

DIHLABENG LOCAL MUNICIPALITY



ASSET MANAGEMENT AND MAINTENANCE POLICY

1. INTRODUCTION

The purpose of the Asset Management Policy is to ensure that assets owned by Dihlabeng Local Municipality are managed, controlled, safeguarded and used in an efficient and effective manner.

2. OBJECTIVE OF THE ASSET MANAGEMENT POLICY

The objectives of the Asset Management Policy are:

- to ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the municipality.
- to set out the accounting treatment for assets acquired municipality. and used by the
- to prescribe the administrative guidelines and internal control procedures to be followed by persons in control of the Dihlabeng Local Municipality assets with regard to management of those assets.

3. DEFINITIONS

3.1 Asset

An asset shall mean any resource controlled by the Dihlabeng Local Municipality, from which the Dihlabeng Local Municipality expects to derive economic benefits or use for service delivery to the general public over a period extending beyond one financial year.

3.2 Carrying amount

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

3.3 Depreciable amount

The depreciable amount of an asset is the cost of the asset less the residual value of the asset.

3.4 Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life to the income statement.

3.5 Finance Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. The following are indicators of a finance lease:

- Legal ownership of the asset transfers to the lessee either during or at the end of the lease term, or
- The lease has a purchase option available to the lessee, or
- The lease term is for the major part of the economic life of the leased asset, or
- The present value of the minimum lease payments equals substantially all of the fair value of the leased asset, or
- The leased asset is so specialised that only the lessee can use it without major modification.

The Chief Financial Officer must ensure that finance leases are accounted for in terms of GRAP.

3.6 Operating Lease

An operating lease is a lease other than a finance lease.

3.7 Residual value

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

3.8 Municipal Manager

A municipal manager means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act, 1998 (Act No. 117 of 1998).

4. ROLE OF THE MUNICIPAL MANAGER

The municipal manager, being the accounting officer of the Dihlabeng Local Municipality, is responsible for the following in terms of s. 63 of the Municipal Finance Management Act (Act 56 of 2003):

- The assets of the municipality, including the safeguarding and the maintenance of those assets.
- Ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality.
- Ensure that the municipality's assets are valued in accordance standards of generally recognised accounting practice.
- Ensure that the municipality maintains a system of internal control of assets, including an asset register.

Therefore the municipal manager shall be the principal custodian of all the local authority's assets. In terms of s. 79(4), even though the municipal manager has delegated his duties, it does not divest the municipal manager from the responsibility of the delegated duty. The municipal manager will still be responsible for monitoring

the activities of the person delegated to, to ensure that they are performing the responsibilities and duties delegated to them.

5. ROLE OF THE CHIEF FINANCIAL OFFICER

The municipal manager has duly delegated the following duties to the Chief Financial Officer in terms of s. 79(1)(b)(ii):

- Ensure that all acquisitions of assets are in accordance Chain Management Policy. with the Supply
- Ensure that council assets are accounted for in accordance with generally recognised accounting practice (GRAP).
- Ensure that the general ledger is reconciled to the fixed asset register.
- Review the reconciliation between the general ledger and the fixed
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.

6. ROLE OF THE FINANCE ADMINISTRATION UNIT

6.1 The Asset Management Division shall be the asset register of the Dihlabeng Local Municipality and shall ensure that a complete, accurate and up to date asset register is maintained. No amendments to the asset register shall be made other than those authorised by the Manager Assets and the Chief Financial Officer.

6.2 The Asset Management Division shall be responsible for implementing and maintaining a centralised asset register that will include the information as prescribed in section 12 of this document.

6.3 Ensuring that physical asset verification is performed annually by all Units to verify the assets on the asset register. The results of this verification must be reported to the Municipal Manager and Dihlabeng Local Municipality Council.

The asset verification report shall –

- Include a complete list of all assets identified during the verification process.
- Identify whether appropriate records have reflecting the items that should have been found during verification process
- Identify any discrepancies between the items found during the verification process and the unit listing and asset register.
- Submit to the Units for comment on variances identified or unfound assets for their comments or inputs

The asset verification process

- Use inventory list for the verification movable assets and asset register
- Use GPS coordinates and asset register to identify infrastructure assets
- Visit every business unit section to physically verify assets on the site

6.4 Performing reconciliation between the asset register and the general ledger on a monthly basis. The reconciliation of the asset register shall be performed per asset classification and reconcile the following:

- Cost
- Accumulated Depreciation
- Depreciation
- Carrying amount and shall reflect the following:
 - Opening balance
 - Movement for the year
 - Closing balance

6.5 Ensuring adequate bar codes and equipment to exercise the function relating to asset control is available at all times.

6.7 Providing the Auditor-General or his personnel, on request, with the details and records relating to assets belonging to Council as recorded in the asset register.

6.8 Ensuring that all audit queries are resolved in a timely manner.

7. ROLE OF BUDGET AND FINANCIAL UNIT

7.1 FINANCIAL ACCOUNTING

The responsibilities of the Financial Accounting are as follows:

Ensure that a clear description is provided with each project and the appropriate funding source is identified. Release capital funds only after receiving written authority and a clear and concise description of the item to be purchased.

- Ensure that any changes in the capital budget, with regard to funds transferred or project description changes are communicated to the Asset Management Division.
- Ensure that the calculation of depreciation is performed and details required for processing financial records to be obtained from the Asset Management Division.

7.2 ROLE OF THE BUDGET DIVISION

The responsibilities of the Budget Division are as follows:

- Ensure that invoices authorised for payment are matched to the goods received note before processing such payment.
- If any doubt exists as to whether the invoice is in accordance with the policy, query the payment with the relevant business unit and payment shall not be processed until the invoice meets the policy criteria.

7.2 ROLE OF ASSET MANAGEMENT UNIT REGARDING DISPOSAL OF ASSETS

The responsibilities of the Asset Management Division are as follows:

- Before accepting an obsolete or damaged asset from any business unit, an asset disposal form counter signed by the Asset Management Division and the business unit concerned, are presented.
- Ensure that a verifiable record of all obsolete, damaged and unused assets are received from the Asset Management Division.
- Compile a list of items to be auctioned or sold in accordance with the Asset Disposal Policy.
- Compile and circulate a list of unused movable assets to enable other units to obtain items that are of use to them.

8. ROLE OF THE SUPPLY CHAIN DIVISION

The responsibilities of the Procurement Division are as follows:

- Ensure that correct procedures are followed in asset acquisitions as per the Local Municipality Dikhalabeng Supply Chain Management Policy.
- The Specification Committee, Evaluation Adjudication Committee and Adjudication committee must comply with and constituted in accordance with the Supply Chain Management Policy.
- Compile and circulate a list of unused movable assets to enable other business units to obtain items that are of use to them.

9. ROLE OF UNIT MANAGERS

The responsibilities of the Human Resources Unit are as follows:

- Ensure that no monies are paid out on terminations of service of an employee without receiving the relevant asset resignation form signed off by the relevant unit manager.
- Ensure that every asset resignation form is counter signed by the Chief Financial Officer and Corporate Administration Unit Manager before processing the termination of service of an employee. The responsibilities of all other Unit Managers are to ensure that:
- Employees in their Units adhere to the approved Asset Management Policies and Procedures.
- An employee with delegated authority has been nominated to implement and maintain physical control over assets in the unit. The asset Management Division must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the Unit Manager of that Unit.
- The assets are properly maintained in accordance with their respective asset maintenance policy
- The assets of the municipality are not used for private gain.
- All movable assets as reflected on the asset register and the Unit Items listing are bar coded
- Certification has been provided in writing that they have assessed and identified impairment losses on all affected assets at year end.

- A complete asset verification of all assets is done during the course of every financial year and that the results of the verification are reported to the Asset Management Division.
- All obsolete and broken assets are accompanied by relevant asset form and attached asset disposal form and are handed in to the Asset Management Division.
- The correct cost element and description are being used before authorising any requisitions.
- Detailed projects are created and categorised and clearly identified in terms of the asset classification as set out in section 11.
- All assets that are within the division or unit are the responsibility of unit or division managers and their supervisors

10. FORMAT OF THE ASSET REGISTER

10.1 The asset register shall be maintained in the format determined by the Finance Administration Business Unit Manager, and include the information needed to perform the reconciliation referred to in section 6.4 and comply with the requirements of generally recognised accounting practice.

The asset register shall reflect at least the following information:

- Unique item identification number of the asset
- The title deed number, in the case of fixed property
- The erf number, in the case of fixed property
- Date on which the asset was acquired
- Date on which the asset was available for use
- Description of the asset
- Location of the asset
- Business unit or cost centre within which the asset shall be used
- Useful life of the asset
- Estimated residual value of the asset
- Classification of the asset
- Original cost of the asset
- Revalued amount of the asset as determined in the guidelines of this document
- Revaluation date
- The person who performed the last revaluation
- Depreciation for the year charged against the cost of the
- Accumulated depreciation to date for the asset
- Impairment losses recognised during the year on the asset
- Accumulated impairment losses recognised to date for the asset
- Depreciation method to be used
- Carrying value of the asset
- Date the asset is disposed of or retired from use
- Transfer, disposal and write off details

- Funding source of the asset
- Current insurance arrangements
- Whether the asset has been used to secure any debt, and if so the nature and duration of such security arrangements

10.2.1 Immovable assets on the asset register will not be physically numbered with barcode labels but will have a unique asset master record number or use street names or the name of the area they are situated.

10.2.2 Incomplete construction work must be included in the asset register and stated at the aggregate of related expenditure incurred to date. Depreciation only commences when the asset is available for use.

10.2.3 All Business Unit Managers under whose control any asset falls shall promptly provide the Asset Management Division, in writing with any information required to compile the asset register, and shall promptly advise the Asset Management Division in writing of any material change which may occur in respect of such information.

10.5 An asset shall remain in the asset register for as long as it physically exists. The fact that an asset has been fully depreciated shall not in itself be a reason for removing the asset from the asset register.

10.6 If an asset has been fully depreciated but is still being used by the local authority, it indicates that the asset's estimated useful life has been incorrectly estimated. Therefore the local authority will have to account for a change in estimate based on the Business Unit, using the asset's adjusted estimated useful life.

10.7 The asset register must be able to account for components of assets according to GRAP 17 paragraph 54 to paragraph 57. This requires the municipality to account separately for components of an asset that have a different estimated useful life to the asset they form part of.

11. CLASSIFICATION OF ASSETS

In compliance with the requirements of generally recognised accounting practice, the Chief Financial Officer shall ensure that all assets are classified the following categories, and the business unit managers shall, in writing, provide the Chief Financial Officer and Asset Management Division with such information or assistance as is required to compile a proper classification of assets:

11.1 Property, Plant and Equipment and Infrastructure Assets

In terms of generally recognised accounting practice property, plant and equipment is defined as 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 for a period more year. than one financial

11.2 The different classifications for property, plant and equipment are as follows:

- Land
- Buildings
- Emergency equipment
- Office equipment
- Furniture and fittings
- Bins and containers
- Motor vehicles
- Aircraft
- Watercraft
- Plant and equipment

11.3 Infrastructure assets are defined as assets that usually display some or all of the following characteristics:

- They are part of a system or network,
- They are specialised in nature and do not have alternative uses,
- They are immovable, and
- They may be subject to constraints on disposal.

Examples are road networks, sewer systems, water and power supply systems and communication networks. Infrastructure assets meet the definition of property, plant and equipment and shall be accounted for as property, plant and equipment. Infrastructure assets 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.

The different classifications for infrastructure assets are as follows:

- Electricity
- Gas
- Sewerage
- Road
- Pedestrian malls
- Airports
- Recreational facilities
- Security measures
- Water
- Buildings

11.4 Heritage assets (GRAP 103)

In terms of this policy heritage assets are defined as any asset with a clearly definable intrinsic and remarkable heritage significance acknowledged by the

South African Resources Agency in accordance with the National Heritage Resource Act, 1999 (Act No. 25 of 1999) or any other asset that has a cultural, environmental or historical significance. Examples are works of art, historical buildings, statues, conservation areas and nature reserves.

11.5 Investment property (GRAP 16)

In terms of generally recognised accounting practice 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
 - sale in the ordinary course of operations.
- Some of the examples of investment properties are:
- Office parks (which have been developed by the local authority itself or jointly between the local authority and one or more other parties)
 - Shopping centres (again developed along similar lines)
 - Housing developments (that is, developments financed and managed by the local authority itself, with the sole purpose of selling or letting such houses for profit)

The municipality use cost model when evaluating its investment properties

11.6 Intangible assets (GRAP 31)

An intangible asset is defined as an identifiable non-monetary asset without physical substance. This asset can be held for any purpose, but must be controlled by the local authority and expected to provide future economic benefit to the local authority or to be used for service delivery.

11.7 Inventory (GRAP 12)

Assets classified as inventory are housing rental stock or housing rental stock not held for capital gain.

The Chief Financial Officer and the Asset Management Division shall adhere to the classifications described above in the accounting for assets and the implementation and maintenance of the asset register. In the case of an asset not described above; the classification most closely comparable to the asset in question should be used.

12.ACCOUNTING FOR PROPERTY, PLANT AND EQUIPMENT

12.1 Recognition Criteria

The cost of an item of property, plant and equipment shall be recognised as an asset when and only when:

- It is probable that future economic benefits will flow to the local authority or the potential service delivery associated with the asset will occur; and
- The cost of the asset to the local authority be reliably measured.

12.2 Measurement at recognition

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, such as the costs of site preparation, initial delivery costs, handling costs, installation costs, and professional fees such as architects and engineers fees.
- The initial estimates of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- Where an asset is donated to Dihlabeng Local Municipality, or an asset is acquired by means of an exchange of assets between the local authority and one or more other parties, the asset concerned shall be recorded in the asset register at its fair value, as determined by the Chief Financial Officer. The asset's fair value shall either be its market price or the amount the asset can be sold for in an arm's length transaction between two knowledgeable willing parties.

12.3 Capitalisation criteria

All asset types approved by the Chief Financial Officer for capitalisation shall be treated as capital assets and recorded in the asset register. All asset that procured by the municipality should be recorded on the asset register irrespective of their nominal value and records should be kept safe.

12.6 Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset is enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally assessed standard of performance, then it is regarded as repairs and should be expensed. The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:

Capital Expenditure Maintenance

- Acquiring a new asset
- Replacing an existing asset
- Restoring an asset so that it can be used

The Chief Financial Officer will be responsible for implementing procedures to ensure that operating expenses are not capitalised.

12.7 Depreciation

All property, plant and equipment shall be depreciated. Depreciation shall generally take the form of an expense, both calculated and debited against the appropriate line item of the business unit or vote against which the asset is used or consumed, and should be recognised as such. Depreciation of an item of property, plant and equipment, should be allocated on a systematic basis over its useful life.

Refer to Appendix “A.”

Depreciation shall be charged from the calendar month following the month in which an asset is acquired or, in the case of construction works and plant and machinery, the month following the month in which the asset is available for use. It should be noted that land normally has unlimited life therefore it is not depreciated, whilst buildings are.

12.8 Method of Depreciation

The Chief Financial Officer shall depreciate all depreciable assets on the straight- line method of depreciation over the assigned useful operating life of the asset in question.

- Enhancing an existing asset so that its use is expanded
- Further developing an existing asset so that its original extended continue to be used for its intended purpose useful life is
- Maintaining an asset so that it can be used for the period for which it was initially intended.

12.9 Rate of Depreciation

The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality’s asset register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives set out in Appendix “A” to this document. In the case of an asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Unit Manager who shall control or use the asset in question, and shall be guided in determining such useful life either by the useful lives assigned in the annexure to the asset most closely comparable to the asset in question.

12.10 Profit or loss on disposal

Profits and losses on the sale of property, plant and equipment are calculated as follows, and are disclosed in total in the financial statements:
Proceeds Sales value, trade-in value or proceeds received from insurance if the asset was damaged or stolen.
Less:

Carrying value

Cost, or if valued, revaluation amount, less accumulated depreciation up to the date of sale or when the asset can no longer be used for its intended purpose.

Equals

PROFIT

or

If proceeds greater than carrying value, or

Equals

LOSS

If proceeds less than carrying value.

12.11 Amendment of asset useful lives

Only the Finance Administration, Public Works and Unit Manager in conjunction with the Chief Financial Officer may amend the expected useful operating life assigned to any asset or may follow guidelines for IAM in local government, and when any material amendment occurs the Chief Financial Officer shall inform the Council of the municipality of such amendment. Any amendments to the useful operating life shall be done in accordance with GRAP 3 Accounting policies, changes in accounting estimates and errors.

12.12 Impairment

Impairment of assets is to be done in accordance with GRAP 21 and 26 on Impairment of Assets. It will be the responsibility of the Asset Management Division to; at each reporting date consider whether there is an indication of a possibility of impairment for any asset. If there is an indication that an asset is impaired the Finance Administration Unit will be responsible to instruct the Unit using the asset to perform an impairment test that will have to be reported to the Asset Management Division for review. If the Asset Management Division is satisfied with the calculation, the Unit will refer the possible impairment to the Chief Financial Officer for approval.

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

- 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 utilised for subsidised housing developments, where the subsidy is less than the purchase price.

12.12.2 To test for impairment the assets carrying amount needs to be compared to the assets recoverable amount.

12.12.3 Recoverable amount

The recoverable amount of an asset is the higher of its fair value less selling costs and its value in use.

12.12.4 Fair value less selling costs

This amount is calculated by determining the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties less the selling costs.

12.12.5 Value in use

This amount is obtained by calculating the present value of future cash flows expected to be derived from an asset. Cash flows are discounted using an appropriate pre-tax discount rate.

12.12.6 Selling costs

These costs are incremental costs directly attributable to the disposal of an asset excluding finance costs and income tax expense.

If an asset's recoverable amount is lower than the assets carrying amount the asset will be written down to its recoverable amount. This will be recognised in the current financial statements as an impairment loss. The recoverable amount will now become the carrying value of the asset and the asset will continue to be depreciated over the rest of its estimated useful life.

Impairment procedures

- All assets that need to be impairment have to be approved by the council first through the report prepared by relevant units and managers.
- Assessment study has to be undertaken to determine that exact conditions or whether the assets no longer suit or fit the purpose it was acquired for

Revaluation of assets

All items of plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. Property shall be accounted for at revalued amount less accumulated depreciation except for investment properties which shall be dealt with as described in section 14.

13.ACCOUNTING FOR HERITAGE ASSETS

If no original costs or reasonable values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, on recognition of the heritage asset, elect not to apply the measurement requirements of GRAP17, provided the disclosure requirements of GRAP 17 are complied with. For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note. If the cost of the heritage asset is going to be recognised, the local authority shall apply GRAP 17. However, if a heritage asset is recognised in the asset register and its estimated useful life is indefinite, it must be reviewed for impairment on an annual basis.

Where an asset is donated to the Dhlabeng Local Municipality, or an asset is acquired by means of an exchange of assets between the local authority and one or more other parties, the asset concerned shall be recorded in the asset register at its fair value, as determined by the Chief Financial Officer.

Heritage assets are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine their useful lives.

14. ACCOUNTING FOR INVESTMENT PROPERTY

Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for balance sheet purposes.

Investment property shall comprise land or buildings (or parts of buildings) or both held by the local authority, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

14.1 Recognition criteria

The cost of an item of investment property shall be recognised as an asset when and only when:

- It is possible that future economic to the Dhlabeng Local Municipality or service delivery associated with the asset will occur; and
- The cost of the asset to the Dhlabeng Local Municipality can be reliably measured.

14.2 Measurement at recognition

Investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition to be determined by the Chief Financial Officer.

The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Examples of directly attributable expenditure are:

- Professional fees
- Legal services
- Property transfer taxes
- Other transaction costs

The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies GRAP 17 on Property, Plant and Equipment and it will be accounted for as an ordinary asset. At that date, the property becomes investment property and GRAP 16 Investment Properties applies i.e. the asset is transferred from property, plant and equipment to investment property.

The initial cost of an investment property held under a finance lease shall be recognised at the lower of the fair value of the property and the present value of the future minimum lease payments.

14.3 Subsequent to initial recognition

After initial recognition, investment properties shall not be depreciated and shall be kept at cost in accordance with GRAP 16.

15. ACCOUNTING FOR INTANGIBLE ASSETS

No intangible item shall be recognised in the asset register, except that the Chief Financial Officer and the Finance Administration Business Unit Manager, acting in strict compliance with the criteria set out in GRAP 102 dealing with research and development expenses, may recommend to the Council that specific development costs be recognised as an asset. Any other matters are not included in the scope of this document.

16. DISCLOSURE REQUIREMENTS

According to GRAP 17 the following information relating to depreciation should be disclosed in the financial statements:

16.1 Accounting policy notes

The depreciation methods used, the measurement base and the depreciation rates or useful lives.

16.2 Notes to the balance sheet

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.

16.3 Notes to the income statement

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

16.4 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 units 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

16.5 Disclosure requirements for impairment losses

The local authority shall disclose the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are included.

17. SAFEKEEPING OF ASSETS

Every unit shall be directly responsible for the physical safekeeping of any asset controlled or used by the business in question. In exercising this responsibility, every Unit Manager shall adhere to any written directives issued by the Asset Management Unit Manager in question pertaining to the control of or safekeeping of the municipality's assets.

17.1 Employees will be held responsible for all assets that were lost in their possession due to negligence. Disciplinary measures will be taken should an employee fail to account properly on the assets.

18. IDENTIFICATION OF ASSETS

The Asset Manager and Unit Manager shall ensure that the Dihlabeng Local Municipality maintains an asset identification system which shall be operated in conjunction with its computerised asset register. The identification system shall be determined by the Asset Management Division, Chief Financial Officer and other Unit 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 local authority budget and human resource.

Every Unit Manager shall ensure that the asset identification system approved for the Dihlabeng Local Municipality is scrupulously applied in respect of all assets controlled or used by the Unit in question.

19. MAINTENANCE

19.1 Maintenance Plans

Every Business Unit Manager shall ensure that a maintenance plan for all assets is promptly prepared and available for inspection by the internal auditors at all times. The Business Unit can develop one maintenance plan for all the assets under the control of the Business Unit.

19.2 Deferred maintenance

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

20. BUDGET REQUIREMENTS FOR DEPRECIATION

Each unit 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 its business unit 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 assets.

21. CREATION OF A NON-DISTRIBUTABLE RESERVE FOR FUTURE DEPRECIATION

The Chief Financial Officer shall ensure that in respect of all assets financed from the local authority asset financing reserve, or from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Dihlabeng Local Municipality, a non-distributable reserve for future depreciation is created equal in value to the capitalised value of each asset in question.

The Chief Financial Officer shall thereafter ensure that in the case of depreciable assets an amount equal to the monthly depreciation expenses of the asset concerned is transferred each month from such non-distributable reserve to the municipality's appropriation account. Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the Chief Financial

Officer shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

22. CARRYING VALUE OF ASSETS

All assets shall be carried in the asset register, and appropriately recorded in the annual financial statements; at their original cost or fair market value less any accumulated depreciation and any impairment losses thereon as per the requirements of generally recognised accounting practice.

The only exception to this rule shall be those heritage assets in respect of which no value is recorded in the asset register.

23. VERIFICATION OF ASSETS

Every Unit shall at least once during every financial year undertake a comprehensive verification of all assets controlled or used by the Unit concerned. These assets to be verified include the assets listed on the asset register that are located in the Unit and the assets included on the Unit Items listing.

Every business unit shall promptly and fully report in writing to the Asset Management Division all relevant results of such asset verification, provided that each asset verification shall be undertaken and completed as closely as possible to

the end of each financial year, and that the resultant report compiled by the Asset Management Division, incorporating the results of all Units by 30 June of each financial year and be made available to the Auditor-General or his/her personnel.

24. FUNDING SOURCES OF ASSETS

Five main sources of finance are utilised to acquire Property Plant and Equipment for the metro, namely:

- The Asset Financing Fund (AFF).
- The External Financing Fund (EFF).
- Grants, Subsidies and Public Contributions.
- Revenue Contributions.
- Donations by other countries.

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of s19 of the Municipal Finance Management Act.

24.1 The Asset Financing Fund (AFF)

Council must approve the use of the Asset Financing Fund during the budget cycle to ensure the availability of funds in line with the requirements of the capital program for that financial year.

The following pertains to the utilisation of AFF:

- A transfer from the net surplus for a specific accounting period.
- The funds transferred may be invested as prescribed by legislation.
- Funds transferred must be cash backed.
- Funds transferred may not be used to maintain property, plant and
- If a profit is made on sale of assets previously funded from the AFF, the profit is reflected in the income statement and thereafter transferred via the appropriation section of the income statement to the AFF if backed by cash.
- Interest earned on the AFF investment is reflected as interest earned in the income statement and thereafter transferred via the appropriations section of the income statement to AFF.

When an amount is advanced to a borrowing service to finance the acquisition of an asset, the money must be transferred to a reserve created for the purpose of acquiring a specific asset and the accumulated funds in the AFF must be reduced by the amount of the advance.

The balance of the accumulated funds in the AFF will therefore represent the amount that is available to finance assets in future periods. This balance must be cash backed at all times.

The balance in the reserve created to acquire a specific asset is transferred to the income statement over the estimated life of assets financed by the AFF to offset the depreciation charge included in the income statement relating to assets.

24.2 The External Financing Fund (EFF)

When loans are obtained from external sources, they must be paid into the

EFF. The corresponding cash should be invested until utilised for the purpose of acquiring assets. When the external loan is utilised to finance assets in a service entity it should be recorded in an “advances” account in the EFF.

Where a loan has a fixed period the instalments should be calculated to determine the cash that should be set-aside in the EFF. This is done so that there will be sufficient money to repay the loan when it matures as well as any interest charges as they occur.

When the loan is an annuity loan, the cash required to be paid into the EFF should be based on the actual loan repayments. Once the money has been received by the EFF, the cash would be used to repay the loan.

When the EFF is consolidated with the various services, the “advances made” account in the EFF will contra with the “advances received” account in the various service entities.

24.3 Grants, Subsidies and Public Contributions (Capital Receipts)

Unutilised conditional grants are reflected on the Balance Sheet as a Creditor called Creditor (Unutilised Conditional Grants). They represent unspent government grants, subsidies and contributions from the public.

This creditor always has to be backed by cash. The following provisions are set for the creation and utilisation of this creditor:

- The cash which backs up the creditor is invested utilised. until it is
- 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 it is the city’s interest it is recognised as interest earned in the income statement.
- Whenever an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the Unutilised Capital Receipts into the income statement as revenue. Thereafter an equal amount is transferred on the statement of changes in equity to a reserve called a Future Depreciation Reserve (FDR). This reserve is equal to the remaining depreciable value (book value) of assets purchased out of the Unutilised Capital Receipts. The FDR is used to offset depreciation charged on assets purchased out of the Unutilised Capital Receipts to avoid double taxation of the consumers.
- If a profit is made on the sale of assets previously purchased out unutilised capital Receipts the profit on these assets sold is reflected in the notes to the income statement and is then treated in accordance with Council policy.

24.4 Revenue Contributions

These are contributions made to finance assets from the Dihlabeng Local Municipality operating cash flow. The asset is capitalised at cost and the payment is credited against the bank balance. Normal depreciation will apply.

25. ALIENATION OF ASSETS

All alienation of property, plant and equipment shall be done in accordance with the following:

- Dihlabeng Local Municipality's Asset Disposal Policy
- Dihlabeng Local Municipality's Immovable Capital Asset Disposal Land Policy
- Dihlabeng Local Municipality's Asset Loss Control Policy
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Refer to section 31 for requirements of the Municipal Finance Management Act.

26. OTHER WRITE-OFFS OF ASSETS

An asset even though fully depreciated shall be written off only on the recommendation of the Unit Manager controlling or using the asset concerned, and with the Council approval. Every Unit shall report to the Asset Management Division on 31 October and 30 April of each financial year on any assets which such Unit Manager wishes to have written off, stating in full the reason for such recommendation. The Asset Management Division shall consolidate all such reports and shall promptly submit a recommendation to the Council of the Local Municipality on the assets to be written off.

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

27. REPLACEMENT OF ASSETS

The Municipal Manager, in consultation with the Finance Administration Unit Manager and other Unit Managers, shall formulate norms and standards for the replacement of all normal operational assets.

Such replacement standards shall be incorporated in a formal policy, which shall be submitted to Council for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain.

28. INSURANCE OF ASSETS

All insurance of property, plant and equipment and investment properties shall be done in accordance with the Dihlabeng Local Municipality policy and procedures on insurance of council assets.

29. BIOLOGICAL ASSETS

Accounting for biological assets shall take place in accordance with the requirements of IAS 41.

The Chief Financial Officer, in consultation with the unit managers concerned, shall ensure that all biological assets, such as livestock and crops, are annually valued for balance sheet purposes at their market-related prices.

Such valuation shall be undertaken by a recognised valuator in the line of the biological assets concerned. Any losses on such valuation shall be debited to the

unit's vote as an operating expense, and any increase in the valuation shall be credited to the business unit's vote as operating revenue.

If the biological asset concerned is lost, stolen or destroyed, the matter, if material shall be reported in writing by the head of the unit manager in exactly the same manner as if the asset was an ordinary asset.

If the metro's investment in biological assets does represent a material part of its financial activities, the Chief Financial Officer, in consultation with the unit concerned, shall ensure that expert valuations are done at such frequent intervals as the Council shall deem appropriate. Such valuations shall then obviously account for losses, sales, acquisitions and other changes to the composition of the biological assets concerned.

Records of the details of biological assets shall be kept in a separate section of the asset register, or in a separate accounting record altogether and such details shall reflect the information which the Chief Financial Officer, in consultation with the business unit concerned and the internal audit, deems necessary for accounting and control purposes.

The Chief Financial Officer shall annually insure the Local Municipality biological assets, in consultation with the business unit manager of the business unit concerned, provided the Council of the Local Municipality considers such insurance desirable and affordable.

30. PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT

“A municipality may not transfer ownership as a result of a sale or other transaction, or otherwise permanently dispose of any capital asset needed to provide a minimum level of basic municipal services.

A municipality may transfer ownership or otherwise dispose of a capital asset, other than an asset mentioned above, only after the Council, in a meeting open to the public:

- Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services and
- Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
Such a decision made by the Council may not be reversed after the asset has been sold, transferred or otherwise disposed of.”

31. GUIDELINES ON THE DISPOSAL OF IMMOVABLE AND MOVABLE ASSETS

The municipality may only dispose its asset/s once they no longer suit the purpose they were acquired for or they have become obsolete or broken where cost of maintaining or fixing them are much higher than the original price or expected benefits. Once these assets have been identified by unit managers/ supervisors or Asset team, a memo has to be completed and presented to the council for the approval.

31.1 Methods that can be used to dispose asset

- Auction

- Tender
- Destruction

31.2 Disposal committee

Unit managers/ supervisors and asset management serves as the committee for the disposal committee. This committee does not sit on normal basis like other committee, its only sit when there is a need to dispose of assets.

32. USE OF PRIVATE ASSETS BY MUNICIPAL OFFICIALS

Municipal official have to request the permission to be allowed to use their private asset on the municipal premises, they have to sign indemnity forms where they declare that should anything happen or any damage that will occur caused by their assets, and municipality cannot be hold responsible.

33. INFRASTRUCTURE ASSETS

All asset infrastructure has to follow and comply with the **GUIDELINES FOR INFRASTRUCTURE ASSET MANAGEMENT IN LOCAL GOVERNMENT.**

34. UPDATING OF THE POLICY

It is the responsibility of the asset manager and the team to consider and amend the the policy on annual basis if there is new developments in terms of IFRS/GRAP or legislation. The asset team must submit the amended policy to the office of Chief Financial Officer who will review all the changes and present it to the Council for approval. Once the Council has approved the changes on the policy, Asset Management Team should present all the changes to Business Units.

35. LOSS CONTROL COMMITTEE

The responsibility of the Loss Committee is to adjucate on the cases that has been brought to its attention to deal with issues of asset theft, theft in general and negligence on the handling of assets of the municipality. The committee will consist of two phases committee, first phase is the main committee (Loss control committee) and secondly phase (Investigation committee).

Members of the Loss Control Committee

- MMC Finance committee (Oversight)
- Manager Office of the MM/ Unit Manager
- Chief Financial Officer/ Asset Manager
- Manager Legal Services

Members of the Investigation Committee

- Manager Security
- Manager Internal Audit
- Officer Legal Services
- Officer Asset Manager

Appendix A

Infrastructure assets

The copy of Guideline for Infrastructure Asset Management in Local Government has been attached

Appendix B