fixed asset management principles.

#### **The objective of this document is aimed at:**

- Safeguarding the fixed assets of the THEMBELIHLE Municipality to ensure effective use of existing resources
- Emphasizing a culture of accountability over fixed assets owned by the THEMBELIHLE Municipality.
- Ensuring that effective controls are communicated to management and staff through clear and comprehensive written documentation.
- Providing a formal set of procedures to ensure that the THEMBELIHLE Municipality's fixed asset policies are achieved and are in compliance with the Municipal Finance Management Act (MFMA) and National Treasury, IMFO and Accounting Standards Board directions, instructions, principals and guidelines.

This manual supercedes/replaces all previously issued fixed asset management policies and/or procedures and/or instructions and should be read together with the provisions of Section 63 of the MFMA.

### **1.2 DEPARTURES FROM FORMAL POLICIES AND PROCEDURES**

**1.2.1** Any departures from the approved policies and procedures stated in this manual will require the prior written approval of the Chief Financial Officer.

**1.2.2** Failure to comply with the prescribed policies and procedures will result in the institution of disciplinary procedures in terms of the Human Resource policies & procedures.

### **1.3 CHANGES TO FIXED ASSET MANAGEMENT POLICY AND/OR PROCEDURE MANUALS**

**1.3.1** All changes made to either the Fixed Asset Management Policies or Procedures must be processed timeously and communicated via the proper channels of communication to all asset holders.

**1.3.2** The following steps will apply for the control and management of changes to the Fixed Asset Management Policy or Procedure Manuals:

**1.3.2.1** The Chief Financial Officer is appointed as custodian of the Fixed Asset Register and Fixed Asset Management Policy and Procedure manuals. The custodian is ultimately responsible for the control of the Fixed Asset Management Policies and Procedures.

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- 1.3.2.2** All recommended changes or requests for changes are recorded on the change request form that will detail the suggested changes together with reasons for such change.
- 1.3.2.3** The change request form is authorized by the relevant Departmental Head. The authorized change request form is forwarded to the custodian.
- 1.3.2.4** The custodian circulates the change request between Heads of Departments for comments for a defined period. All comments are forwarded back to the custodian.
- 1.3.2.5** The Chief Financial Officer submits the proposal to the Municipal Manager for Council's approval in the case of changes to the Fixed Asset Management Policies or final approval in the case of changes to the Fixed Asset Management Procedures.
- 1.3.2.6** Changes in policies will be effective within one week after final approval has been received.
- 1.3.2.7** The custodian is ultimately responsible for applying the changes and finalizing the Fixed Asset Management Policy and Procedure manuals. The new document is made available in its entirety within one week after final approval has been received with clear indications of the changes.
- 1.3.2.8** It remains the responsibility of all employees to keep themselves familiarized with the Fixed Asset Management Policies and Procedures.
- 1.3.2.9** Failure to apply the changes in the Fixed Asset Management Policies or Procedures from the date of implementation will result in the institution of disciplinary procedures in terms of the human resource policies & procedures.

## **1.4 DELEGATION OF AUTHORITY**

- 1.4.1** Full responsibility for internal control over fixed assets within a department rests with the relevant Head of Department, who must ensure that appropriate and adequate arrangements exist to safeguard all fixed assets and that the Asset Management Policies and Procedures are complied with and that the records are maintained in as complete and accurate form as possible.
- 1.4.2** Head(s) of Department(s) must ensure that all movements of fixed assets or other related changes, i.e. purchases, transfers, disposals, losses, impairments, upgrades, be communicated to the custodian in the manner prescribed in the Fixed Asset Management Procedure manual.
- 1.4.3** Head(s) of Department(s) must ensure that the inventory listing of fixed assets under control of asset holders is a true reflection of the assets under the asset holder's control. Regular independent checks should be conducted by the Head(s) of Department(s) or their delegates. Assistance and advice on internal control

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procedures can be obtained from the custodian of the fixed asset register or the appointed representative.

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## CHAPTER 1: DEFINITIONS

**Assets** are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. (GRAP 1)

A **fixed asset** is defined in GRAP 17 as a tangible item of property, plant or equipment held by the Municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

A fixed asset is thus an asset, either movable or immovable, under the control of the Municipality, and from which the Municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

To be recognized as a fixed asset, an asset must also meet the criteria referred to in Chapters 13, 14 and 15 below.

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

The definitions regarding fixed assets as prescribed in the applicable accounting standards are the accepted definitions and are to be applied in the management, control and reporting on fixed assets.

Other definitions:

<b>Carrying Amount</b>	The amount at which an asset is included in the statements or financial position after deducting any accumulated depreciation and any impairment losses thereon.
<b>Cost</b>	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 and/or construction.
<b>Fair Value</b>	The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
<b>GRAP</b>	Standards of Generally Recognized Accounting Practice
<b>IAS</b>	International Accounting Standards
<b>MFMA</b>	Refers to the Local Government: Municipal Finance Management Act
<b>CFO</b>	Chief Financial Officer
<b>MM</b>	Municipal Manager

## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

<b>HOD</b>	Head(s) of Department(s)
<b>Municipality</b>	THEMBELIHLE Municipality
<b>PPE</b>	Property, Plant & Equipment

### **CHAPTER 2: RESPONSIBILITIES**

#### **Municipal Manager (MM)**

As accounting officer of the Municipality, the MM shall be the principal custodian of all the Municipality's fixed assets, and shall be responsible for ensuring that the Fixed Asset Management Policy and Procedures are scrupulously applied and adhered to.

#### **Chief Financial Officer (CFO)**

The CFO shall be the fixed asset registrar of the Municipality, and shall ensure that a complete, accurate and up-to-date electronic Fixed Asset Register (FAR) is maintained.

No amendments, deletions or additions to the FAR shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

Verify assets in possession of the Municipality annually during the course of the financial year.

Report all losses, where applicable, to the Council.

#### **Head of Department: Human Resources**

The HOD Human Resources shall ensure that no monies are paid out on termination of services without receiving the asset resignation form, signed off by the relevant Head(s) of Department(s).

#### **All Head(s) of Department(s) (HOD) / End Users**

HOD shall ensure:

- That all officials adhere to the approved Asset management Policies and procedures.
- That an employee with delegated authority has been nominated to implement and maintain physical control over assets in his/her Department. The CFO has to be notified who this responsible person is. Although authority has been delegated, the responsibility to ensure adequate physical control over each asset remains with the HOD.
- That the assets are properly maintained in accordance with their respective asset maintenance policies.
- That assets and/or inventory items are not used for private gain.
- That all assets and attractive items are reflected in the FAR.
- That the CFO is notified of any changes in the status of an asset under the HOD's control. This must be done in the prescribed form(s) and timetable(s).
- That on termination of services by an official, all relevant assets (portable and attractive items) are collected and an asset resignation form is been issued.

### **CHAPTER 3: FORMAT OF FIXED ASSET REGISTER (FAR)**

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The FAR shall be maintained in the format determined by the CFO, which format shall comply with the requirements of GRAP and any other accounting requirements which may be prescribed.

The FAR shall reflect (as minimum) the following information:

- 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 fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with Chapter 10 below
- the original cost, or the revalued amount determined in compliance with Chapter 25 below, or the fair value if no costs are available
- the (last) revaluation date of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- 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
- 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.

All HODs under whose control any fixed asset falls shall provide the CFO in writing with any information required to compile the FAR, and shall advise the CFO in writing, within 24 hours of any material change which may occur in respect of such information.

A fixed asset shall be capitalized, that is, recorded in the FAR, 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 capitalized as a fixed asset.

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

## **CHAPTER 4: CLASSIFICATION OF FIXED ASSETS**



## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

In compliance with the requirements of the National Treasury, the CFO shall ensure that all fixed assets are classified under the following headings in the FAR and HOD shall in writing provide the CFO with such information or assistance as is required to compile a proper classification:

### **PROPERTY, PLANT AND EQUIPMENT**

- land (developed and undeveloped)
- buildings (dwellings and non residential dwellings)
- infrastructure assets (assets which are part of a network of similar assets)
- capital / infrastructure work in progress
- other machinery and equipment
- heritage assets (cultural significant resources)
- biological or cultivated assets
- investment property
- intangible assets
- Other assets (ordinary operational resources)

The CFO shall adhere to the classifications indicated in the annexure on fixed asset lives (see Chapter 32 below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

### **CHAPTER 5: INVESTMENT PROPERTY**

Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as PPE for purposes of preparing the Municipality's statement of financial position.

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

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

Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

An expert valuator shall be engaged by the municipality to undertake such valuations.

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

### **CHAPTER 6: FIXED ASSETS TREATED AS INVENTORY**

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Any land or buildings owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the Municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either PPE or Investment Property in the Municipality's statement of position.

Such inventories shall, however, be recorded in the FAR in the same manner as other fixed assets, but a separate section of the FAR shall be maintained for this purpose.

***CHAPTER 7: RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER***

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 FAR without an indication of the costs or fair value concerned.

For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

***CHAPTER 8: RECOGNITION OF DONATED ASSETS***

Where a fixed asset is donated to the Municipality, or a fixed asset is acquired by means of an exchange of assets between the Municipality and one or more other parties, the asset concerned shall be recorded in the FAR at its fair value, as determined by the CFO.

***CHAPTER 9: SAFEKEEPING OF ASSETS***

Every HOD shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.

In exercising this responsibility, every HOD shall adhere to any written directives issued by the CFO to the department in question, or generally to all departments, in regard to the control of or safekeeping of the Municipality's fixed assets.

***CHAPTER 10: IDENTIFICATION OF FIXED ASSETS***

The MM shall ensure that the Municipality maintains a fixed asset identification system which shall be operated in conjunction with its electronic FAR.

The identification system shall be determined by the MM, acting in consultation with the CFO and other HOD, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the Municipality's audit report(s), and shall be decided upon within the context of the Municipality's budgetary and human resources.

Every HOD shall ensure that the asset identification system approved for the Municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

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**CHAPTER 11: PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS**

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

**CHAPTER 12: CAPITALISATION CRITERIA: MATERIAL VALUE**

No item with an initial cost or fair value of less than R1 000 (one thousand rand per item/group) shall be recognized as a fixed asset. If the item has a cost or fair value lower than this capitalization benchmark, it shall be treated as an ordinary operating expense.

Every HOD shall, however, ensure that any item with a value in excess of R1000 (one thousand rand), and with an estimated useful life of more than one year, shall be reported to the CFO who shall decide whether the portability and attractiveness of the item by its very nature, render it to theft or misplacing and whether it is sufficiently portable to allow removal and if the need exists for the item to be controlled and therefore be included in the FAR as a non-capital item and identified and controlled in the manner as prescribed in Chapter 11. Every HOD shall ensure that the existence of items referred to in this Chapter and which the CFO decided not to include in the Fixed Asset Register shall be recorded on an asset stock sheet controlled by himself or a person delegated to the task, and verified from time to time, and at least once in every financial year, and any amendments which are made to such asset stock sheet pursuant to such stock verifications shall be retained for audit purposes.

**CHAPTER 13: CAPITALISATION CRITERIA: INTANGIBLE ITEMS**

No intangible item shall be recognised as a fixed asset, except that the CFO, acting in strict compliance with the criteria set out in IAS 38 (dealing with research and development expenses) may recommend to the Council that specific development costs be recognised as fixed assets.

**CHAPTER 14: CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

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

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

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

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**CHAPTER 15: MAINTENANCE PLANS**

Every HOD shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Council for approval.

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

The HOD controlling or using the infrastructure asset in question, shall annually report to the Council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned. These plans must also form part of the IDP & SDBiP.

**CHAPTER 16: DEFERRED MAINTENANCE**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 16 above), the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the CFO shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the HOD controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

**CHAPTER 17: GENERAL MAINTENANCE OF FIXED ASSETS**

Every HOD shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 16 and part 17 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

**CHAPTER 18: DEPRECIATION OF FIXED ASSETS**

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

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall generally take the form of an expense both calculated and debited on a annual basis against the appropriate line item in the department or vote in which the asset is used or consumed.

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day

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following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated annually.

Each HOD, acting in consultation with the CFO, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

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

**CHAPTER 19: RATE OF DEPRECIATION**

The CFO shall assign a useful operating life to each depreciable asset recorded on the Municipality's FAR. In determining such a useful life the CFO shall adhere to the useful lives set out in the annexure to this document (see Chapter 33 below).

In the case of a fixed asset which is not listed in this annexure, the CFO shall determine a useful operating life, if necessary in consultation with the HOD who shall control or use the fixed asset in question, 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.

**CHAPTER 20: METHOD OF DEPRECIATION**

Except in those cases specifically identified in Chapter 23 below, the CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

**CHAPTER 21: AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS**

Only the CFO may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the CFO shall inform the Council of such amendment.

The CFO shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful

operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

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

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

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

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If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

### ***CHAPTER 22: ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES***

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

The CFO shall only employ this method of depreciation if the HOD controlling or using the fixed asset in question gives a written undertaking to the MM to provide:

- estimates of statistical information required by the CFO to prepare estimates of depreciation expenses for each financial year; and
- Actual statistical information, for each financial year.

The HOD concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the CFO.

Where the CFO decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the CFO shall inform the Council of the decision in question.

### ***CHAPTER 23 CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION***

The CFO shall ensure that in respect of all fixed assets financed from the Municipality's Asset Financing Reserve, or from Grants or Subsidies or Contributions received from other spheres of government or from the public at large, as well as in respect of fixed assets donated to the Municipality, a non-distributable reserve for future depreciation is created equal in value to the capitalised value of each fixed asset in question.

The CFO shall thereafter ensure that in the case of depreciable fixed assets an amount equal to the monthly depreciation expenses of the fixed asset concerned is transferred annually from such non-distributable reserve to the Municipality's appropriation account. Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the CFO shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

### ***CHAPTER 24: CARRYING VALUES OF FIXED ASSETS***

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

The only exceptions to this rule shall be re-valued assets (see Chapter 25 below) and Heritage Assets in respect of which no value is recorded in the fixed asset register (see Chapter 7 above).

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**CHAPTER 25: REVALUATION OF FIXED ASSETS**

All land and buildings recorded in the Municipality's FAR shall be re-valued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

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

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

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

The CFO shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred annually from the revaluation reserve to the Municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary (see Chapter 23 above).

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

Re-valued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their re-valued amount, less accumulated depreciation (in the case of buildings).

**CHAPTER 26: VERIFICATION OF FIXED ASSETS**

The CFO shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the Municipality.

The results of such verification will be reported to every HOD who shall promptly and fully report in writing to the CFO in the format determined by the CFO on all the fixed assets not verified during such fixed asset verification.

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Asset verifications shall be undertaken and completed as closely as possible to the end of each financial year and the resultant report shall be submitted to the MM / Council by not later than 31 August of the year in question.

### **CHAPTER 27: ALIENATION OF FIXED ASSETS**

In compliance with the principles and prescriptions of the MFMA, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the Municipality's supply chain management policy.

Every HOD shall report in writing to the CFO on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such HOD wishes to alienate by public auction or public tender. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the MM recommending the process of alienation to be adopted.

The MM will decide on the alienation of any fixed asset with a carrying value less than R1,000.00 (one thousand rand) and will inform the appropriate HOD of any alienation of any fixed assets that have not been approved clearly stating the reasons for such disapproval..

The Council shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R1,000.00 (one thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004 (see Chapter 33 below).

Once the fixed assets are alienated, the CFO shall arrange for the appropriate updating of the FAR.

If the proceeds of the alienation are less than the carrying value recorded in the FAR, such difference shall be recognised as a loss in the income statement of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the income statement of the department or vote concerned.

All gains realised on the alienation of fixed assets shall be appropriated annually to the Municipality's Asset Financing Reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

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

### **CHAPTER 28: OTHER WRITE-OFFS OF FIXED ASSETS**

A fixed asset, even though fully depreciated shall be written off only on the recommendation of the HOD controlling or using the asset concerned, and with the approval of the Council.



### **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

Every HOD shall report to the CFO on 31 October and 30 April of each financial year on any fixed assets which such HOD 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 MM and/or Council (depending on the carrying value) on the fixed assets to be written off.

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

In every instance where a not fully depreciated fixed asset is written off, the CFO shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also Chapter 21).

#### **CHAPTER 29: REPLACEMENT NORMS**

Every HOD shall report to the CFO on 31 December of each financial year on any fixed assets which such HOD wishes to replace, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Council on the fixed assets to be written off.

The only reasons for replacement off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question. This Chapter provides for the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items as well as for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain or have become outdated in terms of available technology.

#### **CHAPTER 30: INSURANCE OF FIXED ASSETS**

The MM shall ensure that all movable fixed assets are insured at least against fire and theft, and that all Municipal Buildings are insured at least against fire and allied perils.

The 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 HOD concerned.

The MM shall recommend to the Council, after consulting with the CFO, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.

The CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the Municipality's self-insurance reserve.

#### **CHAPTER 31: BIOLOGICAL ASSETS**

## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

Accounting for biological assets shall take place in accordance with the requirements of IAS 41.

The CFO, in consultation with the HOD concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs. Such valuation shall be undertaken by a recognised valuator in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

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

Records of the details of biological assets shall be kept in a separate section of the FAR or in a separate accounting record altogether and such details shall reflect the information which the CFO, in consultation with the HOD concerned and the internal auditor, deems necessary for accounting and control purposes.

The CFO shall annually insure the Municipality's biological assets, in consultation with the HOD concerned, provided the Council considers such insurance desirable and affordable.

### **CHAPTER 32: SELF-CONSTRUCTED ASSETS**

#### **General**

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

#### **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 (indicated) 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 it to operate in the manner intended by management.

### **CHAPTER 33: COMPONENT APPROACH**

The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:

- Significant cost; and
- Considerable difference in useful life

### **CHAPTER 34: ASSET VALUATION**

If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset as a whole, it should be recognised as a separately depreciable part (component).

## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

**The costs** of newly or recently acquired capital assets are easily determined from transactional records like invoices. For some older municipal capital assets, the transactional records may not exist or the identification of the assets themselves may not be possible from documentation available. In these instances the municipality should use the fair value measurement principles to determine a deemed cost for these assets at initial recognition.

**Fair value** assumes an active and liquid market that produces current quoted prices for a specific asset. The majority of municipal assets are specialised structures for which such a market does not exist. A municipality will therefore need to use other methods to estimate the cost and accumulated depreciation of those assets.

### **CHAPTER 35: REHABILITATION/ENHANCEMENTS/RENEWALS OF CAPITAL ASSETS**

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if:

- that expenditure satisfies the recognition criteria;
- that expenditure is enhancing the service provision of that capital asset beyond its original expectation (i.e. not maintenance) and either that expenditure:
  - increases the useful life of that capital asset (beyond its original life);
  - increases that capital asset capacity (beyond its original capacity);
  - increases the performance of the capital asset (beyond the original performance);
- increases the functionality of that capital asset;
- reduces the future ownership costs of that capital asset significantly; or
- increases the size of the asset or changes its shape.

#### **The following points are important to note:**

- Approval through the budget process for these improvements may require a business case.
- It must be probable that the expenditure will lead to the level of benefits expected.
- The expenditure to restore the functionality of the capital asset to its original level is a maintenance/refurbishment expense and not a capital expense. Maintenance/ refurbishment will not be capitalised to the capital asset.

The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

Renewals have the same meaning and treatment as rehabilitation/enhancements and are different from refurbishment, which is seen as maintenance.

### **CHAPTER 36: IMPAIRMENT LOSSES**

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. The following serve as examples of impairment indicators:

- Significant decline in market value;

### **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

- 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 re-valued amount.

If the asset is carried at a re-valued amount 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.

### **CHAPTER 37: LEASED ASSETS**

A lease is an agreement whereby the lesser 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.

Where an asset is leased it is necessary to record the details in an appropriate register. Additional details, which should also be recorded, include:

- lease start and completion dates;
- first-instalment date;
- asset-fair value;
- implicit interest rate; and
- lease payments.

## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

Leases have a built-in interest cost which should be considered when evaluating whether to lease or buy (cash) an asset. Information in the register should be reviewed annually to confirm that the decision remains the most economical one.

### **The Advantages Of Leasing Include:**

- increased flexibility to change 'asset solutions' (with an operating lease);
- reduced need for large capital outlays; and
- isolation from short -term fluctuations in market supply and values.

### **Disadvantages Can Include:**

- penalty clauses for the early termination of leases;
- higher implicit interest costs in leases compared to cost of funds available to the municipality; and
- dependence on the market to supply assets leading to long-term exposure to market risk.

## **CHAPTER 38: ASSET LIFE CYCLE**

The asset life-cycle is a key concept underpinning asset management. An asset life-cycle covers all phases of an asset's life starting with planning, through its acquisition, operation, maintenance and eventual disposal. Management of these phases should be aligned to the municipality's planning, budgeting, monitoring and reporting processes. In summary the phases are as follows:

- a) The planning phase deals with the planning for service delivery that drives the need for assets. This phase will include input into the IDP, budget and asset management plans. Various acquisition options should be considered during this phase.
- b) The acquisition phase deals with the purchase, construction or manufacture of new assets.
- c) The operation and maintenance phase deals with the operation of the assets, maintenance/refurbishment, enhancement/rehabilitation, depreciation and impairment. This phase includes activities of a capital and current nature.
- d) The disposal phase deals with the timing of and disposal of the assets including the disposal costs and specific requirements for the assets, e.g. dismantling costs, medical equipment legal requirements, etc.

An asset's life-cycle is determined by its useful life to the municipality. This useful life is often shorter than its economic life. For example, a municipality may decide (as part of its asset management policy) to dispose of traffic police cars after five years because they have become too costly to maintain through extensive usage. However, such cars may continue to operate in another environment for many years.

## **CHAPTER 39: FIXED ASSET CATEGORIES & LIVES**

(In brackets the estimated useful life in years in each case).

### **LAND**

Developed Land	(N/A)
Undeveloped Land	(N/A)

## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

### **BUILDINGS**

#### **Dwellings**

Caravan Parks	(10)
Children's Homes	(30)
Homes for the Aged	(30)
Hostels	(30)
Mobile Homes	(10)
Places of Safety	(30)
Residences (personnel) including garages and parking	(30)
Recreational / (Holiday) accommodation	(30)

#### **Non-Residential Dwellings**

Bus Terminals	(30)
Bus Shelters	(15)
Civic Theatres	(30)
Clinic and Community Health Facilities	(30)
Community Centres and Public Entertainment Buildings	(30)
Driver and Testing Centres	(30)
Industrial Buildings	(30)
Laboratories	(30)
Museum and Art Galleries	(30)
Office Buildings (inclusive of air conditioning system)	(30)
Public Parking	(30)
Police Station and associated buildings	(30)
Railway and associated buildings	(30)
Stadiums	(30)
Taxi Ranks	(15)
Sport and Recreational facilities (fields, clubhouses, etc)	(15)
Non-Residential Perimeter Protection	(15)
Ablution / Public Facilities	(30)
Carports	(15)
Workshop / Stores	(30)
Market / Shops	(30)

### **INFRASTRUCTURE ASSETS**

#### **Electricity**

Cooling towers	(30)
Mains	(20)
Meters Pre-Paid	(20)
Meters Credit	(25)
Electricity Supply / Reticulation	(30)
Transformers	(50)

**FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

Lines Underground	(45)
Lines Overhead	(30)
Cables	(45)
Substation Switchgear	(30)
Substation Equipment Outdoors	(30)
Substation Equipment GIS	(30)
Substation Equipment Indoors	(40)
Electrical Panels	(5)
Electrical Telemetry	(15)
Electricity Perimeter Protection	(15)
Structure for Electrical Purposes	(30)
Public Lighting	(10)

**Roads**

Bridges Vehicle Concrete	(80)
Bridges Vehicle Steel	(50)
Bridges Pedestrian Concrete	(80)
Bridges Pedestrian Steel	(50)
Bridges Railway Concrete	(80)
Bridges Railway Steel	(50)
Bridges Reinforced Retaining Walls Earth	(15)
Bridges Reinforced Retaining Walls Concrete	(30)
Bridges Expansion and Construction Joints	(20)
Storm Water Culverts Concrete	(60)
Storm Water Drains Earthworks	(100)
Storm Water Drains Concrete Lining	(50)
Storm Water Stop Banks	(50)
Storm Water Pipes	(50)
Roads Kerbs and Channels	(50)
Roads Municipal Tar Layer	(50)
Roads Municipal Tar Surface	(20)
Roads Municipal Concrete Layer	(50)
Roads Municipal Concrete Surface	(30)
Roads Municipal Gravel Surface	(10)
Roads National Tar Layer	(50)
Roads National Tar Surface	(20)
Roads National Concrete Layer	(50)
Roads National Concrete Surface	(30)
Roads National Gravel Surface	(10)
Roads Provincial Tar Layer	(50)
Roads Provincial Tar Surface	(20)
Roads Provincial Concrete Layer	(50)
Roads Provincial Concrete Surface	(30)
Roads Provincial Gravel Surface	(10)
Roads Crash Barriers	(30)
Roads Retaining Walls	(60)
Roads Pedestrian Footpaths	(30)

## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

Roads Street Lighting	(40)
Roads Traffic Islands	(50)
Roads Traffic Lights	(20)
Roads Traffic Signs	(15)
Roads Paved Layer	(50)
Roads Paved Surface	(10)

### **Water**

Dams Structure Concrete	(100)
Dams Structure Earth	(50)
Dams Electrical & Mechanical	(40)
Water Meters	(20)
Stand Pipes	(20)
Water Metalwork (ladders, handrails, weirs)	(30)
Pump Stations Structure	(55)
Pump Stations Electrical	(40)
Pump Stations Mechanical	(40)
Pump Stations Perimeter Protection	(25)
Reservoirs Structure	(50)
Reservoirs Electrical	(40)
Reservoirs Mechanical	(40)
Reservoirs Perimeter Protection	(25)
Water Supply / Reticulation	(50)
Underground Chambers Valves	(25)
Underground Chambers Meters	(20)
Underground Chambers Transition	(15)
Underground Chambers Other	(10)
Water Purification Works Structure	(55)
Water Purification Works Electrical	(40)
Water Purification Works Mechanical	(40)
Water Purification Works Perimeter Protection	(25)
Water Purification Works Meters	(15)
Water Telemetry	(15)

### **Sewerage**

Bulk Pipelines Rising Mains	(50)
Bulk Pipelines Gravity Mains	(50)
Sewer Pump Stations Structure	(55)
Sewer Pump Stations Electrical	(40)
Sewer Pump Stations Mechanical	(40)
Sewer Pump Stations Perimeter Protection	(25)
Sewer Pump Stations Metalwork	(30)
Sewers / Reticulation	(60)
Water Purification Works Structure	(55)
Water Purification Works Electrical	(40)



## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

Water Purification Works Mechanical	(40)
Water Purification Works Perimeter Protection	(25)
Water Purification Works Meters	(15)

### **Solid Waste Disposal**

Collection Vehicles	(10)
Collection Containers / Bins	(15)
Transfer Stations and Processing Facilities Structure	(55)
Transfer Stations and Processing Facilities Electrical	(40)
Transfer Stations and Processing Facilities Mechanical	(40)
Transfer Stations and Processing Facilities Perimeter Protection	(25)
Landfill Site Earthmoving and Compact Equipment	(15)
Landfill Site Preparation	(N/A)
Landfill Site Structure	(55)
Landfill Site Weighbridge	(40)
Landfill Site Perimeter Protection	(25)

### **Railways**

Railway Power Supply Units	(30)
Railway Sidings	(30)
Railway Tracks	(20)
Railway Signalling System	(20)
Railway Shunting Yards	(30)
Railway Perimeter Protection	(25)

### **Cemeteries**

Cemeteries	(30)
Cemeteries Perimeter Protection	(25)

## **CAPITAL / INFRASTRUCTURE WORK IN PROGRESS**

### **OTHER MACHINERY AND EQUIPMENT**

#### **Machinery and Equipment**

Audiovisual Equipment	(10)
Building Air Conditioning Systems	(5)
Cellular Phones (over R5, 000)	(2)
Cellular Routers	(3)
Domestic Equipment (non kitchen appliances)	(5)
Power Distribution Equipment (Generators / Compressors)	(7)

## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

Emergency / Rescue Equipment	(10)
Farm / Agricultural Equipment	(15)
Fire Fighting Equipment	(5)
Gardening Equipment	(4)
Irrigation Equipment	(15)
Kitchen Appliances	(10)
Laboratory Equipment	(7)
Laundry Equipment and Industrial Sewing Machines	(15)
Learning / Training Support and Library Material	(10)
Machines for Metallurgy	(10)
Machines for Quarrying	(10)
Machines for Textile Production	(15)
Medical and Allied Equipment	(10)
Musical Instruments	(15)
Photographic Equipment	(7)
Pumps, Plumbing, Purification and Sanitation Equipment	(10)
Radio Equipment	(7)
Road Construction and Maintenance Machinery and Equipment	(15)
Saddles and other Tack	(7)
Security Equipment / Systems – Fixed	(5)
Security Equipment / Systems – Moveable	(5)
Sport and Recreational Equipment	(10)
Survey Equipment	(7)
Telecommunications Equipment	(5)
Tents, Flags and Accessories	(10)
Woodworking Machinery and Equipment	(10)
Workshop Equipment and loose tools – Fixed	(10)
Workshop Equipment and loose tools – Movable	(5)

### **Furniture and Office Equipment**

Advertising Boards	(5)
Air Conditioners (individual fixed and portable)	(5)
Cutlery and Crockery	(10)
Domestic and Hostel furniture	(15)
Linen and Soft Furnishing	(10)
Office Equipment (including fax machines)	(7)
Office Furniture	(7)
Paintings, Sculptures and Ornaments	(10)

### **Computer Equipment**

Computer Hardware including operating systems	(5)
Computer Networks	(10)

### **Transport Assets**

Busses	(15)
Cycles	(7)

## **FIXED ASSET MANAGEMENT POLICY (Adopted by Council on 29 May 2015)**

Emergency Vehicles	(10)
Mobile Clinic	(15)
Motor Vehicles (Sedan, Hatch and LDV)	(7)
Railway Rolling Stock	(15)
Trailers and accessories	(10)
Trucks	(7)
Watercraft	(10)

### **HERRITAGE ASSETS**

Land of Historic or Specific Significance	(N/A)
Culturally Significant Building	(N/A)
National Monuments	(N/A)
National Parks / Reserves	(N/A)
Paintings	(N/A)
Sculptures	(N/A)
Municipal Jewelry	(N/A)
Works of Art	(N/A)
Other antiques or collections	(N/A)

### **BIOLOGICAL OR CULTIVATED ASSETS**

### **THEMBELIHLE INTANGIBLE ASSETS**

#### ***CHAPTER 40: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003***

The Municipality may not alienate any capital asset required to provide a minimum level of basic municipal services, unless the provisions of the Act is followed.

The Municipality may alienate any other capital asset, but provided

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