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# Asset Management Policy

## Centlec (SoC) Ltd - Asset Management Policy

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CENTLEC (SOC) LTD	
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## DEFINITIONS AND ABBRIVIATIONS

**Asset:** - means a resource, tangible or intangible, controlled by the entity as a result of past events which is expected to last more for than twelve months and from which future economic benefits or service potential are expected to flow to the entity.

**Asset management:** - means management of the assets of the municipal entity as required by municipal legislation which *inter alia* includes the compilation and updating of a fixed asset register.

**Class of Assets:** - means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

**Carrying Amount:** - The amount at which an asset is included in the statement or financial position after deducting any accumulated depreciation and any impairment losses thereon.

**Chief Financial Officer:** - Chief Financial Officer of Centlec or the official acting in that capacity.

**Cost Price:** - 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.

**Depreciation:** This is the systematic allocation of the cost of use of an asset over its useful life.

**Depreciable amount:** - The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

**Fair Value:** - The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**FAR:** - Fixed Assets Register preferably in computerized format and maintained strictly in accordance with this policy, which shall reflect all the assets of the municipal entity and meet all the requirements of GRAP 17.

**GRAP:** - Standards of Generally Recognised Accounting Practice.

**MFMA:** - Municipal Finance Management Act no. 56 of 2003.

**IAS:** - International Accounting Standards.

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**Impairment:** - An asset is impaired when the carrying amount exceeds its recoverable amount.

**PPE:** - Property, Plant & Equipment – These are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one reporting period.

**Residual value:** - The estimated amount that the municipal entity would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

**Recoverable amount:** The estimated amount which the municipal entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

**SCM:** - Supply Chain Management

**Useful life:** - the period over which an asset is expected to be available for use by the municipal entity, or the number of production or similar units expected to be obtained from the asset by the entity.

**Value in use:** - Is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

## LEGAL FRAMEWORKS APPLICABLE TO THE POLICY

- This policy must comply with all relevant legislative requirement including:
- The Constitution of the Republic of South Africa, 1996
- Municipality Structures Act, 1998
- Municipal Systems Act, 2000
- Local Government Capital Assets Management Guideline, 2008
- Municipal Finance Management Act No 56 of 2003

It must also comply with standards specified by the Accounting Standards Board.

The relevant currently recognized accounting standards include:

- GRAP 17-Property,Plant and Equipment;
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- GRAP 16- Investment property;
- GRAP 21 and 26- Impairment of assets;
- GRAP 31- Intangible assets;
- GRAP 13- Leases;
- GRAP 12- Inventory;
- GRAP 11- Construction contracts and GRAP 100- Assets held for sale and discontinued operations

And any GRAP standard that is applicable to assets.

This policy does not overrule the requirement to comply with other policies like supply chain or budget policies.

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## **SECTION 1: OBJECTIVES**

The Asset Management Policy provides direction for the management, accounting and control of Property, Plant & Equipment (Fixed Assets) owned or controlled by the municipal entity.

## **SECTION 2: ROLE OF THE CHIEF EXECUTIVE OFFICER**

As Accounting Officer of the municipal entity, the Chief Executive Officer shall be the principal custodian of all the municipal entities fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

The Chief Executive Officer or his duly delegated representative is responsible to:

- Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA).
- Verify assets in possession of the Entity, during the course of the financial year.
- Keep a complete and balanced record of all assets in possession of the Entity.
- Report in writing all asset losses, where applicable, to Entity.
- Ensure that assets are valued and accounted for in accordance with a statement of GRAP.
- Ensure that assets are properly maintained and safeguarded.

## **SECTION 3: ROLE OF THE CHIEF FINANCIAL OFFICER**

The Chief Financial Officer shall be the custodian of the fixed asset register of the Municipal entity, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.

### **3.1 Asset Management Division**

- 3.1.1 Shall ensure that complete records of asset items are kept, verified and balanced regularly.
- 3.1.2 Shall ensure that all movable assets are properly tagged and accounted for.
- 3.1.3 Shall conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the Directorates asset sign offs. (See also 23.2)

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- 3.1.4 The asset verification report shall reflect any discrepancies between the articles found during verification and the record referred to in the point above;
- 3.1.5 Shall ensure that the Fixed Asset Register is balanced annually with the general ledger and the financial statements.
- 3.1.6 Shall ensure adequate bar codes to exercise the functions relating to asset controls are available at all times.
- 3.1.7 Shall provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Board as recorded in the Fixed Asset Register.
- 3.1.8 Shall ensure that all audit queries are resolved in a timely manner.
- 3.1.9 Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the Directorates and provided to the Finance Executive Manager in the prescribed format.
- 3.1.10 Shall ensure that asset acquisitions are allocated to the correct asset code.
- 3.1.11 Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset Management Division, is presented.
- 3.1.12 Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the Directorates.
- 3.1.13 Shall compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy.
- 3.1.14 Shall compile and circulate a list of unused movable assets to enable other Directorates to obtain items that are of use to them.
- 3.1.15 Shall ensure that the Supply Chain Management is notified of any auctioning or disposing of written-off asset or asset inventory items.

### **3.2 The General Manager: Budget Preparation & Reporting**

- 3.2.1 Shall ensure that the capital budget as submitted by the Directorates is approved. A clear description of the funding source is also required.
- 3.2.2 Shall release capital funds only after receiving written authority and a clear and concise description of the item to be purchased as well as an allocated responsible person for this asset.
- 3.2.1 Shall ensure that any changes in the capital budget, with regards to funds transferred or project description changes are communicated to the Asset Management Division.



## **3.3 The General Manager: Financial Management**

- 3.3.1 Shall ensure that invoices authorized for payment are matched to the goods received note / proof before processing such payment.
- 3.3.2 Shall ensure that all new asset acquisitions have been allocated assets/fleet numbers by the Asset Management Division, before payments is made.
- 3.3.3 Shall if any doubt exists as to whether the invoice is in accordance with SCM policy, query the payment with the relevant Directorate and shall not process a payment until the invoice meets the SCM policy criteria.

## **3.4 Property Management**

- 3.4.1 Shall ensure that when land and/or property acquisition and/or disposal the title deed number and description of the asset shall be provided to the Manager Accounting Services as per the relevant title deed.

## **3.5 Supply Chain Management**

- 3.5.1 Shall procure and /or dispose of assets via auction or public tender or any other approved method in accordance with the provisions in the Supply Chain Management (SCM) Policy.
- 3.5.2 To ensure that the Bid Adjudication / Bid Specification Committee must comply with and be constituted in accordance with the prescription of the SCM policy.

<b>SECTION 4: ROLE OF OTHER EXECUTIVE MANAGERS</b>
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## **4.1 Executive Manager: Corporate Services**

- 4.1.1 Shall ensure that no monies are paid out on termination of employee services without receiving the relevant asset return form signed off by the relevant department.
- 4.1.2 Shall ensure that every asset return form is counter signed by the Asset Management Division before processing the termination of service.

## **4.2 All Directorates**

- 4.2.1 Shall ensure that employees in their Directorates adhere to the approved Asset Management Policies.

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- 4.2.2 Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in the Directorate. The Asset Management Division must be notified of who the responsible person/s is. Although authority has been delegated, the responsibility to ensure adequate physical control over each asset remains with the Executive Manager.
- 4.2.3 Shall ensure that assets are properly maintained in accordance with their respective asset maintenance policies.
- 4.2.4 Shall ensure that the assets of the entity are not used for private gain.
- 4.2.5 Shall ensure that all their movable assets as reflected on the Fixed Asset Register are bar-coded where possible.
- 4.2.6 Shall ensure that the Asset Management Division is notified of any changes in the status of the assets under the Executive Manager's control. This must be done on the prescribed form and include the following:
- (i) Movements/Disposals which relate to the transfer of assets (inter Directorate transfers).
  - (ii) Changes in the estimated useful lives of assets for depreciation purposes.
  - (iii) Changes in depreciation methods to best reflect an assets pattern of use.
  - (iv) The identification of impairment losses on assets by following the procedures as outlined in section 20 of this policy document.
- 4.2.7 Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
- 4.2.8 Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Division without delay.
- 4.2.9 Shall ensure that the correct cost element and description are being used before authorizing any requisitions.
- 4.2.10 Shall not procure any asset until the asset number is obtained, asset number allocated and will ensure that assets are bar-coded by the Asset Management Division and insured by the Finance Directorate.
- 4.2.11 the detailed projects as created must be categorized and clearly identified as follows:
- (a) Tangible Assets**
- Immovable Assets:**
- Infrastructure assets
  - Buildings
  - Land
  - Asset under construction (Only an asset after completion)
  - Investment Properties

## **Movable Assets:**

- Bins and Containers
- Emergency Equipment
- Furniture and Fittings
- Motor Vehicles
- Office Equipment
- Plant and Equipment
- Other

## **(b) Intangible Assets** (See Clause 11)

- Computer programs
- Licensing rights
- Servitudes
- Other

## **SECTION 5: DEFINITION OF AN ASSET**

### **5.1 Definition of an Asset**

An asset is a resource controlled by the municipal entity as a result of past events and from which future economic benefits or service potential is expected to flow to the municipal entity. Alternatively an asset can be described as a resource, tangible or intangible, controlled by the municipal entity which is expected to last for more than twelve months and from which future economic benefits or service potential will flow.

The definition has three components, which must all be satisfied in order to be classified as 'an asset' in an accounting sense. They are relevant to all forms of assets:

- 5.1.1 The municipal entity has the capacity to control the service potential or future economic benefits of the asset, that it has control of the economic benefits or service potential of the asset rather than 'physical' control;
- 5.1.2 The service potential or future economic benefits arose from past transactions or events existing on reporting date (that is future assets cannot be recognised in the financial statements); and
- 5.1.3 The asset has future service potential or economic benefit for the municipal entity. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to

the flow of cash and cash equivalents to the municipal entity. The potential may be a productive one that is part of the operating activities of the municipal entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative process lowers the costs of providing a service.

5.1.4 Service potential is thus the capacity of an asset, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipal entity.

5.1.5 An asset held under a finance lease, if it meets the remaining criteria of a fixed asset, shall be so recognized, as the municipal entity has control over such an asset even though it does not own the asset.

## **5.2 Role of Assets**

5.2.1 The role of assets is to support the delivery of a service to the public. Assets should exist to support programme delivery.

## **SECTION 6: FORMAT OF THE FIXED ASSET REGISTER**

### **6.1 Format**

The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of any accounting requirements which may be prescribed.

Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the fixed asset register can reflect the following where management considers it necessary to provide a true reflection of the entities asset situation ( all the below listed criteria will not always be applicable):

- a) a brief but meaningful description of each asset
- b) the date on which the asset was acquired or brought into use
- c) the location of the asset
- d) the department(s) or vote(s) within which the assets will be used
- e) the title deed number, in the case of fixed property
- f) the stand number, in the case of fixed property
- g) where applicable, the identification number

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- h) the original cost, or the revalued amount determined in terms of this policy or the fair value if no costs are available
- i) the (last) revaluation date of the fixed assets subject to revaluation
- j) the revalued amount of such fixed assets
- k) particulars of the person who did the (last) revaluation
- l) accumulated depreciation to date
- m) the depreciation charge for the current financial year
- n) the carrying value of the asset
- o) the method of depreciation
- p) Estimated lifespan of the asset
- q) impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- r) the source of financing
- s) the current insurance arrangements
- t) whether the asset is required to perform basic services
- u) whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- v) the date on which the asset is disposed off
- w) the disposal price
- x) the date on which the asset is retired from use, if not disposed-off.

All Executive Managers under whose control any fixed asset falls shall promptly provide the Chief Financial Officer in writing of any information required to compile the fixed asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the fixed asset register, as soon as it is acquired and when it is available for use in the manner intended by management. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use in the manner intended by management, where after it shall be appropriately capitalised as a fixed asset. Due to the duration, complexity and lengthy commissioning processes the projects assets will be recognised at the end of each financial year.

A fixed asset shall remain in the fixed asset register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

## 6.2 Different categories within FAR

6.2.1 The Fixed Asset Register (FAR) for the entity will contain the following types of assets categorized as tangible assets (movable and immovable) and intangible assets.

### **Tangible Assets**

#### **(a) Immovable Assets:**

- Electrical Infrastructure assets
- Land and Buildings
- Investment properties
- Other assets

#### **(b) Movable Assets:**

- Office Equipment
- Furniture and Fittings
- Emergency Equipment
- Motor Vehicles
- Plant and Equipment
- Other

#### **(c) Intangible Assets (See Section 11)**

- Computer programs
- Licensing rights
- Servitudes
- Other

#### 6.2.2 **General:**

- (a) The FAR will consist of all the asset master records of movable assets capitalised. These assets will be implemented with effect from approval of policy or immediately after formalization of the FAR.
- (b) Immovable assets on the FAR will not be physically numbered with barcode labels but will have a unique master record number.

- (c) Capital work-in-progress or incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use.

<b>SECTION 7: CLASSIFICATION AND IDENTIFICATION OF PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)</b>
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## 7.1 Classification

In compliance with the requirements of National Treasury and accounting standards the Chief Financial Officer shall ensure that all fixed assets are classified under the following headings and Executive Manager shall in writing provide the Chief Financial Officer with such information and assistance as is required to compile a proper classification:

### **Cost Model**

Motor vehicles and office equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

### **Revaluation Model**

Land, buildings and Plant and machinery are measured at revalued amounts, being the fair value at the date of revaluation less any accumulated depreciation and accumulated impairment losses. The costs of the day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

#### **(a) Property, Plant and Equipment**

- Land (not held as investment assets);
- Buildings excluding buildings classified as investment assets, buildings classified as Heritage assets and buildings utilised in contributing to the community's well-being (Clinics, libraries etc.).
- Infrastructure assets are defined as any asset that is part of a network of similar assets. These assets usually display some or all of the following characteristics:
  - They are part of a system or network,
  - They are specialized in nature and do not have alternative uses,

- They are immovable, and
- They may be subject to constraints on disposal.

Infrastructure can be considered as a single asset or more usefully as a collection of different assets. Each individual asset shall be measured at its own cost and own lifespan, which will influence the depreciation of such an asset.

- Capital Finance Lease assets are defined as assets financed by a Finance Lease if it is identified as such in terms of the requirements of GRAP 13.
- Other assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

## **(b) Investment Property**

Investment properties are defined as properties that are acquired/held for economic and capital gains.

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

## **7.2 Identification**

7.2.1 The Chief Executive Officer shall ensure that the municipal entity maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

7.2.2 The identification system shall be determined by the Chief Executive Officer, acting in consultation with the Chief Financial Officer and other Executive Managers, and shall comply with any legal prescriptions, as well as any requirements of the Auditor-General, and shall be decided upon within the context of the municipal entity's budget.

7.2.3 Every Executive Manager shall ensure that the asset identification system approved for the municipal entity is scrupulously applied in respect of all fixed and movable assets controlled or used by the directorate in question.



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## 7.3 Verification

7.3.1 The Asset Management Division shall at least once during every financial year provide all Executive Managers with a comprehensive list of assets which is registered under their control.

7.3.2 Every Executive Manager shall be responsible for verifying this list with the assets under their control and investigate any discrepancies arising out of the asset verification exercise. The Executive Manager of each Directorate will be required to sign and date a declaration stating that the list of assets verified for his/her Directorate is complete & accurate except for the discrepancies as reported to the Asset Management Division.

### 7.3.3 Verification of Moveable Assets

- All the entity's moveable assets should be verified and counted twice a year (Bi-Annually), on a need basis there should be monthly counts building up to bi-annual count.

### 7.3.4 Verification of Immovable Assets

- For new assets, they should be verified for existence and operation immediately after the completion certificate has been issued.
- All assets that are fully depreciated by year-end (Zero Value) should be verified to determine the conditions and the need for re-valuation based on the condition of the asset.
- All the remaining assets will be verified by the Maintenance Department on behalf of Asset Management Division during maintenance checks and provide the details to Asset Management Division on conditions of the assets.

## 7.4 Safekeeping

7.4.1 Section 63 of the Municipal Financial Management Act (Act no 56 2003) determines that the accounting officer of a municipal entity is responsible for the management of the assets of the municipal entity, including the safeguarding and the maintenance of those assets.

7.4.2 Section 78 of the Municipal Financial Management Act (Act no 56 2003) determines each senior manager of a municipal entity and each official of a municipal entity exercising

financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of the municipal entity are managed effectively and that assets are safeguarded and maintained to the extent necessary. A senior manager or such official must perform the functions subject to the directions of the accounting officer of the municipal entity.

7.4.3 Every Executive Manager shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the Directorate in question.

7.4.4 In exercising this responsibility, every Executive Manager shall adhere to any written directives issued by the Chief Executive Officer to the Directorate in question, or generally to all Directorates, in regard to the control of or safekeeping of the municipal entity's fixed assets.

## **SECTION 8: DONATED/BEQUEATHED ASSETS**

### **8.1 Definition**

An item donated or bequeathed to the entity or acquired by means of an exchange of assets between the entity and one or more other parties shall be recorded in the fixed asset register only if it subscribes to the definition of an asset as set out in section 5 above.

### **8.2 Disclosure of Donated/Bequeathed Assets**

Donated assets will be disclosed in the Statement of Financial Position at fair value less accumulated depreciation at date of acquisition. Fair value being what the asset would cost in the open market at the date of acquisition. If there is no open market for such assets the depreciated replacement value will be applied to determine fair value.

The transaction of acquisition will reflect on the Statement of Changes to Net Assets as "Assets Donated/Bequeathed"

### **8.3 Budgetary requirements**

The same budget requirements as for other fixed assets are applicable.

## SECTION 9: INTANGIBLE ASSETS

### 9.1 Definition

Items belonging to the category 'intangible' do not have a physical form and meets the identification criterion in the definition of an intangible asset when it:

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

9.1.2 arises from contractual or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the municipal entity or from other rights and obligations.

9.1.3 Creation of servitudes by way of legislation:

The entity receives certain rights regarding the creation of servitudes through legislation. For example a municipality may declare servitudes to be registered over certain parts of the land that falls within the boundaries of the proclaimed township so that the municipal entity can install infrastructure to provide basic services.

No compensation is required to the landowner for servitudes granted to the municipal entity in terms of legislation. However costs may be incurred to register the servitudes with the Deeds Office.

Servitudes granted under these conditions do not meet the 'identifiable' criteria because it cannot be sold, transferred, rented or exchanged freely and are not separable from the municipal entity.

They arise from rights granted in statute, as indicated earlier, are specifically excluded from the 'identifiable' criteria.

The cost incurred to register these servitudes (if any) will be expensed and it should not be capitalised in accordance with GRAP 31.

9.1.4 Creation of servitudes by way of acquisition (including an agreement):

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A municipal entity may need a specific piece of land to install infrastructure, e.g. power cables. Where the landowner is compensated for the rights received associated with the land, the registered servitude may be accounted for as an intangible asset.

Servitudes granted under these conditions meet the 'identifiable' criteria as they arise from contractual or other legal rights that are acquired through a binding arrangement rather than by statute.

The cost incurred to acquire the servitude (i.e. the compensation paid to the land owner) and any additional costs allowed by GRAP 31 (i.e. costs to bring the asset to the condition and location as intended by management) will be capitalised at initial recognition in accordance with GRAP 31.

Examples of intangible items are:

- Computer software (excluding operational software like windows);
- Licensing rights;
- Servitudes.

## 9.2 Recognition and measurement

Intangible items are initially recorded at their cost price. Where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at date of acquisition. After initial recognition, the municipal entity shall choose either the cost model or the revaluation model as its accounting policy.

If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortization and impairment losses.

Servitudes are recognised when the assets meet the definition and recognition criteria of an intangible asset. Otherwise the expenditure incurred is recognised as an expense in surplus or deficit.

Servitudes are initially recognised at cost (or at fair value if acquired for no cost or nominal consideration).

Only cost incurred to bringing the asset to its location and condition as intended by management can be capitalised.

Servitudes are subsequently measured in accordance with the revaluation model.

## **Cost model**

An intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

## **Revaluation model**

An intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses.

There is no amortization on servitudes as land is not depreciated. The revalued amount is taken to the revaluation surplus in net assets (except in the case of reversals). The revaluation amount will not be determined by an independent valuation, but will be revalued in conjunction with the valuation roll. Costs previously expensed cannot be capitalised subsequently.

### **9.3 Useful life**

The municipal entity shall assess whether the useful life or service potential of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the entity.

An intangible asset with a finite useful life is amortised and an intangible asset with an indefinite useful life is not.

### **9.4 Retirements and disposals**

An intangible asset shall be de-recognised on disposal; or when no more future economic benefits or service potential are expected from its use or disposal.

## 9.5 Review of useful life assessment

The useful life of an intangible asset that is not being amortised shall be reviewed each financial period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

## 9.6 De-recognition

An asset is de-recognised when it is disposed of or when no future economic benefits or service potential is expected. Any gain or loss is recognised as surplus or deficit.

<b>SECTION 10: CAPITALISATION CRITERIA</b>
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### 10.1 All asset acquisitions that complies with the definition of PPE.

All items of PPE acquired that comply with the fixed asset definition must be capitalised in the FAR at cost and be provided for on the capital budget. These items will be bar-coded (when moveable).

### 10.2 Group Assets

Are assets of a similar nature and usually purchased as a group.

Group items identified are for example:

- Furniture and equipment items.

All group asset purchases will not be tagged but must be capitalised on the Fixed Asset Register as a group and provided for on the capital budget.

Fixed assets with a cost or value of R 1 000 or more per unit depending on the nature of the asset should be capitalized and recorded in the Fixed Asset Register and depreciated over its useful life. All assets purchased below R 1 000 will not be capitalized unless the asset has a useful life of more than one year and meets the recognition criteria of an asset. If the item has a cost or fair value lower than this capitalization benchmark, it shall be treated as an ordinary operating expense and written off to the statement of financial performance as Inventory Asset on purchase and will not be recorded on the Fixed Asset Register.

Financial Management Division shall, however, ensure that any item with a value less than R 1 000 (Excl. VAT), and with an estimated useful life of more than one year, shall be recorded on a separate register as attractive items. Every Executive Manager shall moreover ensure that the existence of items recorded on such stock sheets is verified from time to time, and at least once in every financial year, and any amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes.

## **SECTION 11: CALCULATION OF CAPITALISATION COST OF ASSETS**

### **11.1 Initial Cost**

An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:

- (a) The cost of site preparation,
- (b) Initial delivery and handling costs,
- (c) Installation and assembly costs, and
- (d) Professional fees such as for architects and engineers that is directly applicable to the project;
- (e) Feasibility studies will only be capitalised as cost if the capital project, for which this study was applied, will be executed. Up to the starting time of this capital project the cost of this study will be carried as work in progress. If no capital project will flow from this study the cost will be adjusted to the accumulated surplus account.
- (f) The initial estimated costs of dismantling and removing the item and restoring the site on which it is located, to the extent that it is recognised as a provision.
- (g) Administrative and other general overhead costs are only a component of cost if it can be directly attributed to the acquisition or construction of the asset without which the asset could not have been brought to working condition.
- (h) Interest on external loans that are directly attributable to the acquisition, construction or production of a qualifying asset are that interest that would have been avoided if the expenditure on the qualifying asset had not been made.

### **11.2 Costs incurred on existing PPE subsequent to the initial recording of the cost price**

Assets are often modified during their life. There are two main types of modification:

#### **Enhancements / Rehabilitation:**

This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset, and or may extend an asset's useful life and result in an increase in value.

These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.

Disbursements of this nature relating to an asset, which has already been recognised in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the municipal entity over the remaining life of the asset.

To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:

- (a) Modification of an item or plant to extend its useful life, including an increase in its capacity;
- (b) Upgrading machine parts to achieve a substantial improvement in the quality of output;
- (c) Adoption of new production processes enabling a substantial reduction in previously assessed operating costs;
- (d) Extensions or modifications to improve functionality such as installing computer; and/or
- (e) Improve the performance of the asset;

#### **Maintenance / Refurbishment:**

Expenditure related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that the municipal entity can expect from the asset.



Refurbishment of works does not extend functionality or the life of the asset, but are necessary for the planned life to be achieved. In such cases, the value of the asset is not affected, and the costs of the refurbishment are regarded as operating expense in the statement of financial performance.

***Thus if the improved performance or extended life of an asset is not beyond what has originally been estimated for the asset and the expenditure is only to bring performance back to the level that is normally expected for the asset the expenditure will be considered an operating expense.***

## SECTION 12: RESIDUAL VALUES

### 12.1 Definition

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

### 12.2 Determine residual value

Residual value will be determined on PPE where practicable in terms of the definition as stated above.

The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

The residual value and an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate

## SECTION 13: DEPRECIATION OF ASSETS

### 13.1 Definition

Depreciation is the accounting process used to allocate the cost to particular accounting periods of 'using up' the service potential of the asset over its useful life.

**Note:** *depreciation is not a method of financing the replacement of assets and is necessary even when assets are revalued every year.*

### 13.2 Which assets must be depreciated

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

Although typically disclosed together, land and buildings are separable assets and because land normally has unlimited life it is not depreciated whilst buildings are.

### 13.3 Determining useful lives of assets

13.3.1 The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipal entity's Fixed Asset Register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives set out in the annexure to this policy (refer Annexure A).

13.3.2 The useful lives in Annexure A will be determined considering all the following factors:

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

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13.3.3 In the case of a fixed asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Executive Manager of the Directorate who shall control or use the fixed asset in question, and shall be guided in determining such useful life either by the useful lives assigned in the annexure to the fixed asset most closely comparable to the asset in question or by any appropriate statement of generally recognised accounting practice (GRAP).

13.3.4 The useful life of an asset shall be reviewed at least at each reporting date.

13.3.5 The amortisation period for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly.

13.3.6 Only the Chief Financial Officer may amend the useful operating life assigned to any item of property, plant and equipment, and when any material amendments occurs the Chief Financial Officer shall inform the Board of Directors of such amendments.

13.3.7 The Chief Financial Officer shall amend the useful operating life assigned to any asset after recommendation from the affected department, if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life cycle will not be attained.

13.3.8 If the value of an item of property, plant and equipment has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs. The additional depreciation expenses shall be debited to the Directorate's expense vote controlling or using the fixed asset in question.

### 13.4 Depreciation calculation

#### **Tangible assets**

The municipal entity applies one method of depreciation to best reflect the pattern of use of an asset. These methods are:

- a. **The straight line depreciation method:** whereby items of property, plant and equipment are depreciated on a constant or uniform amount over their estimated useful

life. For example, if a vehicle is purchased and has an estimated useful life of 5 years, each month 1/60th of the vehicle will be depreciated.

### **Intangible assets**

#### **Amortisation period and method.**

##### **A. Finite useful life**

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the municipal entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless another Standard permits or requires it to be included in the carrying amount of another asset.

##### **B. Infinite useful life**

No amortisation will take place.

- The amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern.

### **13.5 Budget requirement**

Each Executive Manager, acting in consultation with the Chief Financial Officer shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the Executive Manager in question or expected to be so controlled or used during the ensuing three financial years.

In calculating this provision the following must be taken into consideration:

Assets in commission with useful life that will span the budget period or a portion thereof:

- Full 12 months per budget year unless fully depreciated before the final budget year;
- Expected assets that will be commissioned in the current year of operations:
- Expected assets that will be commissioned in the ensuing three years:
- Pro rata for commission year and full 12 months for ensuing years on commission year.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of property, plant and equipment.

### **13.6 Offset Depreciation**

#### **Assets financed by Government Grants or Public Contributions**

The principle of government grant and public contribution funded assets is that there should be no capital cost included in tariffs from using this source of financing.

Funding from Government Grants and Public Contributions, equal to the amount used to finance the asset are directly transferred to the operating account as revenue. This transfer will reflect in the accumulated surplus as offset of depreciation against future depreciation charges on these assets.

#### **Assets re-valued**

- The revaluation surplus relating to an asset will be realised over time by transferring some or the whole of the surplus to accumulated surplus or deficit by way of: When the asset is derecognised: transferring the portion when the asset to which the surplus relates to is disposed.

### **13.7 Disclosure requirements**

#### **In the accounting policy notes**

- The depreciation methods used and the depreciation rates or useful lives.

#### **On the Statement of Financial Position**

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- The depreciation is part of the Net Property, Plant and Equipment amount.

## **On the Statement of Financial Performance.**

- The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.

## **In the notes to the statements**

- The gross carrying amount and the accumulated depreciation at the beginning and end of the period in respect of each class of property, plant and equipment, together with all the other movements on the asset accounts.

## **In Annexure B and C to the financial statements**

- These Annexure disclose a more detailed analysis of the various classes of assets (Annexure B) as well as a detailed analysis on the allocation of assets to the various Directorates and functions (Annexure C). These Annexure must show a reconciliation of the carrying amount at the beginning and end of the period showing:
  - Additions;
  - Disposals;
  - Acquisitions through business combinations;
  - Increases or decreases resulting from revaluations;
  - Reductions in carrying amount (impairment losses);
  - Depreciation;
  - Other movements.

When property, plant and equipment are disposed of by selling or when it is destroyed the asset values must be offset against the proceeds, if any. If this item was previously revalued and there is still a balance left regarding this item on the Revaluation reserve, this balance must then be transferred to the Accumulated Surplus/Deficit account.

## **SECTION 14: REVALUATION OF FIXED ASSETS**

All land and buildings recorded in the entity's fixed asset register shall be revalued with the adoption by the entity of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

The entity must adopt the cost or revaluation method at re-measuring PPE.

### **14.1 In adopting the revaluation method the following will be relevant: Revaluation process**

In adopting the revaluation method a class of PPE, after initial recognition, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

### **14.2 Revaluation Reserve**

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

### **14.3 Depreciation of revalued property**

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

The Chief Financial Officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month

from the revaluation reserve to the entity's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year.

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the Chief Financial Officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

#### **14.4 Frequency of revaluations**

In terms of GRAP 17 par.39; the frequency of revaluations depends upon the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

In accordance with GRAP 17 par.39 the designated asset class will generally be revalued every five (5) years. More frequent revaluations will only be considered once:

- the fair value of a revalued asset differs materially from its carrying amount and/or
- significant and volatile changes in fair value occur.

A material difference is regarded as a difference of more than 15% measured annually or where impractical/impossible to measure annually by way of an annual average calculated as the difference between the fair value and the carrying value over the period between revaluations. An average estimated annual difference of less than 15% is not regarded as material or significant as it is in line with the cumulative effect of changes in annual market related cost factors such as annual inflation, international exchange rates, technological advances, etc.



## 14.5 Disclosure of revalued property

Revalued PPE shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation.

## SECTION 15: DISPOSAL OF ASSETS

### 15.1 Disposal

This part should be read in conjunction with section 26 (Disposal Management) of Supply Chain Management policy relating to disposal management process.

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

- 15.1.1 Every Executive Manager shall report in writing to the Chief Financial Officer annually on all fixed assets controlled or used by the departments concerned which such Executive Manager wishes to dispose of such assets by public auction or public tender within the period up to 30 June of the next financial year. The Chief Financial Officer shall thereafter consolidate the requests received from the various Directorates, and shall promptly report such consolidated information to the Chief Executive Officer (by 30 April of the financial year), as the case may be, recommending the process of disposal to be adopted. In the case of land and property disposals, the Chief Financial Officer shall consolidate the request for disposal, through the Chief Executive Officer recommendation of the process to the Board.
- 15.1.2 Any items declared obsolete or damaged will be handed in to the Supply Chain Management Division for safekeeping. No items will be received by Supply Chain Management Division without a completed asset disposal form counter signed by the Asset Management Division, describing the status of the item and the reason for writing-off the item.
- 15.1.3 Each Executive Manager must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is the responsibility of each Executive Manager to ensure that all such assets to be disposed of are delivered to and received at the Supply Chain Management Division.
- 15.1.4 The Board shall ensure that the disposal of any fixed asset takes place in compliance with Section 14 of the Municipal Finance Management Act and the Supply Chain Management Policy.

- 15.1.5 Every Executive Manager shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the, the Asset Management Division, the internal auditor, and, in cases of suspected theft or malicious damage, also to the South African Police Services. Once the fixed assets are disposed of, the Chief Financial Officer shall remove the relevant records from the fixed asset register.
- 15.1.6 Transfer of fixed assets to other municipalities, municipal entities or other organs of state shall take place in accordance with the above procedures, except that the process of disposal shall be by private treaty.
- 15.1.7 All assets to be disposed of in the next financial period are to be carried in the fixed asset register and depreciated until these assets are physically disposed-off.

### **15.2 Other write offs**

A fixed asset even though fully depreciated shall be written off only on the recommendation of the Asset Division under the Chief Financial Officer.

Every Executive Manager shall annually report to the Chief Financial Officer on any fixed assets which such Executive Manager wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports and shall promptly submit a recommendation to the Chief Executive Officer on the fixed assets to be written off.

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

### **15.3 Proceeds /Gain or Loss on disposal of assets**

When assets are disposed of whether by disposal or written off the asset values needs to be readjusted and offset against the proceeds. If the proceeds of the disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the cost center of the Finance Directorate. If the proceeds of the disposal, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the cost center of the Finance Directorate.

If this asset has an outstanding balance on the Revaluation Reserve this balance must be transferred to the Accumulated Surplus.

### **15.4 Disclosure of assets disposed of**

The carrying value of the asset disposed shall be removed from the records and will not reflect on the Statement of Financial Position as part of the balance on Property, Plant and Equipment. Assets that have been written off but not yet disposed-off will be carried in the fixed asset register and depreciated until the date they are physically disposed off. A disclosure note indicating this will be included under the Property, Plant and Equipment note in the Annual financial statements.

The gain or loss will be reflected in the Statement of Financial Performance as a gain under Revenue or as a loss under Expenditure.

## **SECTION 16: RECOGNITION OF ASSETS IN THE FINANCIAL STATEMENTS**

Recognition is the process of incorporating in the Statement of Financial Position or Statement of Financial Performance, an item that meets the definition and satisfies the criteria for recognition.

Assets are classified into categories as set out in section 7 (Classification of Assets) and the information for each category summarised in a table format is disclosed as:

- a note to the financial statements;
- with a detailed disclosure as an annexure reflecting the movements for the financial year by category and subcategory;
- movements are also reflected on an annexure per Executive Manager;
- the net value (carrying value at year-end), for all categories is added together and reflected as a single line item in the statement of financial position.

The failure to recognise such items is not rectified by disclosure of the accounting policies used, or by notes or explanatory material.

To be able to assess the utilisation of assets all assets should be listed once the recognition criteria are met.

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An asset item should be recognised in the financial statements if it meets the:

- Probability criteria (it is probable that any future economic benefits or service potential associated with the asset will flow to the municipal entity);
- Measurement criteria (the asset has a cost or value that can be measured with reliability).

In many cases, cost or value must be estimated. In these circumstances the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the item is not recognised in the Statement of Financial Position or Statement of Financial Performance.

An item that possesses the essential characteristics of an asset but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial position, performance and changes in financial position of the municipal entity by the users of financial statements.

No asset is recognised in the Statement of Financial Position for expenditure incurred where it is improbable that economic benefit or service potential will flow to the municipal entity beyond the current financial year. Where the probability is low, such a transaction will result in the recognition of an expense in the Statement of Financial Performance.

Where the expenditure has been incurred in connection with an asset already recognised, consideration should be given to the probability that the expense will result in an extension of the asset's estimated useful life. If the probability is high the expense will be added to the value of the asset in the Statement of Financial Position and written off by way of depreciation over the *remaining life* of the asset.

Expenditure incurred on an existing asset that will not extend the useful life or the functionality of the asset, will be reflected in the Statement of Financial Performance as an expense (maintenance).

Assets may be acquired for safety or environmental reasons. The acquisition of such assets, while not directly increasing the future economic benefits or service potential of any particular existing asset, may be necessary in order for the municipal entity to obtain the future economic benefits or service potential from its other assets. When this is the case, such acquisitions of assets qualify for recognition as assets, in that they enable future economic benefits or service potential from related assets to be derived by the municipal entity in excess of what it could derive if they had not been

acquired. However, such assets are only recognised to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total economic benefits or service potential that the municipal entity expects to recover from their continued use and ultimate disposal.

## **SECTION 17: FUNDING SOURCES**

The main sources of finance utilised to acquire assets are:

- Government subsidies and other conditional grants;
- Finance leases;
- Public Contributions and Donations;
- Cash surplus.

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of Section 19 of the Municipal Finance Management Act.

### **17.1 Government and other conditional grants**

Whenever a conditional government or other grant for the acquisition of an asset is received a grant creditor is created on receipt of the funds. Once the asset is bought, an amount equal to the cost of the asset is transferred from the unspent grant creditor to the Statement of Financial Performance as revenue.

Unspent conditional grants are reflected on the Statement of Financial Position under current liabilities as Unspent Conditional Grants. These funds always have to be backed by cash. The following conditions are set for the creation and utilisation of these funds:

- The cash which backs up the grant is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If the conditions are silent on investment interest it is recognized as interest earned in the Statement of Financial Performance and might be allocated, through the Statement of Changes in Net Assets, in part or fully to the unspent portion of the grant if it is so stated in the accounting policy.

- Whenever an asset is acquired from a conditional grant an amount equal to the cost of the asset is transferred from the Unspent grant creditor to the Statement of Financial Performance as revenue.
- The amount spent from this grant, meeting the condition, is transferred to an operational revenue account and reflected on the Statement of Financial Performance. It will then increase the surplus for the year and the accumulated surplus representing an offset depreciation surplus.

Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the Statement of Financial Performance as an expense.

### **17.2 Finance leases**

A lease is classified as a finance lease if it meets the recognition requirements as per GRAP 13 (Annexure C).

At the commencement of the lease term, the municipal entity shall recognise finance leases as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit to the lease, if this is practicable to determine. If it is not determinable, the municipal entity's incremental borrowing rate shall be used. Any initial direct costs of the municipal entity are added to the amount recognised as an asset.

### **17.3 Donations/Bequests**

The fair value of donated/bequeathed assets must be determined and at receipt or transfer of the assets be allocated to the accumulated surplus account.

Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the Statement of Financial Performance as an expense.

## 17.4 Surplus cash

If there is sufficient surplus cash available assets can be financed directly by allocating this cash for the acquisition of assets. Depreciation charges on these assets will not be offset.

## SECTION 18: IMPAIRMENT LOSSES

### 18.1 Impairment

The carrying amount (book value) 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.

Recoverable amount is the amount that the municipal entity expects to recover from the future use of an asset, including its residual value on disposal.

When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognized as an expense immediately, unless it reverses a previous revaluation on properties in which case it should be charged to the Revaluation Reserve.

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

The following may be indicators that an asset has become impaired:

- The item has been damaged.
- The item has become technologically obsolete.
- The item remains idle for a considerable period either prior to it being put into use or during its useful life.

## 18.2 Disclosure of impairment losses

All impairment losses must reflect on the Statement of Financial Performance.

The financial statements should also disclose, in the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment recognised in the financial statements any impairment losses recognised in the statement of financial performance during the period and impairment losses reversed in the statement of financial performance during the period.

Material impairment losses need to be disclosed in the notes to the income statement as a separate item.

## 18.3 Reversal of an Impairment Loss

- The same procedures as for the identification of impaired assets are followed if there is an indication that impairment may have been decreased or reversed. If so, the recoverable amount must be added to the carrying value of the asset.
- The life cycle must be adjusted.
- The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.
- Reversal of an impairment loss is recognised as income in the income statement.
- Depreciation must be adjusted for the remaining life cycle.

## SECTION 19: INVESTMENT PROPERTY

### 19.1 Definition of Investment Property

Investment Property is defined as:

Property (land or a building — or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services or for administrative purposes;  
or



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- Sale in the ordinary course of operations.
- Investment Property generates cash flows largely independently of the other assets of the municipal entity.

Investment property is held to earn rentals or for capital appreciation or both.

The following are examples of investment property:

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- Land held for a currently undetermined future use. (If the municipal entity has not determined that it will use the land for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation);
- A building owned by the municipal entity (or held by the municipal entity under a finance lease) and leased out under one or more operating leases on a commercial basis; and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following are examples of items that are not investment property:

- Property being constructed or developed on behalf of third parties;
- Own-occupied property, including (among other things) property held for future use as own-occupied property, property held for future development and subsequent use as own-occupied property, property occupied by employees such as housing (whether or not the employees pay rent at market rates) and own-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property. GRAP 17 applies to such property until construction or development is complete, at which time the property becomes investment property. However, existing investment property that is being redeveloped for continued future use as investment property remains investment property;
- Property that is leased to another entity under a finance lease;
- Property held for strategic purposes which would be accounted for in accordance with GRAP 17.
- Where a property is utilised partly in the ordinary course of operations and partly to generate rentals or for capital appreciation it will only be classified as investment property if a significant portion is utilised to generate investment income.

## **19.2 Initial measurement of Investment Property**

19.2.1 Investment property is measured initially at its cost (including transaction costs). Where an investment property is acquired at no cost (for example donated assets), or for a nominal cost, its cost is its fair value as at the date of acquisition.

19.2.1 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as, professional fees for legal services, property transfer taxes and other transaction costs.

19.2.2 The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, the municipal entity applies the GRAP standard on accounting for PPE (GRAP 17). At the completion date, the property becomes investment property and the Standard on investment property applies (GRAP 16).

19.2.3 Investment property is only 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 municipal entity and the cost or fair value of the investment property can be measured reliably.

## **19.3 Measurement of Investment Property subsequent to initial measurement**

19.3.1 Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the municipal entity. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

For example: If a municipal entity purchases a building as an investment property and will incur renovation costs, the renovation cost may be capitalised if it improves the condition of the asset over its most recently assessed standard of performance. Assume that before the renovation the building can earn R5, 000 per month rental income, but after the renovation it will earn R7, 000 per month rental income. In this case the renovation cost will be added to the carrying amount of the investment property.

19.3.2 After initial recognition of the investment property the current accounting standard allows the Centlec (SOC) Ltd to apply either the cost model or the Fair value model as an acceptable basis of measurement.

19.3.3 The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. After initial recognition, a municipal entity that chooses the fair value model should measure all of its investment property at its fair value at each Statement of Financial Position date. A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises. No depreciation will be calculated on this property.

19.3.4 If, after initial recognition, the municipal entity chooses the cost model it should measure all of its investment property using the guidelines for normal assets that is, at cost less any accumulated depreciation and accumulated impairment losses.

### **19.4 Transfers and disposals of investment properties**

#### **Transfers**

Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:

- Commencement of own-occupation, for a transfer from investment property to own-occupied property;
- Commencement of development with a view to sale, for a transfer from investment property to inventories;
- End of own-occupation, for a transfer from other classified property to investment property;
- Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
- End of construction or development, for a transfer from property in the course of construction or development to investment property.

For a transfer from investment property carried at fair value to own-occupied property or inventories, the property's cost for subsequent accounting under the relevant GRAP on PPE (GRAP 17) or inventories should be its fair value at the date of change in use.

If an own-occupied property becomes an investment property that will be carried at fair value, a municipal entity should apply GRAP 17 up to the date of change in use. The municipal entity should treat any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation under GRAP 17 by crediting a reserve.

For a transfer from inventory to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in net surplus/deficit for the period.

When the municipal entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in net surplus/deficit for the period.

### **Disposals**

On disposal or permanent withdrawal from use of investment property:

- An investment property should be removed from the Statement of Financial Position;
- Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset. For the purposes of display in the financial statements, the gain or loss should be included in the Statement of Financial Performance as an item of revenue or expense.

### **19.5 Budget implications relating to Investment Property.**

The following amounts will have to be budgeted for in the operating budget relating to investment properties:

- Gains on the disposal of investment properties that are intended to be sold during the next financial year.
- Fair value gains that are expected to be obtained on investment properties that will be held during the next financial year.
- Depreciation on investment properties that are intended to be transferred to own-occupied properties during the next financial year.

- The effect of reduced depreciation on own-occupied properties that are intended to be transferred to investment properties during the next financial year.
- Revenue through operating lease income; and
- Fair value gains where the intention to sell a building (inventory) is changed and the inventory is held as an investment property on which rental income and capital appreciation will be earned by the municipal entity in the next financial year.

### 19.6 Disclosure

The disclosure requirements relating to information on investment property is to be done in accordance with the requirements as per the relevant GRAP statement.

## SECTION 20: REPLACEMENT STRATEGY

The Chief Executive Officer, in consultation with the Chief Financial Officer and other Executive Managers shall formulate strategies and standards for the replacement of all operational property, plant and equipment. Such strategies and standards shall be incorporated in a formal policy, which shall be submitted to the Board of Directors for approval. This policy shall cover the replacement of infrastructure and operational movable vehicles and equipment.

### **This strategy should take into consideration:**

- The nature of the asset
- The usage of the asset
- Priorities
- Available funding
- Operational and maintenance costs
- Operational skills
- Future expected developments
- Technology
- Outsourcing
- Private sector partnerships

## SECTION 21: ASSET RISK MANAGEMENT

### 21.1 Insurance

Directorates are responsible for managing the risks associated with their activities.

The ultimate decision taken by a municipal entity relating to appropriate risk management will depend on the types of risks it is exposed to, the amount of excess it is willing to carry, budgetary constraints and all relevant factors peculiar to the municipal entity.

Comprehensive property, plant and equipment identification and valuation may prevent the municipal entity from being over or under insured. Specific supportable insurable values as defined in the insurance policy of the municipal entity should be reviewed regularly. In some instances, an in-house estimate of cost or insurable value may not be sufficient to substantiate the amount of a loss and, an appraisal by an independent third party may be required.

### 21.2 Other risk reducing methods

Department's regulations or "operating policies" can also reduce risks. Executive Managers should investigate their operations and set operating policies as to how personnel should operate and use property, plant and equipment to minimize risk.

Examples are as follows:

- Only authorised personnel should be allowed in areas where expensive equipment is kept;
- Only authorised personnel should be allowed to operate plant or vehicles;
- The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys;
- Ensure that drivers or operators have the necessary qualifications and licenses;
- It should be part of service conditions that employees incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked;
- Physical access to buildings, or areas within buildings, should be restricted, especially after hours.

## SECTION 22: MAINTENANCE OF ASSETS

### 22.1 Maintenance plans

Regular maintenance can prevent or minimize unplanned and expensive breakdowns. Maintenance plans must therefore be drawn up to ensure minimum maintenance standards and execution to achieve the optimum use of assets as planned.

Every Executive Manager shall ensure that a maintenance plan in respect of infrastructural asset is prepared and submitted to the Board for approval.

If so directed by the Chief Executive Officer, the maintenance plan shall be submitted to Board of Directors prior to any approval being granted for the acquisition or construction of new infrastructural assets.

The Executive Manager controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Board of Directors, not later than the commencement of the new financial year, on the extent to which the relevant maintenance plan has been complied with, and on the likely effect which any non-compliance and / or budgetary constraints may have on the useful operating life of the asset concerned.

### 22.2 Deferred Maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructural asset (see 18 above), the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Board of Directors has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Executive Manager controlling or using such asset shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Asset Management Division, and the latter shall recalculate the annual depreciation expenses accordingly.

## 22.3 General maintenance

Every Executive Manager shall be directly responsible for ensuring that all assets in his/her care is properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

<b>SECTION 23: GENERAL REQUIREMENTS</b>
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## 23.1 Tagging

Tagging means to place a control number on a piece of equipment or property.

All movable assets must be tagged if at all possible.

The primary purpose of tagging is to maintain a positive identification of assets.

Tagging is important to:

- Provide an accurate method of identifying individual assets;
- Aid in the annual taking of physical inventory;
- Control the location of all physical assets;
- Aid in maintenance of fixed assets.

Fixed property and plant is not tagged; such as:

- Buildings (record legal description in asset register);
- Land (record legal description in asset register);
- Infrastructural assets.

Consistently place asset tags in the same location on each similar type asset. If possible, the tags shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will aid in taking inventory.



## **23.2 Physical inventory of all movable assets**

The Asset Management Division will conduct a physical inventory of movable assets annually. They will require the cooperation of Executive Manager and personnel in accomplishing the physical inventory task and will attempt to minimize the time demanded of them.

The designated officials in the different Directorates within the Municipal entity must execute the functions listed below:

- Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included.
- Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Division.
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.
- Asset Management Division must be notified by the relevant Executive Manager within 14 days of any of the following possible movements:
  - Donations
  - Additions / Improvements
  - Loss or damage
  - Transfers
  - Terminations

## **23.3 Acquisition**

In making the decision to acquire an asset the following fundamental principles should be carefully considered:

- The purpose for which the fixed asset is required is in keeping with the objectives of the municipal entity and will provide significant, direct and tangible benefit to it.
- The fixed asset has been budgeted for.
- The purchase is absolutely necessary as there is no alternative municipal entity asset that could be upgraded or adapted.

- The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset.
- The fixed asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources.
- Space and other necessary facilities to accommodate the asset are in place and sufficient.
- The most suitable and appropriate type, brand, and model etc. has been selected.

### **23.4 Asset management responsibilities**

- Utilisation - All assets should be used for the purposes they were acquired.
- Asset performance should be regularly reviewed to identify under-utilised and under-performing assets. The reasons for this should be critically examined and appropriate action taken.
- Disciplinary action must be taken against individuals if there is an indication of misuse of the municipal entity's assets.

### **23.5 Additions / Improvements**

Depending upon the type of addition or improvement to a specific asset the responsible official in the Executive Manager must notify the Asset Management Division of the change in status. The asset master record will be amended on receipt of the required asset acquisition form from the responsible Executive Manager.

When capital expenditure is incurred for any enhancement/improvement of an asset, the Executive Manager shall complete the necessary asset acquisition form and forward it to the Asset Management Division.

### **23.6 Termination of employee's service**

At the termination of an employee's service, the applicable department's representative must complete the asset resignation form and forward the original to the Asset Management Division. This form is a statement that the inventory and assets entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary. A copy of this form is forwarded to the HR Section concerned or its relevant department for further investigation in the case of missing assets.

### **23.7 Transfer of Assets**

When a department transfers an asset or inventory item within such a department, the asset movement form must be completed and forwarded to the Asset Management Division. The copy of this form must be forwarded to the party receiving the asset or inventory item.

When a department transfers an asset or inventory item to another department, the transferring department must approve the transfer. After approval has been granted the asset movement form must be completed and forwarded to the Asset Management Division.

### **23.8 Disposal of assets.**

All Directorates must submit the properly completed asset disposal forms together with copies of all relevant approvals for the disposal of assets to the Asset Management Division.

<b>SECTION 24: REVIEW PROCESS</b>
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This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

## ANNEXURE A

### ESTIMATED USEFUL LIVES FOR FIXED ASSETS

#### Infrastructure Assets

The following is the list of infrastructure assets, with the estimated useful life in years indicated for each class of asset.

<b>ELECTRICITY</b>	
<b>Asset Class</b>	<b>Estimated Useful life (Years)</b>
<b>HV Buildings</b>	<b>50</b>
<b>EHV Equipment 132kV</b>	<b>45</b>
<b>HV Equipment 33kV</b>	<b>40</b>
<b>HV Infrastructure</b>	<b>40</b>
<b>HV Power Transformer</b>	<b>40</b>
<b>HV Lines</b>	<b>40</b>
<b>HV Cables</b>	<b>45</b>
<b>Load Control Equipment</b>	<b>15</b>
<b>Communications</b>	<b>10</b>
<b>Kiosk Service Distribution Box</b>	<b>45</b>
<b>Kiosk Service Connection</b>	<b>45</b>
<b>Meters</b>	<b>20</b>
<b>LV Conductors</b>	<b>50</b>
<b>Pole Mounted Transformer</b>	<b>40</b>
<b>Internal Transformer</b>	<b>40</b>
<b>External Transformer</b>	<b>40</b>
<b>MV Conductors</b>	<b>50</b>
<b>Auxiliary Power Equipment</b>	<b>20</b>
<b>Mini Substations</b>	<b>45</b>

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<b>Poles</b>	<b>50</b>
<b>Streetlights</b>	<b>45</b>
<b>MV Switchgear</b>	<b>45</b>
<b>MV Panels</b>	<b>40</b>
<b>Overhead Line Equipment</b>	<b>40</b>
<b>Quality of Service Equipment</b>	<b>15</b>
<b>Communication Modems</b>	<b>7</b>
<b>Communications RS232 Converters</b>	<b>10</b>
<b>MV Buildings</b>	<b>50</b>
<b>Protection Equipment</b>	<b>15</b>

### Other Assets

The following is a list of other assets, again showing the estimated useful life in years in brackets:

<b>BUILDINGS AND OTHER ASSETS</b>	
<b>Asset Class</b>	<b>Estimated Useful life (Years)</b>
Office buildings	40
Training centers	40
Fixture and fittings	3

<b>SECURITY MEASURES</b>	
<b>Asset Class</b>	<b>Estimated Useful life (Years)</b>
Access control systems	5
Security systems	5
Security fencing	3

<b>OFFICE EQUIPMENT</b>	
<b>Asset Class</b>	<b>Estimated Useful life (Years)</b>
Computer hardware	5

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Computer software	3-5
Computer machines	3-5
Air conditioners	5-7

<b>FURNITURE AND FITTINGS</b>	
<b>Asset Class</b>	<b>Estimated Useful life (Years)</b>
Chairs	7-10
Tables and desks	7-10
Cabinets and cupboards	7-10

<b>BINS AND CONTAINERS</b>	
<b>Asset Class</b>	<b>Estimated Useful life (Years)</b>
Household refuse bins	5
Bulk refuse containers	10

<b>EMERGENCY EQUIPMENT</b>	
<b>Asset Class</b>	<b>Estimated Useful life (Years)</b>
Fire hoses	5
Other fire-fighting equipment	15
Emergency lights	5

<b>MOTOR VEHICLES</b>	
<b>Asset Class</b>	<b>Estimated Useful life (Years)</b>
Trucks and light delivery vehicles	5-7
Ordinary motor vehicles	5-7
Motor cycles	3

<b>PLANT AND EQUIPMENT</b>	
<b>Asset Class</b>	<b>Estimated Useful life (Years)</b>
Graders	10-15
Tractors	10-15
Mechanical horses	10-15
Lawn mowers	2
Compressors	5
Laboratory equipment	5

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Radio equipment	5
Firearms	5
Telecommunication equipment	5
Irrigation systems	15

### ANNEXURE B

#### **Paraphrase of Section 14 of the Municipal Finance Management Act No. 56 of 2003**

A municipal entity may not dispose of any capital asset required to provide a minimum level of basic municipal services.

A municipal entity may dispose of any other capital asset, provided that:

- The Board of Directors has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- The Board of Directors has recommended to Council to dispose of the assets.
- The Council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services.

### ANNEXURE C

#### **GRAP 13 Definitions of Finance Leases**

A lease must meet one of the following criteria to be classified as a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the economic life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,
- the leased assets are of a such a specialised nature that only the lessee can use them without major modifications, and

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- the leased assets cannot easily be replaced by another asset.
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee,
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease), and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent