

# RANDFONTEIN LOCAL MUNICIPALITY



## ASSET MANAGEMENT POLICY

2010

**PREAMBLE**

- (a) **Whereas** section 14(1) of the Local Government: Municipal Finance Management Act (No. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum level of basic municipal services;
- (b) **And whereas** the Randfontein Municipal Council wishes to adopt a policy to guide the Municipal Manager in the management of the municipality's assets;
- (c) **And whereas** the Municipal Manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets;
- (d) **And whereas** these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes
- (e) **Now therefore** the municipal council of the Randfontein Municipality adopts the following asset management policy:

**1. PURPOSE OF THE POLICY**

- 1.1 The purpose of the policy is to regulate the management of the assets of the Randfontein Municipality in an efficient and effective way with regard to the acquisition, disposal, utilization, control and maintenance of assets.

**2. DEFINITIONS**

**Asset** is defined as a resource controlled by the municipality as a result of past events and from which future economic benefits or potential service provision is expected to flow to the municipality in GAMAP 000.

A fixed asset is thus an asset, either movable or immovable, owned by or 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.

An asset held under a finance lease, shall be recognized as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

**Accounting officer** means the Municipal Manager appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act 2000 (Act No. 32 of 2000).

<b>Chief Financial Officer</b>	means an officer of a Municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.
<b>Community assets</b>	are defined as any assets that contributes to the community's well-being. Examples are parks, libraries and fire stations.
<b>Infrastructure assets</b>	are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.
<b>Investment properties</b>	are defined as properties that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
<b>Municipal valuation</b>	means the official valuation of an immovable property as reflected in the Municipality's valuation roll
<b>Property Plant and Equipment</b>	In terms of GAMAP 113, property, plant and equipment are defined as tangible assets that are held by a municipality for use in the production or supply of goods or services, for rental or others, or for administrative purposes and are expected to be used during more than one period.
<b>Carrying amount</b>	is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses

<b>Cost</b>	is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other Standards of GRAP.
<b>Depreciable amount</b>	is the cost of an asset or other amount substituted for cost, less its residual value.
<b>Depreciation</b>	is the systematic allocation of the depreciable amount of an asset over its useful life.
<b>Economic life</b>	is either the period over which an asset is expected to yield economic benefits or service potential to one or more users or the number of production or similar units expected to be obtained from the asset by one or more users.
<b>Recoverable amount</b>	is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
<b>Fair value</b>	is the higher of a cash-generating asset's net selling price and its value in use
<b>Recoverable service amount</b>	is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

**Residual value of an asset** is the estimated amount that the Randfontein Local Municipality would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life as defined below.

**“Useful life” is** (a) the period over which an asset is expected to be available for use by the Randfontein Local Municipality,

or

(b) the number of production or similar units expected to be obtained from the asset by the Randfontein Local Municipality.

**Heritage asset** There is no formal definition of what constitute a heritage asset. The National Heritage Resource Act defines “heritage resource” as any place or object of cultural significance and the Act defines “cultural significance” as aesthetic, architectural, historical, scientific, social, spiritual, linguistic or technological value or significance.

### **3. LEGAL REQUIREMENTS**

- 3.1. In terms of section 62 (1) (a) of the Municipal Finance Management Act, (Act No. 56 of 2003) the Accounting Officer (Municipal Manager) is responsible for the effective, efficient and economical use of the resources of the municipality.
- 3.2. In terms of section 63 (1) (a) of the Municipal Finance Management Act, (Act No. 56 of 2003) the Accounting Officer (Municipal Manager) is responsible for the management of the assets of the municipality, including the safeguarding and maintenance of it. The following responsibilities would apply to the specified incumbents
  - 3.2.1 The Chief Financial Officer will keep an asset register.
  - 3.2.2 Each director will inform the Chief Financial Officer on any changes to assets under the control of his or her Directorate.
  - 3.2.3 Each director will report regularly on the assets under their control as determined by the Chief Financial Officer.
  - 3.2.4 Each director will keep inventory lists of all assets not included in the asset register as determined by the Chief Financial Officer.
  - 3.2.5 Each director will do a physical count of the assets in their Directorates as determined by the Chief Financial Officer and submit a report on the results of such an asset count to the chief financial officer.
  - 3.2.6 The Chief Financial Officer will, through the Municipal Manager, report to Council on all assets not traced during the asset count and will include all the responses by the relevant directors.

**4. ROLE OF MUNICIPAL MANAGER**

- 4.1 As accounting officer of the municipality, the Municipal Manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.
- 4.2 The Municipal Manager may delegate the responsibilities placed on him/her to any official directly accountable to him/her.

**5. ROLE OF CHIEF FINANCIAL OFFICER**

- 5.1 The Chief Financial Officer shall exercise such powers delegated to him/her by the Municipal Manager in the management of the assets of the Municipality and shall amongst other things:
  - (a) be the Fixed Asset Registrar of the municipality;
  - (b) ensure that a complete, accurate and up-to-date computerized fixed asset register is maintained.
- 5.2 No amendments, deletions or additions to the fixed asset register shall be made other than by the chief financial officer or by an official acting under the written instruction of the chief financial officer.

**6. ACQUISITION OF ASSETS**

- 6.1 The Municipality may acquire by purchase, or by hire, fixed assets within or outside the municipality.
- 6.2 Prior to passing a final council resolution with regard to the acquisition of immovable property whether through purchase or hire, the council shall publicly advertise its intentions to do so.

- 6.3 After consideration of the objections, if any, lodged in accordance with the advertisement contemplated by 6(2) above, the council:-
- (a) shall in the case of immovable property contemplated by 6(4) comply with the provisions of that subsection; and
  - (b) may in the case of any other immovable property finally resolve whether or not to purchase or hire such immovable property.
- 6.4 The municipality shall not without the prior approval of the council proceed with the purchase or hire of any immovable property:-
- (a) which is to be purchased at a price in excess of the municipal valuation thereof; and
  - (b) which is to be hired at a rental which, when calculated per annum in the case of:-
    - (i) immovable property hired for agricultural purposes, exceeds six per cent of the municipal valuation of the property; and
    - (ii) immovable property hired for any other purpose, exceed twelve per cent, of the municipal valuation of the property;or
  - (c) where objections have been lodged in accordance with the advertisement contemplated by 6(2) above.
- 6.5 In case immovable property is to be acquired which forms a portion of a property which is valued as a whole, the municipal valuation of such a portion shall be determined by the Municipal Manager by a pro-rata apportionment of the official municipal valuation of such a property.

- 6.6 Should the purchase price of immovable property be more than the official municipal valuation plus 15%, council shall be obliged to have the market value of the property assessed by a sworn appraiser before a final decision to purchase the property, is taken.
- 6.7 The council may accept a gift or conveyance of immovable property only if such a property is conveyed to the municipality unconditionally or to be used for any of the functions described in section 156(1) of the Constitution of the RSA.
- 6.8 All assets acquisitions are to occur in terms of the budgetary provisions and procurement prescriptions.
- 6.9 The assets register shall be updated for all acquisitions of moveable and immovable property by the Asset Management Unit.
- 6.10 The assets should be reconciled with the total assets per the general ledger and the sources of funding.

## **7. FORMAT OF FIXED ASSET REGISTER**

- 7.1 The fixed asset register shall be maintained in the format determined by the chief financial officer, which format shall comply with the requirements of generally recognized accounting practice (GRAP) and generally accepted municipal accounting practice (GAMAP) and any other accounting requirements which may be prescribed for municipalities.
- 7.2 The fixed asset register shall reflect the following information:
- (a) a brief but meaningful description of each asset
  - (b) the date on which the asset was acquired or brought into use
  - (c) the location of the asset

- (d) the department(s) or vote(s) within which the assets will be used
- (e) the title deed number, in the case of fixed property
- (f) the stand number, in the case of fixed property
- (g) where applicable, the identification number, as determined in compliance with the section on identification of fixed assets.
- (h) the original cost, or the revalued amount determined in compliance with the section on revaluation of fixed assets, or the fair value if no costs are available
- (i) the previous date of revaluation of the fixed assets that have been identified for the new revaluation
- (j) the revalued value of such fixed assets
- (k) who did the (last) revaluation
- (l) accumulated depreciation to date
- (m) the depreciation charge for the current financial year
- (n) the carrying value of the asset
- (o) the method and rate of depreciation
- (p) impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- (q) the source of financing
- (r) the current insurance arrangements with regard to the asset being revalued.
- (s) whether the asset is required to perform basic municipal services
- (t) whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- (u) the date on which the asset is disposed of

- (v) the amount reserved for disposal
- (w) the date on which the asset is retired from use, if not disposed of.

- 7.3 Each director under whose control any fixed asset falls shall promptly provide the chief financial officer in writing with any information required to compile the fixed asset register, and shall promptly advise the chief financial officer in writing of any material change which may occur in respect of such information.
- 7.4 A fixed asset shall be capitalized, that is, recorded in the fixed assets register, at the date of acquisitions and the date shall be used to calculate the depreciation. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, whereafter it shall be appropriately capitalized as a fixed asset.
- 7.5 A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.
- 7.7 The chief financial officer shall provide the Municipal Manager with information that would enable him/her to issue a certificate, annually, indicating that all assets have been accounted for and checked against the asset register.
- 7.8 When fixed assets are sold, disposed of, transferred or purchased on approval by the council:-
- (a) the fixed asset register must be updated; and
  - (b) the journal entries to record the sales, disposal, transfer or purchase must be processed

## **8. CLASSIFICATION OF FIXED ASSETS**

8.1 In compliance with the requirements of the National Treasury, the chief financial officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and directors shall in writing provide the chief financial officer with such information or assistance as is required to compile a proper classification:

### **8.1.1 PROPERTY, PLANT AND EQUIPMENT**

- (a) land (not held as investment assets)
- (b) infrastructure assets (assets which are part of a network of similar assets)
- (c) community assets (resources contributing to the general well-being of the community)
- (d) heritage assets (culturally significant resources)
- (d) other assets (ordinary operational resources)

### **8.1.2 INVENTORY**

- (a) housing (rental stock or housing stock not held for capital gain)

### **8.1.3 INVESTMENT PROPERTY**

- (a) investment assets (resources held for capital or operational gain)

8.2 The chief financial officer shall adhere to the classifications indicated in the annexure on fixed asset lives (see Annexure A below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

## **9. INVESTMENT PROPERTY**

- 9.1 Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position.
- 9.2 Investment assets shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.
- 9.3 Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.
- 9.4 Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the statement of position at such fair value.
- 9.5 Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.
- 9.6 An expert valuer shall be engaged by the municipality to undertake such valuations.
- 9.7 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 – whereafter it shall be reclassified as an investment asset.

**10. FIXED ASSETS TREATED AS INVENTORY**

- 10.1 Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position.
- 10.2 Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

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

- 11.1 If no original costs or fair values are available in the case of one or more or all heritage assets, the chief financial officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned.
- 11.2 For purposes of compiling the statement of position, the existence of such heritage assets shall be disclosed by means of an appropriate note.

**12. RECOGNITION OF DONATED ASSETS**

- 12.1 Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

**13. SAFEKEEPING OF ASSETS**

- 13.1 Every Director shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.
- 13.2 In exercising this responsibility, every director shall adhere to any written directives issued by the chief financial officer to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's fixed assets.

**14. IDENTIFICATION OF FIXED ASSETS**

- 14.1 The chief financial officer shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerized fixed asset register.
- 14.2 The each director shall keep a file of all assets they have acquired and/or at their disposal made up of the following information:
  - (a) The requisition for the asset
  - (b) The purchasing Order for the asset with a full description
  - (c) A full description of the asset including the manufacturer's serial number and all identification information available on the asset.
- 14.3 Every director shall ensure that the asset identification system for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

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

- 15.1 Each director shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer and to the internal auditor.
- 15.2 In cases of suspected theft or malicious damage the director shall inform the Municipal Manager via the chief financial officer to obtain permission to report the matter to the South African Police Service.
- 15.3 The Municipal Manager shall report all incidents of theft or malicious damage to Council at the earliest opportunity he/she has after the chief financial officer has submitted a report mentioned above.

**16. CAPITALIZATION CRITERIA: MATERIAL VALUE**

- 16.1 No item with an initial cost or fair value of less than R3 000 (three thousand rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the Municipal Manager – shall be recognized as a fixed asset.
- 16.2 If the item has a cost or fair value lower than this capitalization benchmark, it shall be treated as an ordinary operating expense.
- 16.3 Each director shall, however, ensure that any item with a value in excess of R1 000.00 (one thousand rand), and with an estimated useful life of more than one year, shall be recorded on a stock sheet.
- 16.4 Each director shall moreover ensure that the existence of items recorded on such stocksheets is verified at least once in every financial year and any

amendments which are made to such stocksheets pursuant to such stock verifications shall be retained for audit purposes.

**17. CAPITALIZATION CRITERIA: INTANGIBLE ITEMS**

17.1 No intangible item shall be recognized as a fixed asset, except that the chief financial officer, acting in strict compliance with the criteria set out in IAS 38 (dealing with research and development expenses) may recommend to the council that specific development costs be recognized as fixed assets.

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

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

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

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

**19. MAINTENANCE PLANS**

- 19.1 Each director 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.
- 19.2 If so directed by the Municipal Manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.
- 19.3 Each director controlling or using the infrastructure asset in question, shall annually report to the council, not later than in January, 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.

**20. DEFERRED MAINTENANCE**

- 20.1 If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see the section on Maintenance Plans above), the chief financial officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.
- 20.2 Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.
- 20.3 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 Director

controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

**21. GENERAL MAINTENANCE OF FIXED ASSETS**

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

**22. DEPRECIATION OF FIXED ASSETS**

22.1 All fixed assets, except land and heritage assets, shall be depreciated – or amortized in the case of intangible assets.

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

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

22.4 However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, deprecation charges shall be calculated monthly.

22.5 Each Director, acting in consultation with the chief financial officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

- 22.6 The procedures to be followed in accounting and budgeting for the amortization of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

**23. RATE OF DEPRECIATION**

- 23.1 The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register.
- 23.2 In determining such a useful life the chief financial officer shall adhere to the useful lives set out in the annexure to this policy.
- 23.3 In the case of a fixed asset which is not listed in this annexure, the chief financial officer shall determine a useful operating life, if necessary in consultation with the director who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

**24. METHOD OF DEPRECIATION**

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

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

- 25.1 Only the chief financial officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the chief financial officer shall inform the council of the municipality of such amendment.
- 25.2 The chief financial officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
- 25.3 If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.
- 25.4 Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the fixed asset register.
- 25.5 In the all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

- 25.6 If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalized at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.
- 26. ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES**
- 26.1 The chief financial officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.
- 26.2 The chief financial officer shall only employ this method of depreciation if the Director controlling or using the fixed asset in question gives a written undertaking to the Municipal Manager to provide:
- (a) estimates of statistical information required by the chief financial officer to prepare estimates of depreciation expenses for each financial year; and
  - (b) actual statistical information, for each financial year.
- 26.3 The Director concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the chief financial officer.
- 26.4 Where the chief financial officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the chief financial officer shall inform the council of the municipality of the decision in question.

**27. CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION**

*NOTE: This section has been prepared on the assumption that these reserves are allowed.*

- 27.1 The chief financial officer shall ensure that in respect of all fixed assets financed from the municipality's asset financing reserve, or from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of fixed assets donated to the municipality, a non-distributable reserve for future depreciation is created equal in value to the capitalized value of each fixed asset in question.
- 27.2 The chief financial officer shall thereafter ensure that in the case of depreciable fixed assets an amount equal to the monthly depreciation expenses of the fixed asset concerned is transferred each month from such non-distributable reserve to the municipality's appropriation account.
- 27.3 Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the chief financial officer shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

**28. CARRYING VALUES OF FIXED ASSETS**

- 28.1 All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.
- 28.2 The only exceptions to this rule shall be revalued and heritage assets in respect of which no value is recorded in the fixed asset register.

**29. REVALUATION OF FIXED ASSETS**

- 29.1 All land and buildings recorded in the municipality’s fixed asset register shall be revalued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).
- 29.2 The chief financial officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the chief financial officer is satisfied that such value reflects the fair value of the fixed asset concerned.
- 29.3 The chief financial officer shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.
- 29.4 The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.
- 29.5 The chief financial officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality’s appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

- 29.6 If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the chief financial officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll.
- 29.7 Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.
- 29.8 Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

**30. VERIFICATION OF FIXED ASSETS**

- 30.1 Each director shall at least once during every financial year, and in compliance with the relevant written directives issued by the chief financial officer, undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.
- 30.2 The directives issued by the chief financial officer shall stipulate the date(s) when such verification shall be undertaken and completed, and such date(s) shall be as close as possible to the end of each financial year.
- 30.3 Each director shall promptly and fully report in writing to the chief financial officer in the format determined by the chief financial officer, all relevant results of such fixed asset verification, and the resultant report shall be submitted to the chief financial officer not later than 30 June of the year in question.

**31. REMOVAL AND/OR TRANSFER OF ASSETS**

- 31.1 Each department must maintain an asset removal record to ensure that the head of the department is aware of the whereabouts of all assets under his/her control. **[Asset Removal Form]**
- 31.2 With respect to transfer of assets, a list must be produced indicating the relevant details as per asset register.
- 31.3 The list must be approved by the transferring head of the department.
- 31.4 The receiving department or administrative unit should confirm the list of assets being transferred.
- 31.5 The transferring and receiving departments must keep a copy of the list of the transferred assets.

**32. DISPOSAL OF FIXED ASSETS**

*NOTE: The reference to the asset financing reserve below is based on the assumption that the reserve is allowed.*

- 32.1 According to section 14 of the Municipal Finance Management Act a municipality may not alienate any capital asset required to provide a minimum level of basic municipal services. A municipality may alienate any other capital asset, but provided
  - the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
  - the council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.”
- 32.2 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 asset management policy.

- 32.3 All assets earmarked for disposal must be sold by public auction or tender after the following steps have been followed:-
- (a) a notice of the intention of the municipality to sell the asset has been published in a local newspaper;
  - (b) the Municipal Manager, in instances where he/she may deem fit, having taken into consideration the initial cost of acquiring the asset and the present book value, determine a minimum selling price at which a particular item should be sold;
  - (c) in the case of a public auction, the municipality has appointed an independent auctioneer to conduct the auction; and
  - (d) in the case of a tender, the prescribed tender procedures of the municipality has been followed
- 32.4 Every Director 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 Director wishes to alienate.
- 32.5 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 subsection 3 above.
- 32.6 The chief financial officer shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R50 000 (fifty thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act.
- 32.7 Once the fixed assets are disposed of, the chief financial officer shall delete the relevant records from the fixed asset register.

- 32.8 If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognized as a loss in the statement of performance of the department or vote concerned.
- 32.9 If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognized as a gain in the statement of performance of the department or vote concerned.
- 32.10 All gains realized on the alienation of fixed assets shall be appropriated annually to the municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned.
- 32.11 If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.
- 32.12 Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty in accordance with the municipality's supply chain management policy.
- 32.13 The chief financial officer shall in July of every year report to the council of the municipality details of all fixed assets disposed of during the immediately preceding financial year.

**33. OTHER WRITE-OFFS OF FIXED ASSETS**

- 33.1 A fixed asset other than when disposed of in accordance with the section on the disposal of fixed assets above, and even though fully depreciated, shall be written off by the Council only on the recommendation of the Municipal Manager after a request submitted by the Director controlling or using the asset concerned.

- 33.2 Every Director shall report to the chief financial officer on 31 October and 30 April of each financial year on any fixed assets which such Director wishes to have written off, stating in full the reason for such recommendation.
- 33.3 The chief financial officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality through the Municipal Manager on the fixed assets to be written off.
- 33.4 The only reasons for writing off fixed assets, other than the alienation of such fixed assets shall be the following:
- (a) the useful life of the assets has expired;
  - (b) the asset has been destroyed or materially impaired;
  - (c) the asset is outdated;
  - (d) the asset has been sold;
  - (e) the asset has been lost
- 33.5 In every instance where a not fully depreciated fixed asset is written off, the chief financial officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned.
- 33.6 When an asset was damaged or destroyed in circumstances not within the control of the municipality, the Municipal Manager must ascertain whether third parties or a municipal employee was involved and whether the municipality has any right of recourse against such third party or employee. If a third party or an employee can be held liable for the loss the chief financial officer must compile a report with all the facts and submit that to the municipal legal services for consideration.
- 33.7 All assets written off must be sold in terms of the section on disposal of assets in this policy.

**34. CAPITAL EXPENDITURE: REPLACEMENT NORMS**

- 34.1 The Municipal Manager, in consultation with the chief financial officer and other directors, shall formulate norms and standards for the replacement of all normal operational fixed assets.
- 34.2 Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval.
- 34.3 This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items.
- 34.4 Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

**35. INSURANCE OF FIXED ASSETS**

- 35.1 The chief financial officer shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.
- 35.2 The chief financial officer must conduct a risk assessment of all assets and after considering the risks involved, report to a committee of council, which assets must be insured.
- 35.3 The risk assessment must be based on a loss probability analysis and if there is no capacity within the municipality to conduct the analysis the chief financial officer should be authorized to obtain external professional assistance.
- 35.4 Assets must be insured internally or externally and coverage must be based on the loss probability analysis.
- 35.5 All insurance claims must be assessed by an official, charged with the responsibility for the insurance of assets, to determine whether the damage to the assets can be recovered from possible third parties involved.

- 35.6 If the damage was caused by an identifiable third party the chief financial officer should compile a report advising the Municipal Manager of the facts thereof and any possible further action.
- 35.7 All insurance claims must be recorded in an insurance register.
- 35.8 All outstanding insurance claims must be reported monthly to the Mayoral Committee and Council.

**36. BIOLOGICAL ASSETS**

- 36.1 Accounting for biological assets shall take place in accordance with the requirements of IAS 41.
- 36.2 The chief financial officer, 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 recognized valuer in the line of the biological assets concerned.
- 36.3 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.
- 36.4 If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the director concerned in exactly the same manner as though the asset were an ordinary fixed asset.
- 36.5 Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record altogether and such details shall reflect the information which the chief financial officer, in consultation with the Director concerned and the internal auditor, deems necessary for accounting and control purposes.

36.6 The chief financial officer 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.

**- END -**