

**DR. PIXLEY KA ISAKA SEME  
LOCAL MUNICIPALITY**



**ASSET MANAGEMENT POLICY**

**2025-2026**

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## **1. INTRODUCTION**

This policy for the management of assets has been designed to assist management and officials of the Dr Pixley Ka Isaka Seme Local Municipality with the description of management procedures for Property, Plant and Equipment, Investment Property, Agricultural Assets and Intangible Assets. It also should assist with the capacity to differentiate between activities, which are acceptable in terms of general authorization, supervisory responsibilities and limits of authority to the management of assets and functions of the organisation.

This policy will provide certainty with respect to the handling of asset management procedures undertaken within the organization and will ensure that management and employees understand their respective responsibilities and duties.

For the purpose of this policy, assets exclude inventory and monetary assets such as debtors.

This policy replaces all asset management procedures/instructions and memoranda that have been previously issued.

Failure to comply with this policy will result in the institution of disciplinary procedures in terms of the stipulated human resource policies and procedures of Dr. Pixley Ka Isaka Seme Local Municipality.

## **2. OBJECTIVE**

The objective of this policy is to ensure that assets of the Municipality are properly managed and accounted for by:

- The accurate recording of essential asset information;
- The accurate recording of asset movements;
- Exercising strict physical controls over all assets;
- Treating the assets correctly in the Municipality's financial statements;
- Providing accurate and meaningful management information;
- Compliance with the Council's accounting policies and Generally Recognised Accounting Practices;
- Adequate insuring of assets;
- Maintenance of Council's assets;
- Ensuring that managers are aware of their responsibilities with regard to the assets; and
- Setting out the standards of management, recording and internal controls so as to safeguard the assets against inappropriate utilisation or loss.

### 3. STATUTORY FRAMEWORK

The statutory framework for this policy is:

- The Constitution of the Republic of South Africa, Act 108 of 1996;
- Local Government: Municipal Structures Act, No 117 of 1998;
- Local Government: Municipal Systems Act, No 32 of 2000;
- Local Government: Municipal Finance Management Act, No. 56 of 2003;
- Regulation No. 31346 of 2008;
- Municipal Supply Chain Management Regulations No. 27636;
- Generally Recognised Accounting Practice.
- Local Government: Municipal Systems Amendment Act, No 7 of 2011;

### 4. ACCOUNTING STANDARDS

This document constitutes a policy statement and shall not take precedence over the standards specified by the Accounting Standards Board. The relevant accounting standards include:

**Needs to be updated – GRAP 27, 21, 26, 31 etc.**

- GRAP 1 – Presentation of Financial Statements;
- GRAP 13 – Leases;
- GRAP 16 – Investment Property;
- GRAP 17 - Property, Plant and Equipment;
- GRAP 100 - Non – current Assets Held for Sale and Discontinued Operations;
- GRAP 101 - Agricultural;
- GRAP 102 – Intangible Assets; and
- IAS 36 - Impairment of Assets

Other relevant accounting standards are:

- GRAP 12 on Inventories
- GRAP 11 on Construction Contracts

### 5. DEFINITIONS

Every effort has been made to use definitions established through legislation, standards of accounting and other guidance on asset management.

**"Accounting Officer"** means the municipal manager appointed in terms of Section 54A of the Local Government: Municipal Systems Amendment Act, 2011 (Act No. 7 of 2011) and being the head of administration and accounting officer in terms of Section 60 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

**"Agricultural Activity"** is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

**"Active market"** is a market in which all the following conditions exist:

- The item traded within the market are homogeneous;
- Willing buyer and seller can normally be found at any time; and
- Prices are available to the public.

**"Agricultural Produce"** is the harvested product of the entity's biological assets.

**"Amortisation"** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

**"Assets"** are resources controlled by the municipality as a result of past events and from which future economic benefit or service potential are expected to flow. However for the purpose of this policy exclude inventory and other monetary assets.

**"Asset categories"** are the six main asset categories defined as follows:

**"Asset Life-Cycle"** is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/or construction, cycle of operation and maintenance and capital renewal and finally disposal.

**"Asset Manager"** is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the entity's standards, policies, procedures and relevant guidelines.

**"Asset Register"** is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.

**"Biological Asset"** is a living animal or plant.

**"Biological Transformation"** comprises the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes to a biological asset.

**"Carrying amount"** is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

**"Chief Financial Officer"** means an officer of a municipality designated by the municipal manager to be administratively in charge of the budgetary and treasury functions.

**"Class of property, plant and equipment"** means a grouping of assets of a similar nature or function in a municipality's operations, which is shown as a single item for the purpose of disclosure in the financial statements.

**"Commercial service"** means a service other than a municipal service

- (a) rendered by a private sector party or organ of state to or for a municipality on a commercial basis; and

- (b) which is procured by the municipality through its supply chain management policy.

**"Community Assets"** – are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

**"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 recognized in accordance with the specific requirements of Standards of GRAP.

**"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 other amount substituted for cost in the financial statements, less its residual value.

**"Depreciated replacement cost"**, in relation to a capital asset, means an amount equivalent to the cost to replace the capital asset on the date of transfer adjusted by a deemed depreciated cost at the date of the transfer taking into account the age and condition of the asset.

**"Disposal"**, in relation to a capital asset, includes –

- (a) the demolition, dismantling or destruction of the capital asset; or  
(b) any other process applied to a capital asset which results in loss of ownership.

**"Disposal management system"** means the system contemplated in regulation 40 of the Municipal Supply Chain Management Regulations, published by General Notice No. 868 of 2005.

**"Enhancements / Rehabilitation"** is an improvement or augmentation of an existing asset beyond its original recognized service potential for example useful life, capacity, quality and functionality.

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

**"GRAP"** is Standards of Generally Recognised Accounting Practice

**"Senior Manager/Director/HOD"** – means a manager referred to in section 56 of the Municipal Systems Act.

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

**"Historical cost"** means the original purchase price or cost of acquisition of the capital asset at the time the asset was acquired

An **"impairment loss"** of a cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

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

**"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, electricity, reticulation, substations and car parks.

**"Intangible assets"** are identifiable non-monetary assets without physical substance.

**"Investment Properties"** – are defined as property (land or a building-or part of a building-or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

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

**"Municipality"** means the Dr. Pixley Ka Isaka Seme Local Municipality.

**"Other Assets"** – are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

**"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, or for administrative purposes, and
- are expected to be used during more than one period.

**"Realisable value"** means the amount of cash or cash equivalents that could currently be obtained by transferring the capital asset, less the estimated cost of completion and the estimated costs necessary to make the transfer.

**"Recoverable Amount"** – is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

**"Recoverable service amount"** is the higher of a non-cash-generating asset's fair value less costs to sell and its future 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 condition expected at the end of its useful life.

**"Right to use, control or manage"** means a right to use, control or manage the capital asset for a period exceeding one calendar month without ceding legal ownership in the asset. In other words, where the granting of such rights do not amount to the transfer or permanent disposal of the asset, for example when a right is acquired through a leasing, letting or hiring out arrangement.



**"Service provider" –**

- (a) in relation to a municipal service, means a private sector party or organ of state appointed by a municipality in terms of Chapter 8 of the Municipal Systems Act to perform a municipal service in accordance with that Act; or
- (b) in relation to a commercial service, means a private sector party or organ of state appointed in terms of the supply chain management policy of a municipality or municipal entity to render a commercial service to or for the municipality or entity as an independent contractor.

**"Supply chain management policy"** means the supply chain management policy which a municipality is required to have in terms of Chapter 11 of the Act.

**"The Act"** means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

**"Transfer"**, in relation to a capital or subsidiary asset, means transfer of ownership in the asset as a result of a sale or other transaction.

**"Useful Life"** – is either:

- the period of the time over which an asset is expected to be used by the municipality, or
- the number of production or similar units expected to be obtained from the asset by the municipality.

## **6. BACKGROUND**

The utilization and management of property, plant and equipment, investment property, intangible assets and agricultural assets is the prime mechanism by which the Municipality can fulfil its constitutional mandates for:-

- Delivery of sustainable services;
- Social and economic development;
- Promoting safe and healthy environments; and
- Fulfilling the basic needs to the community.

As trustees 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 assets.

The policy for the management of assets deals with the Municipal rules required to ensure the enforcement of appropriate stewardship of assets. Stewardship has two components being the:-

- Financial administration by the Chief Financial Officer; and
- Physical administration by the relevant managers.

Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposals by local government.

Accounting standards have been approved by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment, investment property, intangible assets and agricultural assets. The requirements of these new accounting standards include:-

- The compilation of asset registers covering all assets controlled by the Municipality.
- Accounting treatment for the acquisition, disposal, recording and depreciation / amortisation of assets.
- The standards to which financial records must be maintained to comply with the new accounting standards.

## **7. DELEGATION OF POWERS**

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Executive Mayor and the Council and the Municipal Manager. **All delegations in terms of this policy must be recorded in writing.**

In accordance with the Local Government: Municipal Finance Management Act (Act 56 of 2003) (MFMA), the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his/her designates.

The overall responsibility of asset management lies with the Municipal Manager. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing.

## **8. RESPONSIBILITY**

### **Municipal Manager**

The Municipal Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets. He/she 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 Generally Recognized Accounting Practice (GRAP).
- The Municipality has and maintains a system of internal control of assets, including an asset register.
- Senior managers /Directors and their teams comply with this policy.

### **Chief Financial Officer**

The Chief Financial Officer is responsible to the Municipal Manager to ensure that the financial investment in the Municipality's assets is safeguarded and maintained. He/she may delegate or otherwise assign responsibility for performing these functions but he/she will remain accountable for ensuring that these activities are performed. He/she 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 assigned to him/her are utilized effectively, efficiently, economically and transparently.
- Any unauthorized, irregular or fruitless or 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 to standards sufficient to satisfy the requirements of effective management.
- Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

### **Senior Managers/Directors/HOD's**

The Senior Managers/Directors/HOD's must ensure that:-

- Appropriate systems of physical management and control are established and carried out for 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 resulting from criminal or negligent conduct are prevented.
- Their management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
- They are able to justify that their plans, budgets, purchasing, maintenance and disposal decisions for assets optimally achieve the Municipality's strategic objectives.

The Senior Managers/Directors/HOD's may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring that these activities are performed.

Each senior manager/director should report to the Municipal Manager on issues that will significantly impede the item of asset capabilities to provide the required level of service or economic benefit.

The responsibility for the physical control of assets rests with the relevant senior manager/director to whom the responsibility was delegated to in terms of section 79 of the Municipal Finance Management Act, No 56 of 2003.

Each senior manager/director shall ensure that assets entrusted to him / her are adequately maintained, properly used and insured and ensure that section 78 of the Municipal Finance Management Act, No 56 of 2003, is adhered to.

No amendments, deletions or additions to the asset register shall be made other than by the Asset Clerk or by an official acting as the Asset Clerk and must be authorized by the Chief Financial Officer.

Upon the resignation / retirement of an employee, the applicable Senior Manager /Director/HOD must inform the Chief Financial Officer in writing that the asset items entrusted to that employee to execute his / her duties are in good order and returned. When necessary the applicable senior manager/director must inform the Finance Department of any losses and the value of such losses. The ultimate responsibility of any losses lies with the relevant senior manager.

## **9. ASSET REGISTER**

The 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.

The 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 responsible senior manager and department(s) or vote(s) within which the assets will be used
- the title deed number, in the case of property
- the stand number, in the case of property
- where applicable, the identification number
- the measurement based used (Cost or Fair Value)
- the original useful life
- the revised useful life
- the residual value
- the original cost, or the revalued amount or the fair value if no costs are available
- the (last) revaluation date of the assets subject to revaluation
- the revalued value of such assets
- who did the (last) revaluation
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation

- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- method of calculating recoverable amount (when impairment test are required in terms of GRAP)
- increases or the decreases resulting from revaluations (if applicable)
- the source of financing
- condition of the asset
- 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.

All Senior Managers/Directors/HOD's under whose control any asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

An asset shall be capitalised, that is, recorded in the asset register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset. A asset shall remain in the asset register for as long as it is in physical existence.

The Asset Clerk must ensure that reconciliations are performed on a monthly basis between the general ledger values and the asset values and to be submitted to the Chief Financial Officer.

The Chief Financial Officer must check and authorize the reconciliations as correct.

Depreciation methods and rates used must be approved by the Chief Financial Officer.

The asset clerk should allocate depreciation rates and methods to each asset class, and ensure that depreciation calculations are correctly applied and posted in the general ledger.

## **10. CLASSIFICATION OF ASSETS**

In compliance with the requirements of the National Treasury, the Chief Financial Officer shall ensure that all 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:

### **10.1 Property, Plant and Equipment**

## Align with classes on AFS

- Land (not held as investment assets).
- Infrastructure assets (assets which are part of a network of similar assets).
- Community assets (assets contributing to the general well-being of the community).
- Heritage assets (culturally significant assets).
- Other assets (ordinary operational assets).
- Housing (rental stock or housing stock not held for capital gain).

Save for land and buildings other assets shall be classified under the following headings:

- Assets Under Construction
- Furniture Fittings
- Bins and Containers
- Motor Vehicles
- Fire Engines
- Specialised Vehicles
- Refuse Tankers
- Computer Equipment
- Councillors Regalia
- Conservancy Tankers
- Water Crafts

### 10.2 Investment Property

Investment assets (resources held for capital or operational gain and which are not used by the Municipality). Properties occupied by the Municipality, Councilors or officials are classified as owner-occupied property and are therefore not classed as investment property

Investment properties will be treated in accordance with GRAP 16 and will separately be classified in the Statement of Financial Position. **Investment properties will not be depreciated but will annually be revalued.**

**The accounting policy on the AFS states cost model**

### 10.3 Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance.

Intangible assets will be treated in accordance with **GRAP 102** and will separately be classified in the Statement of Financial Position. Intangible assets shall be valued at cost less any accumulated amortization and any impairment losses.

### 10.4 Agricultural Assets

Agricultural Assets will be treated in accordance with GRAP 101 and will separately be classified in the Statement of Financial Position,

### **10.5 Infrastructure**

Infrastructure Assets has no universally accepted definition, these assets usually display some or all of the following characteristics:

- They are part of a system or network;
- They are specialised in nature and do not have alternative uses;
- They are immovable; and
- They may be subject to constraints on disposal.

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

### **10.6 Heritage Assets**

Heritage assets are described because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archeological sites, conservation areas and nature reserves, and works of art.

### **10.7 Assets Treated as Inventory**

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

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

The Chief Financial Officer shall use the classifications indicated in the Annexure on estimated lives of assets, as a guideline and in the case of an item of assets not appearing in the Annexure shall use the classification applicable to the asset most closely comparable in the Annexure.

## **11. CAPITALISATION CRITERIA**

### **Property Plant and Equipment and Intangible Assets**

All assets may only be acquired in terms of council's Supply Chain Management Policy and in terms of the budgetary provisions. The responsibility for the purchase of assets would be delegated in terms of council's Delegation Framework and Supply Chain Management Policy. Depending on the cost of the asset to be purchased the following procedure for purchasing an asset must be followed:

- Senior Managers/Directors/HOD's shall at all times ensure that there are enough funds in their departmental budgets before requesting approval to any requisition to purchase an asset;
- Senior Managers/Directors/HOD's shall ensure that the correct vote and expenditure line item are used and recorded on the requisition requesting approval to purchase an asset;
- Tenders or quotations as required in terms of council's Supply Chain Management policy should be obtained and where required submitted to council's tender committee for approval;
- The tender committee resolution of the approved tender or recommended quotation should be attached to the requisition signed by the relevant head of department;
- The order would then be generated by the Budget and Treasury office;
- Once delivered the asset must be labeled / bar-coded by the Budget and Treasury department before such asset is put into use;
- The Senior Managers/Directors/HOD's should endorse receipt of the asset on the invoice and forward it for payment to the Budget and Treasury office; and
- The Budget and Treasury office would then generate payment.

The completion of any immovable asset by or under control of every Senior Managers/Directors/HOD's should promptly be declared to the Chief Financial Officer in writing stating the full details required for recording in the assets register.

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

The original cost of an item of Property Plant and Equipment or intangible assets may include:

- Cost price;
- Financing costs (MFMA section 46(4));
- Import tax;
- Non-claimable purchase tax; and
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

When an item of PPE is acquired to be exchanged or partly exchanged for a dissimilar item of PPE or other asset, the cost of such item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents paid additional. For the purpose hereof, "fair value" shall be determined by the council with due regard to the definition ascribed to fair value.



The only exceptions to this rule shall be revalued items of PPE (see heritage assets as per paragraph 10.6).

Subsequent expenditure relating to an asset that has already been capitalized, should only be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.

### **Investment Property**

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of purchased investment property includes all directly attributable expenditure (professional fees for legal services, property transfer taxes and other transaction costs).

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

When investment property is acquired to be exchanged or partly exchanged for a dissimilar investment property or other asset, the cost of such item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents paid additional. For the purpose hereof, "fair value" shall be determined by the council with due regard to the definition ascribed to fair value.

After initial recognition investment property will be measured at fair value. A gain or loss arising from a change in fair value shall be recognized as a profit or loss in the Statement of Financial Performance in the period in which it arises. The fair value of investment property shall reflect market conditions at reporting date.

### **AFS states cost model**

In terms of GRAP 16 transfers to and from investment property shall be made when there is a change in use:

- (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; or
- (d) Commencement of an operating lease to another party, for a transfer from inventories to investment property.

When an investment property is transferred to inventory or owner-occupied property, the property's deemed cost is the fair value of the property at the date of the change in use.

For a transfer from inventories to investment property, that will be carried at fair value, any difference between the fair value of the property at that date and its

previous carrying amount shall be recognized in the Statement of Financial Performance.

### **Reinstatement, Maintenance and Other Expenses**

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

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

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

### **Intangible Assets**

Assets that meet the criteria of **GRAP 102** (Intangible Assets) shall be recognized as Intangible Assets at cost.

### **Heritage Assets**

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 Statement of Financial Position purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

### **Donated Assets**

Where an asset is donated to the municipality, or an 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 asset register at its fair value, as determined by the Chief Financial Officer.

## **12. DEPRECIATION**

### **Depreciation of PPE**

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

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

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

However, depreciation shall initially be calculated from the day following the day in which an item of PPE is acquired or – in the case of construction works and plant and machinery – the day following the day in which the item is brought into use, until the end of the year concerned. Thereafter, depreciation charges shall be calculated annually.

Each senior manager/director, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable PPE controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

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

#### **Rate of Depreciation and Amortisation**

The Chief Financial Officer shall assign a useful operating life to each depreciable item of PPE recorded on the Municipality's asset register. In determining such a useful life the Chief Financial Officer shall use to the useful lives set out in the annexure to this document as a guideline.

In the case of an item of PPE which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Senior managers/directors/HOD who shall control or use the item in question, and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.

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

#### **Method of Depreciation**

The Chief Financial Officer shall allocate the depreciable amount of all depreciable PPE and intangible on a systematic basis over its useful life.

The residual value and useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimate in accordance with GRAP 3.

### **13. AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF PPE**

Only the Chief Financial Officer may amend the useful operating life assigned to any PPE, and when any material amendment occurs the Chief Financial Officer shall inform the Council of such amendment.

The Chief Financial Officer shall amend the useful operating life assigned to any item of PPE if it becomes known that such item 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 item's economic benefits or service potential will be consumed.

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

Similarly, if an item of PPE 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 item has physically ceased to exist, it shall be written off in the asset register.

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

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

Additional depreciation not budgeted for as a result of unforeseeable or unavoidable circumstances must be provided for in an adjustments budget and, if such circumstances arises close to the end of the financial year and there will not be time for Council to consider the adjustments before the end of the financial year, may in advance be approved by the Mayor in terms of Section 29 of the MFMA, provided that any other provisions of the MFMA be complied with.

#### **14. IMPAIRMENT OF ASSETS**

The accounting treatment relating to impairment losses is outlined in the [form IAS36](#).

The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order 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. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to the Revaluation Reserve.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to the recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification works is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of the recoverable amount.

#### Align with GRAP 21 and 26

The following may be indicators that an asset is impaired:

- The asset has been damaged.
- The asset has become technologically obsolete.
- The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
- Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.

The following steps will have to be performed regularly during the year to account for impairment losses:

- Departments will identify and inform the Chief Financial Officer of assets that:
  - Are in a state of damage at year end.
  - Are technologically obsolete at year end. .
  - Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
  - Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts.
- The recoverable amounts of these assets need to be determined by calculating the net selling price per asset as defined above.
- The impairment loss per asset is the difference between the net selling price and the carrying value of the asset.
- The impairment loss needs to be accounted for by identifying the relevant funding source.

## 15. REVALUATION OF ITEMS OF PPE

### Land and buildings are on cost model in the AFS

All land and buildings recorded in the Municipality's asset register shall be revalued when the Council is of the opinion that economic conditions have had a substantial impact on the value of land and buildings within the municipal area. Under such circumstances a sworn valuer will be appointed to perform a valuation of all land and buildings.

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

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

The buildings concerned shall 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 buildings in question.

The Chief Financial Officer shall ensure that an amount equal to the difference between the new (enhanced) annual depreciation expense and the depreciation expenses determined in respect of such buildings before the revaluation in question is transferred each year from the revaluation reserve to the Municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

If the amount recorded by the valuer is less than the carrying value of the item of land or buildings recorded in the asset register, the Chief Financial Officer shall adjust the carrying value of such item by increasing the accumulated depreciation of the item in question by an amount sufficient to adjust the carrying value to the value as recorded by the valuer. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such item, 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 item of land or building in question

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

## **16. ACQUISITION OF ASSETS**

### **Pre-acquisition Planning**

Before a capital project is included in the budget for approval, the Chief Financial Officer must demonstrate that he/she has considered the following:

- The projected cost over all the financial years until the project is operational;
- The future operational costs and revenue on the project, including the 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 that asset through all stages of its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;

- The inclusion of the capital project in the Integrated Development Plan and future budgets; and
- Alternatives to the capital purchase.

The heads of department are accountable to ensure that the Chief Financial Officer receives all reasonable assistance, guidance and explanation to enable him to achieve his planning requirements.

### **Approval to Acquire Property, Plant and Equipment**

Money can only be spent on a project if:

- The money has been appropriated in an approved 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 beyond two years after the budget year is appropriately disclosed.
- The Supply Chain Management Policy is adhered to.

Authorization for the acquisition of assets should be as per this municipality's delegation of authority and payment for assets shall be in accordance with financial policies and regulations of this Municipality.

### **Funding of Capital Projects**

Within the Municipality's ongoing financial, legislative or administrative capacity, the Chief Financial Officer must establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the Integrated Development Plan. The acquisition of assets may not be funded over a period longer than the useful life of that asset.

## **17. PURCHASE OR HIRE OF IMMOVABLE PROPERTY**

The municipality may acquire by purchase, or by hire, immovable property within- or outside the municipal boundary provided it complies with the requirements of the MFMA and the Supply Chain Management policy and subject to the following:

- The cost of the purchase or hire had been budgeted for; and
- The intention to buy or hire the immovable property had been advertised for public comment.
- After consideration of any public comments/objections the Council will:
  - In the case of the following paragraph complies with the requirements of that paragraph; and
  - In the case of all other immovable property, finally resolve to continue with the purchase or hire and apply the supply chain management processes
- The Council will not continue with the purchase or hire of any immovable property where:

- The price is in excess of the market value thereof as assessed by an appraiser; or
- The rental which, when calculated per annum in the case of:
  - Immovable property hired for agricultural purposes, exceeds six percent; and
  - Immovable property hired for any other purpose, exceed twelve percent of the market value of the property, as assessed by an appraiser.

The Council may accept a gift or conveyance of immovable property either for the municipality or in trust for charitable or other public purposes not connected with public worship, and hold the same in such trust or for such purpose as may be declared by such donors and may administer, utilize and improve such property.

The trustees of any immovable property held in trust for any township village or settlement which has become a municipality or part of a municipality may transfer such property to the Council, subject to any special trusts in their deeds of title and upon conditions not at variance therewith.

## **18. GUIDELINE PROCEDURES FOR ADDITIONS TO ASSETS**

The Asset Manager must ensure all additions to assets are in accordance with an approved Capital Budget. Additions must be updated on a monthly basis in the Municipality's Asset Register. All additions must be approved by the Chief Financial Officer.

## **19. FUNDING OF PPE AND RESERVES**

The purchase of assets may be funded from the raising of external loans, leases, government- and public contributions, the Capital Replacement Reserve and surplus cash.

The Chief Financial Officer shall ensure that in respect of all assets financed from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Municipality, a government grants reserve or public contribution reserve for future depreciation is created equal in value to the capitalised value of each item of asset in question.

The Chief Financial Officer shall thereafter ensure that in the case of depreciable PPE an amount equal to the annual depreciation expenses of the items concerned are transferred each year from such reserve to the Municipality's accumulated surplus.

## **20. ALIENATION OF ASSETS**

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any item of PPE shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy and the Municipal Asset Transfer Regulations



Every senior manager/director shall report in writing to the Chief Financial Officer on 30 April of each financial year on all assets controlled or used by the department concerned which such senior manager/director wishes to alienate by public auction or public tender.

The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

The council shall ensure that the alienation of any asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2003.

In terms of Section 14 of the Municipal Finance Management Act, 2003 the Municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of assets needed to provide the minimum level of basic municipal services.

The Municipality may transfer ownership or otherwise dispose of assets other than one contemplated above, but only after the Council, in a meeting open to the public:-

- has 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 item and the economic and community value to be received in exchange for the asset.

The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be subsequently reversed by the Municipality after that asset has been sold, transferred or otherwise disposed of.

Once the assets are alienated, the Chief Financial Officer shall treat the disposal of the items in terms of GRAP and amend the relevant records of the asset register. If the proceeds of the alienation are less than the carrying value recorded in the 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 alienation, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain in the Statement of Financial Performance of the department or vote concerned.

All gains realised on the alienation of assets shall be appropriated annually to the municipality's Capital Replacement Reserve (except in the cases outlined below), and all losses on the alienation 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 alienation of the assets of any department or vote, only the net gain (if any) on the alienation of such assets shall be appropriated to the Capital Replacement Reserve.

Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the Municipal Asset Transfer Regulations.

## **21. GUIDELINE PROCEDURES FOR THE DISPOSAL OF ASSETS**

The Director must submit a motivation for the disposal of an asset under his/her control to the Chief Financial Officer.

The Chief Financial Officer must authorize, by signature the motivation and submit the motivation to the Accounting Officer for his/her approval.

Before computer equipment is disposed the Chief Financial Officer must consult the IT section.

All combined motivations must be submitted to the Asset Clerk to update the asset register of the municipality and the book of accounts regarding the sale.

The following information should be updated in the asset register:

- Reason for disposal.
- Information relating to the buyer.
- Individual requesting disposal.
- Cost, book value and proposed selling price of the asset.
- Date of sale.
- Method of payment.
- Receipt number; and
- The relevant asset information

### Asset Disposal Committee

To enhance control over the disposal of assets, a two-tier asset disposal committee structure be formed as follows:

Assets with carrying amount up to R20 000,00

This committee should comprise of the following members:

- relevant departmental director or divisional head;
- departmental asset champion of relevant department; at least two (2) of the following:
- assistant director financial statements and assets;
- accountant asset management; and

- chief clerk assets.

Assets with carrying amount exceeding R20 000,00

This committee should comprise of the following members:

- relevant executive director.
- executive director financial services.
- at least one (1) member of the relevant department.
- at least one (1) member from directorate financial services;  
and
- asset champion of relevant department.

Responsibilities of Asset Disposal Committee:

- ensure that the items identified to be written off, are indeed redundant and/or obsolete.
- ensure that the written off items are stored safely and separately from assets in use.
- ensure proper control over such items at the date of delivery to the auction storage room.
- ensure proper record keeping takes place to transfer the assets to the auction storage room.
- prepare item to council to write off the items; and timeously resolve any other issues which might result in discrepancies during the disposal process.

## **22. OTHER WRITE-OFFS OF PPE**

An item of PPE, even though fully depreciated, shall be written off when it can no longer be used, in consultation with the senior manager/director controlling or using the item concerned.

Every Senior Manager/Director shall report to the Chief Financial Officer on 31 October and 30 April of each financial year on any item of PPE which such Senior Manager/Director wishes to have written off, stating in full the reason for such recommendation.

The Chief Financial Officer shall consolidate all such reports, and shall promptly notify the Council on the PPE to be written off.

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

If an item of PPE must be written off as a result of an occurrence out of the control of the municipality, such as malicious damage, theft or destruction, the municipal manager must determine whether a third party or an employee was involved in the loss and take all reasonable steps to recover such loss, including reporting the incident to the South African Police Services and the Auditor General, the insurance as well as institute disciplinary steps against any employee who might have been involved in such incident.

In every instance where a not fully depreciated item of PPE 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 item concerned.

## **23. MANAGEMENT AND OPERATION OF ASSETS**

### **Accountability to manage assets**

Each Senior Manager/Director is accountable to ensure that Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This will include:

- Developing appropriate management systems, procedures, processes and controls for managing assets;
- Providing accurate, reliable and up to date account of assets under their control; and
- The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the Municipality's strategic objectives.

### **Contents of a strategic management plan**

Senior managers/directors/HOD need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Senior Manager/Director will need to develop strategic asset management plans that cover:-

- Alignment with the Integrated Development Plan;
- Operational guidelines;
- Performance monitoring;
- Maintenance programs;
- Renewal, refurbishment and replacement plans;
- Disposal and Rehabilitation plans;
- Operational, financial and capital support requirements, and
- Risk mitigation plans including insurance strategies

The operational budgets are the short to medium term plan for implementing this strategic asset management plan.

### **Reporting of Emerging Issues**

Each Senior Manager/Director should report to the Municipal Manager on issues that will significantly impede the item of asset capabilities to provide the required level of service or economic benefit.

### **Verification of Assets**

The Municipality shall at least once during every financial year undertake on a date as determined by the Chief Financial Officer a comprehensive verification of all moveable assets controlled or used by all the departments of the Municipality.

Every Senior Manager/Director 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 verification, provided that each such item of asset verification shall be undertaken and completed during 30 June 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.

### **Movement of Assets**

Every Senior Manager/Director shall promptly and fully report in writing to the Chief Financial Officer, in the format determined by the Chief Financial Officer, all transfers from its original location of assets (including minor assets items) within 5 working days after transfer of such item.

## **24. MAINTENANCE**

### **Maintenance Plans**

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

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

The Senior Manager/Director/HOD controlling or using the infrastructure asset in question, shall annually report to the Council, not later than in July or the earliest Council meeting thereafter, 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 item concerned.

### **Deferred Maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the annual financial statements. Such note shall also indicate any plans which the

Council has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Senior manager/Director controlling or using such item, and shall recalculate the increased annual depreciation expenses accordingly.

### **General Maintenance of Assets**

Every Senior Manager/Director shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such item attain their useful operating lives.

## **25. REPLACEMENT STRATEGY**

The Municipal Manager, in consultation with the Chief Financial Officer and other senior manager/director, shall formulate norms and standards for the replacement of all normal operational assets. Such norms and standards shall be incorporated in a formal strategy, which shall be submitted to the Council for approval. This strategy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items.

Such strategy shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain.

## **26. TRANSFER OF ASSETS**

When assets are transferred to other Government Departments or municipalities, a document with specific authorization should be attached to the asset to ensure the validity of the transfer.

The document should also include:

- Asset description;
- Cost of the asset;
- Date of acquisition;
- Unique asset number;
- Effective date of transfer;
- Quantity; and
- Authorization by both transferor and transferee.

The asset manager must then effect the transactions in the book of accounts of the municipality on the day the asset is transferred to the transferee.

## **27. PHYSICAL SECURITY OF ASSETS**

Every Senior Manager/Director shall be directly responsible for the physical safekeeping of any asset controlled or used by their department.

In exercising this responsibility, every Senior Manager/Director shall adhere to directives issued by the Chief Financial Officer with regard to the control and safekeeping of the municipality's assets.

All assets should be kept in a secure location, maintained regularly, insured against theft or destruction, utilized economically and efficiently.

When it is suspect that an employee abuses assets, this fact should be reported to the Chief Financial Officer within 48 hours. Such an employee should be subject to the disciplinary procedures as described in terms of the Standard Conditions of Service.

All items of Property, Plant and Equipment lost, stolen or damaged must be reported to the Chief Financial Officer within 48 hours after discovery for further investigation and reporting required by the Municipal Finance Management Act No. 56 of 2003.

## **28. INSURANCE OF ASSETS**

The Accounting Officer must ensure that all movable assets are insured at least against fire and theft, and municipal buildings and infrastructure are insured at least against fire and allied perils.

The Accounting Officer shall recommend, after consultation with the Chief Financial Officer, the basis of insurance cover to be applied: either the carrying value or the replacement value of the assets. Such a recommendation shall take due cognizance of the budgetary resources of the municipality.

Any theft, loss or damage to an asset should immediately be reported to council's insurance brokers by the relevant senior manager/director under whose responsibility the asset falls. A copy of the insurance claim submitted should be forwarded to the Chief Financial Officer. All insurance claims must be recorded in an insurance register and all outstanding insurance claims reported on a monthly basis to the Chief Financial Officer. It is the responsibility of the relevant head of department to ensure that all documents / information for the completion of the claim is forwarded to council's insurance brokers and that copies thereof is forwarded to the Chief Financial Officer. The senior manager/director should in writing request the replacement of the asset which can only be authorized, if sufficient provision for the replacement of the asset is on the capital budget, by the Municipal Manager after consultation with the Chief Financial Officer. If sufficient provision is not on the capital budget the asset can only be replaced if provision for the replacement is made on an Adjustments budget. In the case where an asset must be replaced as an emergency measure, the Mayor may authorise such expenditure, subject to compliance with Section 29 of the MFMA.

Third-party (insurance) pay-outs must be treated as revenue when the amount is certain and may not be offset against the cost of replacing the item. The carrying value of items lost, stolen or damaged beyond repair must be treated as impairment against the relevant department or vote. The full cost of the replacement item must then be capitalised.

If the municipality operates a self-insurance reserve, the Chief Financial Officer shall annually determine the premiums payable by the departments or votes after having received a list of the assets and insurable values of all relevant assets from the heads of departments concerned.

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 asset: either the carrying value or the replacement value of the assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

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.

## **29. ASSET MANAGEMENT PLANS/STRATEGY**

29.1 Every Functional Head shall be directly responsible for ensuring that all assets (other than infrastructure assets) are properly maintained and in a manner, which will ensure that such assets attain their useful operating lives.

### **29.2 DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT**

29.2.1 When an item of property plant and equipment is disposed the asset will be removed from the balance sheet.

29.2.2 Profit and losses from the disposal of an item of property, plant and equipment will be calculated as the actual net disposal proceeds and the carrying amount of the assets on disposal date.

29.2.3 The following procedures must be followed when an item of property, plant and equipment, is sold complete a pre-numbered disposal form (obtained from the Chief Financial Officer) in duplicate, stating the following details regarding the asset being sold:

- A. The asset number attached to the asset,
- B. The description of the asset,
- C. The physical location of the asset,
- D. The cost center under which the asset was utilized,
- E. The name of the department selling the asset,
- F. A short reason why the asset is being sold,
- G. The purchase price and purchase date of the asset,
- H. The book value of the asset,
- I. The selling price of the asset,
- J. The date when the asset was sold,
- K. Approved and dated by the relevant Head of Department. -

29.2.4 Distribute the original disposal form to the Fixed Asset Clerk in the Finance Department once the disposal list is approved by Council.



29.2.5 The finance department must compile a summary of the assets being sold with the following detail:

- a) The asset number,
- b) The asset description,
- c) The purchase date of the asset,
- d) The book value of the asset, and
- e) The reason why the asset is being sold.

29.2.6 Council must approve this summary of the assets, before it is sold on public auction.

29.2.7 The disposing of assets must be done according to the regulations regarding the calling of tenders which stipulates that the municipality may dispose fixed assets.

29.2.8 At a public auction of which notice has been published in the press,

29.2.9 Commonly sold to the public at a charge fixed by law or by resolution of the municipality,

29.2.10 At a uniform price or tariff fixed by law or by resolution of the municipality,

29.2.11 Which have previously been offered for sale at a public auction or in respect of which tenders have previously been invited but which could not be disposed of,

29.2.12 The value of which, as assessed by the municipality, does not exceed four thousand rand, or

29.2.13 Where the sale of such goods or materials is so urgent that it would not be in the interest of the municipality to invite tenders.

### **29.3 SCRAPPING AND RETIREMENT OF PROPERTY, PLANT AND EQUIPMENT**

29.3.1 Property, plant and equipment will be removed from the balance sheet when:

- a) An item of property, plant and equipment is damaged beyond repair, or
- b) For any other reason the item of property, plant and equipment was written off by Council.

29.3.2 Losses arising from the scrapping or retirement of an item of property, plant and equipment will be recognized as an expense in the income statement.

- 29.3.3 These losses are calculated as the difference between the net proceeds for the scrapped or retired asset and the carrying amount of the asset on the date of scrapping or disposal.
- 29.3.4 When an item of property, plant and equipment is withdrawn from use and is to be disposed in the future, the accounting treatment will be as followed:
- a) The asset should be written down to the lower of its carrying amount or its realizable value, and b) This amount of the write-down will be recognized as an expense in the income statement.
- 29.3.5 The following procedures must be followed when an item of property, plant and equipment is scrapped or retired:
- a) Complete a pre-numbered scrapping/retirement form (obtained from the Financial Manager) in duplicate, stating the following details regarding the scrapping or retirement:
    - b) The asset number attached to the asset,
    - c) The description of the asset,
    - d) The physical location of the asset,
    - e) The cost center under which the asset was utilized,
    - f) The name of the department selling the asset,
    - g) A short reason why the asset is being scrapped or retired,
    - h) The purchase price and purchase date of the asset,
    - i) The book value of the asset,
    - j) The estimated scrap value of the asset,
    - k) The date when the asset was scrapped or retired,
    - l) Approved and dated by the relevant Head of Department.
- 29.3.6 Submit the original scrapping/retirement form to the Fixed Asset Clerk in the Finance department for their records of assets to be updated once Council approves the scrapping list.
- 29.3.7 The finance department must compile a summary of the assets being scrapped or retired with the following detail:
- a) The asset number,
  - b) The asset description,
  - c) The purchase date of the asset,
  - d) The book value of the asset,
  - e) The estimated scrap value, and
  - f) The reason why the asset is scrapped or retired.
- 29.3.8 When the total carrying amount of the assets to be scrapped or retired is over R 20 000 it must be approved by the Council, before it is scrapped or retired.
- 29.3.9 When the total carrying amount of the assets to be scrapped or retired is R20 000 or less it must be approved by the Municipal

Manager and the Chief Financial Officer, before it is scrapped or retired.

29.3.10 The disposal of assets will take place on the last working day of June each year.

29.3.11 All departments must notify finance of the assets to be disposed or scrapped before the last working day of May each year.

#### **29.4. CONTROL AND MANAGEMENT OF PROPERTY, PLANT AND EQUIPMENT**

29.4.1 All items of property, plant and equipment must be properly insured against theft and damage.

29.4.2 All items of property, plant and equipment must be properly safeguarded by keeping it in a safe place when it is not in use.

29.4.3 All assets must be clearly marked with a permanent asset number for identification purposes. These unique numbers must also be captured onto the fixed asset register.

29.4.4 The marking process of new items of property, plant and equipment will be done once a month after the suppliers of the new assets is paid.

29.4.5 Each Head of Department is responsible for the items of property, plant and equipment in his/her department and these items will be controlled by way of inventory sheets.

29.4.6 These asset inventory sheets must be updated on a monthly basis with any disposals, additions or scrapings and must be reconciled to the fixed asset register twice per financial year.

29.4.7 The asset register will at least contain the following information:

- a) A unique asset number or registration number or title deed number in respect of property,
- b) The asset category and asset type,
- c) An asset description,
- d) The date of acquisition and/or the date when the asset is disposed of or scrapped,
- e) The location of the asset,
- f) The cost price of the asset or the selling price in respect of assets sold,
- g) The depreciation rate,
- h) The depreciation for the current year,
- i) The accumulated depreciation,
- j) The profit or loss on disposal or scrapping of assets,
- k) The book value of the asset,
- l) The source of finance, and

m) The replacement value.

29.4.8 The asset register must be updated monthly with any additions, disposals and scrapings before the depreciation run for the month can occur.

29.4.9 The Asset Manager or his/her delegated will ensure that the fixed asset general ledger control accounts are reconciled on a monthly basis with the balance of the asset register. The reconciliation must be done by asset type and must be performed on a monthly basis.

29.4.10 The Chief Finance Officer will ensure the correctness of the reconciliation as mentioned above. He must sign the reconciliation's as proof of the verification function performed.

29.4.11 Assets must be disclosed in the municipality's financial statements according to GRAP or any other accounting practice that have an effect on Local Councils.

## **29.5 PHYSICAL VERIFICATION OF PROPERTY, PLANT AND EQUIPMENT**

29.5.1 All items of property, plant and equipment must be physically verified in detail at least once per financial year with spot checks being performed during the year.

Is this feasible? GRAP does not require this, it is however best practice.

29.5.2 After the physical verification process the following items of property, plant and equipment will be identified:

- a) Items of property, plant and equipment that could not be verified,
- b) Items of property, plant and equipment that were capitalised and added to the fixed asset register, but the unique asset number could not be found.
- c) New items of property, plant and equipment that were not numbered and added to the asset register yet, and
- d) Damaged items of property, plant and equipment that should be written off.
- e) When the physical verification process is completed and the issues above are cleared, new lists of property, plant and equipment, per location and department must be handed out to the relevant Head of Departments for control purposes.
- f) Items of property, plant and equipment that could not be found.

29.5.3 These items of property, plant and equipment must be summarised per location and department.

- 29.5.4 These summaries must then be circulated to the relevant Head of Departments for confirmation and written explanations.
- 29.5.5 If the assets could not be found and these assets were not sold an Asset Scraping Form must be completed as described above.
- 29.5.6 The fixed asset register and the general ledger must be updated with any items of property, plant and equipment that could not be found.
- 29.5.7 Items of property, plant and equipment which could not be identified due to a lack of an unique asset number
- Assets in the asset register that is not cleared yet must be reconciled to:
- a) Physical assets identified that meets the description and location as indicated in the asset register, and
  - b) Which had an estimated cost price of more than R2 500.00?
- 29.5.8 When an asset is positively identified, the asset must be clearly numbered with the relevant unique asset number and captured in the asset register.
- 29.5.9 If the asset number could still not be traced in the asset register, a new number must be allocated to the asset.
- 29.5.10 A fair value and useful life must be adopted for these assets and must be captured onto the fixed asset register and general ledger.

## **29.6 NEW ITEMS OF PROPERTY, PLANT AND EQUIPMENT**

- 29.6.1 New items of property, plant and equipment acquired must first be captured in the fixed asset register before asset numbers are allocated to the assets.
- 29.6.2 When updating the fixed asset register with new items of property, plant and equipment the cost price must be obtained from the supporting documentation, for example invoices. VAT must be accounted for correctly.
- 29.6.3 A unique asset number must be allocated to the asset. This number must be captured in the asset register as well as the list of new items, should the number not yet be fixed onto the relevant asset and captured in the fixed asset register.
- 29.6.4 A list of these new items of property, plant and equipment by location must be used during the physical verification process to identify any new assets that still need to be numbered.

29.6.5 The new items of property, plant and equipment must then be permanently numbered with the same number as indicated on the list of new assets.

## **29.7 DAMAGED ITEMS OF PROPERTY, PLANT AND EQUIPMENT IDENTIFIED**

29.7.1 When damaged items of property, plant and equipment are identified during the physical verification process, the condition of these items must be discussed with the Head of Department.

29.7.2 When the items identified are damaged beyond repair and can no longer be used, the following procedures must be followed:

29.7.2.1. The assets must be listed by the physical verification team, and

29.7.2.2. A request for Scrapping/Retirement Asset Form must be completed by the Head of Department that clearly indicates the reasons for the asset being damaged.

29.7.3 Where these items of property, plant and equipment can still be utilised the physical verification team together with the Head of Department must assess such asset's future useful life.

29.7.4 If it is found that due to the damage to these assets, the future useful lives have decreased and are shorter than their current estimated useful lives, the current and the future depreciation charge will be adjusted accordingly.

29.7.5. The fixed asset register and general ledger must be updated for all approved Scrapping/Retirement Asset Forms.

## **29.8 ASSETS HELD UNDER FINANCE LEASES**

29.8.1 Assets held under finance leases will be accounted for as followed:

a) The leased assets will be capitalised in the financial statements of the lessees at the amount stated in the lease agreement, and

GRAP 13 states the lower of fv of pv of lease payments.

b) The asset will be depreciated over the useful life of the asset to the lessee, unless

c) There is no certainty that the lessee will obtain ownership by the end of the lease term whereby the leased asset will then be depreciated over the shorter of the lease term or its useful life.

## **29.9 RESEARCH AND DEVELOPMENT COST**

- 29.1 Research costs will not be recognised as an asset but will be recognised as an expense in the period in which it is incurred.
- 29.2 Development costs of a project will be recognised as an expense in the period in which it is incurred, unless all of the following criteria is met:
- a) The project or process is clearly defined and the costs attributable to the product or process can be separately identified and are reliably measured.
  - b) The technical feasibility of the product or process can be demonstrated.
  - c) The municipality intends to produce and market or use the product or process.
  - d) The existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the municipality can be demonstrated.
  - e) Adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.
- 29.3 Development cost initially recognised as an expense will not be recognised as an asset in a subsequent period.
- 29.4 Development cost recognised, as an asset will not exceed the amount that Council is probable to recover from related future economic benefit or potential service provision, after deducting the following costs:
- a) Further development costs,
  - b) Related production or service delivery costs, and
  - c) Selling and administrative costs directly incurred in marketing the product.

## **2.10 INVESTMENT PROPERTY**

- 29.10.1 An item shall be recognised as investment property if it meets the definition.
- 29.10.2 Investment property is recorded at cost.
- 29.10.3 Disclosable value measured at recognition: a) initially at acquisition cost plus transaction cost, or nominal value b) Where acquired at no cost or nominal value, fair value at acquisition is deemed to be cost for disclosure; c) if held under a lease and classified as Investment Property, is the lower of fair value and the present value of the minimum lease payments
- 29.10.4 Cost value is determined according to the requirements of the GRAP standard on Investment Property.

29.10.5 Assets classified as Investment Property shall be re-defined once such assets usage changes.

**30. APPROVAL OF POLICY AND DATE OF EFFECT**

The Assets Management Policy of Dr Pixley Ka Isaka Seme Local Municipality shall come into force on 1 July 2025.

**M A NGCOBO  
MUNICIPAL MANAGER**

**DATE**



## APPENDIX A

### SCHEDULE OF EXPECTED USEFUL LIVES OF ASSETS

Align with FAR, MFMA guideline, and practice of DPKSLM.

Preferably no ranges

Example – Roads surface, structure, kerbing etc.

	<u>ASSET LIFE</u>		<u>ASSET LIFE</u>
<b>INFRASTRUCTRE ASSETS</b>			
<b>ELECTRICITY:</b>			
Transformer kiosks	30-50		
Meters	20-50		
Load control equipment	20-50		
Switchgear	20-50	<b>SEWERAGE:</b>	
Supply and reticulation networks	20-50	Sewer mains	20-50
Main supply	20-50	Outflow sewers	20-50
		Sewerage purification works	20-50
		Sewerage pumps	15-50
		Sludge machines	15-50
<b>ROADS:</b>			
Motorways	15		
Other roads	10		
Traffic islands	10		
Traffic lights	20		
Street lights	25		
Overhead bridges	30		
Stormwater drains	20		
Bridges, subways and culverts	30	<b>AIRFIELDS:</b>	
Road Structures	50		
Road surface	20		
		Runways	20
<b>WATER</b>			
Meters	15	<b>SECURITY</b>	
Mains	20	Fencing	3
Rights	20	Security systems	5
Supply and reticulation networks	20	Access control systems	5
Reservoirs and storage tanks	20		
<b>COMMUNITY ASSETS</b>		<b>COMMUNITY ASSETS</b>	
<b>RECREATIONAL FACILITIES</b>		<b>BUILDINGS</b>	
Bowling greens	20		
Tennis courts	20		
Swimming pools	20		
Golf courses	20		
Jukskei pitches	20	Cemeteries	30-75
Outdoor sport facilities	20	Community centres	30-75

	20-50	Clinics	30-75
Dams	20-50		
Fountains	20-50	Stadiums	30-75
Flood lights	20-50	Parks and public conveniences	30-75

## SCHEDULE OF EXPECTED USEFUL LIVES OF ASSETS

### **OTHER ASSETS**

#### **BUILDINGS**

Caravan Parks

30-50

Housing schemes

30-50

Office buildings

30-50

Quarries

30-50

Workshops

30-50

#### **OFFICE EQUIPMENT**

Computer hardware

5-10

Computer software

3-5

Office machines

3-5

Air conditioners

5-30

#### **FURNITURE AND FITTINGS**

Chairs

7-10

Tables and desks

7-10

Cabinets and cupboards

7-10

Sundry

7-10

#### **BINS AND CONTAINERS**

Household refuse bins

5-10

Bulk refuse containers

10-30

### **OTHER ASSETS**

#### **EMERGENCY EQUIPMENT**

Other fire fighting equipment

15-50

Fire hoses

5-50

Emergency lights

5-50

#### **MOTOR VEHICLES**

Fire engines

20-50

Water Tanker

20-50

Motor vehicles

5-10

Trucks and light delivery vehicles

5-10

#### **PLANT AND EQUIPMENT**

Graders

10-15

Tractors

10-15

Mechanical horses

10-15

Lawn mowers

2-10

Compressors

5-10

Laboratory equipment

5-10

Radio equipment

5-10

Firearms

5-10

Telecommunication equipment

5-10

General

5-10

Irrigation systems

15-30

Lathes

15-30

Machining equipment

15-30

Conveyors

15-30

Tipplers

15-30

## Classification of Assets List

### Land and Buildings

- Land

- Buildings and Land

### **Infrastructure**

- Asset under Construction – **must be separate by class – roads, water, electricity, sewerage, etc**
- Drains
- Roads and Streets
- Sewerage Mains and Purification
- Electricity Mains
- Electricity Peak Load Equipment and Mains
- Reservoirs – Water
- Water Mains and Purification
- Water Reservoirs
- Water Meters
- Water Mains
- Landfill Sites

### **Community Assets**

- Assets Under Construction
- Farms
- Libraries
- Recreation Facilities
- Civic Buildings

### **Leased Assets**

- Office Equipment (Lease)

### **Other Assets**

- Assets Under Construction
- Furniture Fittings
- Bins and Containers
- Motor Vehicles
- Fire Engines
- Specialised Vehicles
- Refuse Tankers
- Computer Equipment
- Councillors Regalia
- Conservancy Tankers
- Water Crafts

### **Heritage Assets**

### **Investment Properties**

### **Intangible Assets **Software, rights, etc separate****