



MORETELE LOCAL MUNICIPALITY

ASSET MANAGEMENT POLICY

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ANNEXURE A

1 ACRONYMS

In this document, unless the context indicates otherwise, acronyms used shall have the following meanings :

Acronym	Narrative
AM	Asset Management
AMIS	Asset Management Information System
AMP	Asset Management Plan
AR	Asset Register
ARA	Asset Register Administrator
ASB	Accounting Standards Board
CAPEX	Capital Expenditure
CCTV	Closed Circuit Television
CFO	Chief Financial Officer
CIP	Comprehensive Infrastructure Planning
CMIP	Comprehensive Municipal Infrastructure Plan
CRC	Current Replacement Cost
DME	Department of Minerals and Energy
DPLG	Department and Local Government
DRC	Depreciated Replacement Cost
ED	Executive Director
EMM	Ekurhuleni Local Municipality
EUL	Expected Useful Life
FAR	Financial Asset Register
FY	Financial Year
GAMAP	Generally Accepted Municipal Accounting Practice
GIS	Geographical Information System
GRAP	Generally Recognised Accounting Practice
HoD	Head of Department
IAM	Infrastructure Asset Management – also referred to as Asset Management
IAMP	Infrastructure Asset Management Plan
IAMS	Infrastructure Asset Management System
IASB	International Accounting Standards Board
IDP	Integrated Development Plan
IFRS	International Financial Reporting Standards
IIMM	International Infrastructure Management Manual
IMESA	Institute of Municipal Engineers of South Africa
LGCAMG	Local Government Asset Management Guide
LM	The Local Municipality
LOS	Level of Service

Acronym	Narrative
MFMA	Municipal Finance Management Act
MM	Municipal Manager
MSA	The Municipal Systems Act
O&M	Operations and Maintenance
ODRC	Optimised Depreciated Replacement Cost
OPEX	Operating Expenditure
PFMA	Public Finance Management Act
PPE	Property, Plant and Equipment
R&M	Repairs and Maintenance
RUL	Remaining Useful Life
RV	Residual Value
SANS	South African National Standards
SDAs	Service Delivery Areas
SDBIP	Service Delivery and Budget Implementation Plan
SLA	Service Level Agreement
SteerCo	Steering Committee
VAR	Valuation Asset Register
WIP	Work in Progress
WSA	Water Services Authorities

2 DOCUMENT DEFINITIONS

In this document, unless the context indicates otherwise, acronyms used shall have the following meanings :

TERM	DEFINITION
Accounting officer	The head of the administration of a municipality appointed in terms of Section 57 of the Municipal Systems Act, Act 32 of 2000, as amended, and is referred to as the Municipal Manager.
Accrual basis of accounting	Under this basis, the effects of <u>transactions and other events are recognised when they occur</u> (the complete transaction and not just as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash and/or deliver services in the future and of resources that represent cash to be received and/or potential to deliver services in the future, arising from those past transactions.
Asset	A resource controlled by the municipality as a result of past events and from which future economic benefits or service potential is expected to flow to the municipality.
Asset hierarchy	A PPE asset hierarchy is adopted for PPE which enables separate accounting for components of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of the replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.
Asset management information system	Asset Management Information System is a combination of processes, data and software applied to provide outputs required for effective asset management.
Asset management Policy	Asset Management Policy is a formal statement adopted by Council that indicates the municipality's policy objective, the policy principles, and how these will be pursued (including the establishment of an IAM Team, and aligned systems and planning).
Asset management team	Asset Management Team is a multi-disciplinary team appointed by the Municipal Manager to initiate, monitor and review the asset management practices improvement program, the development of Infrastructure Asset Management Plans and a Consolidated Municipal Infrastructure Plan consistent with the municipality's goals and objectives.
Asset manager	The individual appointed by the municipality or each department within the municipality to manage and report on infrastructure assets.
Asset performance	Asset Performance is the performance of an asset that is measured in line with the applicable Level of Service.
Asset register	Is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements. The asset register should also facilitate proper financial reporting and is ultimately the responsibility of the Chief Financial Officer (CFO).
Asset utilisation	Asset Utilisation is the extent to which an asset is being productively used – typically measured as a percentage of its capacity.
Assets	Assets are resources controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.
Available for use	This is the period of time where an asset can function as was intended by management and are placed in physical use. This point of time the asset may have an outstanding snag list before being complete but do not prevent the asset to be used as intended. E.g. A road without road markings can be driven on even though it has no lanes painted.
Borrowing costs	Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds, for example interest on a bank overdraft.

TERM	DEFINITION
Business risk	The result of failure of an asset.
Capital spares	Capital spares are considered to be spares that constitute an entire or significant portion of a component type, or a specific component, defined in the immovable asset hierarchy, for example emergency equipment.
Carrying Amount of Investment Property	Carrying amount of Investment Property is the amount at which an asset is recognised in the statement of Financial Position; which could be the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairments losses or the fair value at that point in time.
Carrying Amount of PPE	Carrying amount of PPE is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairments losses.
Carrying value	Amount at which an asset is included in the Balance Sheet of a Municipality after the deduction of any Accumulated Depreciation thereon.
Cash	Cash comprises cash on hand and demand deposits.
Cash equivalents	Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash flows	Cash flows are inflows and outflows of cash and cash equivalents.
Cash-generating assets	Cash-generating assets are assets held with the primary objective of generating a commercial return.
Cash-generating unit	A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflow from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
Chief financial officer	Head of department in the municipality designated by the accounting officer to be administratively in charge of the budget and treasury office in terms of Section 81 of the Municipal Finance Management Act
Class of asset	Class of asset means a grouping of assets of a similar nature or function in the municipality's operations, which is shown as a single item for the purpose of disclosure in the financial statements.
Classifications of Investment Property	<p>Classifications of investment property:</p> <ul style="list-style-type: none"> • local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property will also meet the definition of investment property. • investment property generates cash flows largely independently of the other assets held by the municipality. This distinguishes investment property from other land and buildings controlled by the municipality, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows.
Community facilities	Community Facilities are discrete assets that provide a service directly to the community (such as parks, sports facilities, cemeteries, landfill sites etc).
Component	Components are elements of an asset which generally are different structural entities of an asset and/or which have a different expected life or renewal/maintenance requirements, e.g. in a bridge – bridge bearings and expansion joints; in a pump station – the pump and motor.
Condition index	The numerical rating of an asset depending on its structural integrity or condition, measured as a percentage.
Consolidated municipal infrastructure plan (cmip)	Consolidated Municipal Infrastructure Plan is a plan that provides an holistic overview of existing service performance, a vision of future performance scenarios, the risks, priorities, funding and tariff implications, as a strategic input to the Integrated Development Planning process.

TERM	DEFINITION
Constructive obligation	<p>A constructive obligation is an obligation that derives from an Entity's actions where:</p> <ul style="list-style-type: none"> • by an established pattern of past practice, published policies or a sufficiently specific current statement, the Entity has indicated to other parties that it will accept certain responsibilities; and • as a result, the Entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
Control of an asset	<p>An Entity is deemed to have control of an asset if it:</p> <ul style="list-style-type: none"> • has the capacity to benefit from the asset; • is able to deny or regulate access of others to that benefit; • has the ability to secure the future economic benefit of that asset; and • all risk and rewards has fallen to the entity
Cost	<p>Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.</p>
Cost of an asset	<p>Is the amount of cash or cash equivalent paid or the fair value of any other consideration given to acquire an asset at the time of its acquisition or construction</p>
Cost of disposal	<p>Cost of disposal is incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses. Examples of costs of disposal are stamp duty, legal costs, costs of removing the asset and incremental costs to bring the asset into a condition for its sale.</p>
Critical assets	<p>Critical Assets are assets for which the consequences of failure are sufficiently severe to justify pro-active inspection, maintenance and renewal. ("Important" Assets also justify pro-active inspection, maintenance and renewal, but not to the same level as "Critical" Assets).</p>
Current replacement cost (CRC)	<p>Current Replacement Cost is a measure of replacement value – the cost of replacing an existing asset with a modern asset of equivalent capacity.</p>
Defects	<p>The overall condition of an asset is dependent on the rating of defects in respect of degree, extent and relevance to the effective functioning of chosen inspection items of an asset.</p>
Demand management	<p>Demand Management is an active intervention to change the pattern of demand for a service eg to minimise or eliminate the need to upgrade assets, to address a limitation on bulk supply capacity, or minimise losses.</p>
Depreciable amount	<p>Depreciable Amount is the cost of an asset, or any other amount substituted for cost, less its residual value. (GRAP 17)</p>
Depreciated replacement cost (DRC)	<p>Depreciated replacement cost (DRC) Is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition to date (based on the fraction of remaining useful life/expected useful life). It is calculated by subtracting the residual value from the current replacement cost (CRC) and proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life. The DRC approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC) and remaining useful life (RUL) of eac of the asset components. Accordingly the following formula is used:</p> $DRC = ((CRC - RV) \times RUL / EUL) + RV$ <p>Replacement costs are "green fields", unless there is evidence of definite cost variance due to "brown-field" modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors e.g. topography. Capital unit costs are also influenced by macro-economic driving forces such as "supply and demand", financial markets and availability of contractors.</p>
Depreciation	<p>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. The process is a non-cash process and do not form a method of financing the replacement of assets.</p>

TERM	DEFINITION
Depreciation: Straight line method	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
Depreciation: Sum of units method	Units consumed against total unit consumable for an asset are reflected as depreciation. For example 50 graves have been sold for the month in the cemetery which can produce 1000 graves. The depreciation will then be 50/1000 times the cost of the cemetery capitalised
Depreciation: Diminishing balance method	A percentage of the cost will be depreciated every year. For example an asset is to be depreciated at 10% per period on the carrying value.
Disposal	Disposal is the action required to effectively dispose, decommission, or transfer assets in terms of legal or organisational requirements.
Economic life	Is either: <ul style="list-style-type: none"> • The period over which an asset is expected to yield economic benefit; • The number of production of similar units expected to be obtained from the asset by one or more users (GRAP 13).
Entity-specific value	Entity-specific value is the present value or service potential of the benefits the municipality expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.
Exchange transactions	Exchange Transactions are transactions in which one Entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another Entity in exchange.
Exempted capital assets	Exempted capital assets are municipal capital assets to be disposed where National Treasury approved the disposal; therefore Council approval is not necessary.
Expected useful life	The life of an asset from acquisition (completion of construction) to practical failure taking cognisance of the operating environment and maintenance regime.
Expenses	Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumptions of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.
Facility	An area in which a number of assets may be grouped together.
Fair value	Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Finance lease	An asset held under a finance lease is recognized as a Fixed Asset as the municipality has control over such an asset even though it does not own the asset.
Fixed asset	An asset, either moveable or immovable, under the control of the municipality and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery over a period exceeding one financial year.
Future economic benefits	Assets that are used to generate net cash inflows
Geographic Information System (GIS)	GIS is a system of hardware and software used for storage, retrieval, mapping, and analysis of geographic data. Practitioners also regard the total GIS as including the operating personnel and the data that go into the system. Spatial features are stored in a coordinate system (latitude/longitude, state plane, UTM, etc.), which references a particular place on the earth. Descriptive attributes in tabular form are associated with spatial features. Spatial data and associated attributes in the same coordinate system can then be layered together for mapping and analysis. GIS can be used for scientific investigations, resource management, and development planning.

Heritage assets	Heritage assets are assets with cultural, environmental, historical, natural, scientific, technological or artistic significance and are held, owned and maintained indefinitely for the benefit of present and future generations.
High value	High value in relation to a capital asset of a municipality or municipal Entity means that the fair market value of the capital asset exceeds any of the following amounts: <ul style="list-style-type: none"> • R50 million; • one per cent of the total value of the capital assets of the municipality or municipal Entity, as determined from the latest available audited annual financial statements of the municipality or Entity; or • an amount determined by resolution of the council of the municipality or of the controlling municipality of the municipal Entity which is less than R50 mil or one per cent of the total value.
Immovable assets	Immovable assets are fixed structures such as buildings and roads. A plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).
Impairment	Impairment is defined as the loss of future economic benefits or service potential of an asset over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.
Impairment loss of a cash-generating asset	An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.
Impairment loss of non-cash generating asset	An impairment loss of non-cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
Impracticable	Impracticable is when the municipality cannot apply a requirement after making every reasonable effort to do so. For example; it is impracticable to apply a change in accounting policy for a prior period retrospectively if the effects of the retrospective application are not determinable.
Inception of a lease	The inception of a lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date: <ul style="list-style-type: none"> • a lease is classified as either a finance lease or an operating lease, and • in the case of a finance lease, the amounts to be recognised at the commencement of the lease term as determined.
Infrastructure asset management plan	Infrastructure Asset Management Plan is a plan developed for the management of Infrastructure Assets with the aim of providing specified levels of service in a cost-effective manner, now and in the future. Multi-disciplinary management techniques (including technical and financial) are combined to determine the aggregated asset life-cycle needs. A significant component of the plan is a long-term cash-flow.
Infrastructure assets	Assets that have characteristics of: <ul style="list-style-type: none"> • being a part of a system or network of similar assets • specialised in nature and don't have alternative uses • immovable • subject to constraints on disposal (GRAP 17)
Inspection item	Those items chosen for inspection for which defects are rated, and on which the condition index is calculated.
Intangible asset	An intangible asset is an identifiable non-monetary asset without physical substance.
Investment assets	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. (GRAP 16). Investment Assets are recorded in the Fixed Asset Register in the same manner as other Fixed Assets, but a separate section of the Fixed Asset register must be maintained for this purpose.

Investment property	<p>Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:</p> <ul style="list-style-type: none"> • use in the production or supply of goods or services or for administrative purposes; or • sale in the ordinary course of operations. <p>and includes the following:</p> <ul style="list-style-type: none"> • 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; • a building owned by the municipality and leased out under one or more operating leases on a commercial basis to external parties; • a property owned by the Entity and leased out at below market rental; or • property that is being constructed or developed for future use as investment property.
Lease	A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
Lease term	The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset with or without any further payments, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.
Legal obligation	A legal obligation is an obligation that derives from: <ul style="list-style-type: none"> • a contract (through its explicit or implicit terms); • legislation; or • other operation of law.
Level of service	Level of Service is the defined parameters that characterise essential service delivery requirements for a particular service, against which performance may be measured. Criteria can relate to availability of the service, quality, quantity, reliability, responsiveness, environmental acceptability and cost. Measures are identified for each criteria and used for performance monitoring and reporting and as a departure point for risk management.
Life-cycle	Life-cycle is the cycle of activities that an asset goes through – including planning and design, initial acquisition and construction, cycles of operation and maintenance and capital renewal, and finally disposal
Maintenance	Maintenance is the action required for an asset to achieve its expected useful life. Maintenance can be planned or unplanned. Repairs are a form of unplanned maintenance after failure or damage.
Material omissions or misstatements	Material omissions or misstatements of items are material if it could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor.
Monetary assets	Monetary assets are money held or assets to be received in fixed or determinable amounts of money.
Movable assets	Movable assets are not fixed structures and can be moved from one location to another location, for example computers and vehicles.
Non-cash-generating assets	Non-cash-generating assets are assets other than cash-generating assets.
Non-exchange transactions	Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another Entity without directly giving approximately equal value in exchange, or gives value to another Entity without directly receiving approximately equal value in exchange.
Non-exempted capital assets	Non-exempted capital assets are municipal assets for which Council must approve disposals.

Non-monetary assets	Non-monetary assets are assets other than monetary assets.
Obligating event	An obligating event is an event that creates a legal or constructive obligation that results in an Entity having no realistic alternative to settling that obligation.
Operating lease	An operating lease is a lease other than a finance lease.
Operations	Operations are the use of manpower and consumables (such as energy, chemicals and materials) required for an asset to operate to the required performance.
Organ of state	Organ of state means: <ul style="list-style-type: none"> • a national department or national public Entity; • a provincial department or provincial public Entity; • a municipality or municipal Entity; • any other organ of state within the meaning assigned to "organ of state" in section 239 of the Constitution.
Owner-occupied property	Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or administrative purposes.
Practices improvement plan	Practices Improvement Plan is an action plan to improve the way infrastructure management is practiced in the municipality, based on an assessment of existing and target practice, and focussing on management processes, systems, data, and organisational arrangements. The initial Practices Improvement Plan may be prepared in the form of a Business Plan to be driven on a program basis.
Prior period errors	Prior period errors are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from the failure to use, or misuse of, reliable information that: <ul style="list-style-type: none"> • was available when financial statements for those periods were authorised for issue; and • could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
Property, Plant and Equipment	Tangible items held for use in the supply of goods or services, for administrative purposes or social / internal rental to others that are expected to be used during more than one financial period
Provision	A provision is a liability of uncertain timing or amount.
Qualifying asset	Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale. Examples of qualifying assets are office buildings, infrastructure such as roads, bridges and power distribution facilities and property that will become self-constructed items of property, plant and equipment once construction is complete.
Recoverable amount	Recoverable amount is the higher of a cash-generating asset's fair value less cost to sell and its value in use.
Recoverable service Amount	Recoverable service amount is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.
Rehabilitation	Rehabilitation is the works to rebuild or replace parts of an asset to enable it to the original capacity and performance, and materially extend its useful life (which may be a full or partial extension of life – ie less than its expected useful life).
Remaining useful Life	Remaining useful life of an asset is the time remaining until an asset ceases to provide the required standard of performance or usefulness. Calculated using a generic algorithm based on asset condition as determined by the asset condition index and a generic asset structural decay curve. The remaining Useful life is an estimation of the amount of years that the asset will be able to safely perform its intended function.
Renewal	Renewal is the replacement or rehabilitation of an asset.
Replacement	Replacement is the complete replacement or reconstruction of an asset with one that performs to a similar standard of performance.

Reporting date	Reporting date means the date of the last day of the reporting period to which the financial statements relate.
Residual value	Residual value is the estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated cost of disposal, if the asset was already of the age and in a condition expected at the end of its useful life.
Revenue	Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.
Risk management	Risk Management is the application of a formal process that identifies the exposure of a municipality to service performance risk and determines appropriate responses.
Service	Refer to municipal service to be provided to the public as defined in "The Constitution of the Republic of South Africa"
Service potential	Goods and services in accordance with an entity's objectives being delivered to the public but which do not directly generate net cash inflows
Sub-system	The part of each system in which it is convenient to group the assets.
System	Is a grouping of assets of a similar nature or function that are managed as separate systems and normally all having different functions and operational characteristics.
The commencement of the lease term (municipality as the lessee)	The commencement of the lease term (municipality as the lessee) is the date from which the municipality is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.
Upgrading	Upgrading is the replacement, augmentation, or alteration of an asset that results in a material improvement to capacity or performance.
Useful live	The period over which an asset is expected to be available for use, or the number of production or similar units expected to be obtained from the asset. The asset may last longer than the period that a single entity will use the asset and each entity need to determine the expected useful life for that asset to the entity.
Expected useful life	Expected useful life is: <ul style="list-style-type: none"> • the period over which an asset is expected to be available for use by the municipality, or • the number of production or similar units expected to be obtained from the asset by the municipality.

3 PURPOSE OF ASSET MANAGEMENT POLICY

Any departures from the approved policies stated in this manual will require the prior written approval from the following authority and persons:

APPROVAL: Moretele Local Municipality: Council

MAINTAINED BY: Financial Division: SCM and Asset Management

IMPLEMENTED BY: Moretele Local Municipality Departmental Heads.

EXECUTION: Moretele Local Municipality Departmental Heads and Officials.

SUPPORTED BY: Finance Division: Asset Management

Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the Municipal Manager in consultation with the CFO and respective Senior Managers. These recommendations shall be considered for adoption by Council.

Where an employee is suspected of breaching the policy, an internal investigation will be undertaken, and depending on the outcome, Municipality, civil and/or criminal legal action will be taken against the employee.

Any disciplinary action arising from breach of this policy will be undertaken according to the disciplinary code and grievance procedure of the Municipality.

3.1 RELATIONSHIP WITH OTHER POLICIES

This policy needs to be read in conjunction with other relevant policies of the municipality, including the following adopted documents:

- **Delegations Register**
Identifying the processes surrounding the establishment of delegated authority.
- **SCM policy**
Regulating all processes and procedures relating to acquisitions.
- **Budget policy**
The processes to be followed during the budget process as well as pre-determined prioritisation methodology,
- **Revenue and tariff policy**
Identifying tariff setting methodology
- **Accounting Policy**
Governed by the Accounting standards, the accounting policy determines the basis recognition, measurement and recording of all transactions.

4 PURPOSE OF ASSET MANAGEMENT POLICY

This policy is created with the intent of providing direction and guidance to management and personnel in regards to the accounting and application of internal control of immovable fixed assets, in the **control** of the municipality.

This policy section relates only to **immovable assets** as intended by GRAP 17 Property Plant and Equipment and GRAP 16 Investment properties and all related treatments there off as specified by these GRAP standards, National Treasury Guidelines and regulations and MFMA.

The document do not specify the treatment of assets as described below:

- GRAP 17: PPE – Movable assets
- GRAP 12: Inventories
- GRAP 13: Lease assets
- GRAP 31: Intangible assets
- GRAP103: Heritage assets
- GRAP 105 and 106: Asset treatments arising from the transfer of functions

5 BACKGROUND, OBJECTIVE AND SCOPE

5.1 BACKGROUND

The **South African Constitution** requires municipalities to strive, within their financial and administrative capacity, to :

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The Municipal Systems Act (**MSA**) states :

- That a municipality has the right and duty to ensure that municipal services are provided to the local community in a financially and environmentally sustainable manner.

The MFMA aims:

“to modernise budget, accounting and financial management practices by placing local government finances on a sustainable footing in order to maximise the capacity of municipalities to deliver services to communities. It also aims to put in place a sound financial governance framework by clarifying and separating the roles and responsibilities of the council, mayor and officials.

The MFMA is required by the Constitution, which obliges all three spheres of government to be transparent about their financial affairs. It also forms an integral part of the broader reform package for local government, as outlined in the 1998 White Paper on Local Government.”

National Treasury Aims of the MFMA

To give effect to the above Municipalities have to adhere to the MFMA requirements applicable to Municipal Officials to ensure sound governance and compliance of the Act at the district municipalities and to allow other stakeholders to be able to perform their functions.

This policy aims to comply with the MFMA requirements for immovable assets by applying Section 62: General financial management functions and Section 63: Asset and liability management as prescribed by the MFMA.

The policy also incorporates the standards of GRAP and National Treasury Guidelines and regulations applicable to immovable property as defined by Section 3: PURPOSE OF ASSET MANAGEMENT POLICY.

5.2 OBJECTIVE AND SCOPE

“The objective of GRAP 17 is to **prescribe the accounting treatment for property, plant and equipment** so that the users of financial statements can **discern information** about an Entity’s investment in its property, plant and equipment and the **changes in such investment**. The **principal issues** in accounting for property, plant and equipment are the **recognition** of the assets, the **determination of their carrying amounts** and the **depreciation charges and impairment losses** to be recognised in relation to them.”

Accounting Standards Board – 1 April 2015
STANDARDS OF GRAP (17 PPE)

The GRAP 17 accounting standard **prescribe** the **principles** for :

- the **recognition** of assets,
- **determination of carrying amounts (measurement)**,
- **determination of depreciation charges** and
- **determination of impairment losses** for property, plant and equipment.
- the **derecognition or transfer** of assets

“The objective of GRAP 16 is to **prescribe the accounting treatment for investment property and related disclosure requirements**.”

Accounting Standards Board – 1 April 2015
STANDARDS OF GRAP (16 Investment property)

The GRAP 16 accounting standard **prescribe** the **principles** for :

- the **identification** of assets
- the **recognition** of assets,
- **determination of carrying amounts (measurement)**,
- **determination of depreciation charges or fair value adjustments** and
- **determination of impairment losses** for investment property.
- the **derecognition or transfer** of assets

The objective of MFMA sections 62 and 63 are to ensure that the accounting officer creates a control environment that will allow management to perform their functions in service delivery and financial reporting for immovable assets as described below:

- resources of the municipality are used **effectively, efficiently and economically**
- that **full and proper records** of the **financial affairs** of the municipality **are kept and accounted** in accordance with the standards of **Generally Recognised Accounting Practices as issued by the ASB**.
- that the municipality has and maintains **effective, efficient and transparent systems**—
 - of financial and risk management and **internal control**; and
 - of **internal audit** operating in accordance with any prescribed norms and standards;
- that **unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented**
- that disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15

- The accounting officer of a **municipality is responsible for the management of the assets** of the municipality, including the **safeguarding** and the **maintenance of those assets**;
- The accounting officer must for the purposes take all reasonable steps to ensure :
 - that the municipality has and maintains a **management, accounting and information system** that accounts for the assets of the municipality;
 - that the municipality's **assets are valued in accordance with standards of generally recognised accounting practice**; and
- that the municipality has and **maintains a system of internal control** of assets **including an asset register**, as may be prescribed.

6 STATUTORY ROLES AND RESPONSIBILITIES

6.1 ROLE OF THE MUNICIPAL MANAGER

As accounting officer of the municipality, the Municipal Manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

The Municipal Manager 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)
- An Asset Management Committee is established, through which all asset processes and procedures will be implemented
- Verify assets in possession of the Council annually, during the course of the financial year
- Keep a complete and balanced record of all assets in possession of the Council
- Report in writing all asset losses, where applicable, to Council
- Ensure that assets are valued and accounted for in accordance with a statement of GRAP
- Ensure that assets are properly maintained and safeguarded
- Ensure the working and functioning information system that accounts for assets and their related maintenance processes
- Set internal control processes which include asset register, work in progress registers, project registers and financial reconciliations of all the registers and accounting records
- Ensure assets are part of the municipal budget processes and that capital budgets are authorised by council. These will include assets that reach end of life or require replacement or improvement.
- Review of municipal asset services reports to ensure effective, efficient and economical use of assets
- Present municipal reports to council for authorisation of municipal plans and recommendations
- Ensure the application of this policy by all delegated parties as principal custodian of the municipal assets
- The Municipal Manager may delegate this functions to members of top management or any other official of the municipality in terms of section 79 (1) (b) of the MFMA
- The Municipal Manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

6.2 ROLE OF THE CHIEF FINANCIAL OFFICER

The Chief Financial Officer (CFO) reports directly to the Municipal Manager that is the accounting officer of the municipality.

The chief financial officer are be delegated all financial processes in regards to immovable assets. The CFO needs to regularly report to the MM on all asset related matters which include but is not limited to capital investments, cash flow effects, budget results, future capital needs, discrepancies found and compliance of immovable assets.

The CFO need to ensure that the municipal financial investments in immovable assets are safeguarded, maintained and as far as reasonably possible accounted free of fraud and error in compliance to legislation and accounting standards.

In performing the financial responsibilities the CFO shall ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally, effectively, efficiently, economically and transparently utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions of the municipality
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented
- All revenues due to the municipality arising from assets, like rental income, are collected and accounted.
- The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained to standards sufficient to satisfy the requirements of all statutes;
- The Municipal Manager and Senior Managers are appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- That an Accounting Policy and support procedures are established, approved and adopted and maintained
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets
- The Senior Managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets
- Use asset management division reports to perform required investment decisions, risk analysis, budget planning and financial disclosures.
- Communicate and present reports on asset information to the MM to present to council for recommendations and authorisation of municipal plans

6.3 ROLE OF THE ASSET MANAGEMENT DIVISION

- Shall ensure that complete records of asset items are kept, verified and balanced regularly
- Shall ensure that immovable assets are appropriately ensured to prevent loss of significant assets
- The asset verification report shall reflect any discrepancies between the articles found during verification and the record referred to in the point above
- Shall ensure the Fixed Asset Register is kept in sufficient detail to identify significant asset components, their location, their condition, impairment factors, remaining life, valuation and treatments per GRAP and future commitments
- Shall ensure that the Fixed Asset Register is balanced annually with the general ledger and the financial statements
- Shall ensure adequate asset identification to exercise internal control functions can be performed at all times
- Shall provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Fixed Asset Register
- Shall ensure that all audit queries are resolved in a timely manner
- Shall ensure that all asset documents is kept in orderly, neat fashion and safeguarded. Asset Management division shall on request supply these documents and financial records to the Auditor-General complying to municipal document control requirements.
- Shall ensure that the relevant financial information from upkeep of the financial fixed asset register is provided to the Finance Department in the prescribed format. These include depreciation calculations, impairment factors and values, assets acquired or being constructed and losses on disposal or scraping of assets

- Shall keep track of all asset events to provide in prescribed format to financial statement preparers asset information which include change in asset life, significant loss, possible impairment factors, capital commitments
- Shall ensure that all asset acquisitions or payments are recorded on a project register in sufficient detail to identify the project, location and financial documents
- Shall ensure that all assets acquired and capitalised are indicated as transferred on the project register to appropriate asset codes in the general ledgers
- All infrastructure projects on transfer of assets are supported by:
 - Completion report
 - Completion certificate (Practical completion or Final completion certificate)
 - As build drawings
 - Final Bill of quantities
 - Final payment certificate
- Shall ensure that asset acquisitions are allocated to the correct asset code by performing adequate reconciliations between general ledger entries and project registers
- 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.
- Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the Departments.
- Shall investigate all obsolete, damaged and unused asset condition, functionality, criticality and present proposals and financial costs to the CFO in regards to assets for:
 - Condition
 - Replacement
 - Refurbishment
 - Maintenance
 - Scraping
 - Service potential
- 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 Expenditure and Accounting as per the relevant title deed.
- Shall compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy.
- Shall compile and circulate a list of unused movable assets to enable other Departments to obtain items that are of use to them.
- Shall ensure that the Supply Chain Management is notified of any auctioning or disposing of written-off asset or asset inventory items.
- The Asset Management Division shall at least once during every financial year provide all Heads of department with a comprehensive list of assets which is registered under their control

6.4 ROLE OF THE MANAGER: BUDGETS

- Shall ensure that the capital budget as submitted by the Departments is approved. A clear description of the funding source is also required.
- 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.
- 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.

6.5 ROLE OF THE MANAGER: EXPENDITURE AND ACCOUNTING

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

6.6 ROLE OF SUPPLY CHAIN MANAGEMENT

- 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.
- To ensure that the Bid Adjudication / Bid Specification Committee must comply with and be constituted in accordance with the prescription of the SCM policy.

6.7 ROLE OF OTHER HEADS OF DEPARTMENT

- Shall ensure that employees in their Departments adhere to the approved Asset Management Policies.
- Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in the Department. 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 Head of department.
- Shall ensure that assets are properly maintained in accordance with their respective asset maintenance policies.
- Shall ensure that the assets of the Municipality are not used for private gain.
- Shall ensure that all their movable assets as reflected on the Fixed Asset Register are adequately identifiable where possible.
- Shall ensure that the Asset Management Division is notified of any changes in the status of the assets under the Department's control. This must be done on the prescribed form and include the following:
 - Movements/Disposals which relate to the transfer of assets (inter Department transfers).
 - Changes in the estimated useful lives of assets for depreciation purposes.
 - Changes in depreciation methods to best reflect an assets pattern of use.
 - The identification of impairment losses on assets by following the procedures as outlined in this policy document.
- Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
- 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.
- Shall ensure that the correct cost element and description are being used before authorising any requisitions.
- Shall not procure any asset until the asset number is obtained, asset number allocated and will ensure that assets are uniquely identified by the Asset Management Division and insured by the Finance Department.
- Every Head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed and movable assets controlled or used by the Department in question.
- Every Head of department shall be responsible for verifying the asset management division report list of controlled assets with the assets under their control and investigate any discrepancies arising out of the asset verification exercise. The Head of department will be required to sign and date a declaration stating that the list of assets verified for his/her Department is complete & accurate except for the discrepancies as reported to the Asset Management Division.
- Every Head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the Department in question. In exercising this responsibility, every Head of department shall adhere to any written directives issued by the Municipal Manager to the Department in question, or generally to all Departments, in regard to the control of or safekeeping of the municipality's fixed assets

7 ASSET IDENTIFICATION

7.1 ASSETS PER FRAMEWORK

The **asset** 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:

- The **municipality 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;
- 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
- The asset has future service potential or economic benefit for the municipality. 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 municipality. The potential may be a productive one that is part of the operating activities of the municipality. 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.
- 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 municipality.
- An asset held under a finance lease, if it meets the remaining criteria of a fixed asset, shall be so recognized, as the municipality has control over such an asset even though it does not own the asset.

Assets identified per the framework under the **control** of the municipality are then classified per the relevant GRAP standard into respective asset categories:

7.2 GRAP 17: PROPERTY PLANT AND EQUIPMENT ASSETS

GRAP 17 is applicable to all entities preparing their financial statements on the **accrual basis of accounting** to account for Property, plant and equipment (PPE)

PPE is defined as tangible items held for use in the supply of goods or services, for administrative purposes or social / internal rental to others that are expected to be used during more than one financial period.

National Treasury - GRAP Guideline 17 - Property, Plant and Equipment (April 2015)

GRAP 17 PPE assets are also referred to as **production assets** :

- Infrastructure assets (render service / generate revenue)
- Land and buildings (render service / generate revenue / operational / administrative purposes)
- Movable assets (vehicles, plant and equipment)

7.3 GRAP 16: INVESTMENT PROPERTIES

GRAP 16 is applicable to all entities preparing their financial statements on the **accrual basis of accounting** to account for Investment property

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

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of operations.

Investment properties include assets (land and buildings) to be sold but which is **not in the normal course of operations**.
Examples (not exhaustive list) are:

- Assets do not have active decision for sale or intent
- Assets will take longer than 12 months to dispose from financial year end
- Assets do not have supportive documents for sale of the asset
- Assets sale needs to be approved by council

8 ASSET MANAGEMENT PROCESS (STRUCTURE)

- An asset exists to support the delivery of service to the public and provide support for a service delivery programme.
- Asset Management is the process of guiding all the key asset activities undertaken to make the most of asset service delivery potential and the management of the related risks and costs over the entire asset life cycle.
- The asset life cycle embraces the following inter-related processes or phases:
 - Planning deals with municipal service objectives;
 - Acquisition deals with the recognition, measurement and valuation of assets;
 - Operation and Maintenance deals with maintenance, refurbishment enhancement and depreciation of the asset; and
- Disposal deals with asset disposals.

9 ASSET PLANNING

- The Municipality shall develop asset strategies covering the acquisition, safeguarding, maintenance, refurbishment, redeployment and disposal together with the capital and operating cost
- Asset Planning shall be the process through which the asset requirements of a municipality are matched to service delivery requirements.
- Asset Planning shall be informed by the principle that a public institution shall not hold assets unless it is reasonably necessary for the economical, effective and efficient delivery of services.
- Managers must align activities in the Strategic Plan and the budgetary allocations with the asset requirements of the office and develop an Asset Acquisition Plan.
- The Asset Acquisition Plan must be informed by the future service or economic benefits to be derived directly or indirectly from the asset in support of service delivery.
- A cost-benefit analysis must be conducted when determining whether a major asset should be leased, purchased, transferred from another entity or obtained through a Public Private Partnership.
- The Asset Acquisition Plan must detail all assets that will be purchased and/or leased in a particular financial year with expenditure projections for each month of that year.
- The Managers are required to approve the Asset Acquisition Plan prior to the commencement of any purchases of assets.
- Asset Budgeting shall be the process through which the Asset Planning Strategy is financially quantified and shall entail allocating financial resources to the Asset Planning Strategy.
- Asset Budgeting must be conducted to include the asset life cycle stages, i.e. Acquisition, Operation, Transfers, Maintenance and Disposal.
- It is the responsibility of the Heads of departments to communicate the Asset Budgeting Strategy to the Chief Financial Officer within the municipality.

- Strategies for replacement of operational property plant and equipment shall 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

10 ACQUISITION

- The decision to acquire asset shall be informed by both the Asset Planning Strategy and Asset Budgeting Strategy.
- The descriptions utilised for the asset that is being acquired must be consistent with the Standardised Asset Description Lists (Asset Hierarchy) of the Municipality.
- Asset descriptions can only be created after obtaining the approval of the manager Assets Management.

10.1 ASSET REGISTER

The municipality shall maintain an asset register in a format determined by the Chief Financial Officer. The format must comply with GRAP and any other applicable standards.

- Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the fixed asset register shall reflect at least the following information:
 - a brief but identifiable description of each asset
 - classification of each asset
 - the date on which the asset was acquired for use
 - the location of the asset
 - the Departments or cost centre within which the assets will be utilised
 - the responsible person for this asset
 - the title deed number, in the case of fixed property
 - the stand number, in the case of fixed property
 - Encumbrances or impediments upon fixed property such as servitudes, caveats, mortgages, etc.
 - status of the fixed property (land) in terms of the municipal town planning scheme.
 - where applicable, the identification number, as determined in compliance with 7.2 below
 - the original cost or fair value if no costs are available
 - the (last) effective date of revaluation of the fixed assets subject to revaluation
 - the revalue value of such fixed assets
 - the valuer who did the (last) revaluation
 - accumulated depreciation to date
 - the carrying value of the asset
 - whether this is a cash or non-cash generating asset
 - the method and, where applicable, the rate of depreciation
 - impairment losses
 - impairment recovery
 - the source of financing
 - the current insurance arrangements

- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- maintenance plan referrals
- whether the asset is required to perform basic municipal services;
- the date on which the asset is disposed of
- the disposal proceeds
- the date on which the asset is retired from active use, and held for disposal
- the residual value of each asset
- measurement model
- periods when the asset was idle and reason for the idleness.

All Heads of department 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 is available for use. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset.

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.

Fully depreciated assets and assets with zero RUL will be physically inspected and analysed for:

- Condition determination for possible adjustment
- Service needs and objectives (Planning)
- Disposal, Refurbishment or replacement decisions
- Capital budget requests
- Authorisation

10.2 CLASSIFICATION OF ASSETS

- Assets that are recognised under this policy will be classified in according to the categories as per fixed asset register.
- All fixed assets should be classified under the following headings in the asset register
- Property Plant and equipment
 - Land
 - Buildings
 - Infrastructure assets
 - Other assets
 - Heritage assets
 - Intangible assets
- Investment property
 - Land
 - Buildings

10.3 RECOGNITION OF ASSETS

- Assets will only be capitalised as an asset in the balance sheet when the following criteria are met:
 - Future economic benefits or potential service delivery associated with the asset will flow to Moretele Local Municipality.
 - The cost of the asset can be measured accurately.
- All risks and rewards relating to an asset item have been passed to Moretele Local Municipality and therefore Council controls the asset item.
- A valid invoice to Council or other transfer document that transfers ownership to Council exists.
- Assets that fall in the municipal control without required documents will be authorised by council and other owners respectively informed to document the change in control if not contested.
- A self-constructed asset with a lifespan of more than a year will be capitalised as an asset. The total cost of construction of the assets will be capitalised. Example of the cost are
 - Cost of employee benefits arising from construction of the assets
 - Cost material allocated for the construction
 - Cost of site preparation if any
 - Professional fees incurred in the construction
 - Improvement on assets will be capitalised if the improvement increase the value and capacity of the asset otherwise it will be written off as repair and maintenance.
 - Building infrastructure improvement: removable items such as the air conditioners, curtains and etc will be capitalised separately from the cost of improvement on building and bar coded as such.
- The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the item in accordance with the allowed alternative treatment in the Standard of GRAP on Borrowing Costs.
- The Chief Financial Officer shall assign a residual value percentage to each depreciable asset recorded on the municipality's Fixed Asset Register. In determining such residual value percentage the Chief Financial Officer shall adhere to the residual value rates set out in the annexure to this document (refer Annexure A).
- In the case of a fixed asset which is not listed in this annexure, the Chief Financial Officer shall determine a residual value rate, if necessary in consultation with the Head of the department who shall control or use the fixed asset in question, and shall be guided in determining such residual value rate either by the rates assigned in the annexure to the fixed asset most closely comparable to the asset in question or by any appropriate indications from comparable data available on such asset.

10.4 SAFEGUARDING OF ASSETS

- Section 63 of the Municipal Financial Management Act (Act no 56 2003) determines that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.
- Section 78 of the Municipal Financial Management Act (Act no 56 2003) determines each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of the municipality 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 municipality
- The responsibility for the safeguarding of assets vests with each official to whom assets have been allocated.
- Every asset holder will be directly responsible for ensuring that all assets are properly maintained in a manner which will ensure that such assets attain their useful operating lives.
- All assets used by employees must be returned upon termination of employment.

10.5 VERIFICATION OF ASSETS

- The Asset Management Division shall at least once during every financial year provide all Heads of department with a comprehensive list of assets which is registered under their control.
- Every Head of department 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 Head of department will be required to sign and date a declaration stating that the list of assets verified for his/her Department is complete & accurate except for the discrepancies as reported to the Asset Management Division.
- The verified information must be reconciled to the Asset Register.
- The CFO must approve all adjustments that will correct the identified variances.

10.6 MOVEMENT OF ASSET

- All movements of assets must be duly authorised by the asset manager and CFO.
- All movements of assets together with the relevant authorisation must be recorded in the Asset Register.

11 OPERATION AND MAINTENANCE

11.1 DEPRECIATION

- All fixed assets, except land and heritage assets, shall depreciate. Buildings depreciate even when the asset is revalued every year. A higher value of buildings due to revaluation does not indicate that the asset condition remained constant or that service potential has increased.
- Investment properties on the fair value model will not be depreciated but investment properties on cost model basis will be depreciated on same basis as PPE.
- The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.
- The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed or expected to be consumed by the municipality.
- The depreciation charge for each period will be recognized as an expense against the budget of the relevant Head of Department unless it is included in the carrying amount of another asset.
- A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straightline depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
- The depreciation method will be the straight-line method unless otherwise agreed to in writing by the Chief Financial Officer.
- Depreciation shall be calculated from the day the fixed asset is available for use (GRAP 17).
- Depreciation is an expense both calculated and debited on a monthly basis against the appropriate line item in the Department or vote in which the item of property, plant and equipment is used or consumed and should be recognised as such.
- When depreciation is calculated, a corresponding accumulated depreciation account is created. The accumulated depreciation account is a statement of financial position item (it is an asset provision and shall not be classified with

liabilities). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was available for use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

- Heads of Departments, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the directorate in question or expected to be so controlled or used during the ensuing financial 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 other fixed assets.

11.2 INITIAL DETERMINATION OF USEFUL LIFE

- Heads of Departments needs to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:
 - The program that will optimise the expected long term costs of owning that asset,
 - Economic obsolescence because it is too expensive to maintain,
 - Functional obsolescence because it no longer meets the municipality's needs, Technological obsolescence,
 - Social obsolescence due to changing demographics, and
 - Legal obsolescence due to statutory constraints.
 - Recommendations of the asset management division
- The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality'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 document (refer Annexure A for immovable and movable assets).
- 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 Head of the department 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).

11.3 REVIEW OF USEFUL LIFE

- Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the Chief Financial Officer shall inform the council of the municipality of such amendment.
- The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
- The remaining useful life of an item of property, plant or equipment should be reviewed annually by the relevant head of Assets and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods should be adjusted by the Chief Financial Officer and the additional depreciation expenses shall be debited to the directorate or vote controlling or using the fixed asset in question. Adjustments to depreciation will be done prospectively.

11.4 REVIEW OF DEPRECIATION METHOD

- The depreciation method applicable to property, plant or equipment should be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method should be changed to reflect the changed pattern.
- When such a change in depreciation method is necessary the change should be accounted for as a change in accounting and the depreciation charge for the current and future periods should be adjusted.

11.5 SUBSEQUENT EXPENDITURE ON PROPERTY, PLANT OR EQUIPMENT

- Subsequent expenditure relating to an item of property, plant or equipment that meets the definition of an asset should be added to the carrying amount of the asset when such expenditure will increase the useful life of the asset or increase the efficiency of the asset or reduce the cost of operating the asset, resulting in financial or service delivery benefits.
- All other expenditure should be recognized as an expense in the period in which it occurred.
- Before allowing the capitalization of subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure will significantly:
 - Increase the life of that asset beyond that stated in the asset register, or
 - Increase the quality of service provided by that asset beyond the existing level of service, or
 - Increase the quantity of services that asset can provide, or
 - Reduce the future assessed costs of maintaining that asset.
- Expenditure that is proposed to be capitalized must also conform to recognition criteria for assets and should also be appropriately included in the approved capital budget.

11.6 IMPAIRMENT OF ASSETS

- The accounting treatment relating to impairment losses is outlined as follows in GRAP 17:
 - An impairment is an enduring loss of the assets service potential, capacity and functionality.
 - Assets need to be periodically reviewed to determine if an indicator that an item of PPE has become impaired has occurred:
 - The asset has been damaged.
 - The asset has become technologically obsolete.
 - The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
 - Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price
 - Should an indicator exist the carrying amount (Book value) of an item or a group of identical items of property, plant and equipment should be reviewed in order to assess whether or not the recoverable amount has declined below the carrying amount.
 - Recoverable amount is the amount that the municipality 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 recognised as an expense immediately.
 - 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, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. 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 steps will have to be performed regularly during the year to account for impairment losses:
 - Departments will identify and inform Finance - Asset Control of assets that:
 - Are in a state of damage at year end.
 - Are technologically obsolete at year end.
 - Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
 - Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is land that is purchased at market value and is to be utilized for subsidized housing developments.
 - The recoverable amounts of these assets need to be calculated by calculating the net selling price per asset as defined above.
 - The impairment loss per asset needs to be calculated as the difference between the net selling price and the book value of the asset.
 - The impairment loss needs to be accounted for by identifying the relevant funding source.
 - The carrying amount of an asset should be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.
 - 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 Impairment expense immediately, unless it reverses a previous revaluation in which case it should be charged to the Revaluation Reserve.
 - For assets providing economic benefits, the recoverable amount is the net present value of future ownership.
 - For assets providing future service delivery, the recoverable amount is the remaining proportional to its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance programs.
- Impairments after year end are subsequent event and shall not be reflected in the asset register. The municipality will however disclose such items if material in the assets note to the financial statements.

11.7 SUBSEQUENT INCREASE IN RECOVERABLE AMOUNT

- A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

11.8 REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES

- 11.8.1. Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.
- 11.8.2. Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned. Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, and installation, assembly and

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

Capital expenditure	Maintenance
<ul style="list-style-type: none"> • Acquiring a new asset • Replacing an existing asset • Enhancing an existing asset so that its use is expanded • Further developing an existing asset so that its original useful life is extended 	<ul style="list-style-type: none"> • Restoring an asset so that it can continue to be used for its intended purpose • Maintaining an asset so that it can be used for the period for which it was initially intended.

11.8.4. Maintenance of machinery and vehicle must only be done with genuine parts from the original supplier of the asset.

11.9 OTHER WRITE-OFFS OF FIXED ASSETS

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

11.9.2. In every instance where a not fully depreciated fixed asset is written off, the Chief Financial Officer shall immediately debit to such directorate or vote, as additional depreciation expenses, the full carrying value of the asset concerned.

11.10 ASSET VALUATION

- The municipality has elected to account for the value of their assets on the COST model.
- The carrying value of an asset in the Asset Register at any given time shall be recognized as the total original purchase price after accounting for depreciation, impairment and revaluations.
- The total original purchase price shall be determined using the purchase price per supplier invoice. In case of old assets historical cost, or if the historical cost cannot be determined, fair value (replacement cost, realizable value or present value) can be used to determine the valuation of the asset. This fair value will be deemed to be cost.
- Assets must be depreciated, in line with the Municipal elected method, on a monthly basis, taking into account the useful life per Annexure A, of this policy, and the residual value of the asset.
- The residual value of an asset should be reviewed at least at each reporting date. If the review indicates that a change has taken place and expectations differ from previous estimates, the changes should be accounted for as a change in the accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.
- The Asset Register must provide the basis for the amounts in the financial statements.
- The reconciliation of the Asset Register against the Procurement and Financial Systems must be done on a monthly basis.
- The detailed disclosure requirement in the Annual Financial Statements must be in line with GRAP and National Treasury guidelines.

11 GENERAL MAINTENANCE OF FIXED ASSETS

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

- Every Director shall be directly responsible for ensuring that assets in their control are maintained in accordance to the municipal asset management plans that include the 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.
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- Every Head of department shall ensure that a maintenance plan in respect of infrastructural asset is prepared and submitted to the Council of the municipality for approval.
- If so directed by the Municipal Manager, the maintenance plan shall be submitted to Council prior to any approval being granted for the acquisition or construction of new infrastructural assets.
- The Head of department controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Council, not later than 31 March, 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.
- 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 Council 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 Head of department 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.
- Maintenance and repair cost of assets due to the normal operation of the asset will be recognised to the statement of surplus and loss as expense.
- Maintenance and repair cost of assets due to the fix of assets or service of assets outside normal operation and use will be recognised as expense to statement of surplus and loss. These type of expenditure will however also indicate that assets possibly impaired should have the impairment revised as the loss in functionality may no longer be considered enduring.

12 DISPOSAL OF ASSET

- The Municipality shall have an Annual Disposal Plan for assets to minimize redundant assets.
- Disposal will be determined by asset physical condition, functional performance and cost benefit analysis.
- The Disposal Plan shall establish the rationale for the anticipated time and method of disposal, and the expected proceeds.
- Asset disposal decisions shall be made within an integrated service and financial planning framework.
- No asset shall be sold at a value which is below its carrying Net Value in the Asset Register without the approval of council.
- The appropriate method of disposal shall be Public Auction or Public Tender.
- There shall be an elected Asset Disposal Committee (ADC) whose responsibility shall be to assess assets ring-fenced for disposal, obtain approval as per Municipal Delegations.
- All assets disposed should be removed from the Asset Register.

12.1 LOSSES OR DAMAGES

- All officials are responsible for reporting any loss of or damage to an asset to the asset management officer within 1 working day of such loss or damage.
- All losses of assets or damages to assets must be dealt with according to the Loss Control Policy of the Municipality.
- All losses of assets or damages must be recorded in the Asset Register.
- CFO shall ensure that losses of assets or damages are investigated to ensure adequateness of asset safeguards procedures and that where damages or loss are covered by insurance policy that claims are processed and received.

12.2 INSURANCE

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

The ultimate decision taken by a municipality 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 municipality.

Comprehensive property, plant and equipment identification and valuation may prevent the municipality from being over or under insured. Specific supportable insurable values as defined in the insurance policy of the municipality 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.

13 IMPLEMENTATION

- This Policy is effective from the date of approval by Council.