ELM
Elundini Local Municipality
Nqanqarhu l Ugie l Tlokoeng

ELUNDINI LOCAL MUNICIPALITY
IKAMVA ELIQAQAMBILEYO

30 YEARS OF FREEDOM
South Africa 1994 - 2024

ASSETS MANAGEMENT POLICY

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Contents

1. Introduction

The Elundini Local Municipality (ELM) has made a significant investment in various assets such as land and buildings, infrastructure, fixed and movable equipment such as vehicles, computers and office furniture (Property, Plant and Equipment) 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 Fixed Assets. The purpose of this policy is to therefore ensure that the municipality's fixed 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 fixed 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 Accounting 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 fixed assets 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 Fixed 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 Controller (s)

2. Purpose

The Elundini Local Municipality believes that a Fixed 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 Fixed Asset Management Policy is therefore to ensure that the assets of the Elundini Local Municipality are effectively managed and accounted for by:

- Ensuring the effective and efficient control, utilisation, safeguarding and management of the municipality's property, plant and equipment.
- Ensuring that Senior managers are aware of their responsibilities in regards of all the assets assigned to them.
- Ensuring that Asset Controllers are aware of their responsibilities about the control, utilisation, safekeeping and management of the municipality's property, plant and equipment.
- Setting out standards of physical management, recording and internal controls to ensure property, plant and equipment controls against inappropriate loss or utilisation.
- Ensuring adequate insurance of all municipal assets.
- Specifying the process required before expenditure on property, plant and equipment occurs.
- Emphasising a culture of accountability over assets by all municipal officials; and
- Ensuring compliance with all legal and accounting prescriptions and requirements.
- To prescribe the accounting treatment for assets, including:
    - The criteria to be met before expenditure can be capitalised as an item of assets,
    - The criteria for determining the initial cost of the different items of assets,
    - The method of calculating depreciation for different items of assets,
    - The criteria for capitalising subsequent expenditure on assets,
    - The policy for scrapping and disposal of assets,

- The classification of assets.

- To ensure that municipal assets are managed in a way that responds to the climate change impacts that may:
  - Amplify the risk of asset failure and reduce the asset service life through added or compounding stress on existing infrastructure or cascading impacts on other infrastructure system.
  - Reduce the level of service existing infrastructure system can provide
  - Increase the cost of managing risk and delivering the same level of service.

3. Applicable to

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

4. Definitions

Terminology	Definition
Accounting Standards Board	Board that 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

Terminology	Definition
	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	There are four main asset categories in line with GRAP 17. These are:
Infrastructure assets	Are defined as any asset that is part of a system or 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. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.
Heritage assets	Are defined as culturally significant resources such as historical buildings and statues.
Community assets	Are defined as any asset that contributes to the community's wellbeing, egg. parks, libraries and fire stations
Other assets	Are defined as assets utilised in normal operation, egg. plant and equipment, motor vehicles and furniture and fittings
Capitalisation	Is the recognition of expenditure as an Asset or Inventory item in the Fixed Asset Register.

Terminology	Definition
Carrying amount	is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
CFO	Chief Financial Officer
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.
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).
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 or liability settled between knowledgeable willing parties in an arm's length transaction
ELM	Elundini Local Municipality
Fixed Assets	an asset, either movable or immovable, owned by or under the control of the municipality, and from which the municipality reasonably expects to derive

Terminology	Definition
	economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year, which cost or fair value can be measured reliably. Fixed assets will include Property, Plant and Equipment (as defined in GRAP 17), Intangible Assets (as defined in GRAP 102), Investment Property (as defined in GRAP 16), Heritage Assets (as defined in GRAP 103), as well as Assets held under a finance lease, in accordance with the principles contained in GRAP 13.
Fixed asset register	Is the controlled register recording the financial and other key details for all municipal assets recognised in accordance with this policy
GRAP	Generally Recognised Accounting Practice
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.
Investment Properties	Are properties that are acquired for economic and capital gains. Examples are leased office buildings and underdeveloped land acquired for the purpose of resale in future years.
PPE - Property, plant and equipment	Are tangible assets that: (a) Are held by a municipality for use in the production of goods and services, for administrative purposes, and (b) Are expected to be used during more than one period
Recognition	Is the process by which expenditure is included in the Fixed Asset Register

Terminology	Definition
	as an asset. is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely: o It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and o The item has a cost or value that 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
Refurbishment/Maintenance	to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.
Residual value	Is the estimated amount that an entity would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life
Remaining Useful Life	Is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.
Senior manager	Is a manager referred to in section 56 of the municipal systems act being someone reporting directly to the municipal manager.
Stewardship	Is the act of taking care of and managing property, plant or equipment on behalf of others

Terminology	Definition
Useful life	a) the period over which an asset is expected to be available for use by an entity, or the period over which an asset is expected to be available for use by an entity, or b) the number of production or similar units expected to be obtained from the asset by an entity.

5. Statutory and Regulatory Framework

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

- Supply Chain Management Policy
- Delegations of authority
- Payment Policy
- Fleet Management Policy
- Insurance Policy
- Security Policy
- Property portfolio management
- Asset Maintenance Policy

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
- National Treasury Regulations, March 2005
- National Treasury Local Government Capital Asset Management Guideline, 2008

Also, this policy must comply with Generally Recognised Accounting Practice (GRAP) standards as prescribed and specified by the Accounting Standards Board

This policy is regularly reviewed and 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 of the Council.

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. The Chief Financial Officer will provide guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation or regulations.

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 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 responsible to the Municipal Manager to ensure that the financial investment in the municipality's assets is safeguarded and maintained. The CFO shall be the custodian of the fixed asset register of the Municipality.

The Chief Financial Officer must ensure that:

- Appropriate systems of financial management and internal controls are implemented and adhered to 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 municipal manager is appropriated advised on the exercise of powers and duties pertaining to the financial administration of assets;
- 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 Manager Infrastructure Planning and Development (**also referred to as **HOD: IP&D**) relating to asset management.

- Shall ensure that a maintenance policy is approved and properly implemented.
- Shall develop a maintenance plan for the infrastructure assets for their section.
- Shall ensure that their departments had implemented operational procedures for an example, operators and drivers must have necessary qualification and valid driver's license, only personnel for electricity department are allowed to the electricity sub stations etc.
- Shall ensure that assets are properly maintained in accordance with the maintenance policy.

- Shall ensure that the assets of the council are not used for private gain.
- Shall ensure that all their movable assets as reflected on the Fixed Asset Register and are bar coded where possible.
- Shall ensure that the Asset Management Section is notified of any changes in the status of the assets under the department's control.
- Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Section without delay.
- Shall assist during the annual physical verification of infrastructure assets including the land and building.
- Shall develop an infrastructure assets management plan for their department such as Roads and storm water, Water supply, Sanitation, Solid waste, electricity supply, Properties and community facilities.

"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, 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 Controller.

The **Manager: Assets & Insurance / Asset Controller** 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;
- Complete asset registers are kept, verified and balanced regularly.
- All movable assets are properly bar coded and accounted for.
- Shall conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the Departments asset sign offs.
- The Fixed Asset Register is balanced annually with the general ledger and the financial statements.
- The relevant information relating to the calculation of depreciation is obtained from the departments and provided to the budget and reporting department in the prescribed format.
- Asset acquisitions are allocated to the correct asset code.

- Inventory lists are verified and kept current in collaboration with the Finance Department
- Identify obsolete and redundant assets once per financial year, compile a report and obtain the necessary approval for the disposal thereof.
- Before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset management Section, is presented.
- A verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments.
- A list of the items to be disposed is compiled in accordance with the MFMA (Section 14&90) and Supply Chain Management regulations.
- A list of unused movable assets is compiled and circulated to enable other departments to obtain items that are of use to them.
- The SCM unit is notified of any auctioning or disposing of written-off asset or asset inventory item
- An infrastructure assets management plan is developed for the department such as Roads and storm water, Water supply, Sanitation, Solid waste, electricity supply, Properties and community facilities.
- Assets are unbundled or componentized and assign estimated useful life to each component of all completed projects during the financial year and submit the componentized list to the office of the CFO for updating the asset register.
- They sign and date declarations stating that the list of componentized assets for his/her department is complete & accurate except for the discrepancies as reported to the office of the CFO.
- 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;

ALL Council employees

- Shall ensure that assets assigned to them are utilized effectively, efficiently, economically and transparently.
- Shall ensure that the assets of the council are not used for private gain

- Shall notify the assets coordinators and assets management section of all obsolete, damaged and stolen assets, without delay.
- Shall physical verify all assets under their possession and report to the result of the verification to the assets management unit at year end.
- Shall ensure that all assets under their possession are properly bar-coded.
- Shall ensure that on termination of service they returned the assets to their supervisors and complete a termination assets clearance form.
- Shall notify the asset coordinators and assets management unit of the movement and transfer of assets assigned to them by completing an assets transfer form.
- Shall ensure that they comply with the operational procedures.

Disposal Committee:

The roles of Disposal Committee shall be to:

- Make recommendations regarding the disposal of assets
- Report on surpluses, deficiencies, redundant, damaged or unserviceable assets.
- Determine the causes of the above abnormal situations.
- Determine whether loss control procedures have been followed in respect of loss, damages, error, negligence, fraud and theft.
- Determine the disposal method of the assets.

7. Financial Management

7.1 Pre-acquisition Planning

Before a capital project is included in the municipal budget for approval, the senior manager of the relevant municipality 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 subsidization 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 Manager Assets& Insurance / Asset Controllers 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.

7.4 Disposal of assets

- The Accounting Officer must appoint a Disposal Committee whose main function of disposal will be to make recommendations regarding disposal of assets.
- The Disposal Committee shall constitute of at least one member per each directorate, including the asset management section representative.
- The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipality services.
- The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the council has endorsed the disposal of such assets.
- 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 asset and the economic and community value to be received in exchange for the asset.
- The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset been sold, transferred or otherwise disposed of.
- The municipal manager may approve the disposal of an item of assets as delegated by the municipal council. The delegations to approve contracts for the disposal an item of assets is stated in the Preferential Procurement Policy.
- The disposal an item of assets must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management.
- Transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions.

7.5 Procedure in case of loss, theft, destruction, or impairment of assets

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

8. Fixed Asset Register Management

8.1 Establishment and management of the FAR

- The Chief Financial Officer will establish and maintain the Fixed Asset Register (FAR) containing key financial data on each item of Fixed Assets that satisfies the criterion for recognition;
- The Manager Assets & Insurance / Asset Controller 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 Manager Assets & Insurance / Asset Controller 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) 8-digit number, eg. 00000001
- ✓ Brief but meaningful description of the asset as per naming convention
- ✓ Physical location (bar code) 8-digit number, eg. 10000001
- ✓ Responsible asset user (room occupant)
- ✓ Date of acquisition
- ✓ 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
- ✓ Source of finance

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.
- operating budget

9. Operations and Maintenance

9.1 Physical receipting and management

- The manager assets / asset controller 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 Controller.
- The date of acquisition of property, plant and equipment 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 property, plant and equipment 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.

- 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;
- A Purchase Order is to be completed and signed by the HoD, Manager or the Order and the CFO;
- Once the asset is received the Asset Additions Form is completed and signed by Stores Controller;
- 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

9.3 Asset take-on (existing assets)

The manager assets/ asset Controller 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 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 Controller signs on the occupant's behalf)
- The scanners are then linked to the Asset Controller's computer and all the scanned items are uploaded into the Financial System (Assets Module).

- 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 manager assets / Asset Controller retains managerial accountability and control for a particular asset unless:

- Another Senior manager agrees in writing to accept responsibility for that asset in accordance with financial limits as laid down in the Delegation of Authority
- The CFO appropriately amends the Financial Asset register for all approved transfers, where after such physical transfers are permitted to take place.

9.5 Management of individual inventory items

Assets with a lifespan likely to be less than 12 months are deemed to be individual inventory items, unless that type of asset is specifically included or excluded by the Chief Financial Officer depending on the type. The requirements to manage individual inventory items include:

- Receipting these items through specified control points;
- Maintaining and updating an individual inventory register for these receipts;
- Delivery and assignment of an inventory item to a specified position;
- Regular stock takes by the Asset Controller to ensure that the individual inventory items are being appropriately safeguarded;
- Regular audits by the finance department to ensure individual inventory items are being appropriately managed by the assigned persons;
- Recording and reporting of any disposal or loss of these inventory items to the CFO and adjustment of the Inventory items register.

Individual Inventory items:

- Will be capitalized as an asset
- Will not be depreciated
- Will not be re-valued
- Will not be impaired
- Will not be recorded in the Fixed Asset Register
- Will be treated as an asset.

9.6 Measurement after recognition

Subsequent to initial recognition inventory will be calculated on the FIFO basis.

The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced.

9.7 Re-instatement of assets

- Deleted assets or assets retired in error can be re-instated into the FAR only by the Asset Manager upon confirmation by CFO.

9.8 Re-allocation or re-assignment of assets

- The Asset Controller 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.
- Assets movements across locations are subject to approval by the Assets office upon submission of an asset movement form by the applicant office/department. It is the objective of the municipality to fully maximise use of its assets and guard against idling assets.

9.9 Disposal / retirement of assets

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

- Every head of department shall report in writing to the Chief Financial Officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Municipal Manager, indicating the process of alienation to be adopted in accordance with the municipality's supply chain management policy.
- The municipal manager may approve the disposal of an item of movable asset with a value not exceeding R50,000.00 (fifty thousand rand) as delegated by the municipal Council. The municipal manager may approve the write-off of all assets prematurely (including those assets classified as un-used).
- Immovable property may be disposed of at the market related prices except when the public interest or the plight of the poor demands otherwise.
- 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. Such 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.
- **NB:** Assets disposed in the Assets Register are to also be disposed in the Geographic Information Systems (GIS) where the Geographic Information system is in use.
- 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 (approved by council) or when the asset is no longer in 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

9.10 Method of valuation

- Existing Fixed Assets: The method of determining the values of exiting 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.
- New Fixed Assets: These assets are recognized at cost.

9.11 Financial disclosure

The financial statements should disclose, in respect of each class of property, plant and equipment 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.

9.12 Recommended asset lifespan

- A separate annexure will detail the recommended useful lives per asset class. This will be reviewed from time to time in line with Accounting Standards.

9.13 Carrying amount on property, plant and equipment

- Subsequent to initial recognition as an asset, fixed assets should be carried at cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount or any subsequent revaluation.

9.14 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:

External sources of information

a) The 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 future, in the extent to which, or way 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.

9.15 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) 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).

  (d) Heritage assets (see the Standard of GRAP on *Heritage Assets*).

  A Municipality shall not use deemed cost for other assets or for liabilities.

Except for (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.

9.16 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. 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.

9.17 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 be recognised at cost model, i.e. will be held at cost less any accumulated depreciation and accumulated impairment losses.

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 Controller 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, egg. computer systems, or security camera system.
- A network asset should be recognised as an asset on the asset register.

- The Asset Controller is accountable for the management of the registers required to financially verify the value of a network asset.

9.18 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 if the fair value is greater than the asset threshold.

9.19 Monthly Asset Reconciliation

- The monthly asset reconciliation entails the comparison of the electronic asset register to the general ledger for that particular period;
- The difference between these two reports should be investigated and corrected;
- 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.

9.20 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 Controller should then retire the asset from the fixed asset register.

9.21 Missing and broken assets

- The Asset Controller must compile a list of all broken and missing assets after thorough investigation following the conditional assessment.
- The CFO should verify the list and submit a motivation to Municipal Manager for write-off.
- The Asset Controller must then retire the asset.

9.22 Insurance of Assets and Personnel

- The accounting officer shall ensure that all assets are insured at least against fire and theft, and all municipal buildings are insured at least against fire and allied perils; in accordance with the amount reflected in the fixed asset register.

- The Chief Financial Officer shall determine the insured value based on recommendations of the responsible senior manager. The insured value to be applied is current replacement cost (CRC) except for motor vehicles.
- The Chief Financial Officer shall annually determine the premiums payable by departments in respect of the assets under their control.
- A municipality must take out risk insurance cover, to provide for an insurance cover, provided to a councillor by the municipality, which covers the loss of or damage to a councillor's personal immovable or moveable property and assets, excluding property used by such councillor for business purposes, as well as life and disability cover, for any loss or damage caused by riot, civil unrest, strike or public disorder. The special risk insurance on residential property will be limited to R1, 5 million while on vehicles it is limited to R750 000. The life and disability insurance cover is limited to 2 times the total remuneration package of a councillor
- A municipality may take out risk insurance cover, to provide for an insurance cover, provided to a Municipal Staff by the municipality The life and disability insurance cover is limited R150 000.00.
- The accounting officer shall recommend to the council, after consulting with the chief financial officer, the basis of the insurance to be applied to each type of assets:- either the carrying value or the replacement value of the item 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 on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve;
- It shall be the duty of a head of department to notify the Chief financial officer without delay of any new insurable risk or any alteration in an existing insurable risk which has arisen in connection with his or her department
- On occurrence of any event giving rise or likely to give rise to a claim by or against the council or against insurers, the head of department concerned shall notify the chief financial officer of the event who shall immediately inform the council`s insurer thereof.
- All claims processed shall be reported to council for noting on a quarterly basis.

9.23 Conditional Assessment

Key principles of asset management are that conditional assessments are done on specific assets more frequently than others, based on an entity's risk assessment of its assets.

Movable Assets

With the assets bar-coded, conditional assessment is performed regularly.

- Rooms or locations are bar coded as described above, the conditional assessment 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 previous conditional assessment reports.
- The following management reports will then be generated:

  - ✓ Assets conditionally assessed in the correct room or location
  - ✓ Assets not conditionally assessed.
  - ✓ Missing assets
  - ✓ Assets in the incorrect room or location

- These reports will enable the municipality to take corrective measures.

Infrastructure Assets (Land, Buildings, Roads, Electricity etc)

Conditional Assessment is conducted regularly based on the municipality's risk assessment.

- Mapping data with Erven Numbers shall be used for Land conditional assessment.
- Mapping Data with Erven Numbers and Building Names for Buildings conditional assessment.
- Mapping data, shapefiles etc may be used for conditional assessment of infrastructure assets (Roads & Electricity Assets).
- After all the locations have been verified, the data is downloaded and electronically compared with the database as per the original installation or previous conditional assessment reports.
- The following management reports will then be generated:
  - ✓ Assets conditionally assessed in the correct location
  - ✓ Assets not conditionally assessed.
  - ✓ Missing assets
  - ✓ Assets in the incorrect location
- The reports will enable the municipality to detect and remedy problematic areas.

9.24 MAINTENANCE PLANS

Every head of department shall ensure that a maintenance/rehabilitation plan in respect of every new infrastructure asset with a value of R200 000 (two hundred thousand rand) or more is prepared and submitted to the Municipal Manager for approval.

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

The head of department controlling or using the infrastructure asset in question, shall annually report to the Council, not later than 31st of July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned, and if the asset was impaired to any extent.

9.25 DEFERRED MAINTENANCE

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 16 above), the Chief Financial Officer shall investigate the extent of and possible implications of such deferred maintenance, as well as any proposed by the applicable head of department in order to redress such deferral of the maintenance requirements concerned.

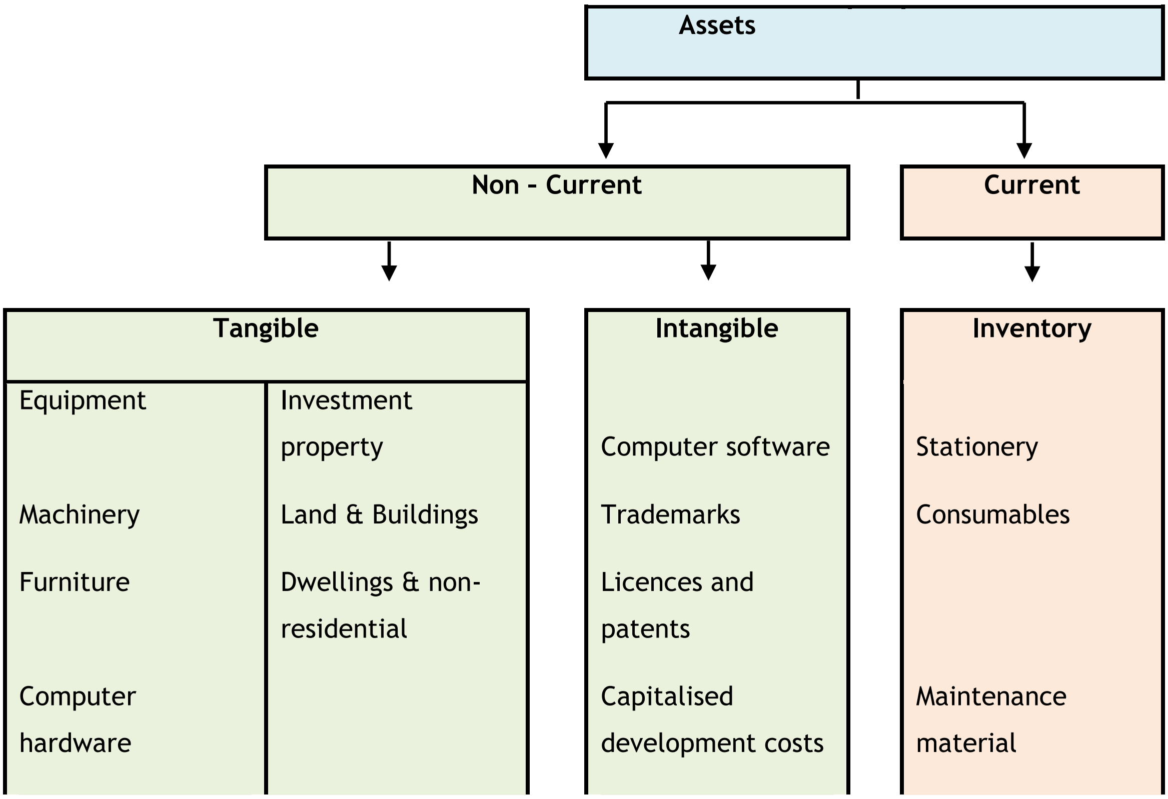
If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation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

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, and other assets)
- Investment property
- Inventory (classified as PPE)
- Intangible assets
- Biological Asset
- Heritage Assets
- Living and Non-Living Resources



Transport assets	Infrastructure		Spare parts
Specialised military assets	Heritage assets		Strategic stock

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 asset is acquired at no cost, or for a nominal cost, its deemed cost is its fair value as at the date of acquisition.

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 Controller 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.

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.

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 is not required to, apply the measurement requirements of GRAP 17.

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.

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

Definition

An asset meets the definition of an intangible asset when it:

(a) is separable, i.e. is capable of being separated or divided from the Municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

(b) arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the Municipality or from other rights and obligations.

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 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 a 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 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.

10.6 Living and non-resources

As provided for by GRAP 110 Living and Non-living resources. Living resources are those resources that undergo biological transformation.

Living resources include living organisms, for example animals and plants that are used or held for the delivery or provision of goods and services, research, conservation, recreation, agricultural activities, education or training and rehabilitation or breeding purposes.

Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

Non-living resources includes land, and water, minerals, oils and gas and other non-regenerative resources which have not been extracted. The principles in this Standard do, however, not apply to land and extracted water, minerals, oils and gas and other non-regenerative resources.

At the point of extraction, non-living resources such as water, minerals, oils and gas and other non-regenerative resources, no longer occur in their natural state and do not meet the definition of a non-living resource. The entity should apply judgement to determine when extraction occurs, and when these resources do not meet the definition of non-living resources.

Recognition

Non-living resources

Non-living resources, other than land, shall not be recognised as assets.

Water

Water that is found in its natural state, such as in rivers, dams, streams, lakes, boreholes, and the sea meets the definition of a non-living resource. From time to time an entity may intervene as part of its mandate or service delivery objective. For example, an entity may undertake measures to ensure that the quality of the water in rivers and dams is maintained. This will not result in a change in the water's natural state, and the definition of a non-living resource is therefore still met.

GRAP 110 read together with National Water Act 36 of 1998 and Water Services Act 108 of 1997 provides guidance on water disclosure in the financial statements.

Living resources

A living resource shall be recognised as an asset if, and only if:

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

Measurement at recognition

A living resource that qualifies for recognition as an asset shall be measured at its cost. Where a living resource is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Measurement after recognition

When an entity intends to hold a living resource for less than twelve months from the reporting date, it shall apply the principles in GRAP 12 to account for the living resource. Where an entity intends to hold a living resource for more than twelve months from the reporting date it shall apply the principles of GRAP 110 Standard and choose as its accounting policy either the cost model or revaluation model and shall apply that policy to an entire group of living resources.

Depreciable amount and depreciation period

The depreciable amount shall be allocated on a systematic basis over its useful life.

Disclosure

Disclosure of living and non-living resources

Where the entity acts as a custodian of a living or non-living resource, or group of living or non-living resources, other than land, the entity shall explain the nature of its custodial responsibility, including the legislation or similar means that establishes the custodial responsibility over the resources, in its financial statements.

11 REASSESSMENT OF USEFUL LIVES AND RESIDUAL VALUE

Each asset should be assessed for the appropriateness of its remaining useful lives (and residual value).

11.1 Condition Grades

Grade	Description	Detail description
5	Excellent	New, sound structure or appearance that is well maintained. Continue with normal planned maintenance.
4	Good	Performance acceptable with minor deterioration visible. Normal planned maintenance continues.
3	Fair	Some evidence of deterioration. Minor maintenance may be required.
2	Poor	Significant deterioration in structure or appearance. Major repairs or upgrade is required.
1	Very poor / scrap	Not functional, unusable, fully deteriorated. Needs reconstruction, replacement or disposal.

11.2 Utilization grades

Grade	Description	Detail description
5	Not used	Substantially below norms
4	Under used	Moderately below norms
3	Normal use	Within norms
2	At capacity	Moderately exceeds norms
1	Overloaded	Substantially exceeds norms

11.3 Combined Grade

The condition grade and the utilisation grade are added to obtain a combined grade. This combined grade is then used to calculate a newly assessed remaining useful life

Combined grade	Estimated remaining useful life
9 or 10	100% of expected useful life
7 or 8	80% of expected useful life
5 or 6	60% of expected useful life
3 or 4	30% of expected useful life
1 or 2	10% of expected useful life

Any changes in the estimated useful life or residual value of an asset should be accounted for as changes in accounting estimates and applied prospectively in accordance with GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

11.4 Useful life

The useful life of an item of PPE shall be reviewed periodically.

	USEFUL LIFE IN YEARS		
	Min		**Max**
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
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	50	-	60
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			
Electrical panels	3	-	5
Telemetry	7	-	15
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
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
ROADS			
Kerb and channels	40		50
National, Provincial Municipal Roads - Asphalt surface	10		20
-Asphalt layer	30		50
- Concrete surface	10		30
-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 signs	5		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	N/A		
Structure	30		55
Weighbridge			
Mechanical	15		40
Electrical	15		40
Perimeter protection	10		25
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	5		10
Cellular phones (over R5000)	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
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
Music instruments	10		15
Photographic equipment	5		7

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
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

Busses	10		15
Cycles	4		7
Emergency vehicles (Ambulances and fire engines)	5		10
Motor vehicles	4		7
Trailers and accessories	5		10
Trucks	5		7

HERITAGE ASSETS N/A

BIOLOGICAL OR CULTIVATED ASSETS **-**

INVESTMENT PROPERTY

Children's homes	25	-	30
Foreign mission dwellings	25	-	30
Homes for the aged	25	-	30
Hostels	25	-	30
Military personnel dwellings	25	-	30
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
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
Universities, colleges, schools etc.	25	-	30
Warehouses (storage facilities, including data)	25	-	30