

WATERBERG DISTRICT MUNICIPALITY



ASSET MANAGEMENT POLICY

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1. GENERAL INFORMATION

1.1 GLOSSARY OF TERMS

AC:	Standard Reference For South African Generally Accepted Accounting Standard
AMP:	Asset Management Policy
AO:	Accounting Officer (I.E. Municipal Manager)
CFO:	Chief Financial Officer
GRAP:	Generally Recognised Accounting Practice
HOD:	Head Of Department / S57 Manager
MCSSS	Manager Corporate Support & Shared Services
MFMA:	Municipal Finance Management Act (No. 56 Of 2003)
MM:	Municipal Manager (I.E. Accounting Officer)
MSA:	Municipal Systems Act (No. 32 Of 2000)
PPE:	Property, Plant And Equipment
SAPS:	South African Police Service
SCM:	Supply Chain Management
WDM:	Waterberg District Municipality

1.2 INTRODUCTION

Asset Management encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets. WDM should use assets to affect efficient and effective service delivery to the community within the Waterberg District.

The purpose of the Asset Management Policy is to govern the management of assets owned by WDM (both operationally and financially) to ensure that they are managed, controlled, safeguarded and used in an efficient and effective manner.

In other words, the purpose of the Asset Management Policy is to facilitate the management of assets both operationally and financially (accounting treatment).

1.3 REGULATORY REQUIREMENTS

WDM is required to comply with the MFMA, MSA, and circulars, memorandum and guidelines (practice notes) issued by National Treasury.

The asset management policy has been prepared in accordance with Standards of Generally Recognized Accounting Practices (GRAP) prescribed by the Minister of Finance in terms of:

- *Government Notice* 991 of 2005, issued in *Government Gazette* no. 28095 of 15 December 2005;
- *Government Notice* 992 of 2005, issued in *Government Gazette* no. 28095 of 15 December 2005;
- *Government Notice* 516 of 2008, issued in *Government Gazette* no. 31021 of 9 May 2008;
- *Government Notice* 80 of 2011, issued in *Government Gazette* no. 33991 of 2 February 2011;
- *Government Notice* 314 of 2012, issued in *Government Gazette* no. 35258 of 20 April 2012; and
- *Government Notice* 551 of 2014, issued in *Government Gazette* no. 37820 of 10 July 2014.

The standards related to asset management comprise of the following:

- GRAP 1: Presentation of the financial statements
- GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 12: Inventories
- GRAP 16: Investment Property
- GRAP 17: Property, Plant and Equipment
- GRAP 19: Provisions, Contingent Liabilities and Contingent Assets
- GRAP 21: Impairment of non-cash-generating assets
- GRAP 26: Impairment of cash-generating assets
- GRAP 100: Non-current Assets Held for Sale and Discontinued Operations
- GRAP 101: Agriculture
- GRAP 31: Intangible Assets
- GRAP 103: Heritage Assets
- GRAP 104: Financial Instruments

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with section 29 of ASB Directive 5 or paragraph 12 of GRAP 3.

1.4 RELATED POLICIES, PROCESSES AND PROCEDURES

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

- Supply Chain Management Policy
- Delegations of authority
- Fleet Management Policy
- Insurance Policy
- Vehicle & Equipment Replacement / Repairs & Maintenance

1.5 OBJECTIVES

The objectives of the Asset Management Policy are:

- To ensure accurate recording of asset information.
- To ensure the accurate recording of asset movements.
- To ensure compliance with Council's Supply Chain Management Policy.
- To ensure the effective and efficient control, utilisation, optimisation of usage, safeguarding and management of WDM's assets.
- To ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the municipality.
- To prescribe the accounting treatment of assets acquired and used in accordance with the applicable accounting standards approved by National Treasury.
- To prescribe the administrative guidelines and internal control procedures to be followed by persons in control of assets with regard to management of those assets.
- To comply with current legislation.
- To emphasise a culture of accountability over assets.
- To ensure that assets are not written off and disposed of without proper authorization.
- To ensure that preventative measures are in place to eliminate theft, loss and misuse.
- To ensure accuracy of the depreciation charge.
- To determine evaluation criteria for residual values and lifespans.
- To ensure a formal set of procedures that can be implemented to ensure that assets and financial policies are achieved and are in compliance with the MFMA.

2. ASSET MANAGEMENT POLICY

2.1 DEFINITIONS

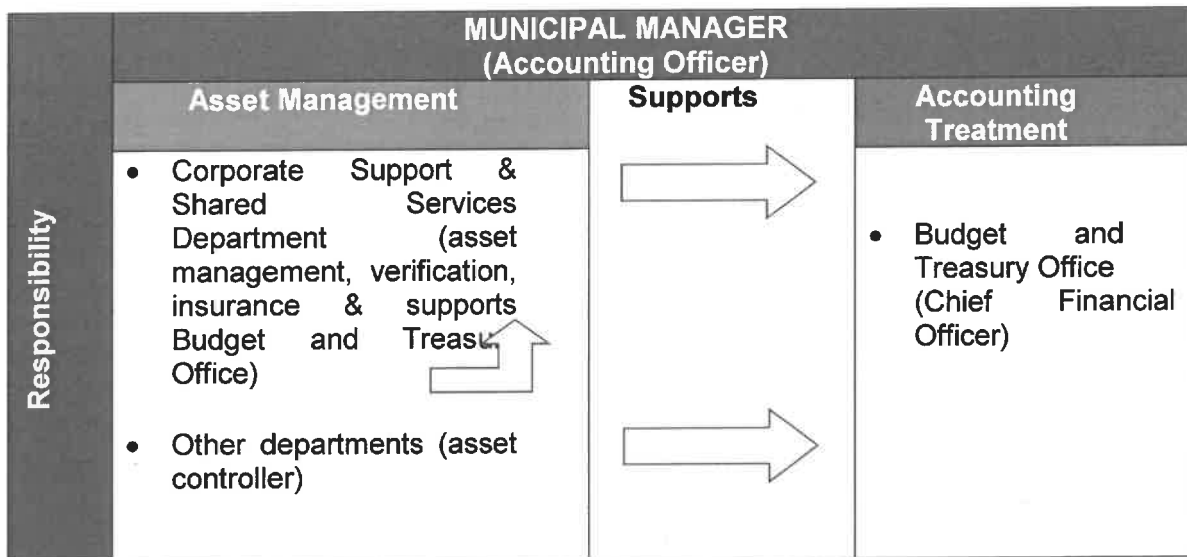
TERM	STANDARD	DETAILS
Amortisation	GRAP 102	The systematic allocation of the depreciable amount of an intangible asset over its useful life.
Asset	GRAP 1 and 3	An asset is defined in terms of GRAP 1.06 and GRAP 3.04 as follows: “Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.” The Framework for the Preparation and Presentation of Financial Statements (in terms of IFRS) provides the following explanations. • Future economic benefits: The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents of the operating activities. • Control: The ability to control the benefits which are expected to flow. It's not limited to legal title.
Asset Management	Not applicable	Asset Management encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets.
Carrying	GRAP 17	Carrying amount is the amount at which an asset is

TERM	STANDARD	DETAILS
amount		included in the statement of financial position after deducting any accumulated depreciation and any impairment losses thereon.
Cash-generating assets	GRAP 21 & 26	Assets held with the primary objective of generating a commercial return.
Cash-generating unit	GRAP 21 & 26	The smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
Community assets	GRAP 17	Any assets that contribute to the community's well-being.
Cost	GRAP 17	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.
Depreciable amount	GRAP 17	Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
Depreciation	GRAP 17	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.
Fair value	GRAP 17	Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
Head of Department	Not applicable	All Section 57 managers in the different departments.
Heritage assets	GRAP 17	Culturally significant resources.
Intangible asset	GRAP 31	An identifiable non-monetary asset without physical substance.
Impairment loss	GRAP 21 & 26	The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount / recoverable service amount.
Infrastructure assets	GRAP 17	Any assets that are part of a network of similar assets.
Inventory	GRAP 12	GRAP 12 (Inventories) defines the following as inventory in the public sector: • ammunition, • consumable stores, • maintenance materials, • spare parts for plant and equipment other than those dealt with under the Standard of Generally Accepted Municipal Accounting Practice on <i>Property, Plant and Equipment</i>, • strategic stockpiles, • work in progress, and • land/property held for sale.

TERM	STANDARD	DETAILS
Investment property	GRAP 16	Investment property is property (land or a building-or part of a building-or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.
Non-cash-generating assets	GRAP 21 & 26	Assets other than cash-generating assets.
Owner-occupied property	GRAP 16	Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.
Property, Plant and Equipment	GRAP 17	PPE are tangible assets that are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one reporting period. A fixed asset is thus an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.
Recoverable amount	GRAP 17	The recoverable amount is the higher of its fair value less costs to sell and its value in use. Recoverable amount is the amount that the entity expects to recover from the future use of an asset, including residual value on disposal.
Residual value	GRAP 17	Residual value is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
Useful life	GRAP 17 & GRAP 21 & GRAP 26	Useful life is either: (a) the period of time over which an asset is expected to be used by the entity, or (b) the number of production or similar units expected to be obtained from the asset by the entity.
Value in use of a cash-generating asset	GRAP 26	The present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.
Value in use of a non-cash-generating asset	GRAP 21	The present value of the asset's remaining service potential.
Other definitions can be obtained in the relevant GRAP standards.		

2.2 ROLES AND RESPONSIBILITIES

2.2.1 OVERVIEW



The diagram above depicts an overview of the key role players involved in asset management. The Corporate Support & Shared Services Department supports Budget and Treasury Office. The other departments are accountable to Corporate Support & Shared Services Department.

2.2.2 MUNICIPAL MANAGER

Responsibilities

The MM is the AO of the Municipality in terms of section 60 of the MFMA. Section 60 of the MFMA further states that the AO must:

- Exercise their functions and powers assigned to them in terms of the Act, and
- Provide guidance and advice on compliance with the MFMA to:
 - Political structures, political office-bearers and officials of the municipality, and
 - Any municipal entity under the sole or shared control of the municipality.

The AO of a municipality is responsible for the management of the assets of that municipality in terms of section 63 of the MFMA which prescribes the following:

- Safeguarding and maintenance of assets.
- Implementation of an accounting and information system that accounts for the assets.
- Ensuring that assets are valued in terms of generally recognised accounting practice.
- Maintaining a system of internal control of assets (e.g. an asset register).

Delegations

The AO may delegate to a member of the municipality's top management (chief financial officer; senior managers responsible for managing votes; other senior officials) or any other official of the municipality in terms of section 79 (1) (b) of the MFMA:

- Any powers or duties assigned to an AO in terms of the Act, or
- Any powers or duties reasonably necessary to assist the AO in complying with a duty which requires the AO to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of this Act.

The AO must regularly review the delegations issued above and, if necessary, amend or withdraw any of those delegations.

The delegations:

- Must be in writing.
- May be subject to limitations and conditions as the AO may impose in a specific case.
- May be to a specific individual or to the holder of a specific post in the municipality.
- May authorise the delegated member to sub-delegate the delegated power or duty to an official or the holder of a specific post in that member's area of responsibility.
- Does not divest the AO of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.

The AO is therefore accountable for all transactions entered into by his/her delegates.

2.2.3 CHIEF FINANCIAL OFFICER

The CFO updates the asset register of the municipality, and shall ensure that a complete, accurate and up-to-date asset register is maintained. No amendments, deletions or additions to the asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO. The following duties have been delegated to the CFO:

- To ensure that Council assets are accounted for in accordance with generally recognised accounting practice.
- To ensure that the general ledger is reconciled to the asset register.
- To review the reconciliation between the general ledger and the asset register.
- To provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.

2.2.4 MANAGER CORPORATE SUPPORT & SHARED SERVICES

The AO in terms of section 63 & 79 (1) (b) of the MFMA delegates the following responsibilities to MCSSS:

- Safeguarding and maintenance of assets.
- To ensure that assets are adequately maintained.
- To ensure that assets are adequately insured.
- To monitor the movement of assets between different officials and / departments.
- To procure movable assets.
- To dispose of assets written off or held for sale.
- To provide the Auditor-General or his personnel, on request, with the asset management records relating to assets belonging to Council as recorded in the asset register.

2.2.5 HEADS OF DEPARTMENT

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

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

- That the system of financial management and internal control established for the municipality is carried out diligently;
- That the financial and other resources of the municipality are utilised effectively, efficiently economically and transparently;

- That any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;
- That the assets of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;
- That all information required by the AO for compliance with the provisions of this Act is timeously submitted to the AO; and
- That the provision of this Act, to the extent applicable to that senior manager or official including any delegations in terms of section 79, 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. **The HOD must nominate an employee to implement and maintain asset control (i.e. Departmental Asset Controller) in his/her department. The Corporate Support & Shared Services Department is ultimately in charge of asset management.**

Where limited resources are available, it is incumbent upon the HOD's, to ensure that adequate procedures for regular independent checks of fixed assets are in place.

It is the responsibility of the HOD to ensure that all asset-related changes that take place within their departments have been properly authorised and communicated to the Department Asset Controller which informs the Corporate Support & Shares Services Department which in turn monthly informs the Budget & Treasury Office in order to update the Fixed Asset Register.

2.2.6 DEPARTMENT ASSET CONTROLLER

The "Departmental Asset Controller", under the supervision and authority of the HOD, must ensure that:

- All information needed by the Budget and Treasury Office to compile and update the Asset Register, is circulated to the Corporate Support & Shares Services Department.
- The HOD and Corporate Support & Shares Services Department (after approval of the HOD) is notified of any changes in the status of the assets under the departments' control (e.g. new asset purchases, asset transfers, asset impairments and asset disposals).
- The inventory and/or assets of the WDM are not used for private enterprise and gain by any employee/Councillor.
- Control is exercised over the respective department's assets and shall report any enhancement/improvement, transfer or disposal of the respective department's assets to the Corporate Support & Shared Services Department.
- Relevant reports on the writing off of scrap (in case of vehicles) and the theft/loss (in the case of other assets) are submitted to the Corporate Support & Shared Services Department.
- Any discrepancies in the asset stock take report are followed up.
- All assets within the department are recorded on the asset register and are bar coded.
- Administer cyclical counts on assets within the respective department and follow up on any discrepancies.

2.3 ACCOUNTING POLICIES

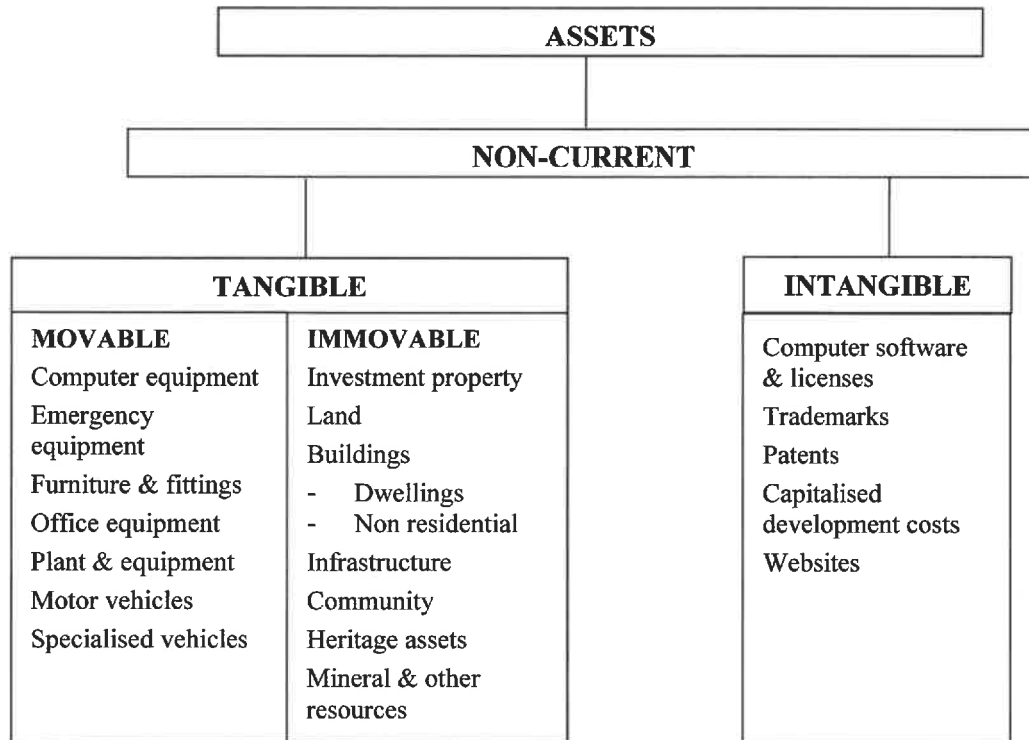
2.3.1 FORMAT OF THE ASSET REGISTER

The asset register shall be maintained in the format determined by the CFO. The format must comply with the requirements of GRAP and any other applicable accounting requirements.

2.3.2 CLASSIFICATION OF ASSETS (page 20 Guideline)

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

- PPE (infrastructure, community, heritage and other assets)
- Investment property
- Intangible assets



2.3.3 ROPERTY, PLANT AND EQUIPMENT 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 as either PPE or investment property in the municipality's Statement of Financial Position.

2.3.4 PROPERTY, PLANT AND EQUIPMENT

2.3.3.1 Recognition criteri

PPE shall be recognised as an asset when:

- 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.

2.3.3.2 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.

Heritage assets

If no original cost or fair values are available in the case of heritage assets, the CFO 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 cost or fair value concerned. For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

2.3.3.3 Capitalisation threshold

Council must approve the capitalisation threshold on an annual basis.

Asset (excluding computer equipment)	Treatment
Cost/fair value $\geq$ R 100* (for inventory)	Recognise as an asset/inventory
Cost/fair value $\geq$ R 500* (for assets)	Record on the fixed / intangible asset register or inventory register
* Or such other amount as the Council of the municipality may from time to time determine on the recommendation of the MM	

Components of Cost/Valuation of assets

General

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.

Any trade discounts and rebates are deducted in arriving at the purchase price.

Examples of directly attributable costs are:

- the cost of site preparation,
- initial delivery and handling costs,
- installation costs,
- professional fees such as for architects and engineers, and
- the estimated cost of dismantling the asset and restoring the site, to the extent that it is recognised as a provision. Guidance on accounting for provisions is found in GRAP on Provisions, contingent liabilities and contingent assets.

Administration and other general overhead costs are not a component of the cost of PPE unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance are recognised as an expense.

Recoverable indirect costs (e.g. VAT etc.) are not a component of the cost of PPE.

Self-constructed assets

The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of producing the assets for sale (refer to GRAP 12 on Inventories). Therefore, any internal surpluses are

eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset.

Finance lease assets

GRAP 17.04 refers to the GRAP on Leases for the accounting treatment of leases. Therefore, the cost of an asset held by a lessee under a finance lease will be accounted for in terms of GRAP 13 Leases.

Deferred payments

When payment for an item of PPE is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit. Reference should be made to GRAP 5 on Borrowing Costs for guidance.

2.3.3.4 Exchange of assets

In accordance with GRAP 17.33 the accounting treatment relating to the exchange of dissimilar and similar assets as follows:

Dissimilar exchange

PPE may be acquired in **exchange or part exchange for a dissimilar item of PPE or other asset**. The cost 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 transferred.

Similar exchange

PPE may be **acquired in exchange for a similar asset** that has a similar use in the same line of operations and which has a similar fair value.

PPE may also be **sold in exchange for an equity interest in a similar asset**.

In both cases, no gain or loss is recognised on the transaction. The cost of the new asset is the carrying amount of the asset given up.

The fair value of the asset received may provide evidence of impairment in the asset given up. Therefore, the asset given up is written down and this written-down value is assigned to the new asset. Examples of exchanges of similar assets include the exchange of aircraft, hostels and other real estate properties.

If other assets such as cash are included as part of the exchange transaction this may indicate that the items exchanged do not have a similar value.

2.3.3.5 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 entity.

Thus, only expenses incurred in the enhancement of an asset or in the extension of the useful operating life of an asset shall be capitalised.

Otherwise, all other subsequent expenditure not meeting the definition above will be accounted for as repairs and maintenance expense. Expenses incurred in the maintenance or reinstatement of an asset shall be considered operating expenses incurred in ensuring that the useful operating life of the asset is attained and shall not be capitalised irrespective of the quantum of the expenses incurred.

Major components of some items of PPE that require replacement at regular intervals must be accounted for as separate assets as they have different useful lives. Therefore, the expenditure incurred in replacing or renewing the component should be accounted for as an acquisition of a separate asset (and the replaced asset should be written off).

For example, a reservoir may require relining after a specified number of hours of usage or components of a sewerage purification works may need replacing during the lifetime of the works, or a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of usage.

2.3.3.6 *Measurement subsequent to initial recognition*

Subsequent to the initial recognition as an asset, an item of PPE should be measured as follows in terms of GRAP 17.38-39.

PPE (excluding land and buildings)	Land and buildings
Carried at its cost less any accumulated depreciation and any accumulated impairment losses.	Carried at its cost less any accumulated depreciation and any accumulated impairment losses.

2.3.3.7 *Revaluations of land and buildings*

In accordance with GRAP 17.40-52 the accounting treatment requirements relating to the revaluation of land and buildings, if applicable (but in WDM's case this is not the currently applicable accounting policy), is as follows:

Determination of the fair value

The fair value of land and buildings is their market value, determined by appraisal.

An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognised and relevant professional qualification.

Frequency of revaluations

Land and buildings will be carried at cost and will only be revalued under specific circumstances where revaluation is required.

Treatment of accumulated depreciation on revaluation

When land and buildings are revalued, any accumulated depreciation at the date of the revaluation will be **eliminated against the gross carrying amount** of the asset and the net amount restated to the revalued amount of

the asset. The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the increase or decrease in carrying amount.

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

Classes of property

When land and buildings are revalued, the entire class of property to which that asset belongs shall be revalued. In other words, if land is revalued, then all land within that classification must be revalued. If land and buildings within that classification are revalued, then all land and buildings must be revalued.

Accounting treatment of revaluation increases and decreases

Increase in carrying amount

- The increase shall be credited directly to the non-distributable reserve under the heading "Revaluation surplus."
- The increase will only be recognised as revenue (credited to the Statement of Changes in Financial Performance) to the extent that it reverses a revaluation decrease of the same class of assets previously recognised as an expense.

Decrease in carrying amount

- The decrease shall be recognised as an expense.
- The decrease will only be charged directly against any related "Revaluation surplus" to the extent that the decrease does not exceed the amount held in the "Revaluation surplus" in respect of that same class of assets.

The "Revaluation surplus" must be realised (transferred directly to the Accumulated Surplus or Deficits) in part or in whole through use, retirement or disposal of the asset.

2.3.3.8 Depreciation

All assets, except land and heritage assets or intangible assets with infinite lifespans, shall be depreciated – or amortised in the case of intangible assets. Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the assets is used or consumed.

In accordance with the GRAP 17: 53-72 the requirements and guidance relating the accounting treatment of depreciation have been summarised below.

Depreciation method

The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. In most instances, this is according to the straight-line method of depreciation.

Commencement date

Depreciation should be calculated from the day following the day in which an asset is acquired until the end of the calendar month concerned.

Useful life

The CFO shall assign a useful life to each depreciable asset recorded on the municipality's asset register. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. In determining such a useful life the CFO shall consider the guidelines for useful lives set out in the **Appendix 0** to this document as well as circumstances specific to WDM's utilisation of the asset or asset group.

The CFO shall determine a useful life, if necessary in consultation with the HOD who shall control or use the asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

Lost, stolen or damaged assets must be fully depreciated (written off) when the event occurs and approval is obtained from Council.

Review of the useful life & residual value

The residual value and useful life of an item of PPE shall be reviewed at least annually and, if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. Thus, where the expectations are significantly different from previous estimates, the depreciation charge for the current and future periods shall be adjusted.

The useful life must be amended where assets are materially impaired, improperly maintained or any event occurs affecting the rate at which economic benefits or service potential is consumed. The additional depreciation expense shall be debited to the department or vote controlling or using the asset in question.

Review of the depreciation method

The depreciation method applied to an asset shall be reviewed at least annually 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 such a change in depreciation method is necessary the change shall be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods shall be adjusted.

Accounting treatment

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

Land and buildings

Land and buildings are dealt with separately for accounting purposes even when they are acquired together. Land normally has an unlimited lifespan and will not be depreciated. Buildings have a limited life and are depreciated.

2.3.3.9 Impairment losses

The following procedures need to be performed to determine whether a cash-generating asset and a non-cash generating asset are impaired. GRAP 21 should be applied relating to non-cash generating assets and GRAP 26 should be applied to cash generating assets.

Cash-generating assets

A cash generating asset (unit) is the smallest identifiable group of assets that generates cash flows that are independent of the cash inflows from other assets or group of assets.

The cash generating asset is impaired if its carrying amount is higher than its recoverable amount.

A municipality shall assess at least annually 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.

Recoverable amount

The recoverable amount is the higher of its fair value less costs to sell and its value in use.

- *Fair value less costs to sell:* Amount obtainable in an arm's length transaction less costs of disposal.
- *Value in use:* Discounted future net cash flows from the continuing use and ultimate disposal of the asset.

Frequency of impairment test

An annual impairment test should be performed to determine whether the carrying amount exceeds the recoverable amount by assessing the indicators of impairment at each reporting date.

Reversal of impairment

A municipality shall assess at least annually whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. The reversal of the impairment should be recognised in the Statement of Financial Performance unless the asset is carried at the revalued amount when there are indicators that the asset may no longer be impaired.

Non-cash generating asset

In accordance with GRAP 21.17 guidance relating to instances where non-cash generating assets are impaired is as follows:

The non-cash generating asset is impaired if its carrying amount is higher than its recoverable service amount.

The carrying amount shall be reviewed at least annually in order to assess whether or not the recoverable service amount has declined below the carrying amount.

Accounting treatment

The amount of the reduction shall be recognised as an expense immediately, unless it reverses a previous revaluation in which case it shall be charged to the non-distributable reserve headed "Revaluation Surplus".

2.3.3.10 Retirements and disposals

In accordance with GRAP 17.76 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 gains or losses from the retirement or disposal of an item of PPE are calculated as follows:

Gain/loss = Net disposal proceeds – carrying amount of the asset

The gain or (loss) shall be included in the statement of financial performance as an item of revenue or (expense), whichever is applicable, against the appropriate line item in the department or vote in which the assets was used or consumed.

PPE retired from active use and held for disposal should be recorded at its carrying amount at the date it is retired from active use. At each reporting date the asset must be tested for impairment and record any impairment loss.

2.3.5 HERITAGE ASSETS

GRAP 103 determines the accounting treatment to recognise heritage assets that would otherwise meet the definition of, and recognition criteria for, PPE. If an entity does recognise heritage assets, it must

apply the disclosure and measurement requirements of GRAP 103. Some assets are described as "heritage assets" because of their cultural, environmental or historical significance.

2.3.6 INVESTMENT PROPERTY

Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position.

Recognition criteria

GRAP 16.18 states that investment property shall be recognised as an asset when and only when:

- (a) it is **probable** that the **future economic benefits or service potential** that are associated with the investment property will flow to the entity; and
- (b) the **cost** of the investment property **can be measured reliably**.

Measurement at initial recognition

GRAP 16.22 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 13.30. 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.

Measurement subsequent to initial recognition

With the exceptions notes in paragraph 38 and 42 of GRAP 16, a municipality shall choose as its accounting policy either the fair value model or the cost model.

WDM does not currently have investments property, but choose the cost model. After initial recognitions, the municipality shall measure all of its investment property in accordance with GRAP 17 Property, Plant and Equipment.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

An investment property shall be derecognised on disposal of when the investment property is permanently withdraw 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 the investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the assets and shall be recognised in the surplus or deficit in the period of the retirement or disposal.

2.3.7 INVENTORY

Initial recognition

Inventories comprise current assets held for consumption during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. The cost of inventories is assigned by using the first-in, first-out (FIFO) cost formula.

Subsequent measurement

Inventories, consisting of consumables are valued at the lower of cost and net realisable value. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Recognition of spare parts and servicing equipment

GRAP 17.12 states that most spare parts and servicing equipment are usually carried as inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment qualify as PPE when the entity expects to use them during more than one period or when their use is expected to be irregular.

Spare parts and land/property held for sale are accounted for as inventory in terms of GRAP 12 unless the spare parts meet the requirements to be recognised as PPE in terms of GRAP 17.

Depreciation of spare parts and stand-by equipment qualifying as PPE.

Depreciation will be over the time period not exceeding the useful life of the related asset.

2.3.8 BIOLOGICAL ASSETS

Accounting for biological assets (living animals or plants) shall take place in accordance with the requirements of GRAP 101 where applicable.

The CFO, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned.

Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the HOD concerned in exactly the same manner as though the asset were an ordinary asset.

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

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

2.3.9 INTANGIBLE ASSETS

Recognition criteria

GRAP 102.24 states that intangible assets shall be recognised as an asset when and only when:

- a) it is **probable** that the **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**.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.

Measurement at initial recognition

GRAP 102.28 states that:

- An intangible asset shall be measured initially at its cost.
- Where an intangible asset is acquired at no cost, or for nominal cost, the cost shall be its fair value as at the date of acquisition.

Measurement subsequent to initial recognition

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

For specific requirements per the different types of intangible assets refer to GRAP 102 Intangible assets.

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use.

An intangible asset with an infinite useful life shall not be amortised.

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

- There is a commitment by a third party to purchase the assets at the end of its useful life; or
- There is an active market for the asset and the residual value can be determined by reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least annually. Any change shall be accounted for as changes in accounting estimates in accordance with GRAP 3.

In accordance with GRAP 102.115 intangible assets shall be derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

Any gains or losses from derecognition are calculated as follows:

Gain/loss = Net disposal proceeds – carrying amount of the asset

The gain or (loss) shall be included in the statement of financial performance as an item of revenue or (expense), whichever is applicable.

2.3.10 DISCLOSURE

Refer to disclosure in the latest Specimen Annual Financial Statements guideline issued by National Treasury

3. ACCOUNTING POLICY IMPLEMENTATION GUIDE

3.1 FORMAT OF THE ASSET REGISTER

The asset register shall reflect the following information:

- Description of each asset
- Date of acquisition/brought into use
- Unique asset number (barcode)
- Title deed number (for property)
- Erf and portion number (for property)
- Location of asset
- Original cost
- Revalued amount (if applicable)
- Additions to assets during the current year
- Fair value (if no costs are available)
- Accumulated depreciation to the beginning of the current year
- Depreciation charge for the current year
- Accumulated depreciation at year end
- Accumulated impairment to the beginning of the current year
- Impairment losses incurred during the financial year (and reversal of such losses, where applicable)
- Accumulated impairment losses at year end
- Carrying value of the asset
- Method and rate of depreciation.
- Department(s) or vote(s) within which the assets will be used
- Source of financing
- Disposal price (proceeds)
- Residual values
- Useful life
- Condition assessment

3.2 CLASSIFICATION OF ASSETS

3.2.1 *Investment property* shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

3.2.2 *PPE treated as inventories* shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

3.2.3 *Major spare parts and stand-by equipment* should be bar-coded and recorded in the asset register.

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 classified an asset.

3.3 PROPERTY, PLANT AND EQUIPMENT

3.3.1 Components of Cost/Valuation of assets

Deferred payments

Example

WDM purchases an asset costing R100 000 on 1.7.0x which is to be repaid in equal instalments over a 36 month period from 1.8.0x. Assume the following:

- The market related interest rate is 15% per annum, compounded monthly.
- There is no residual value

Answer

Cost of the asset and corresponding liability on 1.7.0x is R80 131

[Using a financial calculator: PMT=100 000/36; i=15/12; n=36; PV=??]

Interest will accrue monthly and the monthly payment will be split between the liability and interest expense e.g. for 31.8.0x

Dr	Lease Liability (balancing figure)	1 776
Dr	Interest expense (80 131 x 1.25%)	1 002
Cr	Bank (100 000/36)	2 778

3.3.2 Subsequent expenditure

In accordance with GRAP 17.18-20 the requirements relating to subsequent expenditure are as follows:

Recognising subsequent expenditure as an asset

- Subsequent expenditure on PPE is only recognised as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance.
- Examples of improvements that result in increased future economic benefits or service potential include the following:

- (a) Modification of an item of plant to extend its useful life, including an increase in its capacity,
- (b) Upgrading machine parts to achieve a substantial improvement in the quality of output, and
- (c) Rehabilitation of a road enabling a substantial reduction in previously assessed maintenance costs.

Recognising subsequent expenditure as an expense

- Expenditure related to repairs or maintenance of PPE are made to restore or maintain the future economic benefits or service potential that an entity can expect from the most recently assessed standard of performance of the asset.
- Therefore, they are usually recognised as an expense when incurred.
- The cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the most recently assessed standard of performance.

Other considerations

GRAP 17 states that:

The **appropriate accounting treatment for expenditure incurred subsequent to the acquisition** of an item of property, plant and equipment **depends on the circumstances**, which were **taken into account** on the **initial measurement and recognition** of the related item of property, plant and equipment and **whether the subsequent expenditure is recoverable**. For instance, **when the carrying amount of the item of property, plant and equipment already takes into account a loss in economic benefits or service potential**, the **subsequent expenditure to restore the future economic benefits or service potential expected from the asset is capitalised, provided that the carrying amount does not exceed the total economic benefits or service potential** that the entity expects to recover from the continued use and ultimate disposal of the item. This is also the case when the purchase price of an asset already reflects the entity's obligation to incur expenditure in the future, which is necessary to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount of the asset to the extent that it can be recovered from future use of the asset.

3.3.3 Revaluations of land and buildings

Determination of the fair value

For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land and non-specialised buildings.

Frequency of revaluations

The frequency of revaluations depends upon the movements in the fair values of land and buildings being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some land and buildings may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for land and buildings with only insignificant movements in fair value. Instead, revaluation every three or five years may be sufficient or as and when they may be required for other purposes.

Treatment of accumulated depreciation on revaluation

Example

WDM purchases an asset costing R100 000 on 1.7.06.

The asset is:

- Depreciated on a straight line basis over 10 years
- Revalued every 4 years

The gross replacement cost on the first date of revaluation (1.7.10) is R250 000.

Answer

1.7.10

Dr	Asset – revaluation	150 000
	Accumulated depreciation	40 000
Cr	Asset-cost	100 000
	Revaluation surplus	90 000

Calculations

Carrying amount prior to revaluation	
Cost	100 000
Accumulated depreciation (100 000 x 10% x 4 years)	<u>(40 000)</u>
Carrying amount	60 000

Carrying amount after revaluation	
Replacement cost	250 000
Accumulated depreciation (250 000 x 10% x 4 years)	<u>(100 000)</u>
Carrying amount	150 000

Therefore, the revaluation surplus is 90 000 (150 000 – 60 000)

Classes of property

A class is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

- | | |
|--|-------------------------------------|
| (a) Land, | (g) Aircraft, |
| (b) Buildings, | (h) Specialised military equipment, |
| (c) Roads, | (i) Motor vehicles, |
| (d) Machinery, | (j) Furniture and fixtures, |
| (e) Electricity transmission networks, | (k) Office equipment, and |
| (f) Ships, | (l) Oil Rigs |

3.3.4 Depreciation

In addition to the definition of depreciation, depreciation is also understood to be the monetary quantification of the extent to which PPE is used or consumed in the provision of economic benefits or the delivery of services.

Useful life

In accordance with GRAP 17.60-69 the following guidance should be referred to when considering the useful life of an asset.

The economic benefits or service potential embodied in an item of property, plant and equipment is consumed by the municipality principally through the use of the asset. However, other factors such as technical obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been expected to be available from the asset. Consequently, all the following factors need to be considered in determining the useful life of an asset:

- The expected usage of the asset by the municipality. Usage is assessed by reference to the asset's expected capacity or physical output;
- The expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program of the entity, and the care and maintenance of the asset while idle;
- Technical obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and
- Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

The useful life of an asset is defined in terms of the asset's expected utility to the municipality. The asset management policy of a municipality may involve the disposal of assets after a specified time or after consumption of a certain proportion of the economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the municipality with similar assets.

3.3.5 Impairment losses

Indicators of impairment for cash-generating assets

Internal indicators	External indicators
• Evidence of obsolescence or physical damage • Discontinuance, disposal or restructuring plans • Declining asset performance	• Significant decline in the market value • Changes in technological, market, economic or legal environment • Changes in interest rates • Low market capitalisation

Indicators of a reversal of the impairment for cash-generating assets

The reversal of impairment may occur due to the following:

Internal indicators	External indicators
• Changes in the way the asset is used or expected to be used • Evidence from internal reporting indicates that economic performance of the asset will be better than expected	• Significant increase in market value • Changes in technological, market, economic or legal environment • Changes in interest rates • Market interest rates have decreased

3.4 HERITAGE ASSETS

Examples of heritage assets

Include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

- Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price,
- Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale,
- They are often irreplaceable and their value may increase over time even if their physical condition deteriorates, and
- It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Heritage assets with service potential

GRAP 103 states that some heritage assets have service potential other than their heritage value (e.g. a historic building being used for office accommodation). In such instances, they may be recognised and measured on the same basis as other items of PPE. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

GRAP 103 states the disclosure requirements to make disclosures about recognised assets. Therefore, entities that recognise heritage assets are required to disclose in respect of those assets such matters as:

- the measurement basis used,
- the gross carrying amount,
- the accumulated depreciation at the end of the period, if any, and

- (d) a reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Heritage assets without service potential

Entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

4. ASSET MANAGEMENT PROCEDURES

4.1 Summary of asset management responsibilities

The table below summarises the departments, specific employee designations and structure's referred to (explicitly or implied) in the various sections.

Department	Human Resources	CSSS	Budget & Treasury	All departments	HOD	CFO	MM	Council
4.2 Budget process		✓	✓	✓	✓	✓		
4.3 Acquisition of assets		✓	✓	✓	✓		✓	
4.4 Disposal of assets		✓	✓	✓	✓			✓
4.5 Departmental transfers of assets		✓	✓	✓	✓			
4.6 Identification of assets		✓	✓	✓	✓			
4.7 Verification of assets		✓	✓	✓				
4.8 Safekeeping of assets		✓			✓			
4.9 Alienation of assets		✓	✓		✓			✓
4.10 Reporting write-offs of assets		✓	✓					✓
4.11 Maintenance		✓			✓		✓	
4.12 Replacement norms		✓		✓	✓		✓	
4.13 Insurance of assets		✓		✓			✓	
4.14 Disposal of firearms		✓		✓				
4.15 Biological assets					✓	✓		

4.2 Budget process

Each HOD, acting in consultation with the MCSSS and CFO, shall:

- Prepare an annual budget for the acquisition of assets and the maintenance of assets.
- Ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

4.3 Acquisition of assets

The process to be followed when assets are acquired shall be in accordance with the Council's Supply Chain Management Policy and Manual and Delegation of Authority Policies. This shall apply to all the types of Council's assets as contained in this Policy.

All assets to be purchased should be in terms of the approved budget.

Depending on the amount of the asset to be purchased and after the necessary authorisation has been obtained the following procedure for purchasing an asset must be followed:

- Requisition to be completed and signed by person requesting the asset.
- Various relevant asset acquisition forms have to be completed, e.g. IT Requisition, and approved by the relevant authorised HOD, before any procurement may be referred to CSSS.
- Quotations must be obtained / public tender processes followed in terms of the Supply Chain Management Policy.
- Authority in terms of Delegated Powers to Officials must be reflected on the requisition.
- The bidding process procedures will apply in terms of the MFMA Municipal SCM Regulations and the WDM SCM Policy.
- The HOD/MM should sign the requisition as authorisation where the asset is acquired within their delegated authority.
- Quotations must be attached to the relevant requisition and submitted to Budget and Treasury Office.
- Budget and Treasury Office: Expenditure Section must generate and issue the order.
- For all assets acquired, the HOD should notify the MCSSS on delivery to provide immediate cover. It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes.
- On receipt of the purchased asset, the recipient should inspect the asset and once satisfied endorse the delivery note or invoice and forward it to Budget and Treasury Office for payment.
- The recipient should immediately inform the Divisional Manager: Expenditure that the asset has been delivered for the purpose of bar coding and capitalisation of the asset.
- The recipient's inventory list should be updated and a signed copy be kept by Budget and Treasury Office.
- The invoice should be endorsed with the bar code number before payment can be made to the supplier.

The Corporate Support and Shared Services Department will provide the Budget and Treasury Office with a monthly report on asset movements (transfers within / between departmental offices). The reporting must also apply to the following:

- Donations
- Additions / Improvements (refers to immovable assets)
- Auctions
- Loss or damage
- Transfers
- Land sales

The Budget & Treasury Office will in turn notify the Corporate Support and Shared Services Department of the following:

- Disposals
- Revaluations/Impairments
- Write offs

Heads of Departments

HOD's shall ensure:

- At all times that there are enough funds in the budget before approval of any requisitions.
- That the correct vote and descriptions are being used before authorising any requisitions.
- Any item with a value in excess of R 500 (Five hundred rand), and with an estimated useful life of more than one year, shall be recorded on a fixed asset register.

4.4 Disposal of assets

All assets are to be disposed of in 4 ways, for example:

Asset Management Policy	Link to Supply Chain Management Policy (Disposal Management)
• By dumping at a tip site after approval by HOD concerned if the item is damaged beyond repair	(d) destroying the asset
• Public tender for the disposal of property or letting of assets (including unserviceable, redundant or obsolete assets subject to section 14 and 90 of the MFMA)	(c) selling the asset
• Auctioning	(c) selling the asset
• Donation	(a) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets (b) transferring the asset to another organ of state at market related value or, when appropriate, free of charge

The Manager: Corporate Support & Shared Services in conjunction with the Supply Chain Divisional Manager should direct the disposal process.

Municipal Finance Management Act requirements for the disposal of capital assets

The **disposal of capital assets**, in terms of section 14 of Municipal Finance Management Act (No. 56 of 2003), specify the following requirements:

- 1) Capital assets needed to provide the minimum level of basic municipal services may not be disposed of.
- 2) Capital assets (other than those mentioned in 1) may only be disposed of after the municipal council in a meeting open to the public:
 - a) Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, and
 - b) Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

- 3) Any decision made by the municipal council that the specific capital asset is not needed to provide the minimum level of basic municipal service may not be reversed by the municipality after the asset has been disposed of.
- 4) The municipal council may delegate its power to make the decision in 2(a) and (b) for movable capital assets to the MM subject to limits (e.g. R5 000) prescribed by the municipal council.
- 5) Any transfer of ownership (disposal) must be fair, equitable, transparent, competitive and consistent with the supply chain management policy.
- 6) The above does not apply to transfers of capital assets to another municipality, municipal entity, national or provincial organ of state provided that the transfers are in accordance with the prescribed framework.

Disposal procedures

After the necessary authorisation has been obtained, the following procedure for disposing of an asset must be followed:

Disposal procedure	Responsible Official
A staff member identifies the asset(s) to be disposed of (obsolete, redundant, transferred, and other).	All
HOD concerned approves the status of the item.	MCSSS
- A request to dispose of the asset and the proposed method of disposal must be sent to the Asset unit. - The Asset unit should inspect all redundant items and the disposal process recommended.	All Disposal of unserviceable, redundant, obsolete and damaged assets
The Corporate Support & Shared Services Department will table the item as per the recommendations of the Asset unit at the Management meeting for consideration.	All
A memorandum must be written by the Asset disposal committee to the MM indicating the status of the item and the proposed method for disposal	All
A asset disposal form must be filled in and properly signed by the requesting official, HOD, Asset unit and the MM.	All
The asset disposal form must be attached to the memorandum and forwarded to Budget and Treasury Office for processing.	All
The asset (s) should be taken to the Corporate Services Department's store for storage.	Asset unit
CSSS should physically inspect assets and compiled detailed listing of all assets to be disposed of per type of disposal	CSSS
When the items to be disposed of have been identified, the disposal committee will write an item to Council for write off / disposal of assets	Disposal of redundant and obsolete assets. Disposal by auction or donation.
Once the approval has been received, the Budget & Treasury Office will adjust the asset register accordingly.	Asset unite
CSSS must inform BTO subsequent to disposal of the proceeds be item disposed for the purpose of calculating the profit or loss on disposal	All

Each department must take the necessary steps to ensure that all its assets to be disposed of are brought to the attention of the Manager: Corporate Support & Shared Services.

The useful life of assets will be guided by the individual assessment of asset groups.

Land and Buildings shall be auctioned at the reserved prevailing market prices as indicated by the valuers at the time of disposal.

All computer equipment to be disposed of will be subject to scrutiny by the IT Division.

Council

Council may resolve to donate any of its assets to organisations / individuals and persons within its area of jurisdiction. It may decide from within itself to establish a committee or delegate the donation function to the Corporate Support & Shared Services Department to make proposals.

Disposal Committee

The Disposal Committee can be established for disposals and will be responsible for the following:

- To be a central point for all requests to dispose of assets.
- To evaluate all requests to dispose of assets.
- To prepare a memorandum to the MM indicating the status of the item and the proposed disposal for disposal.
- To ensure that the asset disposal forms are signed by relevant parties (requesting official, HOD, Chairperson of the Disposal Committee, and the MM).

4.5 Departmental transfers of assets

The Manager Corporate Support & Shared Services shall approve all asset movements, which relate to the transfer of assets from one department to another.

When a department transfers an asset or an inventory item interdepartmentally or within its department, the **Asset Transfer Form (section 5.3)** must be forwarded to the department/location receiving the asset or inventory item. A copy of this form is to be forwarded to the Budget and Treasury Office for the update of the asset register.

Where a department no longer requires the use of an asset it should be transferred to the Corporate Support & Shared Services Department's store for storage until it is required by another department or written off.

4.6 Resignations

At the resignation of an employee the applicable Manager or his/her duly delegated representative must complete the relevant asset form and forward it to the Human Resources Department for their further attention. This form is a statement that the inventory and asset items entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary (refer to **section 5.4 Asset Clearance Form**).

4.7 Identification of assets

The following applies relating to the identification of assets:

- The MM is responsible for ensuring that the municipality maintains an asset identification system.
- The fixed asset identification system should operate in conjunction with the asset register.
- The MM in consultation with the MCSSS, CFO and HOD's should prescribe the identification system.

- The identification system should comply with any legal prescriptions and recommendations of the Auditor-General, within the context of the municipality's budgetary and human resources.
- HODs shall ensure that the asset identification system is scrupulously applied in respect of all assets controlled or used by the department in question.
- The CFO should ensure that all assets are identified according to the asset identification system.

4.8 Verification of assets

Departmental asset register/listing of assets

The Budget and Treasury Office must distribute to each Department Asset Controller an asset register/listing of all assets for the respective department on a quarterly basis.

Departments

The departments should:

- Perform cyclical counts on assets within their department during the year.
- Perform the annual asset verification of all assets. The asset verification will be facilitated by the Budget and Treasury Office with support by Corporate Support & Shared Service Department.

These counts should be coordinated by Department Asset Controller.

Corporate Support & Shared Services and Budget and Treasury Office

The MCSSS and where necessary his/her duly designated official shall:

- Receive from the Budget and Treasury Office a detailed "outcome report" on the assets verification exercise.
- In consultation with the CFO, ensure that the asset register of the Council is balanced at least annually.

Budget and Treasury Office will facilitate the annual physical verification of assets. Corporate Support & Shared Services is in charge of asset management and follow up reports / investigations on missing or damaged assets, insurance claims for stolen or damaged assets as well as disciplinary investigations and procedures instigated against parties responsible for the missing assets.

4.9 Safekeeping of assets

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

Employees can also be held responsible for physical safekeeping of any asset assigned to their office. If they move assets and fail to complete the asset transfer forms and the asset goes missing in another office, while still assigned to their office in terms of records, they may still be held responsible due to lack of transferring responsibility, in conjunction with the other official in which office the asset was actually stationed.

In exercising this responsibility, every HOD shall adhere to any written directives issued by the MM to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's assets.

In addition, any visitors to a department should be accompanied by an employee of the department.

4.10 Alienation of assets

Every HOD shall report in writing to the MCSSS on 28 February of each financial year on all assets controlled or used by the department concerned which such HOD wishes to alienate by public auction or public tender. The MCSSS 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 can delegate to the municipal manager the authority to approve the alienation of any asset with a carrying value less than R5 000 (five thousand rand).

The Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the MFMA. Once the assets are alienated, the CFO shall delete the relevant records from 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.

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 above procedures, except that the process of alienation shall be by private treaty.

4.11 Reporting write-offs of assets

All losses should be recorded on a standard **Asset Write off Form** (refer to **section 5.5**) which shall be used for reporting purposes.

Loss, theft, destruction, or impairment

Every HOD shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing (refer to **section 5.5**) to the MCSSS, and – in cases of suspected theft or malicious damage – also to the South African Police Service. The MCSSS shall promptly report to the CFO in writing the above events.

Other write-offs

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

Each Department must keep an accurate record of all asset losses and report (refer to **section 5.5**) such losses to the MCSSS.

The MCSSS shall report to the CFO on 28 February of each financial year on any assets which such HOD wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, consolidation and compare with the annual physical asset verification and submit a report to CSSS on missing, broken, no longer in use and stolen assets for CSSS to, after investigation, promptly submit a recommendation to the Council of the municipality on the assets to be written off before 30 June.

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

In every instance where a not fully depreciated fixed asset is written off, the CFO shall immediately debit to such department or vote, as additional depreciation/write off expenses, the full carrying value of the asset concerned.

4.12 Maintenance

General maintenance

Every HOD shall be directly responsible for ensuring that ***all assets (other than infrastructure assets which are dealt with below)*** are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

Maintenance plans

Every 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 of the municipality for approval.

The MM may direct that the maintenance plan be submitted to the Council prior to any approval for the acquisition or construction of infrastructure asset concerned.

Annual reports should be submitted by the HOD's (controlling or using infrastructure assets) to the Council by July each year on the progress in complying with the maintenance plan. The effect of any non-compliance on the useful operating life of the asset should also be reported.

Deferred maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan, the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.

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

Where maintenance is deferred and results in a change in the useful operating life of the asset, then the statement on Accounting policies, changes in accounting estimates and errors (GRAP 3) should be applied.

4.13 Private use of municipal assets

Each department should ensure that the removal of assets from municipal premises is monitored. The standard **Asset Removal Form** (refer to **section 5.6** for the form to complete) should be completed and authorised by the HOD each time any asset is removed from municipal premises.

No municipal asset may be used for personal gain or profit.

4.14 Replacement norms

The MM, in consultation with the MCSSS and other HOD's, shall formulate norms and standards for the replacement of all normal operational assets. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain.

4.15 Insurance of assets

All insured assets shall be handled in consultations with MCSSS as agreed with the Insurance Brokers. The MM or designee should ensure that all assets are insured. The CFO should recommend the basis of insurance to be applied to each type of fixed asset (e.g. carrying value or replacement value) and the value.

For all assets acquired, the HOD should notify the MCSSS on delivery to provide immediate cover. It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes before it is used by the respective department.

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

4.16 Fleet Management

The management of Fleet Assets (Council's vehicles, specialised vehicles, fire fighting, plant and earth moving equipment as defined by the Fleet Management Policy) shall be in terms of the "Fleet Management Policy."

4.17 Disposal of firearms

The procedures for the legal disposing of firearms in terms of the Firearms Control Act of 2000 are not included in this policy.

4.18 Biological assets

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the HOD concerned in exactly the same manner as though the asset were an ordinary asset.

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

Adopted by Council at its meeting held on 28 May 2026

per Council Resolution Number A279/2026

Signed at by DM on 1 July 2026


MUNICIPAL MANAGER

5. APPENDICES**5.1 ASSET USEFUL LIVES****Range in years**

Buildings and Facilities	15 to 60
Computer Equipment	5 to 10
Emergency Equipment	5 to 10
Furniture and Fittings	5 to 20
Office Equipment	5 to 15
Plant and Equipment	4 to 10
Motor Vehicles	3 to 15
Specialized vehicles	6 to 16



ASSET DISPOSAL FORM

DATE REQUESTED: _____

DEPARTMENT: _____

ASSET BARCODE: _____

ASSET DESCRIPTION: _____

ASSET LOCATION: _____

CLASSIFICATION OF ASSET: _____

SUGGESTED METHOD OF DISPOSAL: _____

CONDITION OF ASSET: _____

REASON FOR REQUEST FOR DISPOSAL: _____

REQUESTING OFFICIAL:

NAME & SURNAME: _____

SIGNATURE: _____

HOD RECOMMENDATION:

NAME & SURNAME: _____

SIGNATURE: _____

MCSSS APPROVAL:

NAME & SURNAME: _____

SIGNATURE: _____

MM APPROVAL:

NAME & SURNAME: _____

SIGNATURE: _____



ASSET TRANSFER FORM

DATE REQUESTED: _____

ASSET BARCODE: _____

ASSET DESCRIPTION: _____

CLASSIFICATION OF ASSET: _____

CONDITION OF ASSET: _____

REASON FOR TRANSFER: _____

<u>CURRENT LOCATION</u> (Approval for the transfer of the asset)	<u>NEW LOCATION</u> (Asset is received and the above details are verified)
DEPARTMENT/LOCATION	DEPARTMENT/LOCATION
NAME OF BUILDING	NAME OF BUILDING
ROOM NUMBER	ROOM NUMBER
TRANSFERRING OFFICIAL	RECEIVING OFFICIAL
TRANSFERRING OFFICIAL SIGNATURE	RECEIVING OFFICIAL SIGNATURE
HOD NAME AND SURNAME	HOD NAME AND SURNAME
HOD SIGNATURE	HOD SIGNATURE
SENIOR ADMIN OFFICER NAME & SURNAME:	
SENIOR ADMIN OFFICER SIGNATURE:	
DATE TRANSFERRED	DATE RECEIVED



ASSET CLEARANCE FORM

INVENTORY ITEMS:

MOVEABLE ASSETS:

RESIGNING OFFICIAL:
NAME AND SURNAME:

SIGNATURE:

DATE:

HOD:
NAME AND SURNAME:

SIGNATURE:

DATE:

SENIOR ADMIN ASS:
NAME AND SURNAME:

SIGNATURE:

DATE:

ASSET UNIT:
NAME AND SURNAME:

SIGNATURE:

DATE:



ASSET WRITE OFF FORM

DATE REQUESTED: _____

DEPARTMENT: _____

ASSET BARCODE: _____

ASSET DESCRIPTION: _____

ASSET LOCATION: _____

CLASSIFICATION OF ASSET: _____

SUGGESTED METHOD OF DISPOSAL: _____

CONDITION OF ASSET: _____

REASON FOR WRITE OFF: _____

REQUESTING OFFICIAL:

NAME & SURNAME: _____

SIGNATURE: _____

HOD RECOMMENDATION:

NAME & SURNAME: _____

SIGNATURE: _____

MCSSS APPROVAL:

NAME & SURNAME: _____

SIGNATURE: _____

MM APPROVAL:

NAME & SURNAME: _____

SIGNATURE: _____



ASSET REMOVAL FORM

DATE REQUESTED:

DATE REMOVED:

DEPARTMENT:

ASSET BARCODE:

**FLOOR NUMBER/ ROOM
NUMBER:**

ASSET DESCRIPTION:

CLASSIFICATION OF ASSET:

REASON FOR REMOVAL:

RETURN DATE:

DATE RETURNED:

**REQUESTED BY:
NAME AND SURNAME:**

POSITION:

SIGNATURE:

DATE:

**AUTHORISED BY:
NAME AND SURNAME:**

POSITION:

SIGNATURE:

DATE:



PERSONAL ASSET DECLARATION FORM

SERIAL NUMBER:

ASSET DESCRIPTION:

NAME OF USER:

ASSET LOCATION:

REASON FOR BRINGING THE ASSET ONTO THE PREMISES:

ESTIMATED REMOVAL DATE:

OWNER DETAILS:

NAME AND SURNAME:

SIGNATURE:

DATE:

DECLARATION: I, the owner agree not hold Waterberg District Municipality liable for any theft or damage incurred relating to the use of the abovementioned asset.

DEPARTMENT ASSET CONTROLLER

NAME AND SURNAME:

SIGNATURE:

DATE:

DECLARATION: I, the Department Asset Controller, agree that Waterberg District Municipality is not the owner of the abovementioned asset.

Council Resolution Number A279/2026

Approval by MM / his or her delegate

P. Repulse

Initials and Surname

Signature

[Signature]
Municipal Manager

1 July 2026
Date