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ASSET MANAGEMENT POLICY

Incorporating

ANNEXURE A

ASSET MANAGEMENT METHODOLOGY
System Description & Methodology

UNCHANGED

1 JULY 2021

MP313

CONTENTS

1. **DEFINITIONS**

"Accounting Standards Board" was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.

"agricultural activity" is the management by an entity of the biological transformation and harvest of biological assets for

i) Sale
ii) Distribution at no charge or for a nominal charge; or
iii) Conversion into agricultural produce or into additional biological assets for sale or distribution at no charge or for a nominal charge. biological assets when related to agricultural activity example, the management of biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

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

"assets" are resources controlled by an entity as the result of past events and from which future economic benefits or potential service provision are expected to flow to the entity.

"asset categories" are the main and sub groups used for the classification of assets.

"asset champion" is an official delegated by the asset manager in his/her department or section to assist him/her in performing asset management related functions and duties.

"attractive items" are items of property, plant and equipment which are not significant enough for financial recognition in the fixed asset register, but are attractive enough to warrant special safeguarding. Such items are controlled through departmental attractive item (inventory) registers.

"asset manager" is the director who has the functional accountability for and control of the physical management of a particular set of assets in order to achieve the municipality's strategic objectives relevant to his/her directorate. The execution of this responsibility will require the asset manager to control the acquisition, utilization, management and disposal of this set of assets to optimize the achievement of these objectives.

"biological assets" **is a** living animal or plant.

"capitalization" is the recognition of expenditure of an asset(s) in the fixed asset register.

"carrying amount" is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated losses.

Carrying amount for the purposes of investment property is the amount at which an asset is recognised in the statement of financial position.

"Cash-generating assets" are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

"Cash-generating unit" is the smallest identifiable group of assets used with the 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. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

"Current assets" An asset shall be classified as current when it satisfies any of the following criteria:

a) It is expected to be realised in, or held for sale or consumption in, the entity's normal operating cycle;
b) It is held primarily for the purpose of being traded;
c) It is expected to be realised within twelve months after the reporting date; or
d) It is cash or a cash equivalent asset unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

"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.

"deferred maintenance" is the extent of preventative maintenance that has not been performed.

"depreciation" is the systematic allocation of the depreciable amount of an asset over its useful life.

"depreciable amount" is the cost of an asset, or other amount of an asset, substituted for cost, less its residual value.

"disposal" is the act of derecognizing an asset that has reached the end of its useful life and no future economic benefits or service potential is further expected from its use, or through normal sale of the asset if the sale occurs before the end of the useful life of the asset.

"donated" an item donated to the municipality at no cost or for a nominal cost or acquired by means of an exchange of assets.

"fair value" is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

"fair value less costs to sell" is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

"Fixed asset register" (FAR) is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy.*"GRAP"* stands for *"generally recognized accounting practice"*.

"heritage assets" are assets that have a cultural, environmental, historical, natural, scientific, technological, or artistic significance and are held indefinitely for the benefit of present and future generations.

"impairment" is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

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

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

"intangible assets" are identifiable non-monetary assets without physical substance (identifiable means that the asset can be separated or divided from the entity and sold, transferred, rented or exchanged).

investment property" is property (land or 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 use in production or supply of goods or services or for administrative purposes or sale in the ordinary course of operations.

"maintenance" is considered operating expenses incurred in ensuring that the useful operating life of assets is attained.

"Non-cash-generating assets" are assets other than cash generating assets

"non-current assets" are assets that are not current assets.

"preventative maintenance" is the maintenance which is required on a systematic basis to ensure that the originally assessed future economic benefits or potential service position of the relevant asset is realized hence that the fixed asset reaches it estimated useful life.

“property, plant and equipment” are tangible assets that:

a) are held by the municipality for use in the production of goods of supply of goods or services, for rental to others, for administrative purposes; and

b) are expected to be used during more than one (1) period.

“recoverable amount” of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use.

“recoverable service amount” is the higher of a non-cash generating asset’s fair value less costs to sell and its value in use

“recognition” is the process by which expenditure is included in the fixed asset register as an asset(s).

“*recognition threshold*” is the cost related to the acquisition of the asset and must be greater than R 1000.00 or the cost will be expensed. The municipality however may recognize items of the property, plant and equipment acquired at the cost less than R 1000.00 where necessary for fair presentation and disclosure of the items of PPE.

“replacement value” is the amount which is needed in current terms to replace an asset.

“residual value” of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

“director” is a director referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Accounting Officer.

“senior management teams” are the incumbents of post level 1, 2 and 3 in each directorate being the director and everyone up to two (2) levels below them.
“stewardship” is the act of taking care of and managing property, plant or equipment on behalf of another.

“useful life” is:

a) the period over which an asset is expected to be available for use by the municipality; or
b) the number of production or similar units expected to be obtained from the asset by the municipality.

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"Value in use of a non-cash-generating asset" is the present value of the asset's remaining service potential.

"Value in use of a cash-generating asset" is 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.

2. PURPOSE

The utilization and management of property, plant and equipment is the prime mechanism by which a municipality can fulfill its constitutional mandates for:

- delivery of sustainable services;
- social and economic development;
- promoting safe and healthy environments; and
- providing the basic needs to the community.

As trustees on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in property, plant and equipment.

The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment.

Stewardship has two components being the:

- financial administration by the chief financial officer; and
- physical administration by the individual asset managers.

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

Statutory provisions such as municipal asset transfer regulations are being implemented to protect public property against arbitrary and inappropriate management or disposal by local government

Accounting standards are being adopted by the Accounting Standards Board per instructions or the Accountant General, to ensure the appropriate financial treatment for property, plant and equipment. The requirements of these new accounting standards include:

- the compilation of asset registers covering all property, plant and equipment controlled by the municipality;
- accounting treatment for the acquisition, disposal, recognition; impairment and depreciation of property, plant and equipment; and

- the standards to which these financial records must be maintained.

3. **OBJECTIVE**

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's property, plant and equipment.

- To ensure asset managers are aware of their responsibilities with regard to property, plant and equipment.

- To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilization.

- To specify the process required before expenditure on property, plant and equipment occurs.

- To emphasize a culture of accountability over assets.

- To ensure compliance with all legal and accounting prescriptions and requirements.

The Steve Tshwete Local Municipality believes that an asset management policy is essential to ensure effective and efficient utilization of public monies and accountability thereof is heavily dependent on accurate recording and accounting treatment.

4. **STATUTORY AND REGULATORY FRAMEWORK**

This policy must comply with all relevant legislative requirements and financial reporting requirements including:

- Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, Act 117 of 1998
- Municipal Systems Act, Act 32 of 2000
- Division of Revenue Act (enacted annually)
- Municipal Finance Management Act, Act 56 of 2003
- Municipal Asset Transfer Regulations
- Generally Recognized Accounting Practices (GRAP)
  (i) GRAP 17 – property, plant or equipment
  (ii) GRAP 16 – investment
  (iii) GRAP 21 – impairment of non-cash generating assets
  (iv) GRAP 26 – impairment of cash generating assets
  (v) GRAP 31 – intangible assets
  (vi) GRAP 103 – heritage assets

This policy does not over rule the stipulations contained in any legislatory, regulatory or any other applicable policies of the municipality such as supply chain management, tendering or budget policies.

5. RESPONSIBILITIES AND ACCOUNTABILITIES

The Council must:

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

The Accounting Officer is responsible for the management of assets of the municipality, including the safeguarding and the maintenance of those assets and must ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are accounted for in accordance with applicable accounting standards;
- The municipality has and maintains a system of internal control of assets, including an asset register;
- The directors and their teams comply with this policy; and
- Approve temporary and/or permanent transfers of movable assets between departments as determined in the powers of delegation of the municipality.

The chief financial officer is responsible to the Accounting Officer to ensure that the financial investment in the municipality's assets is safeguarded and maintained.

The chief financial officer must ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless and wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained at standards sufficient to satisfy the requirements of the GRAP.

- Financial processes are established and maintained to ensure that the municipality's financial resources are optimally utilized through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;

- The directors and asset champions are appropriately advised on their powers and duties pertaining to the financial administration of assets;

- The chief financial officer may delegate or otherwise assign responsibility for performing these functions in terms of the powers of delegation but will remain accountable for ensuring these activities are performed;

- The policy and supporting procedures or guidelines are established, maintained and effectively communicated;

- Approve the temporary or permanent transfers of movable assets between departments as determined in the powers of delegation of the municipality; and

- Approve the reclassification of assets as attractive items and the subsequent transfer of such items to the departmental attractive item register, as determined in the powers of delegation.

The asset manager must ensure that:

- Appropriate physical management and control systems are established and maintained for all assets in their area of responsibility;

- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;

- Any unauthorized, irregular or fruitless or wasteful utilization and losses of assets resulting from criminal or negligent conduct, are prevented;

- Their asset management system and controls can provide an accurate, reliable and up to date account of assets under their control;

- To advise and inform the chief financial officer on the acquisition of new assets in order to update inventory lists and subsequently the asset register of the respective department as well as the municipality;

- The assets under their control are appropriately safeguarded and maintained to the extent necessary that risk management systems are in place and applied;

- They be able to justify that their asset plans, budgets and purchasing, general and preventative maintenance and disposal decisions optimally achieve the municipality's strategic objectives;

- The Asset manager may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed;

- To certify in writing at each financial year-end, that he/she has assessed all assets under his/her control for impairment, and review of useful lives;

- The full facts of cases are reported in writing to the chief financial officer, accounting officer and subsequently to the council in the event of an asset or attractive item being demolished, destroyed, damaged or any occurrence of any other event materially affecting its value;

- Approve the temporary or permanent transfers of a movable asset between departments as determined in the powers of delegation of the municipality;

- The chief financial officer is informed in writing at least once per annum, of all moveable and immovable property, plant and equipment to be included for insurance purposes;

- The Asset manager must ensure that property, plant and equipment are appropriately utilized and that these assets are used for the purpose that the municipality acquired them; and

- An annual stock take of property, plant and equipment as part of the annual reporting process, required by regulatory and legislatory prescriptions in co-ordination with the chief financial officer, is done. The condition of the asset should be assessed during the verification process and reported to the chief financial officer.

The asset champion must:

- Assist the Asset manager in performing his/her functions and duties in terms of asset management;

- The Asset manager must at each reporting date assess all assets under his/her control for impairment and review of useful lives and review of residual amounts in collaboration with the chief financial officer;

- The Asset manager must, on termination of an employee's services, ensure that the respective assets and inventory items lists indicating all items entrusted to the specific asset user, is confirmed to be existent and returned in good order, prior to the final salary payment being made to the employee;

- Ensure inventory lists are verified and kept updated in collaboration with the directorate financial services; and
- Identify obsolete and redundant assets and attractive items at least once per financial year, compile a report and obtain the necessary approval for the disposal thereof.

6. FINANCIAL MANAGEMENT

6.1 Pre-acquisition planning

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

- The projected acquisition and implementation cost over all the financial years until the project is operational;
- The future operational costs and revenue on the project, including tax and tariff implications;
- The financial sustainability of the project over its life including revenue generation and subsidization requirements;
- The physical and financial stewardship of the asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation; and
- The identification and inclusion of the capital project in the integrated development plan, as well as the subsequent linking thereof to the approved strategies and objectives.

The chief financial officer is responsible to provide assistance, guidance and advice to Asset managers to enable them to achieve their planning requirements.

6.2 Approval to acquire property, plant and equipment

Money can only be spent on a capital project if:

- The funds had been approved in the capital budget;
- The project, including the total cost, had been approved by the council;
- The chief financial officer confirms that funding is available for that specific project; and
- Any contract that will impose financial obligations more than two (2) years after the budget year is appropriately disclosed.

Every department procuring any items on capital votes or projects should ensure that evidence thereof is kept at hand.

Evidence of procurement is necessary for the recording of details in the fixed asset register to ensure completeness of the audit trail, and is required.

On receiving procured assets, departments must ensure that they inform the directorate financial services accordingly, to aid the updating of asset registers or inventory lists on an ongoing basis.

6.3 Funding of capital projects

Within the municipality's ongoing financial, legislative or administrative capacity, the chief financial officer will establish and maintain the funding strategies that will optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan.

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

6.4 Disposal of property, plant and equipment

The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipal services, subject to stipulations in the municipal asset transfer regulations.

The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the council, in a meeting open to the public:

- Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and

- Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

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

The Accounting Officer may approve the disposal of an item of property, plant and equipment as per the approved delegations of authority.

The disposal of an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and consistent with the municipality's supply chain management policy.

Transfer of assets to other municipalities, municipal entities, national departments or provincial departments is excluded from these provisions, but must be done in accordance with a prescribed framework (municipal asset transfer regulations).

Disposal and alienation of assets must be done in accordance with the municipal supply chain management policy and municipal asset transfer regulations.

Asset manager is responsible to prepare a list of redundant or obsolete assets and/or inventory items at least once per annum which such directorate wishes to alienate by public auction. Such list must be submitted to the directorate finance that will consolidate and prepare a report to council.

The criteria for the disposal of letting of assets, including unserviceable, redundant or obsolete assets, subject to section 14 of the act, are as follow:

(a) Movable assets:

- (i) the asset is uneconomical to repair;
- (ii) the asset is irreparable;
- (iii) the relevant department has no further use for the assets; and
- (iv) no other department requires the asset.

(b) Immovable assets:

- (i) the relevant department has no further use for the asset;

(ii) no other department requires the asset;
(iii) a member of the public wishing to acquire the asset can utilize the asset to the advantage of the community; and
(iv) where created specifically for sale or rental to public.

The disposal of assets must:

(a) be one of the following methods:
  (i) transferring the asset to another organ of state in terms of a provision of the act enabling the transfer of assets;
  (ii) transferring the asset to another organ of state at market related value or, when appropriate for a lesser amount or free of charge;
  (iii) selling the asset; or
  (iv) destroying the asset.

(b) provided that -

  (i) immovable assets may be sold at not less than market related prices except when the public interest or the plight of the poor demands otherwise, by means of public tenders, public auction or over the counter on a first come first serve basis;
  (ii) movable assets may be sold either by way of written price quotations, public tenders, public auction whichever is the most advantageous;
  (iii) in the case of the free disposal of computer equipment, the provincial Department of Education must first be approached to indicate within thirty (30) days whether any of the local schools are interested in the equipment; and
  (iv) in the case of the disposal of firearms, the National Conventional Arms Control Committee has to approve any sale or donation of firearms to any person or institution within or outside the Republic.

(c) furthermore, ensure that -

  (i) immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise; and
  (ii) all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting immovable property are annually reviewed.

(d) ensure that where assets are traded in for other assets, the highest possible trade-in price is negotiated.

The disposal of immovable assets is further subject to the following principles:

(a) payment of the full purchase price and all estimated costs pertaining to the transaction upon signature of the deed of sale, in cash; and

(b) all costs (advertising, rezoning, obtaining of a valuation, etc.) pertaining to the transaction shall be borne by the purchaser.

Once the fixed assets are disposed of or alienated the directorate finance shall de-recognize the asset from the accounting records and the fixed asset register. All gains and losses realized on the alienation of fixed assets shall be accounted for.

Asset Disposal Committee

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

(i) Assets with carrying amount up to R20 000,00

This committee should comprise of the following members:

- relevant departmental director or divisional head;
- departmental asset champion of relevant department;
  at least two (2) of the following:
  - asset manager;
  - accountant asset management; and
  - chief clerk assets.

(ii) Assets with carrying amount exceeding R20 000,00

This committee should comprise of the following members:

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

Responsibilities of Asset Disposal Committee:

(i) ensure that the items identified to be written off, are indeed redundant and/or obsolete;
(ii) ensure that the written off items are stored safely and separately from assets in use;

(iii) ensure proper control over such items at the date of delivery to the auction storage room;
(iv) ensure proper record keeping takes place to transfer the assets to the auction storage room;
(v) prepare item to council to write off the items; and
(vi) timeously resolve any other issues which might result in discrepancies during the disposal process.

6.5 Loss, theft, destruction and impairment of fixed assets

Asset manager must ensure that all 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 in cases of suspected theft or malicious damage to the South African Police Service.

Upon confirmation after an internal investigation all cases of loss, theft, and destruction must be reported to council.

7. **INTERNAL CONTROLS**

7.1 Fixed Asset Register

7.1.1 *Establishment and Management of the Fixed asset register*

The chief financial officer will establish and maintain an asset register containing key financial data on each item of property, plant or equipment that satisfies the criterion for recognition.

Asset manager is responsible for establishing and maintaining of additional registers or databases required to demonstrate the physical management of their assets and/or attractive items.

The Asset manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, and location and condition of all assets in the fixed asset register as well as other additional registers.

Asset manager is responsible to implement and maintain additional registers or databases to substantiate the quantity, value and location of attractive (inventory items) not contained in the fixed asset register.

7.1.2 *Contents of the Fixed Asset Register*

The asset register may include the following information pertaining to individual assets:

- brief but meaningful description
- classification
- date of acquisition
- physical location
- cost centre of user department
- function codes
- the responsible asset user
- identification number where applicable
- acquisition cost/fair value
- the accumulated depreciation
- the carrying amount
- cash or non-cash generated
- the depreciation methods used
- depreciation charges (current year)
- source of finance
- insurance arrangements
- title deed number (property)
- stand number (property)
- impairment losses
- date and price of disposal (if relevant)
- asset used to secure debt
- residual value
- the measurement based used

7.1.3 *Internal Controls over the fixed asset register*

Controls around the asset register should be sufficient to provide an accurate, reliable and up to date account of assets under control to the standards specified by the chief financial officer.

These controls will include physical management and recording of all acquisitions, assignments, transfers, losses and disposals of assigned asset as well as regular stocktakes and system audits to confirm the adequacy of controls.

7.2 Physical Receipting and Management

The supply chain manager must ensure in co-operation of the Asset manager that the purchase of property, plant and equipment is procured and complies with the municipality's supply chain management policy.

The accountant asset management will reconcile monthly all assets procured.

The supply chain unit will manage the receipting of property, plant and equipment.

The process of receipting by the municipal stores will include:

- review of the authority to purchase including compliance with all procurement policies and budgetary limits.

- assignment of the asset to the appropriate user .

The date of acquisition of property, plant and equipment is deemed to be the time when legal title and/or control passes to the municipality and when the definition of an asset is met.

The date of acquisition may vary for different categories of assets but will usually be the point of time when payment for that item of property, plant and equipment is made.

The Asset manager must advise the chief financial officer in writing of capital work in progress at the end of the financial year.

The Asset manager must advise the chief financial officer promptly in writing whenever capital work in progress is completed for inclusion in the asset register.

7.3 <u>Transfer between asset managers</u>

7.3.1 *Permanent transfers to another asset manager*

An asset manager retains managerial accountability and control for a particular asset unless:

- Another asset manager agrees in writing in accordance with financial limits as laid down in the delegations of authority to accept responsibility for that asset.

- The new asset manager accepts all accountabilities of the previous asset manager.

- The chief financial officer appropriately amends the fixed asset register for all approved transfers, whereafter such physical transfers are only permitted to take place.

- The new asset manager has made the necessary budget provisions to cater for the accompanying costs of the asset.

7.3.2 *Reallocation or reassignment of property, plant or equipment*

The asset manager must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management are implemented.

The asset manager must advise the chief financial officer whenever an asset is permanently relocated or reassigned from one location (or base) or cost centre recorded in the fixed asset register, to a different one.

The asset manager must advise the chief financial officer whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the fixed asset register to a different one. In this case, the asset manager must also advise the chief financial officer when this asset is returned.

7.4 Verification of fixed assets

The Asset manager must ensure that all movable property, plant and equipment is duly checked, processed and identified (marked with a unique label number) before it is received into their stewardship.

The Asset manager will perform an annual stocktake of property, plant and equipment as part of the annual reporting process in co-ordination with the chief financial officer. The condition of the assets should be assessed during the verification process and reported to the chief financial officer.

The results of the annual stock take, in hard copy format, must be signed by the Asset manager or his/her delegate in terms of delegations of authority and be displayed in relevant locations.

Asset manager must, on an ongoing basis, keep record of assets which are redundant and/or obsolete to be written off.

7.5 Insurance of fixed assets

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

8. MANAGEMENT OF ATTRACTIVE ITEMS

8.1 Management of attractive items

Assets costing less than R1 000,00 and with a lifespan of less than twelve (12) months, are deemed to be attractive items, unless that type of asset is specifically excluded by the chief financial officer.

The requirements to manage attractive items by each Assets Manager include, but are not limited to:

- Receipting and delivery of items through specified control points.
- Assignment of such items to a specific asset user.
- Maintaining and updating of departmental attractive items (inventory) register.
- Regular stock takes to ensure that all attractive items are available for use and appropriately safeguarded.
- Submitting such registers to ad hoc audits carried out by the chief financial officer.
- Recording and subsequent reporting any disposal/loss of such items in accordance with the powers of delegation.

Attractive items:

- will not depreciate;
- will not be revalued;
- will not be impaired;
- will be recorded in the attractive items (inventory) register;
- will be treated in a similar fashion as an asset example, safeguarded, officially approved for disposal etc.; and
- will be budgeted for under a dedicated line item in the operating budget

9. MANAGEMENT OF ASSETS

9.1 Accountability to manage property, plant and equipment

Each asset manager is accountable to ensure that municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This would include:

- Developing appropriate asset management systems, procedures, processes and controls for managing assets.

- Providing accurate, reliable and up to date account of assets under their control.

- The development and motivation of relevant strategic asset management plans and operational budgets to optimally achieve the municipality's strategic objectives.

9.2 Reporting on impeding issues

Each asset manager should report to the Accounting Officer on issues that will significantly impede the assets capability to provide the required level of service or economic benefit.

10. CLASSIFICATION, AGGREGATION AND COMPONENTS

10.1 Classification of property, plant and equipment

Any asset recognized as an asset under this policy will be classified according to categories as per the relevant accounting standards.

All fixed assets will be classified under the following headings in the asset register:

(a) Property, plant and equipment

- Land
- Buildings
- Community assets
- Infrastructure assets
- Other assets

(b) Heritage assets

(c) Investment property

(d) Intangible assets
- Computer software

Schedule 1 provides a list of asset categories.

10.2 Inventory

Any land or building owned or occupied by the municipality with the intention of selling such property in the ordinary course of business, or any land or building owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory assets.

These assets will be recognized as per GRAP 12 standard.

10.3 Treatment for major component

An Asset manager, with agreement of the chief financial officer, treat specified major components of an item of property, plant and equipment as a separate asset for the purposes of this policy.

These major components may be defined by its physical parameters (e.g. reservoir roof) of its financial parameters (e.g. road surface).

In agreeing to these treatments the chief financial officer must be satisfied that these components:

- Have a significantly different useful life or usage pattern to the main asset;
- Align with the asset management plans;
- The benefits justify the costs of separate identification;
- The municipality has gained control over the asset;
- The cost is above the recognition threshold; and
- The asset is expected to be used during more than one (1) financial year.

Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.

All other replacements, renewals or refurbishments of insignificant components will be expensed.

10.4 Recognition of network asset

A network asset is a collection of assets and their subsequent components, which operates as a whole to deliver a specified service or economic benefit, e.g. electrical network, roads network, IT system network, etc.

It should be possible to identify a network asset with all its different components on the asset register.

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

11. **ACCOUNTING FOR PROPERTY, PLANT AND EQUIPMENT**

11.1 Recognition of property, plant and equipment

An item of property, plant and equipment will be recognized as an asset when:

- It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality;

- The cost of the asset to the municipality can be measured reliably;

- The municipality has gained control over the asset;

- The cost is above the recognition threshold; and

- The asset is expected to be used during more than one (1) financial year.

All other acquisitions of property, plant and equipment will be expensed.

11.2 Initial measurement

An item of property, plant and equipment that qualifies for recognition as a non-current asset should be initially measured at its "*cost of acquisition*".

"*Cost of acquisition*" will include all directly attributable costs required to bring the asset to the proper working condition and position for its intended use.

These costs will usually include the following:

- Purchase costs less any discount or rebates;
- Cost of site preparation and development;
- Initial delivery and handling costs;
- Installation and assembly costs;
- Professional fees;
- Import duties;
- Non-refundable taxes;
- Contractor fees; and
- Finance cost (interest) in accordance with the applicable accounting standards.

Capitalization of cost stops/seizes when the asset is in the condition and location necessary for it to be capable of operating in the manner intended by management.

11.3 Donations or exchanges

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

11.4 Carrying amount on property, plant and equipment

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

11.5 Depreciation

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

The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life.

The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed by the municipality.

The depreciation charge for each period will be recognized as an expense against the budget of the relevant asset manager where the asset is used or consumed unless it is included in the carrying amount of another asset.
The depreciation method will be straight line unless the chief financial officer is convinced that another method is more appropriate.

Depreciation of an asset will commence once the asset is available for use through:

- being in the location for it to be capable of operating in the manner intended; and

- being in the condition for it to be capable of operating in the manner intended.

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

11.6 Initial determination of useful life

Each asset manager needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecast the expected useful life of that asset. This should be developed as part of the pre-acquisition planning that would consider the following factors:

- The operational, maintenance, renewal and disposal programme that will optimize the expected long term costs of owing that asset;
- Economic obsolescence because it is too expensive to maintain;
- Functional obsolescence because it no longer meets the municipalities needs;
- Technological obsolescence;
- Social obsolescence due to changing demographics; and
- Legal obsolescence due to statutory constraints.

Attached as schedule 2 is a list of useful lives which forms part of this policy. These should be used as a guide to the minimum useful lives only because actual asset lives experienced greatly exceed those recommended lives.

Spares purchased specifically for a particular asset, or class of asset, and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

11.7 Review of useful life

The useful life of an item of property, plant and equipment must be reviewed annually and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

Should it become known that an asset has been materially impaired or improperly maintained to such an extent that its useful life will not be attained, the useful life of such asset will be amended.

11.8 Review of depreciation method

The depreciation method applied to property, plant and equipment will be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method should be changed to reflect the changed pattern.

When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current, and future periods should be adjusted.

11.9 Review of residual value

The residual value of an item of property, plant and equipment must be assessed at each reporting date, and this amount may increase to an amount equal to or greater than the asset(s) carrying amount.

If expectations differ from previous estimates, the change shall be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

11.10 Subsequent expenditure on property, plant and equipment

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

All other expenditure should be recognized as an expense in the period in which it occurred.

Before allowing the capitalization of the subsequent expenditure, the chief financial officer must be satisfied that this expenditure significantly:

- increases the life of that asset beyond that stated in the asset register; or
- increases the quality of service of that asset beyond the existing level of service; or
- increases the quantity of services that asset can provide; or
- reduces the future assessed costs of maintaining that asset.

Expenditure that is proposed to be capitalized must also conform to the recognition criteria for non-current assets and should also be appropriately included in the approved capital budget.

Where it is desired to capitalize future component replacements, refurbishments or renewals, refer to the section of major components in this policy.

11.11 Subsequent increase in recoverable amount

A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

11.12 Impairment of assets

The impairment of assets will be recognized according to GRAP 21 and 26 and as per the methodology for impairment and assessment of useful lives of assets policy.

The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

The following may be indicators that an item of property, plant and equipment has become impaired:

- the assets have been damaged;
- the asset become technologically obsolete;
- excessive maintenance is required on the asset;
- damages to the asset through acts of God;
- asset not completed before it is in a usable condition; and/or
- decline in land market value.

The following steps must be performed to account for impairment losses:

The directorate finance will provide department with asset schedules annually.

Asset managers must indicate on schedules:

- asset which were damage at year end;
- asset which are technologically obsolete at year end;
- assets which were destroyed due to acts of God; and/or
- assets where excessive maintenance is required.

The next step is to calculate the recoverable amounts of these assets.

The impairment loss is then calculated and is the difference between the carrying values at reporting date less the recoverable amount.

A list of impaired assets will be submitted annually to the Accounting Officer for impairment approval.

11.13 Accounting treatment on disposal

An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its disposal.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the statement of financial performance. The fact that a fixed asset might be fully depreciated is in itself not a reason for disposal of the asset.

11.14 Reinstatement, maintenance and other expenses

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.

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.

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 communication costs.

The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:

Capital Expenditure	Maintenance
▪ acquiring a new asset ▪ replacing an existing asset ▪ enhancing an existing asset to that its use is expanded ▪ further developing an existing asset so that its original useful life is extended	▪ restoring an asset so that it can continue to be used for its intended purpose ▪ maintaining an asset so that it can be used for the period for which it was initially intended

11.15 <u>Assets held under leases</u>

Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the FAR.

It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the municipality.

11.16 <u>Recognition of heritage assets in the fixed asset register</u>

A heritage asset that qualified for recognition as an asset shall be measured at its cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

If no original costs or fair values are available in the case of one or more or all heritage assets, the executive director financial services may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned.

For statement of financial performance purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

12. ACCOUNTING FOR INVESTMENT PROPERTY

Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.

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 rather than for:

- use in the production or supply of goods or service or for administrative purposes; or

sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

The investment property is initially recognised at cost. The transaction costs are included in the initial measurement.

When an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition

Measurement after recognition: After initial recognition, the municipality shall measure all of its investment property at cost less any accumulated depreciation and any accumulated impairment losses.

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.

13. ACCOUNTING FOR INTANGIBLE ASSETS

Intangible assets are accounted for in terms of GRAP 31 and is recognised when it is probable that the expected future economic benefits or service potential attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially measured at cost. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.

Subsequent to initial measurement, intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

14. **FINANCIAL DISCLOSURE**

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

(a) The measurement base used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.

(b) The depreciation methods used.

(c) The useful lives or the depreciation rates used.

(d) Depreciation charged in arriving at net surplus or deficit for the period.

(e) The gross carrying amount and the accumulated depreciation at the beginning and the end of the period.

(f) A reconciliation of the carrying amount at the beginning and end of the period showing:

- (i) additions
- (ii) disposals
- (iii) acquisition through business combinations
- (iv) increases or the decreases resulting from revaluations
- (v) deductions in carrying amount
- (vi) amounts written back
- (vii) depreciation
- (viii) other movements

The financial statements should also disclose:

(a) Whether or not, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values.

(b) The existence and amounts of restriction on title and property, plant and equipment pledged as security for liabilities.

(c) The accounting policy for restoration costs relating to items of property, plant and equipment.

(d) The amount of expenditures on account of property, plant and equipment in the course of construction; and

(e) The amount of commitments for the acquisition of property, plant and equipment.

(f) The extent of and possible implications of deferred maintenance as well as plans to redress such deferral.

15. **REVIEW**

This policy will be reviewed at least annually or when required by way of a council resolution.

16. **SHORT TITLE**

This policy shall be called the Asset Management Policy of the Steve Tshwete Local Municipality.

SCHEDULE 1

ASSET CATEGORIES

1. Immovable Assets

i) Infrastructure assets

- electricity network assets
- water networks and related assets
- waste water networks and related assets
- roads, bridges and storm water
- waste management : landfill sites and transfer stations

ii) Investment property

iii) Community assets

- parks & gardens
- sport fields and stadium
- swimming pools
- community halls
- libraries
- recreational facilities
- fire, safety and emergency
- security and policy
- clinics
- museums and art galleries
- cemeteries
- social rental housing

iv) Heritage assets

- buildings

v) Intangible assets

- servitudes

vi) Agricultural assets

- biological assets

vii) Other assets

- abattoirs
- markets
- civic land and buildings
- other land
- other buildings

viii) Work-in-progress

2. Movable Assets

i) *Other Assets*

- office equipment
- furniture and fittings
- bins and containers
- emergency equipment
- motor vehicles
- aircraft
- watercraft
- plant and equipment
- specialized vehicles

ii) Intangible Assets

- computer software & programming

iii) Heritage Assets

SCHEDULE 2
USEFUL LIFE OF ASSETS

CLASSES OF ASSETS

	USEFUL LIFE IN YEARS		
	MIN		**MAX**
PROPERTY, PLANT & EQUIPMENT			
LAND			
Developed land	Indefinite		
Undeveloped land	Indefinite		
BUILDINGS			
DWELLINGS			
Children's homes	30	-	100
Foreign mission dwellings	30	-	100
Homes of the aged	30	-	100
Hostels	30	-	100
Military personnel dwellings	30	-	100
Places of safety (children)	30	-	100
Prisons and rehabilitation facilities	30	-	100
Residences (presidential, embassies)	30	-	100
Residences (personnel) include garages and parking	30	-	100
Secure care centres	30	-	100
NON-RESIDENTIAL DWELLINGS			
Airport and associated buildings (control towers, transfer halls,	30	-	100
parking, hangars and warehousing)	30	-	100
Border and custom control points	30	-	100
Bus terminals	30	-	100
Bus shelters	30	-	100
Civic theatres	30	-	100
Clinics and community health facilities	30	-	100
Community centres and public entertainment buildings	30	-	100
Driver and vehicle testing centres	30	-	100
Fire stations	30	-	100
Foreign mission offices	30	-	100
Hospital and ambulance stations	30	-	100
Industrial buildings	30	-	100
Laboratories	30	-	100
Libraries	30	-	100
Mortuaries	30	-	100
Museums and art galleries	30	-	100
Office buildings (including air conditioning systems)	30	-	100
Public parking (covered and open)	30	-	100
Police stations (and associated buildings)	30	-	100
Railway and associated buildings	30	-	100
	USEFUL LIFE IN YEARS		
	MIN		**MAX**

Research facilities (including weather)	30	-	120
Stadiums	30	-	120
Taxi ranks	30	-	120
Universities, colleges, schools etc.	30	-	120
Warehouses (storage facilities, including data)	30	-	120
OTHER STRUCTURES (INFRASTRUCTURE ASSETS)			
ELECTRICITY			
Cooling towers	10	-	300
Mains	10	-	300
Meters			
Prepaid	10	-	300
Credit	10	-	300
Power stations			
Coal	10	-	300
Gas	10	-	300
Hydro	10	-	300
Nuclear	10	-	300
Supply/reticulation	10	-	300
Transformers	10	-	300
Lines	10	-	300
Underground	10	-	300
Overhead	10	-	300
Cables	10	-	300
Substations			
Switchgear	10	-	300
Equipment			
Outdoor	10	-	300
GIS	10	-	300
Indoor	10	-	300
Electrical panels	10	-	300
Telemetry	10	-	300
ROADS (ROADS, PAVEMENTS, BRIDGES &STORM WATER)			
BRIDGES			
Vehicles			
Bridges – Concrete	10	-	300
Bridges – Steel	10	-	300
Bridges – Timber	10	-	300
Pedestrian			
Bridges – Concrete	10	-	300
Bridges – Steel	10	-	300
Bridges – Timber	10	-	300
Railway			
Bridges – Concrete	10	-	300
Bridges – Steel	10	-	300
Bridges – Timber	10	-	300
	USEFUL LIFE IN YEARS		
	MIN		**MAX**

Reinforced retaining walls			
Earth	10	-	300
Concrete	10	-	300
Expansion and construction joints	10	-	300
STORM WATER			
Culverts	10	-	300
Concrete	10	-	300
Armco	10	-	300
Drains			
Earthworks	10	-	300
Concrete lining	10	-	300
Stop banks	10	-	300
Pipes	10	-	300
Coastal			
Structure (retaining walls)	10	-	300
Piers	10	-	300
Storm water outfalls	10	-	300
ROADS			
Kerb and channels	10	-	300
Municipal roads - asphalt surface	10	-	300
- asphalt layer	10	-	300
- concrete surface	10	-	300
- concrete layer	10	-	300
- gravel surface	10	-	300
National - asphalt surface	10	-	300
- asphalt layer	10	-	300
- concrete surface	10	-	300
- concrete layer	10	-	300
- gravel surface	10	-	300
Provincial roads - asphalt surface	10	-	300
- asphalt layer	10	-	300
- concrete surface	10	-	300
- concrete layer	10	-	300
- gravel surface	10	-	300
Crash barriers	10	-	300
Retaining walls	10	-	300
Overload control centres	10	-	300
Electronic hardware	10	-	300
Other equipment	10	-	300
Pedestrian footpaths	10	-	300
Street lighting	10	-	300
Subways	10	-	300
Traffic islands	10	-	300
Traffic lights	10	-	300
Traffic lights – coastal	10	-	300
	USEFUL LIFE IN YEARS		
	MIN		**MAX**

Traffic signs	3	-	100
Toll road plazas	10	-	100
AIRPORTS			
Airports and radio beacons	10	-	100
Aprons	10	-	100
Runways	10	-	100
Taxiways	10	-	100
Specialized equipment			
Luggage movement equipment	10	-	100
Communication equipment	10	-	100
WATER			
Dams			
Structure			
- Concrete	10	-	300
- Earth	10	-	300
Mechanical and electrical	3	-	300
Meters	3	-	300
Standpipes	10	-	300
Metal works (steel stairs, ladders, handrails, weirs)	3	-	300
Pump stations			
Structure	10	-	300
Electrical	3	-	300
Mechanical	3	-	300
Perimeter protection	5	-	300
Reservoirs			
Structure	3	-	300
Electrical	3	-	300
Mechanical	3	-	300
Perimeter protection	5	-	300
Supply/reticulation	10	-	300
Underground chambers			
Valves	3	-	300
Meters	3	-	300
Transition	10	-	300
Other	10	-	300
Water purification works			
Structure	10	-	300
Electrical	3	-	300
Mechanical	3	-	300
Perimeter protection	5	-	300
Meters	3	-	300
Telemetry	3	-	300

	USEFUL LIFE IN YEARS		
	MIN		**MAX**
SEWERAGE			
Bulk pipelines (outfall sewers)			
Rising mains	10	-	300
Gravity mains	10	-	300
Sewerage pump stations			
Structure	10	-	300
Electrical	3	-	300
Mechanical	3	-	300
Perimeter protection	5	-	300
Metal work	3	-	300
Sewers/reticulation	10	-	300
Waste purification works			
Structure	10	-	300
Electrical	3	-	300
Mechanical	3	-	300
Perimeter protection	5	-	300
Meters	3	-	300
SOLID WASTE DISPOSAL			
Collection			
Vehicles	10	-	300
Containers/bins	10	-	300
Transfer stations and processing facilities			
Structure	10	-	300
Electrical	3	-	300
Mechanical	3	-	300
Perimeter protection	5	-	300
Landfill site			
Earthmoving and compaction equipment	10	-	300
Landfill preparation		n/a	
Structure	10	-	300
Weighbridge			
Mechanical	10	-	300
Electrical	10	-	300
Perimeter protection	5	-	300
RAILWAYS			
Power supply units	10	-	300
Railway sidings	10	-	300
Railway tracks	10	-	300
Signaling systems	10	-	300
Shunting yards	10	-	300

	USEFUL LIFE IN YEARS		
	MIN		**MAX**
GAS SUPPLY SYSTEMS			
Structure	10	-	300
Electrical	10	-	300
Mechanical	10	-	300
Perimeter protection	10	-	300
Stations			
Trunk receiving	10	-	300
District regulating	10	-	300
Mains/pipelines	10	-	300
Meters	10	-	300
Storage facilities	10	-	300
Supply/reticulation	10	-	300
CEMETERIES	10	-	100
CAPITAL/INFRASTRUCTURE WORK IN PROGESS			
Buildings		n/a	
Infrastructure		n/a	
Other		n/a	
OTHER MACHINERY			
Audiovisual equipment	2	-	30
Building air conditioning systems	2	-	30
Cellular phones (over R5 000,00)	2	-	30
Cellular routers	2	-	30
Domestic equipment (non-kitchen appliances)	2	-	30
Electric wire and power distribution equipment (compressors, generators and allied equipment)	2	-	30
Emergency/rescue equipment	2	-	30
Elevator systems	2	-	30
Farm/agricultural equipment	2	-	30
Fire-fighting equipment	2	-	30
Gardening equipment	2	-	30
Irrigation equipment	2	-	30
Kitchen appliances	2	-	30
Laboratory equipment – agricultural	2	-	30
- Medical testing	2	-	30
- Roads and transport	2	-	30
Laundry equipment and industrial sewing machines	2	-	30
Learning, training support and library material (curriculum equipment)	2	-	30
Machines for metallurgy	2	-	30
Machines for mining and quarrying	2	-	30
Machines for textile production	2	-	30
Medical and allied equipment	2	-	30
Music instruments	2	-	30
Photographic equipment	2	-	30
Pumps, plumbing, purification and sanitation equipment	2	-	30
	USEFUL LIFE IN YEARS		
	MIN		**MAX**

Radio equipment	2	-	30
Roads, construction and maintenance equipment	2	-	30
Saddles and other tack	2	-	30
Security equipment/systems/materials			
- Fixed	2	-	30
- Movable	2	-	30
Ship and marine equipment	2	-	30
Sport and recreational equipment	2	-	30
Survey equipment	2	-	30
Telecommunication equipment	2	-	30
Tents, flags and accessories	2	-	30
Woodworking machinery and equipment	2	-	30
Workshop equipment and loose tools			
- Fixed	2	-	30
- Movable	2	-	30
FURNITURE & OFFICE EQUIPMENT			
Advertising boards	2	-	30
Air conditioners (individual fixed and portable)	2	-	30
Cutlery and crockery	2	-	30
Domestic and hostel furniture	2	-	30
Linen and soft furnishings	2	-	30
Office equipment (including fax machines)	2	-	30
Office furniture	2	-	30
Paintings, sculptures, ornaments (home and office)	2	-	30
COMPUTER EQUIPMENT			
Computer hardware including operating systems	2	-	30
Networks	2	-	30
TRANSPORT ASSETS			
Aircraft	2	-	30
Aircraft engines	2	-	30
Airport transport equipment (stairs and luggage)	2	-	30
Busses	2	-	30
Cycles	2	-	30
Emergency vehicles (ambulances and fire engines)	2	-	30
Mobile clinics	2	-	30
Motor vehicles	2	-	30
Railway rolling stock	2	-	30
Ships	2	-	30
Ships engines	2	-	30
Trailers and accessories	2	-	30
Trucks	2	-	30

	USEFUL LIFE IN YEARS		
	MIN		**MAX**
HERITAGE ASSETS			
Archives		n/a	
Areas of land of historic or specific significance (i.e. world heritage site)		n/a	
Culturally significant buildings (parliamentary buildings)		n/a	
National monuments		n/a	
National parks/reserves (i.e. Kruger Park)		n/a	
Paintings		n/a	
Sculptures		n/a	
Municipal jewellery		n/a	
Works of art		n/a	
Other antiques and collections		n/a	

INVESTMENT PROPERTY

INTANGIBLE ASSETS

Capitalized development costs		-	
Computer software	1	-	15
Mastheads and publishing titles		-	
Patents, licenses, copyrights, brand names and trademarks		-	
Recipes, formulae, prototypes, designs and models		-	
Service and operating rights		-	
Other intangibles		-	

ANNEXURE A

ASSET MANAGEMENT METHODOLOGY

SYSTEM DESCRIPTION & METHODOLOGY

CONTENTS

4.1 Disposal may include -
4.2 Identification of disposals
4.3 Supporting documents
4.4 Controls and quality checks
4.5 Visual condition assessments (field work)

5. IMPAIRMENTS

5.1 Identification of impairments
5.2 Supporting documents and controls
5.3 Supporting documents
5.4 Controls and quality checks
5.5 Visual condition assessments (field work)
5.6 Impairment calculation

6. CHANGES IN REMAINING USEFUL LIFE (RUL)

6.1 Identification of changes in RUL
6.2 Indications considered are –
6.3 Assessment process
The data collected in the field is assessed in the following manner
Findings in the above process form the basis for further investigations and support the following updates to the fixed asset register

7. DEPRECIATED REPLACEMENT COST (DRC)

8. CURRENT REPLACEMENT COST (CRC)

1. METHODOLOGY AND BUSINESS APPROACH

Steve Tshwete Local Municipality's Methodology and Business Approach consist of the following activities:

- The municipality makes use of the IPS Technology to provide a 360º round camera image projector of the study focus area.

- The IPS Technology will take a 360° photograph and GPS Coordinate every 4 meters whilst the IPS mounted laser scanners will record a detailed point-cloud with an accuracy of up to 1 meter.

- The imagery obtained from the IPS camera and laser scanner devices allows the municipality's data analysis section to create a grid pattern consisting of 360º fully rotational picture imagery that can be used for, inter alia:

  - Land use assessment and verification
  - Asset verification data
  - Asset condition assessment data
  - Possible revenue enhancement backdrop data

- The IPS camera imagery contains date and time stamps and is used as "*field to register*" proof of the existence of assets in the field.

- The existing FAR has been imported and is used as the basis for the asset verification and comparison.

- Capital projects will be unbundled based on information contained in the handover certificates, bill of quantities and GL.

- Capital projects year on year will be physically verified to ensure that information is correctly componentized and segmented.

In terms of "*hidden or underground fixed network*" assets, the following processes will be followed: *"As-built drawings*" will be used to map the assets and to bring in the attributes pertaining to the assets

1.1. Moveable Assets

The municipality follows the business process in terms of the verification and take-on of the moveable assets:

- Conduct an assessment of the current moveable asset register.

- Identify additions for the current financial reporting period.

- Obtain all relevant documentation in terms of moveable asset additions for the reporting period.

- Obtain a copy from eNatis in terms of all vehicles registered in the name of the municipality.

- Identify and verify all motor vehicles registered in the name of the municipality:

    - Scan the 2D barcodes of the vehicles and import the data on the registration disk into the database
    - Match information on the 2D barcodes with the municipal records and eNatis
    - Identify any discrepancies
    - Perform a condition assessment of the vehicles

- A list of donations from external parties or organizations for the current financial year will be obtained from the asset management unit or finance and will be used to compile a list of donations for the financial year. The information to be obtained should include the following:

    - A donation letter from the donator
    - Date of the donation
    - Value of the assets as per the donator
    - List of donations

- Obtain information on all moveable assets disposed of during the reporting period, either by auction or any other recorded means. The information to be obtained should include:

    - The date of the auction
    - The asset barcode if available
    - Description of the asset

- Update the financial component of the moveable for in terms of the disposals.

- Conduct an assessment of assets on the floor and ensure that:

    - Assets have been barcoded
    - Rooms have been fitted with barcodes
    - Conduct a condition assessment of the assets
    - Take photographs of the different assets verified

- Identify all firearms registered in the name of the municipality.

- Each department must appoint a verification team will record the condition of the asset. This is to be done in terms of a grading system whereby a specific percentage or value is to be allocated in terms of the identified condition of the assets.

- Record a description of the asset (i.e. type of assets, make, model, serial number, etc).

- Information to be obtained in terms of transport assets will include the make, model, registration number, VIN number, engine number, et cetera.

- Should the asset not have a barcode or the barcode cannot be located, a new barcode will be attached and all relevant asset information will be recorded. This will include the new barcode number, type of asset, condition, location, etc.

- Assets specified on the previous FAR that cannot be found will be identified and flagged on the new FAR as "*not found*".

- New assets that can be linked back to the general ledger and purchase orders will be identified and brought into the FAR as "*additions*" for the reporting period.

- Assets that had to be provided with a barcode will be categorized in terms of the GRAP descriptions and categories. These assets will be matched against the "*not found assets*" in an attempt to identify them. If the assets cannot be matched back, the assets will be brought in as "*newly found assets*".

- The verification personnel will take at least 2 x photographs of the assets verified [i.e. a photograph of the asset to allow visual verification and a further photograph to show.

Financial Data Unbundling of Moveable Assets

The Project Team will undertake the following actions:

- A copy of the general ledger is obtained as well as invoices and payment certificates.

- New assets purchased and installed during the period under investigation is matched against the general ledger and invoices and the amounts, payment dates, etc. is recorded on the register.

- Moveable assets that are purchased as part of a fixed asset project will be moved to the category "*other assets*".

- The condition of all assets will be assessed and compared against the condition as contained in the FAR. Should the condition be different to the previous condition and should this not be attributed to normal wear and tear (i.e. good to poor), the asset will be impaired accordingly.

- The depreciation model is used to depreciate and adjust the value of all assets (i.e. Impairment of assets).

- Verified assets that cannot be traced back to the moveable asset FAR, will be brought in as "*newly found assets*".

- In cases where proof of purchase or invoices cannot be obtained (i.e. newly found assets) the deemed replacement value of the assets is to be used for take-on.

- The following condition rating model will be used for the identification and rating of the condition of moveable assets:

MOVEABLE ASSET CONDITION RATING MODEL		
Ranking	Condition	Percentage
1	Excellent	100%
2	Good	80%
3	Fair	60%

4	Poor	40%
5	Very Poor	20%

- The following process will be used in the calculation of deemed replacement cost (DRC) to be used for "*newly found assets*":

- The condition of the asset will be matched against the information contained in the "condition rating model" above.
- The "*current replacement cost (CRC)*" of the asset will be obtained.
- As the asset will be brought in two (2) years prior to the current date, the inflation factor for the previous two (2) years will be used to adjust the CRC to get to a value that will be brought in, in the current year.
- The Lifespan of the asset type will be used and adjusted as required according to the formulas contained in the condition rating model.
- Based on the formulas contained in the condition rating model the bulk of the financial adjustments will be done in the year of take-on.
- Record any incidents of asset impairment and the reversal of impairment.
- Record all damaged assets and assets identified for write off or earmarked for sale are recorded on the asset register and that the value of these assets are reviewed in terms of the relevant accounting standard.
- Identify assets to be disposed of and make recommendations in terms of disposal.
- If any assets are identified that were previously flagged as "*not found*" and subsequently removed from the FAR, the assets will be flagged as such and the relevant management structures within the municipality will be enlarged to bring the assets back in onto the FAR as "*previous year errors*".
- If assets have been reported as missed or stolen, copies of the SAPS CAS numbers are to be obtained and the assets are to be recorded as missed or stolen on the asset register.
- Assets that have been disposed of are to be recorded as disposed on the FAR and the date of the disposal is to be used to "end depreciation of the asset" on the FAR.

1.2. Re-assessment of assets with a "*zero*" value on the fixed register

The methodology applied in the re-assessment of assets with a "*zero value*" on the asset register is:

- An assessment will be done on whether the assets with "*zero values*" are still in use.
- If still in use, the asset condition will be verified and compared against the information contained in the "*condition rating model*" above.
- Based on the asset condition assessment and the information contained in the "*condition rating model*", a re-assessment will be done in terms of the remaining useful life (RUL) of the asset.

- The RUL will be used to recalculate the value of the asset and the financial information on the system updated accordingly.

1.3. **Re-assessment of remaining useful life on fixed assets**

The methodology applied in the re-assessment of the remaining useful life (RUL) of fixed assets is:

- All assets with a remaining useful life of two years or less is flagged for re-assessment and possible field inspection
- Based on the findings of the infield verification and assessment, the following adjustments will be done:

  - If found that an asset is still in-use, the engagement with the relevant user department to identify whether the section is going to dispose of the asset or whether the asset will still have to be used for a longer period
  - Based on the information obtained above, the RUL of the asset will be adjusted accordingly

1.4. **Deemed replacement cost (DRC) of assets**

The methodology applied in terms of the calculation of DRC of assets is:

- In instances where assets were identified that were not previously recorded on the FAR (i.e. newly founds), the assets will be brought in at the DRC.

- In the case of infrastructure assets the municipality will bring in a technical expert to do an assessment of the asset and then based on the condition and use of the asset to provide a DRC value for the asset.

- The DRC value will be based on the current replacement cost (i) minus an inflation factor worked backward until the date of take-on and (ii) the condition of the asset.

- If the original asset is no longer available commercially, the municipality will identify a similar asset to be used to obtain a current replacement cost.

1.5. **Impairment calculations of assets**

The municipality will follow the following process in the calculation of impairments:

- An asset will be verified in terms of the current condition and if the current condition deteriorated more than what the normal depreciation would have been, the municipality will source an expert to re-evaluate the condition of the asset in terms of remaining useful life and then to impair the asset to reflect the adjusted value and life span.

- If an asset is found to be broken and/or can no longer be used due to its condition assessment, the asset will be impaired to a "*zero*" value and disposed of.

1.6. **Asset movements**

The municipality's quality assurance processes will introduce:

- The of movement control sheets that are to be completed in cases where assets are moved from one location to another.
- Barcoding of certain type of fixed assets (i.e. pumps, motors) which will provide a higher level of control in managing the movement of assets and to trace assets back to previous locations.

1.7. **Take-on of completed projects**

The methodology applied in terms of the take-on of completed projects:

- The relevant asset unit within the municipality will engage with user departments to obtain copies of the internal project registers and then assess the information on the register to identify projects that are projected to be completed in the current financial year.
- Based on information contained in the project registers, the municipality will identify projects that will carry over to the following financial year and these will be recorded as work in progress [i.e. WIP].
- Once the projects that are to be completed within a financial year, the municipality will use the following documents to satisfy the take-on of the asset:
    - Copy of the final handover certificate
    - Copy of the as-built drawings
    - Copy of final payment certificate
- The municipality will then commence with the unbundling and componentization of the projects.
- The municipality will as part of the verification process compile an audit file containing all relevant information pertaining to the project. The audit file is to be submitted to the AG for audit purposes.

1.8. **Work in progress [WIP]**

The methodology applied in terms of work in progress [WIP]:

- Based on the information contained in the project registers, the municipality identified projects that are projected for completion in the near future will form part of the work-in-progress.
- The municipality will also engage with the various sections in an effort to obtain a copy of their WIP registers.
- Projects that are not identified for completion will be treated as WIP.
- The municipality will list and record the WIP per section and will then engage with the relevant Sections to verify whether the projects are still classified as WIP according to their records and if so the sections will be required to sign-off the WIP projects.

- The following projects will in all instances be treated as WIP:

  - Any projects that have not been completed by 30 June of the financial year.
  - Any projects where final handover certificates have not been issued and received by 30 June of the financial year user department to ensure that completion certificate is signed off.
  - Any project where the as-built drawings could not be supplied by 15 July of the financial year – this should be supplied before a final completion certificate is supplied.

1.9. **Donations**

The methodology applied in terms of donations received by the municipality is as follows:

- There has to be a letter from the donor addressed to the municipality that specifies that certain assets have been donated to the municipality. A copy of the donation letter has to be placed on the audit file.

- The donation letter should specify the following:

  - Date of the donation
  - Inventory/asset list of donations made
  - A financial breakdown of the value or estimated value of the assets
  - As-built drawings in the case of roads or any other network related assets
  - The relevant department to acknowledge receipt of asset.

The methodology applied in terms of donations made by the municipality is as follows:

- There has to be a council resolution that authorizes and list the assets to be donated. A copy of the council resolution has to be placed on the audit file.

- There has to be a donation letter from the municipality to the organization or recipients of the items donated that specifies the following:

  - Date of the donation
  - Name of the organization or recipients to whom the assets are donated
  - Inventory/asset list of donations made
  - Barcodes of the assets donated, if available
  - Acknowledge receipt of asset

1.10. **Landfill sites and quarries**

The methodology applied in terms of the landfill sites and quarries is as follows:

- The municipality will appoint a specialist to investigate the landfill sites and to provide a report on utilization, remaining capacity and rehabilitation.

- Upon receipt of the specialist report, the municipality will ensure that the information pertaining to the landfill sites is incorporation into the FAR.

1.11. **Land and buildings**

- Deeds data will be collected and compared to the current valuation roll to identify discrepancies in terms of ownership and values. The valuation section within the municipality will perform a full evaluation and also consider the classification of investment properties before recommending any changes to the land and buildings recorded in the asset register

1.12. **Investment properties**

The methodology applied in terms of investment properties is as follows:

- Information from the different valuation rolls are compared and matched against the information contained in the asset register.

- Copies of the lease or rental contracts for all investment properties are to be obtained and placed on the audit file.

1.13. **Consumer meters** (water and electricity meters for both conventional meters and prepaid meters)

The methodology applied in terms of consumer meters (i.e.: water and electricity meters for both conventional meters and pre-paid meter) is as follows:

- The municipality will not perform a physical meter audit of any consumer meters in the field.

- Conventional water and electricity meters:

    - An extract from the MunSoft FMS is obtained that provides the following information:

        - Meter number - If available
        - Erf number where the meter is installed as per the FMS
        - Type of meter (i.e.: water or electricity meter)
        - Make and manufacturer
        - Number of meters per erf
        - Account number

- Pre-paid water and electricity meters

    - An extract from the relevant prepaid vending system is obtained that provides the following information:

        - Meter number - If available
        - Erf number where the meter is installed as per the FMS
        - Type of meter (i.e.: water or electricity meter)
        - Make and manufacturer
        - Number of meters per erf
        - Account number

- Information pertaining to the meters will be taken up on a separate MS Excel register (i.e.: meter inventory register) for record and completeness purposes.

- Meter information from the meter inventory register will be aggregated to a suburb level and the aggregated information on suburb level will be recorded in the FAR.

- The municipality will liaise with various sections (i.e.: water and electricity] to obtain lists and schedules pertaining to meter replacements completed during the financial year. The following information will be sourced:

  - Date of replacement
  - Erf number of meter
  - Account number
  - Type of meter
  - Make and manufacturer

- The information obtained in terms of the meter replacements will be used to:

  - Take-out and impair the old meter
  - Bring in the new meter and commence depreciation of the asset

- Information pertaining to meter replacement projects will be brought in as part of the new project take-on and unbundling activities.

1.14. Road markings on the roads infrastructure register

Information and financial information pertaining to road markings on the roads infrastructure FAR must be written out of the FAR as these costs should form part of operational expenditure.

The average lifespan of road markings is relatively low and depend on amount of traffic using roads, et cetera and can in most instances be less than three (3) years.

1.15. Asset management policy

The municipality will on an annual basis assess the current asset management policy and identify instances where adjustment or enhancements are required.

The methodology to be applied in terms of the adjustments or enhancements will mean:

- The municipality will amend the asset management policy to effect the adjustment or enhancement.

- The municipality will submit the amended asset policy to council for approval and implementation.

2. FIXED ASSET REGISTER (FAR)

The following fields appear in the FAR

2.1. **Description fields**:

Example

- **Component Id** 1252077384
- **Asset Category** **C**ommunity Assets
- **Asset_Class** Recreational Facility
- **Asset_Group** Park
- **Asset** Public Park
- **Component_Group** Site
- **Component** Goal Post
- **Description** Steel Rugby Goal Post
- **component_owner** Municipality
- **Location** Die Eiland
- **Latitude** -28d 27m 46.274s
- **Longitude** 21d 14m 55.642s
- **Take_on_year_constructed** 2006
- **Commissioning_ date** 2016-05-02

Take on year constructed	Refers to those assets that were added to the FAR when the FAR was initially compiled. In some of these cases, a deemed take on-date was determined.
Commissioning date	Refers to projects after initial take on dates where a specific project completion date could be determined.

Visual Condition Fields

- **Condition rating** **1 / 2 / 3 / 4 / 5**

Condition Rating Model		
Ranking	*Short Description*	*Description of Condition*
1	Very good condition	Only normal maintenance required
2	Minor defects only	Minor maintenance required (5-10%)
3	Maintenance required to return to accepted level of service	Significant maintenance required (10-20%)
4	Requires renewal	Significant renewal/upgrade required (20-40%)
5	Asset unserviceable	Over 50% of asset requires replacement or 10% of life cycle left

2.2. **Initial Recognition fields**

- **CRC** R24 069.30
- **Residual Percentage** R0
- **DRC** R19 255.44
- **Depreciable amount** R19 255.44
- **Annual Depreciation** R962.77
- **EUL** 25
- **RUL** 20

- **RUL_Date_of_Assess** 30/06/2011

2.3. **Subsequent Measurement Fields**

Previous year

▪ **Cost Close Bal 2013-14**	R22 143.75
▪ **Acc Dep Close Bal 2013_14**	R4 813.85
▪ **Carry Value 2013_14**	R17 329.00
▪ **Depreciation correction 2013_14**	0
▪ **Carry Value PY (Restated) 2013_14**	R17 329.00

Current year

▪ **Additions_2014_15**	
▪ **Disposals_2014 _15**	
▪ **Depreciation_2014_15**	R962.77
▪ **Dep_Disposals_2014_15**	
▪ **Impairment_2014_15**	
▪ **RUL change 2014-2015**	
▪ **Reason RUL Change**	
▪ **Cost_Close_Bal_2014_15**	R22 143.75
▪ **Acc_Dep_Close_Bal_2014_15**	R5 776.62
▪ **Carry_Value_30Jun2015**	R6 367.13

3. **ADDITIONS TO THE FAR**

3.1. **Acquisitions**

There are three ways in which assets can be acquired:

- Internally, ordered by the Municipality according to a specific process.
- Externally by contractors on specific projects appointed by the municipality.
- Donations.

3.2. **Completed Projects added to FAR**

- Costs of projects on infrastructure assets are added to the FAR once work is completed. Until then it remains classified as work-in-progress.
- Cost of completed asset is determined by obtaining the bill of quantities for the project and matching this to all the invoices and relevant documents, taking in consideration the retention and professional fees and feasibility studies if any were performed.
- Other costs incurred to bring asset in its current condition and location such as labour and transport. These are also capitalized and allocated to related assets.

3.3. **Useful lives and Residual Values**

- The Useful lives of assets are determined at initial recognition for each asset (or component per asset) based on the periods as set out in the asset management policy.

- Infrastructure and community assets have a residual value of zero, as these assets are typically not sold by the municipality, allowing the asset to be fully depreciated over its useful life cycle.

3.4. **Supporting documents**

Purpose of these documents:

Verification of valuation, accuracy, completeness, occurrence, ownership, a cut-off of additions of assets

- Invoices, delivery notes and payment requisitions.

- Completion certificates & bill of quantity.

- Wages and payroll data.

- Donations letters
.
- Interdepartmental progress report – project manager must sign the form to indicate the status of the project at year end.

- Bid committee minutes.

- Tenders and/or appointment letters.

3.5. **Controls and quality checks**

- Analysis of asset movement forms supplied by technical departments.

- Monthly and ongoing meetings with technical departments regarding the movement of assets and capital internal and external projects.

- Reconciliations of completed projects with the financial system.

3.6. **Visual Condition Assessments (Field Work)**

Purpose of field work: To verify existence, completeness, location, and condition of asset additions.

- Physical verification of assets in the field with loggers - position, photograph and attribute information.

- Visual condition assessment of assets - condition will be assessed using the parameters as set out in Table 1 of the asset management policy.

- Use of asset/functional status and field movement status.

3.7. **Updating the FAR with field work**

- The unique component identification number that is given to each asset ensures that field work is reconciled with the fixed asset register data.

4. DISPOSALS OUT OF FAR

4.1. **Disposal may include**:

- Public auction or tender
- Transfer, sale or letting to another institution
- Trade-ins
- Controlled dumping

Alienated assets are written-off in the asset register. Reasons for writing off assets can only be through the loss-theft, destruction, material impairment or decommissioning of assets.

4.2. **Identification of disposals**

Disposals are mainly identified and verified through:

- Asset movement forms and the asset enquiry form supplied by various departments.
- Resolutions by municipality council.
- During fieldwork assets not in their expected location are also identified and reported.

4.3. **Supporting documents**

Purpose of documents: Verification of occurrence, accuracy, and completeness of disposals, confirm the validity of disposal, determine the value of disposals.

- Current information in the FAR to identify disposed assets values.
- Approval of disposals by municipality council.
- When sold on auction an inventory list of assets sold are presented.

4.4. **Controls and quality checks**

- Analysis of asset movement and enquiry forms.
- Quarterly and ongoing meetings with technical departments.

- Reconciliations between the FAR and the financial system.

4.5. Visual condition assessments (field work)

Purpose of field work: To confirm and identify disposals that occurred

- Visual condition assessment of assets example # 5: Asset unserviceable.

- Use of Asset/Functional Status and movement status, for example, missing.

5. IMPAIRMENTS

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Assets are reviewed and assessed for indicators of impairment annually and ongoing for in accordance with the municipality's asset management policy and the standards of GRAP 21 - impairment of non-cash generating units.

5.1. Identification of Impairments

Impairments of assets are identified by searching for indications of impairments such as physical damage of an asset.

The events or circumstances that may indicate an impairment are then discussed and documented and assessed by management by using:

- Indication on impairment form.

- Assessments of condition and change in RUL forms.

- During fieldwork assets not in their expected condition are also identified and reported by adjusting the visual condition rating to reflect its impaired condition.

5.2. Supporting documents and controls

Purpose:

To confirm validity, accuracy, completeness, occurrence, valuation of impairment.

- Analysis of Indication of impairment form supplied by technical departments.
- Quarterly and ongoing meetings with technical departments.

- Current information in the FAR to identify impaired assets values

- Supporting documents of impairment calculations performed by qualified persons.

- Analysis of data from fieldwork loggers on condition ratings.

5.3. **Visual condition assessments (field work)**

Purpose:

To verify impairment indicator occurred and to assess the condition of the asset

- Physical verification of assets in the field - position, photograph and attribute information. When an asset is impaired or damaged a photo will be taken of the asset to proof the damage.

- Use of asset/functional status and field movement status for example, out of order.

5.4. **Impairment calculation**

If impairment indication exists, the municipality shall estimate the recoverable service amount of the asset.

Impair when = Carrying Amount > Recoverable Amount

Impairment calculation

IL = CA – RA
CA = Cost – Accumulated Depreciation
RA = HIGHER OF Fair Value less cost to sell of that asset
Value in Use: (use most appropriate)

- Depreciated Replacement Cost (DRC)
- Restoration cost Approach
- Service Unit Approach

The depreciated replacement cost approach

The depreciated replacement cost of an asset is essentially the current cost that will have to be incurred to replace the asset's gross service potential and is then depreciated to reflect the asset's current age or condition.

Restoration cost approach

Under the restoration cost approach, the recoverable service amount of the asset is the depreciated replacement cost (as discussed above), less the cost required to repair the damaged asset.

Service units approach

The service units approach is used when there is a decline in the output level or a reduction in the extent of use of an asset. Under the service units approach, the present value of the remaining service potential of the asset is determined by reducing the current cost to take into account the decline in the service potential of the asset.
The current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated restoration or replacement cost of the asset before impairment, whichever is lower.

6. **CHANGES IN REMAINING USEFUL LIFE (RUL)**

6.1. **Identification of Changes in RUL**

RUL changes are identified by searching for indications of changes in the useful lives of the asset. If any such indications are found, then the expected useful life is revised.

6.2. **Indications considered are**

- The use of the asset has changed as notified by management.
- The asset is approaching the end of its previously expected useful life.
- Planned repairs and maintenance on, or refurbishments.
- Environmental factors, e.g. increased rainfall or humidity may affect assets life.
- An impaired asset may indicate a change in RUL.

6.3. **Assessment process**

- Quarterly and ongoing meetings with the different divisions in the technical department.
- Considering budgetary constraints influencing replacement of assets.
- Analysis of asset movement forms completed and supplied by Technical departments.
- Planning field visits for the physical verification of assets in the field.
- Assets affected by events that can lead to changes in asset condition.
- Visual condition assessment of assets.
- Determining and confirming the use of asset and its functional.

The data collected in the field is assessed in the following manner

- Existence of the asset in the fixed asset register is confirmed.
- Use of Asset (functional status) is confirmed with existing FAR, variances are investigated.
- Condition of the asset in the current year is then compared to previous year condition, if there is a significant difference, further investigations are performed.
- Assets nearing the end of their useful lives are discussed with the relevant infrastructure departments for further action to be taken.

Findings in the above process form the basis for further investigations and support the following updates to the fixed asset register:

- Additions, disposals, movements (asset category transfers)

- Indicators of impairments
- Possible changes in estimates, such as useful lives and residual values

Supporting Documents

- Remaining useful life indication form
- Remaining useful life evaluation form
- Curriculum Vitae of the evaluator
- Spreadsheet with management comments

7. DEPRECIATED REPLACEMENT COST (DRC)

Depreciated replacement cost is an optimized form of replacement cost method to make the estimate more realistic by adding the aspect of depreciation to a simple replacement cost concept for valuation purposes.

Replacement cost is simply defined as the cost that an entity has to bear in order to replace the asset with such resource that can provide the same benefits in pursuing business objectives under normal conditions. In other words, replacement is not necessarily about having the same asset again - but rather its future economic benefits or yield of the asset. Normally the market price is a good point to start from however, the current market price is not always what entity has to bear as a consideration for benefits to be obtained.

Depreciated replacement cost normalizes the replacement cost by reducing the value by considering the effect of accumulated depreciation. This is done to have the equitable basis of valuation as if the current asset for which replacement cost is determined has been in use and has depreciated over a period of time then replacement cost needs to be reduced as well to reflect the devaluation in future economic benefits on the same pattern.

But as the value under replacement cost may be different, it’s up to the valuer to decide at what rate replacement cost needs to be depreciated that reflects the same level of devaluation of asset that fairly equates with devaluation in the original asset.

8. CURRENT REPLACEMENT COST (CRC)

Replacement cost is the price that an entity would pay to replace an existing asset at current market prices with a similar asset. If the asset in question has been damaged, then the replacement cost relates to the pre-damaged condition of the asset.

The replacement cost of an asset may vary from the market value of that specific asset, since the asset that would actually replace it may have a different cost; the replacement asset only has to perform the same functions as the original asset - it does not have to be an exact copy of the original asset.