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POLICY

On

FIXED ASSETS

Ramotshere Moiloa Local Municipality



First Version: V.1.1 dated: 12 March 2014

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Draft Municipal Asset Management Policy

First Draft V.1.1 policy on Assets Amendment:

Prepared by: Thabang Makhetha

Reviewed By: Ronald Chibvongodze

First Meeting of the Draft discussion	19 Feb. 14
Second Meeting of the Draft discussion	20 Feb.14
Third Meeting of the Draft discussion (RMLM not present i.e. meeting cancelled)	28 Feb. 14
Fourth Meeting of the Draft discussion	

Representation from the Municipality (RMLM)

Signature:

Acting CFO: _____

Expenditure Department: _____

Technical Department: _____

IT Department: _____

Asset Department: _____

Municipal Manager: _____

Date Approved by Council:

Signature:

Council Resolution Number:

APPROVAL AND EFFECTIVE DATE: The CFO is responsible for the submission of this document to Council to consider its adoption after consultation with the Municipal Manager. Council shall indicate the effective date for implementation of the policy. The effective date is assumed to be the date when council signs this document.

POLICY AMENDMENT: Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the CFO in consultation with the MM and respective Directors. The recommendations of the CFO shall be considered for adoption by Council.

RELATIONSHIP WITH OTHER POLICIES:

- Supply Chain Management Policy
- Accounting Policy
- Risk Management Policy
- Land Management Policy

(Please add other policies which need to be read in conjunction with this policy)



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References

The following references were made when compiling this document:

- Asset Management Framework, National Treasury, 2004
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
- Municipal Finance Management Act, 2003
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- Accounting Standards Board
- Generally Recognised Accounting Practice
- Interpretations of the standards of GRAP (2)
- International Accounting Standards (IFRS and IAS)

PROPOSED DRAFT POLICY

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PART: 1

ABBREVIATIONS:

RMLM: Ramotshere Moiloa Local Municipality

FAR: Fixed Asset Register

CV: Carrying Value

RV: Residual Value

DA: Depreciation Amount

IMPL: Impairment Loss

IMPR: Impairment Loss Reversal

INA: Intangible Assets

OP: Opening Balance

DRC: Depreciated Replacement Cost

FV: Fair Value

INVP: Investment Property

AGSA: Auditor-General of South Africa

NMMDM: Ngaka Modiri Molema District Municipality

MFMA: Municipal Finance Management Act, 2003

MSA: Municipal Systems Act,

AM: Asset Management

AMS: Asset Management System

EPWP: Expanded Public Works Program

GIS: Geographical Information System

GRAP: Standards of Generally Recognised Accounting Practice

IAS: International Accounting Standards

IFRS: International Financial Reporting Standards

IAM: Infrastructure Asset Management

IAMP: Infrastructure Asset Management Plan

IAMS: Infrastructure Asset Management Strategy

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PART 2: OBJECTIVE/PURPOSE OF THE POLICY

The objective/purpose of the fixed assets *management policy is to establish a system of internal controls over the acquisition(s), disposal(s) and the transfer of fixed assets held by Ramotshere Moiloa Local Municipality (RMLM) in order to safeguard the fixed assets that belong to the RMLM and ensure the existence, completeness and accuracy of the fixed assets register. This document indicates the policy that should be adopted and adhered to, for the management of immovable assets (infrastructure, community facilities, public amenities, investment property and associated land and intangible assets).

**Asset management deals with the process of managing assets through their lifecycle and includes their purchase, maintenance, use, disposal and the management of risks.*

PART 3: BACKGROUND

3.1 CONSTITUTIONAL AND LEGAL FRAMEWORK

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

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its immovable Property, Plant and Equipment (PPE) is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal immovable PPE with the Municipal Manager.

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3.2 ACCOUNTING STANDARDS

The accounting standards that apply to municipalities are in transition and have been applied with effect for *1 July 2009*. The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice.

Key changes include the recognition of depreciation of assets as an expense, and conditional grants as revenue when it is utilised. Immoveable assets are unbundled and each significant component is recognised and accounted for individually. Immovable PPE are measured at cost, though in cases where it is impracticable to establish the cost (e.g. *where there are no reliable records, or records cannot be linked to specific assets*), the cost is deemed to be the fair value of the immovable PPE (Directive **7** can also be consulted to determine the Deemed Cost). Specialised buildings (such as community facilities) and infrastructure (such as a water supply network) are valued using a depreciated replacement cost.

Significant changes in the value of immovable property, plant and equipment over time may be reflected through periodic revaluation if the revaluation model is applied.

As a low capacity municipality, RMLM was required to convert to applicable standards of GRAP on **1 July 09**.

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PART 4: DEFINITION OF A FIXED ASSET(S)

GRAP 17: Property Plant and Equipments

Paragraph .06 of *GRAP 17* defines Property Plant and Equipment (Including Infrastructure Assets *per Par.03* which describes that, *GRAP 17* applies to them) as tangible items that:

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

Implication of GRAP 17 on the Municipality:

A fixed asset is thus an asset, either movable or immovable, under the control of the municipality (*RMLM*) 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.

IAS 40 read in conjunction with GRAP 16: Investment Properties

Paragraph .05 of *IAS 40* defines Investment property as:

Property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

GRAP 13: Finance Leases

Implication of GRAP 13 on the Municipality:

An asset held under a finance lease (*GRAP 13 refer Par .10 – 21 in terms of the classifications and Par .26 – 39 for the recognition and disclosure requirements*), shall be recognised as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

GRAP 12: Inventory

Paragraph .07 of *GRAP* defines Inventory as assets that are:

- (a) in the form of materials or supplies to be consumed in the production process;
- (b) in the form of materials or supplies to be consumed or distributed in the rendering of services;
- (c) held for sale or distribution in the ordinary course of operations; or
- (d) in the process of production for sale or distribution.

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GRAP 103: Heritage Assets

Paragraph .04 defines Heritage assets as assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

GRAP 102: Intangible Assets

Paragraph .09 defines intangible asset as an identifiable non-monetary asset without physical substance.

PART 5: ROLE OF THE MUNICIPAL MANAGER

As the accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to by all the relevant personnel whether delegated or chosen to implement the asset management policy.

The Municipal Manager shall ensure that:

The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality; the municipality's assets are valued in accordance with the standard of generally recognized accounting practice (*GRAP17 and other applicable GRAP standards and Directives issued*); that the municipality has and maintains a system of internal control for the assets, including an asset register; and the Heads of different departments and their teams comply with this policy.

PART 6: ROLE OF THE CHIEF FINANCIAL OFFICER

The chief financial officer shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. The chief financial officer may delegate the maintenance of the fixed asset register to the asset manager so appointed by the Municipality.

All or any amendments, to the fixed asset register shall be authorised by the chief financial officer.

PART 7: ROLE OF THE HEADS OF DEPARTMENTS

Every Head of the different departments (*the managers (Sec 57) directly accountable to the Municipal Manager*) shall ensure that;

1. The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;

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2. Procedures are adopted and implemented in conformity with this policy to produce reliable data to be input to the municipal fixed asset register;
3. Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
4. The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
5. They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
6. Manage the assets life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

The Heads of Departments may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

PART 8: FORMAT OF THE ASSET REGISTER

The fixed asset register shall be maintained in the format determined by the chief financial officer, on which the format shall comply with the requirements of Generally Recognised Accounting Practice (GRAP 17) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect (as a 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
- ❖ costs of additions and improvements, in the case of fixed property
- ❖ where applicable, the unique identification number of the asset
- ❖ the original cost, or the revalued amount as per the approved valuation roll, 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)

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- ❖ 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 off
- ❖ the disposal price
- ❖ the date on which the asset is retired from use, if not disposed off.

All heads of departments under whose control any fixed asset falls shall promptly provide the chief financial officer in writing with any information required to compile the fixed asset register, and shall promptly advise the chief financial officer in writing of any material change which may occur in respect of such information (*refer to Part 7 above*).

A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after, it shall be appropriately capitalised as a fixed asset on an on-going basis as and when the asset become ready for use (in stages).

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence and it still belongs to the Municipality except for derecognised assets and assets which do not have a value. Please note that: an asset should not be carried at R1 value in the asset register. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

PART 9: CLASSIFICATION OF FIXED ASSETS

In compliance with the requirements of the National Treasury, the chief financial officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of department shall in writing provide the chief financial officer with such information or assistance as is required to compile a proper classification (*refer to Part 7*):

A. PROPERTY, PLANT AND EQUIPMENT

- ❖ Land and Buildings (not held as investment assets/Properties GRAP 16)
- ❖ Infrastructure assets (assets which are part of a network of similar assets)
- ❖ Community assets (resources contributing to the general well-being of the community)
- ❖ Heritage assets (culturally significant resources *GRAP 103*)
- ❖ Other assets (ordinary operational resources i.e. Intangible Assets per *GRAP 31*)

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B. INVENTORY

- ❖ Housing (rental stock or housing stock not held for capital gain in accordance with GRAP 12)

C. INVESTMENT PROPERTY

- ❖ Investment properties (resources held for capital or rental)

The chief financial officer shall adhere to the classifications as indicated in the annexure on fixed asset lives (see **part 36**), 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.

PART 10: INVESTMENT PROPERTIES

Investment Properties (as per GRAP 16 and IAS 40) are not for use in the production or supply of goods and services or not for administrative purposes or not for sale in the ordinary course of business of the municipality.

Investment Properties are held by the municipality to generate cash inflows which are largely independent of the other assets held by the municipality.

Investment properties shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position and should be separately disclosed at year-end.

Investment Properties shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease (GRAP 13 should be borne in mind when this is considered), to earn rental revenues or for capital appreciation or both.

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

Investment Properties shall not be depreciated (*this relate to assets carried at fair value. **Please note:** Investments Properties: “Owner Occupied” can be carried at Cost in which case, GRAP 16 will not be applicable and GRAP 17 will apply*), but shall be annually valued on balance sheet date (30 June of every year end) to determine their fair (market) value. Investment Properties shall be recorded in the Statement of Financial Position 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 municipality or service controlling the assets concerned.

For purposes of RMLM, all Investment Properties shall be measured and accounted for, using the Historical Cost.

An expert valuator Service Provider(s)) shall/may be engaged by the municipality to undertake such valuations. (*This will depend if the municipality does not pose such a skill to be able to value assets by a routable valuator within (employed) the municipality*)

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PART 11: FIXED ASSETS TREATED/CARRIED AS INVENTORY (GRAP 12)

Any land or building owned or acquired by the municipality with the intention of selling such property in the ordinary course of business (*a normal period would be a period of within 12 Months*), or any land or building 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 property, plant and equipment or investment property in the municipality's statement of position.

For control purposes, such inventories shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

PART 12: RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER (GRAP 103)

GRAP 103 par. 04 describes a heritage asset as: *assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.*

Measurement Basis that is used:

If no original costs or fair values are available/can be obtained in the case of one or more or all heritage assets, the chief financial officer may, obtain similar assets with the same nature/size etc. from a similar municipality (*Low Capacity in the case of RMLM*) determine using the same fair value or costs (*this should be reliable estimate/cost*), record such asset or assets in the fixed asset register with an indication of the costs or fair value concerned.

PART 13: RECOGNITION OF DONATED ASSETS

Where a fixed asset (*identifiable asset(s) which met the definition of GRAP 17*) is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

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PART 14: SAFEKEEPING OF ASSETS

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

In exercising this responsibility, the employee shall adhere to any written directives issued by the municipal manager to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality’s fixed assets.

PART 15: IDENTIFICATION OF FIXED ASSETS

The CFO shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register. The identification system shall be determined by the CFO acting in consultation with other departments, and shall comply with any legal prescriptions, as well as any recommendations of the AG and National Treasury as indicated in the municipality’s management report and audit report(s), and shall decide upon actions and within the context of the municipality’s budgetary and human resources.

Every head of department shall ensure, by use of list in each room of each offices within the municipal building 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.

PART 16: PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer, to the internal auditor, Asset Manager and – in cases of suspected theft or malicious damage – also to the South African Police Service (*The latter will be in cases of serious allegations determined by the Municipal Manager, CFO and any delegated official of the Municipality*).

PART 17: CAPITALISATION CRITERIA: MATERIAL VALUE

No item with an initial cost or fair value of less than R5 000 (five thousand rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the municipal manager – shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Every head of department shall, however, ensure that any item with a value in excess of R50 (fifty rand), and with an estimated useful life of more than one year, shall be recorded on a stock sheet. Every head of department shall moreover ensure that the existence of items recorded on such stock sheets is verified from time to time (*on a monthly basis in a form of a reconciliation*), and at least once

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Suggested values for capitalisation:

- ✓ 0 – 2000: Recorded as expenses and included in the Inventory lists.
- ✓ 2001 – 5000: Recorded as assets per the categories.
- ✓ 5001 – and more: Recorded as assets in terms of their classification.

PART 18: CAPITALISATION CRITERIA: INTANGIBLE ITEMS

No intangible item shall be recognised as a fixed asset, **except** that the chief financial officer may recommend to the council that, under certain strict conditions, specific development costs (**e.g.** Pastel Software used for accounting purpose) be recognised as fixed assets.

GRAP 31 read with **GRAP 102** state that: Development costs are expenses incurred in the use of scientific or technical knowledge in order to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improving substantially those already produced or installed.

The conditions which must be satisfied to justify the capitalisation of development costs are as follows:

- there is a clearly defined project undertaken by the municipality
- the municipality intends and is able to complete the project and use or sell it
- the project will generate probable future economic benefits
- the related costs are separately identifiable and reliably measurable
- the outcome of the project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability
- the municipality has adequate technical, financial and other resources available to complete the project and use or sell it.

These are not exhaustive and can be extended to harmonise this policy to include certain issues which are found to not be covered by this draft.

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PART 19: 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 (*Major expansion which increases capacity and productivity*) of the useful operating life of a fixed asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned. (*Judgement should be exercised when decisions are made to determine if expenses should be capitalised/expensed*)

Expenses which are reasonably incidental to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset (e.g. *Installation costs in bringing the asset into its usefulness*). Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs and installation, assembly and communication costs.

PART 20: MAINTENANCE PLANS

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure networks with a value of R200 000 (two hundred thousand rand) or more is promptly prepared and submitted to the asset manager, CFO, budget manager, SCM manager and council of the municipality for approval before processing for payment by the expenditure manager.

If so directed by the municipal manager, 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 head of department controlling or using the infrastructure asset in question, shall quarterly report to the council, not later than each month end, 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.

PART 21: 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 (*as outlined in part 19 above*) a report by the Infrastructure manager (Director of Technical), should have a detailed report to that effect and the chief financial officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such notes shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

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PART 22: GENERAL MAINTENANCE OF FIXED ASSETS

Every head of department shall be directly responsible for ensuring that all assets within their department and control are properly maintained in a manner which will ensure that such assets attain their useful operating life.

PART 23: DEPRECIATION OF FIXED ASSETS

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

GRAP 17 Par 0.6 defines depreciation as: the systematic allocation of the depreciable amount of an asset over its useful life.

GRAP 17 Par 0.6 defines depreciable amount as: the cost of an asset, or other amount substituted for cost, less its residual value.

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

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 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 monthly.

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

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PART 24: RATE OF DEPRECIATION

The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality’s fixed asset register. In determining such a useful life the chief financial officer shall adhere to the useful lives set out in the annexure to this document (*see part 36 below*).

In the case of a fixed asset which is not listed in this annexure, the chief financial officer shall determine a useful operating life, if necessary in consultation with the head of department 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.

PART 25: METHOD OF DEPRECIATION

Except in those cases specifically identified in **point 26** below, the chief financial officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful lives of the asset.

The chief financial officer shall apply the method of depreciation consistently from one financial year to the next, and also apply the policy consistently to the same type of asset(s).

The straight line basis will also apply to Infrastructure assets.

PART 26: AMENDMENTS OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS

The chief financial officer shall review the useful lives of the fixed assets periodically.

Only the chief financial officer may amend the useful lives (upon approval by the MM) assigned to any fixed asset (*Based on the current available conditions and other information that suggests to that effect*), and when any material amendment occurs the chief financial officer shall inform the council of the municipality of such amendment.

Guideline on deciding to make changes:

The chief financial officer shall amend the useful lives 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 live or value, such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs and subsequently derecognised/removed from the asset register appropriately.

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If the fixed asset has physically obsolete/ damaged to exist, it shall be written off in 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.

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.

PART 27: ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES

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

The chief financial officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the municipal manager to provide:

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

The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the chief financial officer.

Where the chief financial officer decides to employ the *sum-of-units* method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the chief financial officer shall inform the council of the municipality of the decision in question.

Please note that there is also a Reducing Balance Method which could also be employed to certain assets.

PART 28: CARRYING VALUES OF FIXED ASSETS IN THE FAR

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

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PART 29: REVALUATIONS OF FIXED ASSETS IN THE FAR

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

The chief financial officer 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 chief financial officer is satisfied that such value reflects the fair value of the fixed asset concerned.

The chief financial officer 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 revalued amount, over its remaining useful 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 chief financial officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expense determined in respect of such fixed asset before the revaluation in question is transferred each month 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.

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the chief financial officer 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.

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

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PART 30: VERIFICATION OF FIXED ASSETS

Every head of department shall on a monthly basis during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

Every head of department shall promptly and fully report in writing to the chief financial officer in the format determined by the chief financial officer, all relevant results of such fixed asset verification and that the resultant report shall be submitted to the chief financial officer not later than each month end of the year in question.

PART 31: ALIENATION (AUCTION) OF FIXED ASSETS

In compliance with the principles and prescriptions of the *Municipal Finance Management Act*, 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 head of department shall report in writing to the chief financial officer on 01 July and 30 March of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate (Auction) by public auction or public tender. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

The council shall delegate to the municipal manager the authority to approve the alienation of any fixed asset with a carrying value less than R1 000 (one thousand rand).

The council shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R1 000 (one thousand rand) takes place in compliance with Section 14 of the *MFMA, 2003*.

Once the fixed assets are alienated, the chief financial officer shall remove the relevant records and asset(s) from the fixed asset register.

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

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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 Statement of Performance of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets 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.

PART 32: OTHER WRITE-OFFS OF FIXED ASSETS

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

Every head of department shall report to the chief financial officer on 01 July and 30 March of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. The chief financial officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

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 chief financial officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned.

PART 33: REPLACEMENT NORMS

The municipal manager, in consultation with the chief financial officer and other heads of departments, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval. This draft policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items which relate to assets. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

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PART 34: INSURANCE OF FIXED ASSETS

The municipal manager 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 municipal manager shall recommend to the council of the municipality, after consulting with the chief financial officer, 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.

PART 35: BIOLOGICAL ASSETS (GRAP 27 read with GRAP 101 as GRAP 17 par .02)

The chief financial officer, in consultation with the head(s) of department 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 valuer 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 head of department concerned in exactly the same manner as though the asset were an ordinary fixed asset.

Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record altogether and such details shall reflect the information which the chief financial officer, in consultation with the head of department concerned and the internal auditor, deems necessary for accounting and control purposes.

The chief financial officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the council of the municipality considers such insurance desirable and affordable.

End.

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PART 36: ANNEXURE: FIXED ASSET LIVES

Fixed Asset Register (FAR)	Expected lives (<i>This lives should be reviewed on a yearly basis</i>)	Residuals (%)
Municipal Buildings	10 – 30 years	0
Land not held for disposal or for sale	Indefinite	N/a
Land & buildings held for sale	Within 12 Months (<i>If management believes that, the sale can be achieved beyond 12 months but within 6 months of the following year, this should be supported in terms of GRAP 100 requirements</i>)	N/a
Motor Vehicles	5 years	30
Heritage Assets	Indefinite	N/a
Office equipment	3 – 5 years	0
Furniture and Fittings	6 years	0
Infrastructure assets		
<ul style="list-style-type: none"> ▪ Urban Sealed Surface (<i>Roads which are spray seal, hotmix and slurry seal/cold overlay</i>) 	7 – 30 years	0
<ul style="list-style-type: none"> ▪ Urban Sheeted – Township Sheeted 	5 – 20 years	0
<ul style="list-style-type: none"> ▪ Rural Sealed Surface - (<i>Roads which are spray seal, hotmix and slurry seal/cold overlay</i>) 	15 – 30 years	0
<ul style="list-style-type: none"> ▪ Pavements – granular pavement under sealed surfaces 	20 – 80 years	30
<ul style="list-style-type: none"> ▪ Footpaths – pedestrians (<i>Block paved, Insitu concrete, hotmix, Spray seal, crusher dust</i>) 	10 – 50 years	30
<ul style="list-style-type: none"> ▪ Kerb & Gutter (<i>Upright kerb & Gutter, Median kerb, Valley Drain</i>) 	10 – 75 years	0
<ul style="list-style-type: none"> ▪ Stormwater (<i>Pipe material and drainage structures</i>): <ul style="list-style-type: none"> ✓ Reinforced Concrete pipe (RCP) ✓ Fibre Reinforced Concrete 	10 – 100 years	0

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(FRC)		
<ul style="list-style-type: none"> ✓ Unplasticised Polyvinylchloride (uPVC) ✓ Side Entry Pit (SEP) ✓ Junction Box (JB) ✓ Box Culvert ✓ Headwall ✓ Lined Channel ✓ Unlined Channel 		
<ul style="list-style-type: none"> ▪ Community wastewater Management System <ul style="list-style-type: none"> ✓ Earthenware Gravity Pipe ✓ PVC Gravity Pipe ✓ PVC Rising main Pipe ✓ Pump Chamber ✓ Pump ✓ Pump Mechanical & Electrical 	25 – 100 years	0
<ul style="list-style-type: none"> ▪ Electrical Networks 	15 – 60 years	0
Adding Machines	6 years	0
Air conditioners:		
<ul style="list-style-type: none"> ▪ Window type 	6 years	0
<ul style="list-style-type: none"> ▪ Mobile 	5 years	0
<ul style="list-style-type: none"> ▪ Room unit 	10 years	0
Air conditioning assets (excluding pipes, ducting and vents):		
<ul style="list-style-type: none"> ▪ Air handling units 	20 years	0
<ul style="list-style-type: none"> ▪ Cooling Towers 	15 years	0
<ul style="list-style-type: none"> ▪ Condensing Sets 	15 years	0
Arc welding equipment	6 years	0
Artefacts	25 years	0
Battery chargers	5 years	0
Bicycles	4 years	0
Boilers	4 years	0
Bulldozers	3 years	0
Bumping flaking	4 years	0
Carports	5 years	0
Cell phone antennae	6 years	0



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Cell phone masts	10 years	0
Cellular telephones	2 years	0
Cheque writing machines	6 years	0
Communication systems	5 years	0
Compressors	4 years	0
Computers:		
▪ Main frame / servers	5 years	0
▪ Personal	3 years	0
Computer software (purchased)	3 years	0
Containers (large metal type used for transporting freight)	10 years	0
Delivery vehicles	4 years	0
Drills	6 years	0
Escalators	20 years	0
Fax machines	3 years	0
Fire extinguishers (loose units)	5 years	0
Fire detection systems	3 years	0
Fitted carpets	6 years	0
Food bins	4 years	0
Garden irrigation equipment (movable)	5 years	0
Gas cutting equipment	6 years	0
Gas heaters and cookers	6 years	0
Gearboxes	4 years	0
Gear shapers	6 years	0
Generators (portable)	5 years	0
Generators (standby)	15 years	0
Graders	4 years	0
Grinding machines	6 years	0
Guillotines	6 years	0
Kitchen equipment	6 years	0
Mobile caravans	5 years	0
Mobile cranes	4 years	0
Mobile refrigeration units	4 years	0
Motors	4 years	0
Motorcycles	4 years	0
Motorised chainsaws	4 years	0
Motor mowers	5 years	0

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Neon signs and advertising boards	10 years	0
Office equipment – electronic	3 years	0
Office equipment – mechanical	5 years	0
Ovens and heating devices	6 years	0
Ovens for heating food	6 years	0
Packaging and related equipment	4 years	0
Paintings (valuable)	25 years	0
Photocopying equipment	5 years	0
Portable safes	25 years	0
Power tools (hand-operated)	5 years	0
Public address systems	5 years	0
Refrigerators	6 years	0
Security systems (removable)	5 years	0
Surveyors:	5 – 10 years	0
▪ Instruments		
▪ Field equipment		
Television sets, video machines and decoders	6 years	0
Tractors	4 years	0
Trailers	5 years	0
Traxcavators	4 years	0
Trolleys	3 years	0
Trucks (heavy duty)	3 years	0
Trucks (other)	4 years	0
Truck-mounted cranes	4 years	0
Warehouse racking	10 years	0
Water tankers	4 years	0
Water tanks	6 years	0
Workshop equipment	5 years	0
Lifts	10 years	0

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PROPOSED DRAFT POLICY

