AMAHLATHI LOCAL MUNICIPALITY

Fixed ASSET MANAGEMENT POLICY AND PROCEDURE

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Policy Name	
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Purpose	The Amahlathi Local Municipality believes that an Asset Management Policy is essential to ensure effective and efficient utilization of public monies and accountability thereof is heavily dependent on accurate recoding and accounting.
Aims and Objectives	The objective of this Asset Management Policy is therefore to ensure that the assets of the Amahlathi Local Municipality are properly managed and accounted for
Policy Custodian	
Related Policies and Legislation	MFMA, GRAP
Approving Authority	Municipal Council
Applicability	Municipal Departments
Policy Benchmark and References	MFMA, National Treasury Guidelines
Stakeholders Consulted	

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1. Introduction

The Amahlathi Local Municipality (AMA) has made a significant investment in various assets used mainly to fulfil its responsibilities for:

- Delivery of sustainable services,
- Social and economic development,
- Promoting safe and healthy environments, and
- Providing for the basic needs of the community.

As custodians on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in these assets. The purpose of this policy is to therefore ensure that the municipality's assets are acquired, safeguarded, controlled, disposed of and accounted for in accordance with the Municipal regulations, the Municipal Finance Management Act (Act no. 56 of 2003), Auditor General's requirements, applicable accounting pronouncements, such as General Recognized Accounting Practices (GRAP), and in an appropriate manner applicable to the management and control of assets.

Statutory provisions have been implemented to protect public property against arbitrary and inappropriate management or disposal by a local government. The Accounting Standards Board per instructions of the Accountant General, to ensure the appropriate financial treatment for property, plant and equipment, has adopted certain accounting standards. The requirements of these new accounting standards include:

- The compilation of asset registers covering all property, plant and equipment controlled by the municipality;
- Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment;
- The standards to which these financial records must be maintained.

This Asset Management Policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment. This stewardship is comprised of two components being the:

- Financial administration by the Chief Financial Officer; and
- Physical administration by the individual Asset Management Unit (s)

2. Purpose

The Amahlathi Local Municipality believes that an Asset Management Policy is essential to ensure effective and efficient utilization of public monies and accountability thereof is heavily dependent on accurate recoding and accounting.

The objective of this Asset Management Policy is therefore to ensure that the assets of the Amahlathi Local Municipality are properly managed and accounted for by:

- Ensuring the effective and efficient control, utilisation, safeguarding and management of the municipality's assets;
- Ensuring that Asset Management Unit are aware of their responsibilities with regard to the control, utilisation, safekeeping and management of the municipality's assets;
- Setting out standards of physical management, recording and internal controls to ensure assets are safeguarded against inappropriate loss or utilisation;
- Ensuring adequate insurance of all municipal assets;
- Specifying the process required before expenditure on assets occurs;
- Emphasising a culture of accountability over assets by all municipal officials, and councillors; and
- Ensuring compliance with all legal and accounting prescriptions and requirements.

3. Applicable to

This policy is applicable to all municipal officials and political office bearers

4. Definitions

Terminology	Definition
Accounting Standards Board	Was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa
AMP	Asset Management Policy
AO	Accounting Officer
Acquisition cost	When a Municipality initially recognises assets such as items of property, plant and equipment, investment properties, intangible assets and heritage assets using the Standards of GRAP, it measures those assets using either cost (if the asset is acquired in an exchange transaction) or at fair value (if the asset is acquired in a non-exchange transaction). This cost or fair value on initial acquisition of an asset is the acquisition cost.
Assets	Are resources controlled by a Municipality as the result of past events and from which future economic benefits or potential service provision are expected to flow to the Municipality
Asset Categories	Are the six main asset categories defined by and GRAP 17. These are:
Infrastructure assets	Are defined as any asset that is part of a network of similar assets. It is specialised in nature and does not have an alternative use. It is immovable and may be subject to constraints on disposal.
Heritage assets	Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Terminology	Definition
Community assets	Are defined as any asset that contributes to the community's wellbeing, eg. parks, libraries and fire stations
Investment assets	Are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
Intangible assets	Are defined as identifiable non-monetary assets without physical substance
Other assets	Are defined as assets utilised in normal operation, eg. plant and equipment, motor vehicles and furniture and fittings
Capilisation	Is the recognition of expenditure as an Asset or Inventory item in the Asset Register
Carrying amount	Is the amount at which an asset is included in the municipality's balance sheet and Statement of Financial Position. It is calculated by deducting accumulated depreciation and impairment from the original cost of the relevant asset.
CFO	Chief Financial Officer
Cost	Is the amount of cash or cash equivalent paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction plus costs incidental to the acquisition or acquirement. Also known as historical cost/value.
Cost of acquisition	Are all the costs incurred in bringing an item of plant, property or equipment to the required condition and location for it's intended use
Deemed cost	Deemed cost is a surrogate value for the cost or fair value of an asset at its initial acquisition, and is determined by reference to the fair value of the asset at the date of adopting the Standards of GRAP measurement date).

Terminology	Definition
Deferred maintenance	Is the extent of preventative maintenance that has not been performed
Depreciation	Is the systematic allocation of the depreciable amount of an asset over its useful life
Depreciable amount	Is the cost of an asset, or the other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value
Fair value	Is the amount for which an asset could be exchanged between knowledgeable willing parties in an 'arms length' transaction
AMA	Amahlathi Local Municipality
Finance Lease	A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.
Fixed asset register	Is the controlled register recording the financial and other key details for all municipal assets recognised in accordance with this policy
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognised Accounting Practice
HOD	Head of Department
IAS	International Accounting Standards
Impairment	Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.
PPE - Property, plant and equipment	Are tangible assets that: (a) Are held by a municipality for use in the production of goods and services,

Terminology	Definition
	for rental to others, for administrative purposes; and
Recognition	The cost of an item of PPE shall be recognised as an asset only if: (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and (b) The cost or fair value of the item can be measured reliably
Recoverable amount	Is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal
Replacement value	Is the amount which is needed in current terms to replace an asset
Residual value	Is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal
Stewardship	Is the act of taking care of and managing property, plant or equipment on behalf of others
Useful life	Is either: (a) The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality, or (b) The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality

5. Statutory and Regulatory Framework

The following policies, processes and procedures should be in place to ensure an effective and efficient asset management system:

- Supply Chain Management Policy
- Delegations of authority
- Fleet Management Policy
- Insurance Policy
- Property portfolio management (in the development stage)

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, 1998
- Municipal Systems Act No. 32 of 2000
- The Municipal Supply Chain Management Regulations of 2005
- Division of Revenue Act, 2007 – DoRA (enacted annually)
- Municipal Finance Management Act No. 56 of 2003

Also, this policy must comply with the standards specified by the Accounting Standards Board (GRAP).

This policy will be updated whenever legislative or accounting standard amendments significantly change the requirements pertaining to asset management in general and the administration of property, plant and equipment.

This policy supersedes all previous asset policies.

This policy does not overrule the requirement to comply with other policies like Supply Chain Management, Tender or Budget policies.

6. Responsibilities and Accountabilities

The **Council** must:

- Approve the temporary and/or permanent transfer of all moveable assets exceeding approved limits, as stipulated in the "Powers of Delegation" of the municipality and
- Approve the writing-off, disposal of obsolete or redundant assets.

The **Municipal Manager** as Accounting Officer (AO) is responsible for the management of assets of the municipality, including the safeguarding and the maintenance of those assets.
The Municipal Manager must 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 standards of GRAP;
- The municipality has and maintains a system of internal control of assets, including a fixed asset register;
- The senior managers and their teams comply with this policy; and
- Approve temporary and/or permanent transfers of a movable asset between departments as determined in the "Powers of Delegation" of the municipality.

The **Chief Financial Officer** is accountable to the Municipal Manager and is responsible to ensure that the financial investment in the municipality's assets is safeguarded and maintained.
The Chief Financial Officer must ensure 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, economically and transparently;
- Any unauthorized, irregular or fruitless and wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained at standards sufficient to satisfy the requirements of the Auditor-General;
- Financial processes are established and maintained to ensure that the municipality's financial resources are optimally utilized through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;

- The senior managers are appropriately advised on their powers and duties pertaining to the financial administration of assets;
- The chief financial officer may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed;
- The policy and supporting procedures or guidelines are established, maintained and effectively communicated; and
- Approve the temporary or permanent transfers of movable assets between departments as determined in the "Powers of Delegation" of the municipality.

Section 78(1) of the MFMA prescribes the following areas of responsibility for **Senior Managers (**also referred to as **HOD's**) relating to asset management.

"Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure:

- That the system of financial management and internal control established for the municipality is carried out diligently;
- That the financial and other resources of the municipality are utilised effectively, efficiently economically and transparently;
- That any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;
- That the assets of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;
- That all information required by the AO for compliance with the provisions of this Act is timeously submitted to the AO; and
- That the provision of this Act, to the extent applicable to that senior manager or official including any delegations in terms of section 79 of the MFMA, are complied with."

The provision of section 78(1) must be performed subject to the directions of the AO.
In addition to the above, the HOD's are responsible to ensure that all employees within their respective department adhere to the approved Asset Policy and Procedures.

It is the responsibility of the HOD to ensure that all asset-related changes that take place within their divisions/directorates have been properly authorised and communicated to the Asset Management Unit.

The **Asset Management Unit** must ensure that:

- Appropriate physical management and control systems are established and maintained for all assets in their area of responsibility;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless or wasteful utilization and losses of assets resulting from criminal or negligent conduct are prevented;
- Their asset management system and controls can provide an accurate, reliable and up to date account of assets under their control;
- They are able to justify that their asset plans, budgets and purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives;
- The Asset Management Unit may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed;
- Certify in writing at the end of each financial year-end, that he/she has assessed and identified impairment losses on all assets under his/her control;
- Report in writing to the Chief Financial Officer the full facts in the event of an asset being demolished, destroyed, damaged or occurrence of any other event materially affecting it's value;
- Approve the temporary or permanent transfers of a movable asset between departments as determined in the "Powers of Delegation" of the municipality;
- Ensure inventory lists are verified and kept current in collaboration with the Finance Department; and
- Identify obsolete and redundant assets once per financial year, compile a report and obtain the necessary approval for the disposal thereof.

7. Financial Management

7.1 Pre-acquisition Planning

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

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

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

7.2 Approval to acquire assets

Funds can only be spent on a capital project if:

- The money has been approved in the capital budget;
- The project, including the total cost, has been approved by the Council;
- The Chief Financial Officer confirms that funding is available for that specific project; and
- Any contract that will impose financial obligations more than two years after the budget year is appropriately disclosed.

7.3 Funding of assets

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

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

8. Fixed Asset Register Management

8.1 Establishment and management of the Fixed Asset Register (FAR)

- The Chief Financial Officer will establish and maintain the FAR containing key financial data on each item of Property, Plant or Equipment that satisfies the criterion for recognition;
- The Asset Manager is responsible for establishing and maintaining of additional registers or databases such as Inventory Register, required to demonstrate the physical management of their assets;
- The Asset Manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, and location and condition of all assets in the FAR as well as other additional registers or databases.

8.2 Contents of the FAR

The FAR will include the following information pertaining to individual assets:

- ✓ Asset number (bar code) eg. 00000001
- ✓ Brief but meaningful description of the asset as per naming convention
- ✓ Physical location (bar code) e.g. 10000001
- ✓ Responsible asset user (room occupant)
- ✓ Date of acquisition
- ✓ Purchase price
- ✓ Date and price of disposal (if relevant)
- ✓ Cost Centre of user department
- ✓ Function code
- ✓ Asset type
- ✓ The measurement base used
- ✓ The depreciation methods used
- ✓ The useful life
- ✓ Depreciation charges (current year)
- ✓ The carrying amount
- ✓ The accumulated depreciation
- ✓ Increase or the decrease resulting from re-valuations (if relevant)
- ✓ Identification number where applicable
- ✓ Valuation
- ✓ Impairment losses
- ✓ Sources of finance

- ✓ Residual Values
- ✓ Retirements date

8.3 Internal controls over the FAR

- Controls around the asset register should be sufficient to provide an accurate, reliable and up to date account of assets under control to the standards specified by the CFO and required by the Auditor General;
- These controls will include physical management and recording of all acquisitions, assignments, transfers, losses and disposals of assigned asset as well as regular stock-takes and system audits to confirm the adequacy of controls.

9. Operations and Maintenance

9.1 Physical receipting and management of assets such as equipment, etc

- The municipal stores will manage the receipting of property, plant and equipment.
- The process of receipting by the municipal stores will include:
  - ✓ Review of the authority to purchase including compliance with all procurement policies and budgetary limits; and
  - ✓ Assignment of the asset to the appropriate Asset Management Unit.
- The date of acquisition of an asset is deemed to be the time when legal title and control passes to the municipality. This may vary for different categories of assets but will usually be the point of time when payment for that item of asset is made.

9.2 Purchase of new assets

The process to be followed when assets are acquired shall be in accordance with the Council's Procurement, Delegation of Authority policies and payment procedures.

- Purchase Requisition Form to be completed and signed by the official requesting the asset and the HoD;
- Quotations are to be obtained in accordance with the procurement procedures;
- The tax invoice (to contain order number) and delivery note is received (endorsed with the asset number at a later stage) and payment is generated by the Expenditure Section
- A Payment voucher (pack) is to be prepared and signed by the HoD, Manager or the Creditors Clerk and the CFO or the Municipal Manager;
- Once the asset is received is verified to ensure that it meet the specification in all respects and is bar coded and sent to requestor;
- The Asset Transfer Form (***Annexure A***) is completed and dispatched with the asset to the HoD who signs the form;
- Inventory sheet (**Annexure B)** is updated and the Asset Management Unit signs to confirm together with the Asset Management Unit
- A Termination of Service Form (**Annexure C**) must be completed prior to the termination of service of every employee, to ensure that all assets entrusted to such employee are verified and returned

9.3 Asset take-on (existing assets)

The Asset Management Accountant, Asset management officer and his/her team visits all municipal offices and records all assets found in the offices:

- Room labels are attached to each location (room/office) and a note is made of the room label number/bar code (location code), occupant, phone, dept and cost centre.
- All assets are then bar-coded and scanned in the following manner:
  - ✓ Remove the blue/white grease paper from the label
  - ✓ Douse the label liberally with acetone (pour the solvent into a saucer)
  - ✓ Hold the label by the edge between thumb and index finger in exactly the grip with which you are going to affix it and immerse it into the activator for about 4 - 5 seconds and then remove it
  - ✓ Place the label in the required position, without moving it laterally (firmly, but not hard
  - ✓ If placing the label on curved surfaces, curve the label first before placing the glue on it
  - ✓ Ensure that the labels are affixed to the assets in a manner that is standardized to prevent damage and to ensure that it is easy to find and scan the label as per <u>guide</u> below:
    - Label on the side from which asset is used
    - Chairs - right and high on the back
    - Desks - under ledge on left side above drawers
    - Avoid sides which could be moved against a wall or other assets
    - Avoid positions low on the ground
    - Avoid labeling on top surfaces where damage could occur
    - Label the major part of asset, not a replaceable drawer or door
    - Do not label higher than 2.3 m above floor level
- Inventory sheets (see ***Appendix C***) are then printed per room.
- The occupant of the room is then requested to confirm the items listed on the inventory sheet and if satisfied, signs the inventory sheet (in cases where the occupant is not available, the Asset Management Unit signs on the occupant's behalf)
- The scanners are then linked to the Asset Management Unit's computer and all the scanned items are uploaded onto the BAUD Asset Management System.
- Officials utilizing their own equipment (personal items) to ensure that this is communicated (declared) to the Asset Management team (the municipality reserves the right to verify the information provided).
- All personal computers (PC's) are classified as one unit comprising of central processing unit (CPU), monitor, keyboard, speakers, internal CD-writer, DVD-CD ROM and any other attachments the PC could not function without. External CD-writer is considered a separate unit. The CPU (only) is bar-coded when the PC is numbered; the other components are not numbered as they are part of a bigger operating unit - PC. Depreciation of the PC is based on the CPU and the replacement of other components is recognized as expenses.

9.4 Transfer of assets

- The CFO appropriately amends the Fixed Asset register for all approved transfers, whereafter such physical transfers are permitted to take place.

9.5 Hiring of assets

- Hired assets do not belong to the municipality, however the institution remains responsible and accountable for them.
- This policy applies to hired assets and a relevant policy extends on it

9.5 Rights

- Property, plant and equipment of the municipality immediately upon acquisition and are recorded through the relevant system to the Asset Module; and
- Where assets meet the definition of a finance lease as per GRAP 13, the concerned assets will be recognised on the balance sheet of the municipality and recorded as such in the FAR

9.6 Re-instatement of assets

- Deleted assets or assets retired in error can be re-instated into the FAR by the Asset Management Unit and approved by the CFO.

9.7 Re-allocation or re-assignment of assets

- The Asset Management Unit must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management is implemented;
- The Asset Management Unit must advise the Asset Manager whenever an asset is permanently relocated or reassigned from one location (or base) or cost centre recorded in the Fixed Asset Register.
- The Asset Management Unit must advise the Office Manager whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the Fixed Asset Register. It this case, the Asset Management Unit must also advise the Asset Manager when this asset is returned.

9.8 Disposal / retirement of assets

- The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of property, plant and equipment needed to provide the minimum level of basic municipal services unless after the Council, in a meeting open to the public:

- ✓ *Had decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and*
- ✓ *Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.*

- The decision that a specific property, plant and equipment is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset has been sold, transferred or otherwise disposed of.
- The municipal manager may approve the disposal of an item of property, plant and equipment as delegated by the municipal Council. The municipal manager will approve the write-off of all assets prematurely (including those assets classified as un-used).
- The disposal of an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and comply with the municipality's Supply Chain Management Policy. The Council must give fourteen (14) days notice in the newspaper circulating in its area. Such notice shall be affixed to all notice boards at the Council's office.
- Land and buildings are to be auctioned at the reserved prevailing market prices as indicated by the valuators at the time of the disposal.
- A technical report by the Information Technology Department (IT) is to be obtained to confirm that an item of computer equipment is beyond economic repair or does not conform to set specifications. An asset can only be written-off with approval of the Accounting Officer (MFMA sec 14 and Delegation of Authority).
- Infrastructure assets are to be handled by the relevant technical resources to advise on appropriate means of disposal which does not compromise the safety of the community, etc as well as to provide expertise on the condition of the asset with recommendations to the municipal manager.
- Transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, but must be done in accordance with a prescribed framework.
- An item of property, plant and equipment should be eliminated from the balance sheet upon disposal or when the asset is permanently withdrawn from use.
- Gains or losses arising from the retirement or disposal of an item of property plant and equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset and should be recognised as revenue or expense in the financial statement

9.9 Method of valuation

- Existing Fixed Assets: The method of determining the values of existing fixed assets will be decided by the Municipal Manager in consultation with Provincial and National Treasuries. The value of the existing asset will depend on whether performance by an asset is adequate to support the selected service delivery strategy.

- Where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition.
- 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, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned. For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.
- New Fixed Assets: These assets are recognized at original cost.

9.10 Financial disclosure

The financial statements should disclose, in respect of each class of assets classified under the categories of land and buildings, infrastructure, community, heritage and other assets:

- The measurement base used for determining the gross carrying amount (when more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed);
- The depreciation methods used;
- The useful lives or the depreciation rates used;
- Depreciation charged in arriving at net surplus or deficit for the period;
- The gross carrying amount and the accumulated depreciation at the beginning and the end of the period;
- A reconciliation of the carrying amount at the beginning and end of the period showing:
  - ✓ Additions
  - ✓ Disposals
  - ✓ Acquisition through business combinations
  - ✓ Increases or the decreases resulting from revaluations
  - ✓ Deductions in carrying amount
  - ✓ Amounts written back
  - ✓ Depreciation
  - ✓ Other movements

The financial statements should also disclose:

- Whether or not, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values;
- The existence and amounts of restriction on title and property, plant and equipment pledged as security for liabilities;

- The accounting policy for restoration costs relating to items of property, plant and equipment;
- The amount of expenditures on account of property, plant and equipment in the course of construction; and
- The amount of commitments for the acquisition of property, plant and equipment.

When items of property are stated at re-valued amounts, the financial statements should disclose:

- The basis used to revalue the assets;
- The effective date of revaluation;
- Whether an independent value was involved;
- The nature of any indices used to determine replacement cost;
- The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation;
- The revaluation surplus, detailing the movement for the period; and
- The portion of the depreciation charge relating to the revaluation.

The Tables below shows estimated useful life per the MFMA – Local Government Capital Asset Management Guideline.

Classes of Assets

	USEFUL LIFE IN YEARS		
	MIN		MAX
PROPERTY, PLANT AND EQUIPMENT			
LAND			
Developed land	N/A		
Undeveloped land	N/A		
BUILDINGS			
DWELLINGS			
Caravans	5	-	10
Children's homes	25	-	30
Foreign mission dwellings	25	-	30
Homes for the aged	25		30
Hostels	25	-	30
Military personnel dwellings	25	-	30
Mobile homes	5	-	10
Places of safety (children)	25	-	30
Prisons and rehabilitation facilities	25	-	30
Residences (presidential, embassies)	25	-	30
Residences (personnel) include garages and parking	25	-	30
Secure care centres	25	-	30
NON RESIDENTIAL DWELLINGS			
Airport and associated buildings (control towers, transfer halls, parking, hangars and warehousing)	25	-	30
Border and custom control points	25	-	30
Bus terminals	25	-	30
Bus shelters	10	-	15

	USEFUL LIFE IN YEARS		
	MIN		MAX
Civic theatres	25	-	30
Clinics and community health facilities	25	-	30
Community centres and public entertainment buildings	25	-	30
Driver and vehicle testing centres	25	-	30
Fire stations	25	-	30
Foreign mission offices	25		30
Hospitals and ambulance stations	25	-	30
Industrial buildings	20	-	30
Laboratories	25	-	30
Libraries	25	-	30
Mortuaries	25	-	30
Museums and art galleries	25	-	30
Office buildings (including air conditioning systems)	25	-	30
Public parking (covered and open)	25	-	30
Police stations (and associated buildings)	25	-	30
Railway and associated buildings	25	-	30
Research facilities (including weather)	25	-	30
Stadiums	25	-	30
Taxi ranks	10	-	15
Universities, colleges, schools etc.	25	-	30
Warehouses (storage facilities, including data)	25	-	30

OTHER STRUCTURES (INFRASTRUCTURE ASSETS)

ELECTRICITY

Cooling towers	25	-	30
Mains	15	-	20
Meters			
Prepaid	10	-	20
Credit	20	-	25
Power stations			
Coal	50	-	60
Gas	50	-	60
Hydro	50	-	60
Nuclear	60	-	80
Supply/reticulation	15	-	25
Transformers	25	-	50
Lines			
Underground	25	-	45
Overhead	20	-	30
Cables	25	-	45
Substations			
Switchgear	20	-	30
Equipment			
Outdoor	20	-	30
GIS	15	-	30
Indoor	30	-	40
Electrical panels	3	-	5
Telemetry	7	-	15

	USEFUL LIFE IN YEARS		
	MIN		MAX
ROADS (Roads, Pavements, Bridges & Storm Water)			
BRIDGES			
Vehicle			
Bridges - Concrete	60	-	80
Bridges - Steel	40	-	50
Bridges - Timber	25	-	40
Pedestrian			
Bridges - Concrete	60	-	80
Bridges – Steel	40	-	50
Bridges – Timber	25	-	40
Railway			
Bridges - Concrete	60	-	80
Bridges – Steel	40	-	50
Bridges - Timber	25	-	40
Reinforced retaining walls			
Earth	10	-	15
Concrete	25	-	30
Expansion and construction joints	15	-	20
STORM WATER			
Culverts	25	-	40
Concrete	40	-	60
Armco	25	-	40
Drains			
Earthworks	80	-	100
Concrete lining	25	-	50
Stop banks	40	-	50
Pipes	25	-	50
Coastal			
Structure (Retaining walls)	20	-	40
Piers	60	-	80
Storm water outfalls	60	-	80
ROADS			
Kerb and channels	40	-	50
Municipal roads - Asphalt surface	10	-	20
- Asphalt layer	30	-	50
- Concrete surface	10	-	30
- Concrete layer	30	-	50
- Gravel surface	3	-	10
National roads - Asphalt surface	10	-	20
- Asphalt layer	30	-	50
- Concrete surface	10	-	30
- Concrete layer	30	-	50
- Gravel surface	3	-	10
Provincial roads - Asphalt surface	10	-	20
- Asphalt layer	30	-	50
- Concrete surface	10	-	30

	USEFUL LIFE IN YEARS		
	MIN		MAX
- Concrete layer	30	-	50
- Gravel surface	3	-	10
Crash barriers	10	-	30
Retaining walls	30	-	60
Overload control centres	15	-	20
Electronic hardware	10	-	15
Other equipment	10	-	20
Pedestrian footpaths	15	-	30
Street lighting	25	-	40
Subways	40	-	50
Traffic islands	40	-	50
Traffic lights	15	-	20
Traffic lights – coastal	10	-	15
Traffic signs	5	-	15
Toll road plazas	20	-	30

AIRPORTS

Airports and radio beacons	25	-	30
Aprons	25	-	30
Runways	15	-	20
Taxiways	15	-	20
Specialised equipment			
Luggage movement equipment	20	-	25
Communication equipment	10	-	15

WATER

Dams			
Structure			
- concrete	80	-	100
- earth	30	-	50
Mechanical and electrical	15	-	40
Meters	10	-	20
Standpipes	5	-	20
Metalwork (steel stairs, ladders, handrails, weirs)	10	-	30
Pump stations			
Structure	30	-	55
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Reservoirs			
Structure	30	-	50
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Supply/reticulation	20	-	50
Underground chambers			
Valves	15	-	25
Meters	10	-	20
Transition	10	-	15

	USEFUL LIFE IN YEARS		
	MIN		MAX
Other	5	-	10
Water purification works			
Structure	30	-	55
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Meters	10	-	15
Telemetry	10	-	15
SEWERAGE			
Bulk pipelines (outfall sewers)			
Rising mains	40	-	50
Gravity mains	40	-	50
Sewerage pump stations			
Structure	30	-	55
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Metalwork	10	-	30
Sewers/reticulation	30	-	60
Waste purification works			
Structure	30	-	55
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Meters	10	-	15
SOLID WASTE DISPOSAL			
Collection			
Vehicles	5	-	10
Containers/Bins	10	-	15
Transfer stations and processing facilities			
Structure	30	-	55
Electrical	15	-	40
Mechanical	15	-	40
Perimeter protection	10	-	25
Landfill site			
Earthmoving and compaction equipment	10	-	15
Landfill preparation	NA		
Structure	30	-	55
Weighbridge			
Mechanical	15	-	40
Electrical	15	-	40
Perimeter protection	10	-	25
RAILWAYS			
Power supply units	25		30
Railway sidings	25	-	30
Railway tracks	15	-	20

	USEFUL LIFE IN YEARS		
	MIN		MAX
Signalling systems	15		20
Shunting yards	25		30
GAS SUPPLY SYSTEMS			
Structure	40	-	50
Electrical	20	-	25
Mechanical	20	-	25
Perimeter protection	10	-	15
Stations			
Trunk receiving	40	-	50
District regulating	40	-	50
Mains/pipelines	15	-	20
Meters	15	-	20
Storage facilities	15	-	20
Supply/reticulation	15	-	20
CEMETERIES	25	-	30
CAPITAL/INFRASTRUCTURE WORK IN PROGRESS		N/A	
Buildings			
Infrastructure			
Other			
OTHER MACHINERY AND EQUIPMENT			
Audiovisual equipment	5	-	10
Building air conditioning systems	10	-	5
Cellular phones (over R5 000)	0	-	2
Cellular routers	3	-	
Domestic equipment (non kitchen appliances)	3	-	5
Electric wire and power distribution equipment (compressors, generators & allied equipment)	5	-	7
Emergency/rescue equipment	5	-	10
Elevator systems	15	-	20
Farm/Agricultural equipment	5	-	15
Fire Fighting equipment	3	-	5
Gardening equipment	2	-	4
Irrigation equipment	10	-	15
Kitchen appliances	5	-	10
Laboratory equipment - Agricultural	5	-	7
- Medical testing	5	-	7
- Roads and transport	5	-	7
Laundry equipment and industrial sewing machines	10	-	15
Learning, training support and library material (curriculum equipment)	5	-	10
Machines for metallurgy	5	-	10
Machines for mining and quarrying	5	-	10
Machines for textile production	10	-	15
Medical and allied equipment	5	-	10
Music instruments	10	-	15
Photographic equipment	5	-	7

	USEFUL LIFE IN YEARS		
	MIN		MAX
Pumps, plumbing, purification and sanitation equipment	5	-	10
Radio equipment	5	-	7
Road construction and maintenance equipment	10	-	15
Saddles and other tack	5	-	7
Security equipment/systems/ materials - Fixed	3	-	5
- Movable	3	-	5
Ship and marine equipment	5	-	10
Sport and recreational equipment	5	-	10
Survey equipment	5	-	7
Telecommunication equipment	3	-	5
Tents, flags and accessories	5	-	10
Woodworking machinery and equipment	5	-	10
Workshop equipment and loose tools - Fixed	5	-	10
- Movable	3	-	5

FURNITURE AND OFFICE EQUIPMENT

Advertising boards	3	-	5
Air conditioners (individual fixed & portable)	3	-	5
Cutlery and crockery	5	-	10
Domestic and hostel furniture	10	-	15
Linen and soft furnishings	5	-	10
Office equipment (including fax machines)	5	-	7
Office furniture	5	-	7
Paintings, sculptures, ornaments (home and office)	5	-	10

COMPUTER EQUIPMENT

Computer hardware including operating systems	3	-	5
Networks	5	-	10

TRANSPORT ASSETS

Aircraft	10	-	15
Aircraft engines	5	-	7
Airport transport equipment (stairs and luggage)	10	-	15
Busses	10	-	15
Cycles	4	-	7
Emergency vehicles (Ambulances and fire engines)	5	-	10
Mobile clinics	10	-	15
Motor vehicles	4	-	7
Railway rolling stock	10	-	15
Ships	15	-	20
Ships engines	5	-	7
Trailers and accessories	5	-	10
Trucks	5	-	7

HERITAGE ASSETS

Archives		N/A	
Areas of land of historic or specific significance (i.e. world heritage site)		N/A	

	USEFUL LIFE IN YEARS		
	MIN		MAX
Culturally significant buildings (parliamentary buildings)		N/A	
National monuments		N/A	
National parks/reserves (i.e. Kruger Park)		N/A	
Paintings		N/A	
Sculptures		N/A	
Municipal jewellery		N/A	
Works of art		N/A	
Other antiques and collections		N/A	

BIOLOGICAL OR CULTIVATED ASSETS

Dairy cattle		-	
Feathered animals (for eggs and feathers)		-	
Forests and plantations		-	
Fruit trees		-	
Game animals		-	
Animals for reproduction (cattle, goats, sheep, pigs)		-	
Animals for wool or milk (goats and sheep)		-	
Dogs (law enforcement and security)		-	
Horses (law enforcement and working)		-	
Plants (for production of seeds)		-	
Vines		-	
Other animals		-	

INVESTMENT PROPERTY

INTANGIBLE ASSETS

Capitalised development costs		-	
Computer software	2	-	5
Mastheads and publishing titles		-	
Patents, licences, copyrights, brand names and trademarks		-	
Recipes, formulae, prototypes, designs and models		-	
Service and operating rights		-	
Other intangibles		-	

The schedules above should be used only as a guide. The municipality needs to determine the useful life of a particular item of property, plant and equipment (using the GRAP 17 recommendations as a guide)

The useful life of the item of property, plant and equipment should be reviewed annually.

9.11 Carrying amount on property, plant and equipment

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount or any subsequent revaluation.

9.12 Impairment

The Municipality shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality shall estimate the recoverable amount of the asset.

In assessing whether there is any indication that an asset may be impaired, the Municipality shall consider, as a minimum, the following indications:

External sources of information

a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

b) Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.

c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

Internal sources of information

a) Evidence is available of obsolescence or physical damage of an asset.

b) Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

c) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.

Reversing an impairment loss

A Municipality shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality shall estimate the recoverable amount of that asset.
In assessing whether there is any indication that an asset may be impaired, the Municipality shall consider, as a minimum, the following indications:

9.13 The application of deemed cost in the instances where historical cost is not known

- When the Municipality initially recognises an asset using the Standards of GRAP, it measures such assets using either cost or fair value at the date of acquisition (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP, acquisition cost is measured using a surrogate value (deemed cost as per Directive 7) at the date a Municipality adopts the Standards of GRAP (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date.
- The Municipality may have determined a deemed cost for an asset under another basis of accounting where information about the acquisition cost of the asset was unavailable.
- In the absence of information about the acquisition cost of an asset, deemed cost is used for the following assets:
  (a) Property, plant and equipment.
  (b) Investment property, only if a Municipality elects to use the cost model in the Standard of GRAP on *Investment Property*. If a Municipality adopts the fair value model for investment property, it measures investment property at fair value at the date the Municipality adopts the Standards of GRAP.
  (c) Intangible assets that meet:
    (i) the recognition criteria in the Standard of GRAP on *Intangible Assets*; and
    (ii) the criteria in the Standard of GRAP on *Intangible Assets* for revaluation (including the existence of an active market). Where an intangible asset is acquired at no cost or for a nominal cost, the cost shall be its fair value as at the date of acquisition.
  (d) Heritage assets (see the Standard of GRAP on *Heritage Assets*).
  GRAP 17 does not require a Municipality to recognise heritage assets that would otherwise meet the definition of, and recognition criteria for, PPE.
  If the Municipality does recognise heritage assets, it must apply the disclosure requirements of GRAP 17 and may, but if it is not required to, apply the measurement requirements of GRAP 17.

With the exception of (b) above, a Municipality applies this Directive irrespective of whether it applies the cost or revaluation model in accordance with the Standards of GRAP on *Property, Plant and Equipment*, *Intangible Assets* or *Heritage Assets*.

If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, a Municipality may estimate such fair value using:

(a) depreciated replacement cost at the measurement date for an item of property, plant and equipment;

(b) depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialised nature that there is no market-based evidence of fair value; and

(c) replacement cost at the measurement date for heritage assets.

If a Municipality uses deemed cost for an item of property, plant and equipment, an investment property, an intangible asset or a heritage asset, in its first statement of financial position prepared using Standards of GRAP, the Municipality's financial statements shall disclose:

(a) for each line item:

(i) the aggregate of those items valued using deemed cost;

(ii) the aggregate adjustment to the carrying amounts previously reported; and

(b) a description of whether deemed cost was determined:

(i) using fair value or depreciated replacement cost for items of property, plant and equipment and investment properties; and

(ii) using fair value or replacement cost for heritage assets.

9.14 Land donated for low cost housing

Land and/or buildings used to provide social services, for example, free or low cost housing are deemed to be property, plant and equipment as they are used in the provision of goods and services. When these assets are transferred to the individuals of the community they should be de-recognised and no longer be considered PPE under the control of the municipality. These assets should be de-recognised from the statements of financial performance and appropriately removed from the FAR. Land and/or buildings used to provide employee housing are also deemed to be property, plant and equipment as they contribute towards a Municipality's provision of goods and services.

9.15 Reduction of the carrying amount

- The carrying amount of a asset should be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount;
- When such a decline has occurred, the carrying amount should be reduced to the recoverable amount.

9.16 Classification, aggregation & components

Classification of property, plant and equipment

- Any asset recognized as an asset under this policy will be classified according to national recognized categories;
- These categories have been specified by the Accounting Standards Board and currently are included in GRAP 17;
- The Chief Financial Officer may agree to subdivide these classifications further.

Investment Property

- Investment assets shall be accounted for separately and shall not be classified as property, plant and equipment;
- Investment assets shall comprise land or buildings (or parts thereof) both held by the municipality, as owner or as lessee under a finance lease to earn rental income or for capital appreciation or both;
- Investment assets shall not depreciate but shall be annually valued (balance sheet date to determine their fair (market) value);
- Adjustments to the previous year's recorded fair value shall be accounted for either gains or losses in the accounting records of the department or service controlling the asset.

Inventory Asset

- Any land or building owned or occupied by the municipality with the intention of selling such property in the ordinary course of business, 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 assets.

Optional Treatment for major component

- An Asset Manager may, with agreement of the Chief Financial Officer, treat specified major components of an item of property, plant and equipment as a separate asset for the purposes of this policy.
- These major components may be defined by its physical parameters (e.g. reservoir roof) of its financial parameters (e.g. road surface).
- In agreeing to these treatments the CFO must be satisfied that these components:
  - ✓ Have a significantly different useful life or usage pattern to the main asset;
  - ✓ Align with the asset management plans;
  - ✓ The benefits justify the costs of separate identification;

- ✓ It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality;
- ✓ The cost of the asset to the municipality can be measured reliably;
- ✓ The municipality has gained control over the asset;
- ✓ The cost is above the recognition threshold; and
- ✓ The asset is expected to be used during more than one financial year.

- Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.
- All other replacements, renewals of refurbishments of components will be expensed.

Recognition of network asset

- A network asset is a collection of assets that work together as a whole to deliver specified service or economic benefit, e.g. computer systems, office furniture or security camera system.
- A network asset should be recognised as an asset on the asset register.
- The Asset Management Unit is accountable for the management of the registers required to financially verify the value of a network asset.

9.17 Donations or exchanges

- Where an item of property, plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the asset register.

9.18 Asset Reconciliation

- The monthly asset reconciliation entails the comparison of the electronic asset register to the quarterly basis for that particular period by the asset management unit;
- The difference between these two reports should be investigated and corrected, by asset manager;
- The CFO must check and approve the reconciliation every month;
- The Finance Department will provide the Heads of Department with a monthly report on asset movements.

9.19 Stolen assets

- A stolen item of asset should be reported to the police and a police case must be obtained (MFMA prescripts to be followed);
- The Municipal Manager should authorize the write-off after following the necessary processes;
- The Asset Manager should then retire the asset from the fixed asset register.

9.20 Missing and broken assets

- The Asset Management Unit must compile a list of all broken and missing assets after thorough investigation following the physical asset verification;
- Departments should also compile a list of assets which are no longer providing the basic level of service.
- The CFO should verify the list and submit a motivation to Municipal Manager for write-off.
- The Asset Management Unit must then retire the asset.

9.21 Insurance of asset

- The Finance Department shall ensure that all assets are insured in accordance with the amount reflected in the fixed asset register.

9.22 Asset count / stock-take (annual or bi-annual)

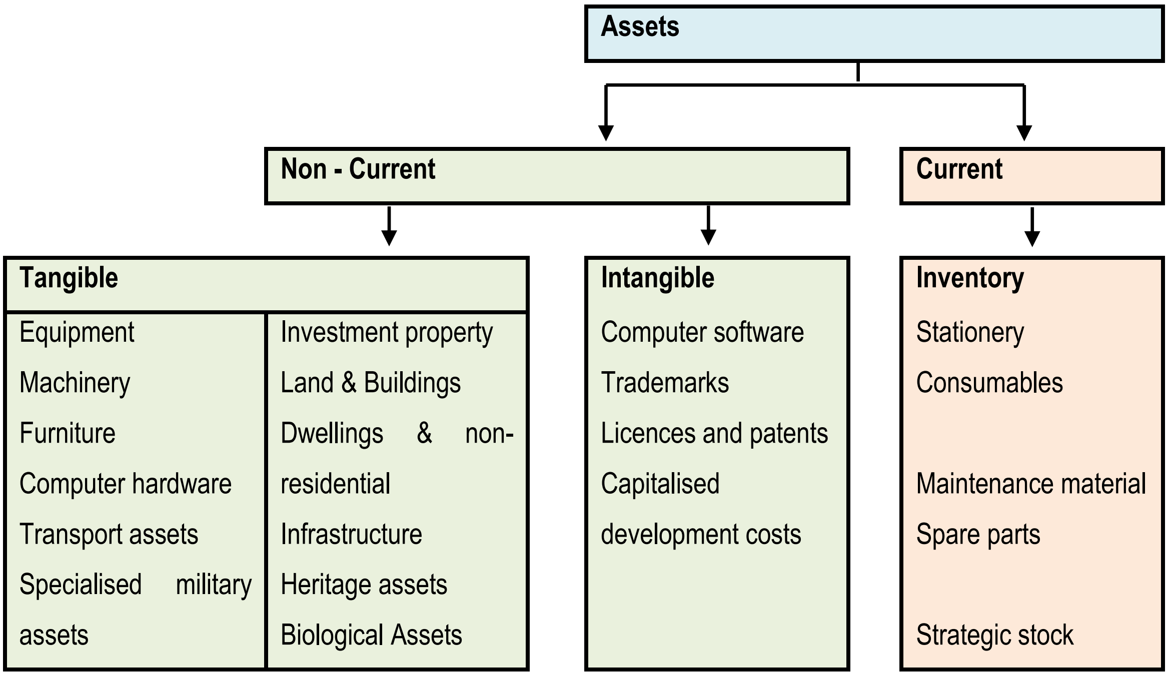
With the assets bar-coded, conducting electronic asset counts or stock takes on an annual or bi-annual basis is facilitated.

- Due to the fact that rooms or locations are bar coded as described above, the asset count starts by electronically scanning a room or location, thereafter scanning all assets inside the room and then scanning outside of the room.
- After all the rooms or locations have been scanned, the data is downloaded and electronically compared with the database as per the original installation or the previous asset count.
- The following management reports will then be generated:
  - ✓ Assets verified in the correct room or location
  - ✓ Assets not verified during the asset count
  - ✓ Missing assets
  - ✓ Assets in the incorrect room or location
- The reports will enable the municipality to determine problem areas and assist in developing actions to address these problem areas;

10. Classification of Assets

The CFO must ensure that all assets are, as prescribed by the current standards, classified under the following headings in the asset register and
Statement of Financial Position:

- PPE (infrastructure, community, heritage and other assets)
- Investment property
- Inventory (classified as PPE)
- Intangible assets
- Biological Asset
- Finance lease assets



10.1 Property, plant and equipment

Recognition Criteria

PPE shall be recognised as an asset when the following conditions are met:

- It is probable that future economic benefits or service potential associated with the asset will flow to the Municipality, and
- The cost or fair value of the asset can be measured reliably.

Initial Measurement

Purchased assets

An item of PPE which qualifies for recognition as an asset shall initially be measured at its cost.

Donated assets

Where an item of property, plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the asset register if the fair value is greater than the asset threshold.

Components of Cost

The cost of an item of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. All trade discounts and rebates are deducted in arriving at the purchase price.

Subsequent expenditure

Subsequent expenditure relating to PPE should be added to the carrying amount of the asset when it is probable that: future economic benefits or service potential over the total life of the asset in excess of the most recently assessed standard of performance of the existing asset will flow to the Municipality. Otherwise, all other subsequent expenditure not meeting the definition above will be accounted for as repairs and maintenance expense in the Statement of Financial Performance.

Measurement subsequent to initial recognition

Subsequent to the initial recognition as an asset, and item of PPE should be measured on the cost model i.e. Carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation

- The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life;
- The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed by the municipality;
- The depreciation charge for each period will be recognized as an expense against the budget or the relevant Asset Management Unit unless it is included in the carrying amount of another asset; and
- The depreciation method will be straight-line unless the CFO is convinced that another method is more appropriate.

- All PPE, except land and heritage assets, shall be depreciated.
- The depreciation method applied to PPE shall be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits or service potential from those assets, the method shall be changed to reflect the changed pattern.
- When a change in depreciation method is necessary the change shall be accounted for as a change in accounting estimate.

Useful life

The CFO shall assign a useful life to each depreciable asset that must be recorded on the municipality's asset register. In determining such a useful life the CFO shall adhere to the useful lives set out in this policy. In the case of a fixed asset which is not listed in the policy, the CFO shall determine a useful life. The useful life of an item of PPE shall be reviewed periodically.

Land and buildings

Land traditionally has an unlimited lifespan and is not be depreciated. Buildings have a limited life and are depreciate.

Retirement and disposals

In accordance with GRAP, PPE shall be eliminated from the Statement of Financial Position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Any gain or loss shall be included in the statement of financial performance as an item of revenue or expense, whichever is applicable.

Heritage Assets

Some assets are described as "heritage assets" because of their

- cultural,
- environmental,
- educational or
- historical significance.

The Municipality uses GRAP 103 to measure Heritage Assets.

- A heritage asset shall be recognised as an asset if, and only if: (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and (b) the cost or fair value of the asset can be measured reliably.

10.2 Investment property

Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by a Municipality. This distinguishes investment property from other land or buildings controlled by entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows that are attributable not only to property, but also to other assets used in the production or supply process.

The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by the Municipality for capital appreciation which may be sold at a beneficial time in the future.

(b) a building owned by the Municipality (or held by the Municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.

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

Recognition criteria

GRAP states that investment property shall be recognised as an asset when and only when:

(a) it is probable that the future economic benefits that are associated with the investment property will flow to the Municipality; and

(b) the cost of the investment property can be measured reliably.

Measurement at initial recognition

GRAP states that:

- Investment property shall be measured initially at its cost (including transaction costs).
- The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by GRAP. I.e. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.

After initial recognition

The Municipality chooses the cost model to measure investment subsequent to initial recognition.

Disposals

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in surplus or deficit in the period of the retirement or disposal.

Transfers

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property,

(b) commencement of development with a view to sale, for a transfer from investment property to inventories,

(c) end of owner-occupation, for a transfer from owner-occupied property to investment property,

(d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property, or

(e) end of construction or development, for a transfer from property in the course of construction or development

10.3 Inventory

Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a Municipality and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work in progress being produced, by the Municipality. Inventories also include materials and supplies awaiting use in the production process and goods purchased or produced by a Municipality, which are for distribution to other parties for no charge or for a nominal charge;

Recognition

Inventories shall be recognised as an asset if, and only if,

(a) it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and

(b) the cost of the inventories can be measured reliably.

Measurement at recognition

Inventories that qualify for recognition as assets shall initially be measured at cost. Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of acquisition.

An asset may be gifted or contributed to the municipality, eg. Land may be contributed to the municipality by the developer at nil or nominal consideration, to enable the municipality to develop parks, roads and paths in the development. An asset may also be acquired at nil or nominal consideration through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

Measurement after recognition

Inventories shall be measured at the lower of cost and net realisable value Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

(a) distribution at no charge or for a nominal charge, or

(b) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Cost of inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the Municipality from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and supplies. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

10.4 Intangible assets (GRAP 31)

Identifiably

- An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licenced, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts) regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

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Recognition

An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality; and

(b) the cost or fair value of the asset can be measured reliably.

The Municipality shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Initial Measurement

An intangible asset shall be measured initially at cost. Expenditure on an intangible item shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

Measurement after recognition

The Municipality adopts the cost model. After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Useful life

The Municipality will assess whether the useful life or service potential of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the Municipality as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the Municipality.

Review of amortisation period and amortisation method

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors

10.5 Biological assets

Accounting for biological assets (living animals or plants) shall take place in accordance with the requirements of GRAP 27 where applicable.

The CFO, 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 HOD concerned in exactly the same manner as though the asset were an ordinary asset.

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

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

Annexure A: ASSET TRANSFER FORM

AMAHLATH MUNICIPALITY
ASSET TRANSFER/ MOVEMENT FORM

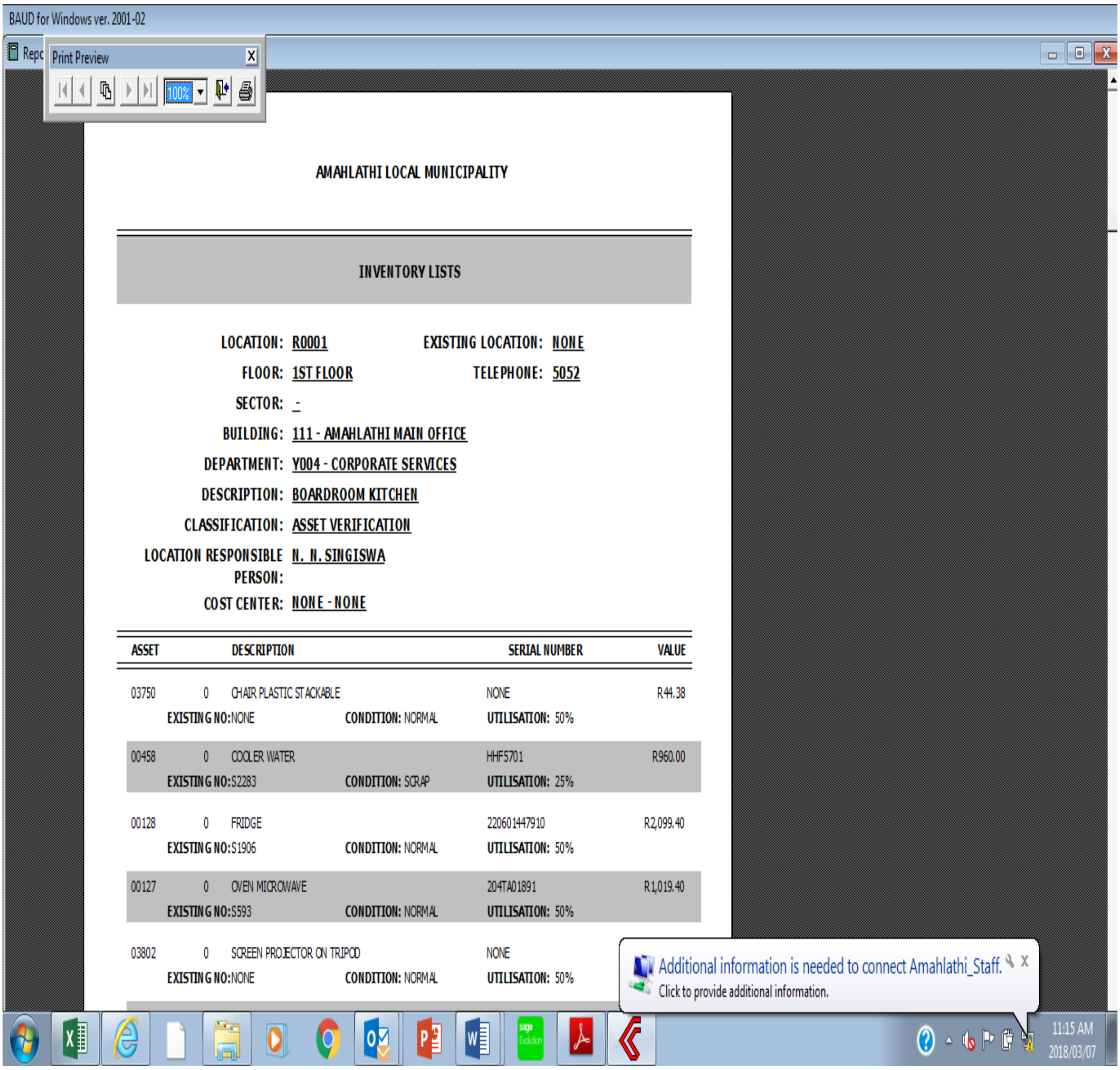
Reason for Request:

Current Location		**New Location**	
Building Name		Building Name	
Department		Department	
Section		Section	
Room Number		Room Number	
Full Name & Surname		Full Name & Surname	
Tel # /Extension		Tel # /Extension	

No.	**Asset Barcode #**	**Asset Description**
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		

Authorisation of Asset Moving Off			
Designation	**Name**	**Signature**	**Date**
Current User (Giving)			
Manager/ HOD			
New User (Receiving)			
Manager/HOD			
Asset Management			

Annexure B: INVENTORY SHEET/LIST



AMAHLATHI LOCAL MUNICIPALITY

INVENTORY LISTS

LOCATION: R0001 EXISTING LOCATION: NONE
FLOOR: 1ST FLOOR TELEPHONE: 5052
SECTOR: -
BUILDING: 111 - AMAHLATHI MAIN OFFICE
DEPARTMENT: Y004 - CORPORATE SERVICES
DESCRIPTION: BOARDROOM KITCHEN
CLASSIFICATION: ASSET VERIFICATION
LOCATION RESPONSIBLE PERSON: N. N. SINGISWA
COST CENTER: NONE - NONE

ASSET		DESCRIPTION	SERIAL NUMBER	VALUE
03750	0	CHAIR PLASTIC STACKABLE	NONE	R44.38
EXISTING NO:NONE		CONDITION: NORMAL	UTILISATION: 50%	
00458	0	COOLER WATER	HHF5701	R960.00
EXISTING NO:S2283		CONDITION: SCRAP	UTILISATION: 25%	
00128	0	FRIDGE	220601447910	R2,099.40
EXISTING NO:S1906		CONDITION: NORMAL	UTILISATION: 50%	
00127	0	OVEN MICROWAVE	204TA01891	R1,019.40
EXISTING NO:S593		CONDITION: NORMAL	UTILISATION: 50%	
03802	0	SCREEN PROJECTOR ON TRIPOD	NONE	
EXISTING NO:NONE		CONDITION: NORMAL	UTILISATION: 50%	

Annexure C: TERMINATION OF SERVICE FORM

AMAHLATHI LOCAL MUNICIPALITY

TERMINATION OF SERVICE: CONFIRMATION OF ASSETS

Important: This form must be completed prior to the termination of service of every employee, to ensure that all assets entrusted to such employee are verified

1. EMPLOYEE DETAILS	**EMPLOYEE NO.**

Surname		**Name**	
Department		**Telephone No.**	
Manager		**Last Working Day**	

2. MANAGER / DIRECTOR /

I, ____ duly delegated as the responsible person in this Department do herewith confirm that all assets entrusted to the abovementioned employee were checked on by me in the presence of the said employee and the Asset Management Official, with the following outcome:

Discrepancies (attached list)		No Discrepancies	

Signature	**Date**

3. EMPLOYEE / Councilor

I, ____ do herewith confirm that all assets entrusted to me within the scope of my employment with the Amahlathi Local Municipality were checked on in my presence by my manager / director and asset management official with the following outcome

Discrepancies (attach list)		No Discrepancies	

Signature	**Date**

4. ASSET MANAGEMENT UNIT

Name	
Signature	**Date**