

# **UMUZIWABANTU MUNICIPALITY**



## **FINAL ASSET MANAGEMENT POLICY**

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**PREAMBLE**

As part of its mandate to deliver services to the community, uMuziwabantu Municipality has to manage the resources under its control to ensure they are utilised efficiently and effectively. As custodians of the financial resources of this Council, the Finance Department has to have in place policies and procedures to be able to manage, operationally and strategically, all transactions that have a financial implication. This effectively means all transactions of the Council need to have a related policy to ensure that monies are being utilised for the benefit of the municipality.

This document sets out such procedures that are aligned to Council-approved policies to ensure that the functions and responsibilities of this Department are carried out correctly and that persons occupying positions within the department are informed as to their duties and responsibilities. Furthermore, the Manager of this department is able to measure the performance of the individuals and, more importantly, the department as a whole in the context of the Council's mission and vision.

There are numerous legal requirements that this department must comply with, and the key legislation includes the following:

- KwaZulu and Natal Joint Services Act Act 85
- The Auditor General Act, 1995 (Act 12 of 1995);
- The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996);
- The Municipal Finance Management Act, 2003;
- The Local Government: Municipal Finance Management Act, 200 – Municipal Asset Transfer Regulations (Gazette no. 31346)
- The Municipal Structures Act, 2000 (Act 117 of 2000); and
- The Municipal Systems Act, 2000 (Act 32 of 2000).

Other standards and impending legislation that have to be complied with include:

- Code of Accounting Practice for Local Authorities; and
- Generally, Recognised Accounting Practice replaces GAMAP
- GRAP 17 Property Plant and Equipment
- GRAP 12 Inventory
- GRAP 103 Heritage Assets
- GRAP 27 Biological Assets
- GRAP 16 Investment Property
- GRAP 31 Intangible Assets
- GRAP 13 Leases

There are numerous pieces of legislation and standards which need to be complied with. This makes the task of financial control more onerous, and the Municipal Manager and the Chief Financial Officer will be required to be aware of these requirements. The need for and the maintenance of, a dynamic policy register will become an indispensable management tool for all the management and financial staff.

## 1. KEY DEFINITIONS

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

**Assets** is a resource controlled by an entity as a result of a past event which future economic benefits/services potential is expected to flow, and its value can be measure reliably and this resource is expected to be used during more than one reporting period (financial year)

**Carrying Amount** is the amount at which an asset is recognised after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

**Chief Financial Officer (CFO)** means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions. Means a person designated in terms of section 80(2) (a) of the MFMA

**Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

**Critical Assets** are assets identified as having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

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

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

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

**Financial year** Means a twelve-month period commencing on 1 July and ending on 30 June each year.

**Fixed Asset Register** Fixed asset register is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy (FAR).

**GAAP** are standards of Generally Accepted Accounting Practice.

**GRAP** are standards of Generally Recognised Accounting Practice.

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

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

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

**Investment Properties** are defined as properties (land or buildings) that are acquired for economic and capital gains.

**Impairment loss**

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

**MFMA** refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003). Other Assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

**Municipal Council or Council** Means the council of a municipality referred to in section 18 of the municipal structures Act

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

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

**Provincial Treasury PT** Means the Provincial Treasury branch established by section 5 of the Public Finance Management Act

**Recoverable Amount** is the higher of a cash-generating asset's net selling price and its value in use.

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

**Residual Value of an asset** is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

**Useful Life** is: -

- The period of time over which an asset is expected to be used by the municipality; or
- The number of production or similar units expected to be obtained from the asset by the entity <sup>[11]</sup><sub>[SEP]</sub>

## 2. **ROLE OF MUNICIPAL MANAGER/ ACCOUNTING OFFICER**

2.1. As 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.

2.2. In terms of section 63 of the Municipal Finance Management Act, 2003, the accounting officer is responsible for the assets of the municipality, including the safeguarding and maintenance of those assets, and must take all reasonable steps to ensure:

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

### 3. **ROLE OF CHIEF FINANCIAL OFFICER**

- 3.1. The chief financial officer or his delegate shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerized fixed asset register is maintained.
- 3.2. The Chief Financial Officer (CFO) is responsible to the Accounting Officer (AO) to ensure that the financial investment in the municipality's assets are safeguarded and maintained.
- 3.3. The CFO, as one of the HODs of the municipality, shall also ensure in exercising his/her financial responsibilities that:
  - Appropriate systems of financial management and internal control are established and carried out diligently.
  - The financial and other resources of the municipality are utilized effectively, efficiently, economical and transparently
  - Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.
  - All revenue due to the municipality is collected, for example rental income relating to immovable assets.



- The systems, procedures and registers required to substantiate the financial values of the municipality's assets are maintained to standards sufficient to satisfy the requirements of the Accounting Standards.
  - The AO is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets
  - The HODs and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets; and
  - This policy and support procedures are established, maintained and effectively communicated.
- 3.2. In terms of section 82 read with section 81(1)(e) of the MFMA the CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.
- 3.3. No amendments, deletions or additions to the fixed asset register shall be made other than by the chief financial officer or by an official acting under the written instruction of the chief financial officer.

#### **4. ROLE OF ASSET MANAGER**

- 4.1 An Asset Manager, or his delegate, shall be responsible for ensuring that:
- An asset management system for each asset under his or her control is established, which is appropriate, accurate and reliable.
  - The asset management system for the assets within the Asset Manager's responsibility is carried out so as to ensure that the assets are used and managed effectively, efficiently, economically and transparently
  - Steps are taken to prevent losses resulting from criminal or negligent conduct, unauthorized, irregular, fruitless or wasteful expenditure

- He or she is able to satisfactorily justify that their asset plans and budgets achieve the objectives set out by the Municipality in this Policy; and
- Sufficient controls exist over the assets under his or her control and recorded in his or her registers to substantiate the asset(s)' quantity, value, location and condition.
- Complete and accurate records of asset items are kept, verified and balanced regularly.
- All movable assets are properly tagged and accounted for
- Physical asset verification is performed annually by all departments in conjunction with Asset Management Unit to verify the assets on the asset register. The results of this verification must be reported to the Municipal Manager and Council.
- Upon completion of the physical verification cycle, ensure that a verification report is compiled. The report shall –
  - a. Reflect a complete list of all assets found during the verification.
  - b. Reflect whether appropriate records have been maintained indicating what assets should have been found during verification.
  - c. Reflect any discrepancies (gaps) between the assets found during verification and the record referred to above
- Shall ensure adequate bar codes, descriptions, nameplates etc. to exercise the function relating to assets control are available always

**5. FORMAT OF FIXED ASSET REGISTER**

- 5.1. The fixed asset register shall be maintained in the format determined by the chief financial officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.

5.2. The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the 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 section 11 below
- the original cost, or the revalued amount determined in compliance with section 26 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~~
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- the current insurance arrangements
- whether the asset is required to perform basic municipal services
- whether the asset has been used to secure any debt, and if so, the nature and duration of such security arrangements
- the date on which the asset is disposed of
- the disposal price
- the date on which the asset is retired from use, if not disposed of.

**Commented [ZL1]:** The Municipality does not revalue assets as its accounting policy i.e. the Municipality uses the cost method of recognising assets and not the revaluation method.

- 5.3. All heads of department 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.
- 5.4. A fixed asset shall be capitalized, 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 capitalized as a fixed asset.
- 5.5. ~~A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing off such an asset.~~

## 6. CLASSIFICATION OF FIXED ASSETS

- 6.1. 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 departments shall in writing provide the chief financial officer with such information or assistance as is required to compile a proper classification:
- a) Property, Plant and Equipment (GRAP 17)
    - o Land and Buildings (land and buildings not held as investment) <sup>[1]</sup><sub>[SEP]</sub>
    - o Infrastructure Assets (immovable assets that are used to provide basic services) <sup>[1]</sup><sub>[SEP]</sub>
    - o Other Assets (ordinary operational resources) <sup>[1]</sup><sub>[SEP]</sub>
  - b) Intangible Assets (GRAP 31) <sup>[1]</sup><sub>[SEP]</sub>

- o Intangible Assets (assets without physical substance held for ordinary operational resources)
  - c) Heritage Assets (GRAP 103)<sup>[17]</sup><sub>[SEP]</sub>
    - o Heritage Assets (culturally significant resources)
  - d) Investment Property (GRAP 16)<sup>[17]</sup><sub>[SEP]</sub>
    - o Investment Assets (resources held for rental or capital appreciation)
  - e) Leases (GRAP 13)
    - o Lessee under finance lease
- 6.2. The chief financial officer shall adhere to the classifications indicated in the annexure on fixed asset lives (see section 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.

## 7. INVESTMENT PROPERTY

- 7.1. Investment assets shall be accounted for in terms of ~~International Accounting Standards 40 and GRAP 17~~ GRAP 16 and shall not be classified as property, plant and equipment for —purposes of preparing the municipality’s statement of financial position.
- 7.2. 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.
- 7.3. Investment assets 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.

- 7.4. 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.
- 7.5. An expert valuer shall be engaged by the municipality to undertake such valuations.
- 7.6. ~~If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use, where after it shall be reclassified as an investment asset.~~

**8. FIXED ASSETS TREATED AS INVENTORY**

- 7.1. Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory in terms of GRAP 12, and not included in either property, plant and equipment or investment property in the municipality's statement of position.
- 8.2. Such inventories shall, however, 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.

**9. RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER**

9.1. A heritage asset shall be recognised as an asset if, and only if:

1. it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
2. the cost or fair value of the asset can be measured reliably.

9.2. If no original costs or fair values are available in the case of one or more or all heritage assets, the chief financial officer may record such asset or assets in the fixed asset register in line with GRAP 103.

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

**10. RECOGNITION OF DONATED ASSETS**

10.1. 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 fixed asset register at its fair value in line with the GRAP standards applicable to such assets.

**11. RECONCILIATION TO THE GENERAL LEDGER**

11.1. The Supply Chain Unit and the Fixed Asset section are responsible for reconciling the Asset register with the General ledger asset accounts on a monthly basis. Any discrepancies arising are investigated and corrective action taken to bring the two records into balance

**12. SAFEKEEPING OF ASSETS**

- 12.1. All assets should be used for the purposes they were acquired.
- 12.2. Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question. This includes ensuring that assets are used only by the authorized persons, safeguarded against theft and damage and only removed with approval from the HOD.
- 12.3. All staff is responsible for the care and protection of the Municipality assets. Every person who utilizes the property of the Municipality should do so with utmost care and consideration and in a manner, which ensures the property will be subjected to the minimum wear and tear or damage.
- 12.4. The safeguarding of equipment such as PCs, laptops and cameras is particularly important not only because of their attractive and portable nature but also because of the confidential information that they must contain. Steps must be taken to limit the risk of loss or theft including
- (a) keeping offices locked when unattended and when travelling:
  - (b) not leaving items unattended in public places, particularly in motor vehicles
  - (c) in the case of laptops by transporting them in other than normal laptops bags
- 12.5. As far as possible all non leased assets should be permanently marked as being the property of the Municipality.
- 12.6. In exercising this responsibility, every head of department shall adhere to any written directives issued by the Municipal manager or the Chief Financial Officer to the department in —question, or generally to all departments, in regard to the control of or —safekeeping of the municipality’s fixed assets.



**13. TRANSFERS WITHIN THE MUNICIPALITY**

- 13.1. Often particular assets considered obsolete or surplus to requirements in a particular department may be of value and use to another department. When it appears that this may be the case, advice should be provided to the Finance Officer- Fixed Assets who will ensure a transfer form has been authorized by relevant persons.

**14. IDENTIFICATION OF FIXED ASSETS**

- 14.1. The municipal manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerized fixed asset register. Coding System: -

- Immovable asset coding

An asset coding system is how the municipality can uniquely identify each immovable asset (at the lowest level in the adopted asset hierarchy) to ensure that it can be accounted for on an individual basis. Refer to Annexure A for asset hierarchy.

- Barcoding system

A barcoding system will be used for movable assets as how the municipality is able to uniquely identify each movable asset to ensure that it can be accounted for on an individual basis, which will also assist with the subsequent verification process of movable assets

- 14.2. The identification system shall be determined by the municipal manager, acting in consultation with the chief financial officer and other heads of departments, 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.

14.3. Every head of department 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.

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

14.1. 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, and in cases of suspected theft or malicious damage, also to the South African Police Service.

14.2 The report should cover all relevant matters including a recommendation to refer the matter to the SAPS if appropriate and the Insurers

**15. CAPITALISATION CRITERIA: MATERIAL VALUE**

15.1. 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 capitalization benchmark, it shall be treated as an ordinary operating expense.

15.2. Every head of department shall, however, ensure that any item with a value in excess of R250 (two hundred and 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, and at least once in every financial year, and any amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes.

**16. CAPITALISATION CRITERIA: INTANGIBLE ITEMS**

- 16.1. No intangible item shall be recognised as a fixed asset, except that the chief financial officer, acting in strict compliance with the criteria set out in GRAP 31 (dealing with research and development expenses) may recommend to the council that specific development costs be recognised as fixed assets.

**16. CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

- 16.1. 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.
- 16.2. 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.
- 16.3. 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, and installation, assembly and communication costs.

**17. MAINTENANCE PLANS**

- 17.1. Every head of department 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 of the municipality for approval.
- 17.2. 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.
- 17.3. The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than 31 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.

**18. DEFERRED MAINTENANCE**

- 18.1. 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 section 16 above), 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 note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.
- 18.2. If no such plans have been formulated or are likely to be implemented, the chief financial officer shall re-determine the useful operating life of the fixed asset in question, if necessary, in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

**19. GENERAL MAINTENANCE OF FIXED ASSETS**

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

**20. DEPRECIATION OF FIXED ASSETS**

20.1. All fixed assets, except land, heritage and **Investment assets**, shall be depreciated, or amortized in the case of intangible assets.

20.2. 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.

20.3. 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.

20.4. 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.

20.5. 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 financial year.

- 20.6. 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.

## 21. RATE OF DEPRECIATION

- 21.1. 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 section 32 below).
- 21.2. 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.

## 22. METHOD OF DEPRECIATION

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

Commented [ZL2]: To be expanded on further.

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

23.1 Annually the Municipality must assess the condition of its assets and review the estimated remaining useful life for each asset. The condition of the asset is the extent of its actual usefulness / functionality at assessment date measured against its design capacity / functionality. If the asset's estimated remaining useful life is different from the recorded estimated remaining useful life the necessary adjustments shall be made and the resulting change shall not constitute an error therefore it shall not be treated as an error but shall be a change in accounting estimates that shall be treated as such in terms of the accounting standards.

**Commented [ZL3]:** This whole 23.1 is new. The old 23.1 to 23.6 will change substantially in the second phase (April 2023) of review.

23.1. Only the chief financial officer at least annually may consider amending the useful operating life assigned to any fixed asset, and when any material amendment occurs the chief financial officer shall inform the council of the municipality of such amendment.

23.2. The chief financial officer 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.

23.3. 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.

- 23.4. 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 fixed asset register.
- 23.5. In the all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.
- 23.6. 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.
- 23.7. Periodically; especially at the end or towards the end of each financial year; the Asset Manager should review the asset register to identify assets that might be carried at zero values i.e. fully depreciated assets yet those assets remain operational use. Where this occurs or has occurred; it means that the municipality previously erred in not appropriately reviewing the estimated remaining useful life, residual values where applicable and the depreciation method leading to the asset being incorrectly fully depreciated while remaining in use. Where this has occurred, the error is a prior period error and must be corrected as such in accordance with GRAP 3.

**Commented [ZL4]:** This whole 23.7 is new. It is obvious that this new 23.7 does not 'gel' with the old 21.1 to 23.6. Hence our comment on the new 23.1



~~24. ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES~~

Commented [ZL5]: The whole of Section 24 must go. This method of depreciation is relevant for manufacturing businesses. The correct method is on 22.1 though it is quite 'thin'.

~~24.1. 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.~~

~~24.2. 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.~~

~~24.3. The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the chief financial officer.~~

~~24.4. 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~~

**25. CARRYING VALUES OF FIXED ASSETS**

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

**Commented [ZL6]:** The method of measuring assets (what we referred to earlier as the cost method) is correctly this one. However, this will be expanded upon substantially.

25.2. The only exceptions to this rule shall be revalued assets (see section 26 below) and heritage assets in respect of which no value is recorded in the fixed asset register (see section 8 above).

~~**26. REVALUATION OF FIXED ASSETS**~~

**Commented [ZL7]:** The whole revaluation must go. No Municipality uses this alternative method anymore.

~~26.1. 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).~~

~~26.2. 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.~~

~~26.3. 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.~~

~~26.4. The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.~~

~~26.5. The chief financial officer 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 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 (see section 24 above).~~

~~26.6. 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.~~

~~26.7. 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).~~

**27. VERIFICATION OF FIXED ASSETS**

**Commented [ZL8]:** This must 'talk to' Asset Management as a whole and not merely the verification of assets.

27.1. Every head of department shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

27.2. 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, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the chief financial officer not later than 30 June of the year in question.

27.3 The municipality must maintain a proper file of all documentation for all assets reflected on the asset register as required by the Office of the Auditor General, including acquisitions, disposals, write off's etc.

**28. DISPOSAL OF FIXED ASSETS**

28.1. Disposals of fixed assets should be in accordance with section 14 of the MFMA, 56 of 2003

28.2 In compliance with the principles and prescriptions of the Municipal Finance Management Act, 2003, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

- 28.3. In terms of section 14 of the Municipal Finance Management Act, 2003, a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.
- 28.4. A municipality may transfer ownership or otherwise dispose of a capital asset other than the one contemplated in 28.2 above, but only after the municipal council, in a meeting open to the public:
- (a) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and
  - (b) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 28.5. A decision by a municipal council that a specific capital asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after the asset has been sold, transferred or otherwise disposed of.
- 28.6. A municipal council may delegate to the accounting officer of a municipality its power to make the determinations referred to in 28.3 in respect of movable capital assets below a value determined by the council.
- 28.7. Section 14 of the Municipal Finance Management Act, 2003, does not apply to the transfer of a capital asset to another municipality or to a municipal entity, or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework.

- 28.8. Once the fixed assets are disposed, the chief financial officer shall delete the relevant records from the fixed asset register.
- 28.9. If the proceeds of the disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the statement of financial performance of the department or vote concerned. If the proceeds of the disposal, 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.
- 28.10. All gains ~~realised on the disposal 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 disposal of fixed assets shall remain as expenses on the statement of financial performance of the department or vote concerned. If, ~~however,~~ both gains and losses arise in any one financial year in respect of the ~~disposal of the fixed assets of any department or vote,~~ only the net gain (if any) ~~—~~ on the disposal of such fixed assets shall be appropriated.
- 28.11. 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 disposal shall be by private treaty/agreement.
- 28.12. SYSTEMS OF DISPOSAL
- Immovable property may be sold only at market related prices when the public Interest or the plight of the poor demands otherwise.

- Movable assets may be sold either by way of written price quotation, a competitive bidding process, auction or related prices, whichever will be more convenient depending on the nature of such asset will be applied

28.2 The employee or Councilor that is using the laptop of the municipality may at the end of his/her service to the Municipality, request to buy the laptop at its Fair Value or Book value. This request may be approved/declined by the Accounting officer

28.3 The employee or Councilor that is using the laptop of the municipality may at the end of economic life of an asset request to buy the laptop at its Fair Value or Book value. This request may be approved/declined by the Accounting officer

- Where the asset has reached its useful life, the asset should be sold to an employee or councilor at a minimum amount of R500.00.

28.3. The employee or councilor that has the cell phone allowance and in possession of the Municipal Cell phone may at the end of the cell phone contract buy the cell phone at a minimum amount of R200. However this does not apply when the contract is still binding, but can only be effective when the contract is due for renewal or upgrade.

## 29. OTHER WRITE-OFFS OF FIXED ASSETS

29.1. 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.

29.2. Every head of department shall report to the chief financial officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to dispose in terms

**Commented [ZL9]:** Firstly on page 28, there is a 28.2 and 28.3 on page 28. Numbering must be sorted.

More importantly. Is this part of the policy still being practiced by the institution? We have our doubts.

of the Supply Chain Policy. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments and shall promptly report the consolidated information to the Municipal Manager and Council.

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

29.4. In every instance where a fixed asset which is not fully depreciated 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 (see also section 22).

### **30. REPLACEMENT NORMS**

30.1. 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 policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

### **31. INSURANCE OF FIXED ASSETS**



- 31.1. The Municipality shall insure all assets subject to significant risk.
- 31.2. 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.
- 31.2. If the municipality operates a self-insurance reserve (assuming such reserve to be allowed), the chief financial officer shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.
- 31.3. 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.
- 31.4. The chief financial officer shall annually submit a report to the council of the municipality on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

32. ANNEXURE: FIXED ASSET LIVES

INFRASTRUCTURE ASSETS

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

* Electricity	
Power stations	(30)
Cooling towers	(30)
Transformer kiosks	(30)
Meters	(20)
Load control equipment	(20)
Switchgear	(20)
Supply and reticulation networks	(20)
Mains	(20)
* Roads	
Motorways	(15)
Other roads	(10)
Traffic islands	(10)
Traffic lights	(20)
Street lights	(25)
Overhead bridges	(30)

**Commented [ZL10]:** The estimated useful lives per asset in this document are generally conservative. Some infrastructure assets they remain in operation way in excess 50 years. Nonetheless 50 years will generally be the ceiling then the solution will be to revise the remaining useful life. Either way we will decide on the depreciable periods when we engage.

**UMUZIWABANTU MUNICIPALITY  
POLICY**

**DRAFT ASSET MANAGEMENT**

	Stormwater drains	(20)
	Bridges, subways and culverts	(30)
	Car parks	(20)
	Bus terminals	(20)
*	Water	
	Mains	(20)
	Supply and reticulation networks	(20)
	Reservoirs and storage tanks	(20)
	Meters	(15)
	Rights (that is, the right to draw water from a particular source belonging to another party)	(20)
*	Gas	
	Supply and reticulation networks	(20)
	Storage tanks	(20)
	Mains	(20)
	Meters	(20)
*	Sewerage	
	Sewer mains	(20)
	Outfall sewers	(20)

**UMUZIWABANTU MUNICIPALITY  
POLICY**

**DRAFT ASSET MANAGEMENT**

	Sewage purification works	(20)
	Sewerage pumps	(15)
	Sludge machines	(15)
*	Pedestrian malls	
	Footways	(20)
	Kerbing	(20)
	Paving	(20)
*	Airports	
	Runways	(20)
	Aprons	(20)
	Taxiways	(20)
	Airport and radio beacons	(20)
*	Security measures	
	Access control systems	(5)
	Security systems	(5)
	Security fencing	(3)

**COMMUNITY ASSETS**

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

*	Buildings and other assets	
	Ambulance stations	(30)
	Aquariums	(30)
	Beach developments	(30)
	Care centres	(30)
	Cemeteries	(30) #
	Civic theatres	(30)
	Clinics and hospitals	(30)
	Community centres	(30)
	Fire stations	(30)
	Game reserves and rest camps	(30)
	Indoor sports	(30)
	Libraries	(30)
	Museums and art galleries	(30)
	Parks	(30)
	Public conveniences and bath houses	(30)
	Recreation centres	(30)
	Sports and related stadiums	(30)
	Zoos	(30)
*	Recreation facilities	
	Bowling greens	(20)
	Tennis courts	(20)
	Swimming pools	(20)
	Golf courses	(20)
	Jukskei pitches	(20)
	Outdoor sports facilities	(20)
	Organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	(20)
	Lakes and dams	(20)
	Fountains	(20)

Flood lighting

(20)

# Sum-of-units method of depreciation may be preferred.

## **HERITAGE ASSETS**

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

- works of art, antiquities and exhibits such as biological and mineral specimens or technological artifacts;
- collections of insects, butterflies and fossils;
- collections of rare books, manuscripts, records, photographic positives and negatives and other reference material held by libraries to be preserved for their historical and cultural value;
- objects of scientific or technological interest;
- historical monuments, such as graves and burial grounds;
- archaeological and paleontology sites;
- conservation areas, such as national parks;
- historical buildings that have a significant historical association;
- movable objects, such as military insignia, medals, coins, stamp collections or objects of decorative or fine art; and
- recreational parks used for leisure to be preserved for the benefit of present and future generations.

## **INVESTMENT ASSETS**

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

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties) (30)
  
- Shopping centres (again developed along similar lines) (30)
  
- Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit) (30)

**OTHER ASSETS**

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

- \* Buildings
  - Abattoirs (30)
  - Asphalt plant (30)
  - Cable stations (30)
  - Caravan parks (30)
  - Compacting stations (30)
  - Hostels used to accommodate the public or tourists (30)
  - Hostels for municipal employees (30)

**UMUZIWABANTU MUNICIPALITY  
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**DRAFT ASSET MANAGEMENT**

Housing schemes	(30)
Kilns	(30)
Laboratories	(30)
Fresh produce and other markets	(30)
Nurseries	(30)
Office buildings	(30)
Old age homes	(30)
Quarries	(30)
Tip sites	(30)
Training centres	(30)
Transport facilities	(30)
Workshops and depots	(30)
* Office equipment	
Computer hardware	(5)
Computer software	(3-5)
Office machines	(3-5)
Air conditioners	(5-7)
* Furniture and fittings	
Chairs	(7-10)
Tables and desks	(7-10)
Cabinets and cupboards	(7-10)
* Bins and containers	
Household refuse bins	(5)
Bulk refuse containers	(10)
* Emergency equipment	
Fire hoses	(5)



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**DRAFT ASSET MANAGEMENT**

	Other fire-fighting equipment	(15)
	Emergency lights	(5)
*	Motor vehicles	
	Ambulances	(5-10)
	Fire engines	(20)
	Buses	(15)
	Trucks and light delivery vehicles	(5-7)
	Ordinary motor vehicles	(5-7)
	Motor cycles	(3)
*	Plant and equipment	
	Graders	(10-15)
	Tractors	(10-15)
	Mechanical horses	(10-15)
	Farm equipment	(5)
	Lawn mowers	(2)
	Compressors	(5)
	Laboratory equipment	(5)
	Radio equipment	(5)
	Firearms	(5)
	Telecommunication equipment	(5)
	Cable cars	(15)
	Irrigation systems	(15)
	Cremators	(15)
	Lathes	(15)
	Filling equipment	(15)
	Conveyors	(15)
	Feeders	(15)
	Tippers	(15)
	Pulverizing mills	(15)

* Other	
Aircraft	(15)
Watercraft	(15)

# Sum-of-units may be preferred.

**35. PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE  
MANAGEMENT ACT 2003**

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

A municipality may alienate any other capital asset, but provided

- 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.

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7This policy has been considered and approved by the **COUNCIL OF THE  
UMUZIWABANTU LOCAL MUNICIPALITY** as follows:

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FIN/P... CR... / 27/ 03 / 2024
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**MR T P CELE : ACTING  
MUNICIPAL MANAGER**

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**CLLR L.S. ZUNGU  
MAYOR**

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**CLLR P.SPEAKER**