



## **Asset Management and Insurance Policy**

Council resolution number and Date	
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## [1] INTRODUCTION

The Municipal Finance Management Act No. 56 of 2003 clearly states in Section 62[1][a] that the Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

Furthermore an Accounting Officer of a municipality is responsible for the management, safeguarding and maintenance of assets and liabilities and must for this purpose take all reasonable steps to ensure that the municipality has and implements the following:

- ❖ Maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality
- ❖ That assets and liabilities are valued in accordance with standards of Generally Recognised Accounting Practice
- ❖ Maintains a system of internal control of assets and liabilities, including an asset and liabilities register

This Policy is therefore necessary to facilitate the effective management, control and maintenance of the assets of the Municipality.

### [1.1] Aims / Objectives of the Policy

The objectives of the Asset Management Policy are to ensure that the assets of the Municipality are properly managed and accounted for by:

- [i] Ensuring the accurate recording of asset information
- [ii] The accurate recording of asset movements
- [iii] Exercising strict physical control over all assets (Security, safekeeping, housekeeping)
- [iv] Providing correct and meaningful management information in conjunction with other disciplines and functions which, inter alia, includes Insurance
- [v] Compliance with Council's Insurance and Payments Procedure
- [vi] Effecting adequate insurance of all assets
- [vii] Maintenance of Council's Assets

### [1.2] Definitions

**“Community Assets”** – are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

**“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.

**“Depreciation”** – is the systematic allocation of the depreciable amount of an asset over its useful life.

**“Depreciable Amount”** – is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

**“Fair Value”** – is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

**“Fixed Asset”**

- ❖ A fixed asset is defined in GRAP as a tangible item of property, plant or equipment held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year);
- ❖ A fixed asset is thus an asset, either movable 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 extending beyond one financial year;
- ❖ An asset held under a finance lease, shall be recognized as a fixed asset, as the municipality has control over such an asset even though it does not own the asset;
- ❖ Every head of department shall, however, ensure that any item with an estimated useful life of more than one year, shall be recorded on a stock sheet;
- ❖ Every head of department shall moreover ensure that the existence of items recorded on such stock sheets is verified from time to time, and at least once in every financial year, and any amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes;
- ❖ No intangible item shall be recognised as a fixed asset, except that the Chief Financial Officer, acting in strict compliance with the criteria set out in IAS 38 (dealing with research and development expenses) may recommend to the council that specific development costs be recognised as fixed assets;
- ❖ Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalized;
- ❖ Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be 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 communication costs.

**“Head of department / senior manager”** – means a manager referred to in section 56 of the Municipal Systems Act.

**“Heritage Assets”** – are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

**“Investment Properties”** – are defined as properties that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

**“Other Assets”** – are defined as assets utilized in normal operations. Example are plant and equipment, motor vehicles and furniture and fittings.

**“Property, Plant and Equipment”** – are tangible assets that:

- are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- are expected to be used during more than one period.

**“Infrastructure Assets”** – are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

**“Recoverable Amount”** – is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

**“Residual Value”** – is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

**“Useful Life”** – is either:

- the period of the time over which an asset is expected to be used by the municipality, or
- the number of production or similar units expected to be obtained from the asset by the municipality.

**“Subsidised vehicles”** – is either:

- The vehicle owned by the official who is not allowed to use any council vehicle except when the execution of the official’s duties requires the use of special municipal transport; or when the co-ordination of transport for various officials to the same destination would be more economical if only one vehicle were to be used but this exceptions should be approved by the Directorate responsible:

## **[2] 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 may in terms of section 79 of the Municipal Finance Management Act, No 56 of 2003 delegate the responsibility. Senqu Municipality Asset Management and Insurance Policy.

## **[3] ROLE OF THE SENIOR MANAGERS**

### **[3.1] Chief Financial Officer**

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

The Chief Financial Officer shall:

- ❖ Ensure implementation of the Asset Management and Insurance Policy;
- ❖ Ensure the verification of all assets in possession of council annually, as at 30 June each year, within the last three months of that specific financial year;

- ❖ Keep a complete and balanced record (assets register) of all assets in possession of the council;
- ❖ Report in writing all asset losses to the council;

### **[3.2] Other Senior Managers**

The responsibility for the physical control of assets rests with the relevant Head of Department to whom the responsibility was delegated to in terms of section 79 of the Municipal Finance Management Act, No 56 of 2003.

Each Head of Department shall ensure that assets entrusted to him / her are adequately maintained, properly used and insured and ensure that section 78 of the Municipal Finance Management Act, No 56 of 2003, is adhered to.

The Chief Financial Officer must approve any transfer of assets between departments after arrangements between the relevant Heads of departments were made.

Upon the resignation / retirement of an employee, the applicable Head of Department must inform the Chief Financial Officer and Corporate Service Department in writing that the inventory and asset items entrusted to that employee to execute his / her duties are in good order and returned. When necessary the applicable Head of Department must inform the Corporate Services Department of any losses and the value of such losses. The ultimate responsibility of any losses lies with the relevant Head of Department.

### **[4] FORMAT OF A FIXED ASSETS REGISTER**

The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and generally accepted municipal accounting practice (GAMAP) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- ❖ a brief but meaningful description of each asset
- ❖ the date on which the asset was acquired or brought into use
- ❖ the location of the asset
- ❖ the department(s) or vote(s) within which the assets will be used
- ❖ the title deed number, in the case of fixed property
- ❖ the stand number, in the case of fixed property
- ❖ where applicable, the identification number, as determined in compliance with paragraph 11 below
- ❖ the original cost, or the revalued amount determined in compliance with paragraph 26 below, or the fair value if no costs are available
- ❖ the (last) revaluation date of the fixed assets subject to revaluation
- ❖ the revalued value of such fixed assets
- ❖ who did the (last) revaluation
- ❖ accumulated depreciation to date
- ❖ the depreciation charge for the current financial year
- ❖ the carrying value of the asset

- ❖ the method and rate of depreciation
- ❖ impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- ❖ the source of financing
- ❖ the current insurance arrangements
- ❖ whether the asset is required to perform basic municipal services
- ❖ whether the asset has been used to secure any debt, and – if so – the nature and duration of such
- ❖ security arrangements
- ❖ the date on which the asset is disposed of
- ❖ the disposal price
- ❖ the date on which the asset is retired from use, if not disposed of.

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

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

## **[5] CLASSIFICATION OF FIXED ASSETS**

In compliance with the requirements of the National Treasury, the Chief Financial Officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments shall in writing provide the Chief Financial Officer with such information or assistance as is required to compile a proper classification: Senqu Municipality Asset Management and Insurance Policy.

### **[5.1] Property, Plant and Equipment**

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

### **[5.2] Investment Property**

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

The Chief Financial Officer shall adhere to the classifications indicated in the annexure on fixed asset lives (see paragraph 33 below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

## **[6] INVESTMENT PROPERTY**

Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position.



- ❖ Investment assets shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.
- ❖ Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.
- ❖ Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value.
- ❖ Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.
- ❖ An expert valuer shall be engaged by the municipality to undertake such valuations.
- ❖ If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

#### **[7] FIXED ASSETS TREATED AS INVENTORY**

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position.

Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

#### **[8] RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSETS REGISTER**

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

For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

#### **[9] RECOGNITION OF DONATED ASSETS**

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

**[10] SAFE KEEPING OF ASSETS**

Every head of department shall be directly responsible for the physical safekeeping, maintenance and proper use of any fixed asset controlled or used by the department in question. Although certain responsibilities might have been allocated to certain levels of management or use of assets the ultimate responsibility to ensure control over such asset remains with the Heads of departments.

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. Office related Equipment /Assets may be utilise offsite Senqu municipal buildings subject to provisions of the municipal work from home policy.

**[11] IDENTIFICATION OF FIXED ASSETS**

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.

The identification system shall be determined by the municipal manager, acting in consultation with the Chief Financial Officer and other heads of departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report(s), and shall be decided upon within the context of the municipality's budgetary and human resources.

Every head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

**[12] PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION OR IMPAIRMENT OF FIXED ASSETS**

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the Municipal Manager, Chief Financial Officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

**[13] ACQUISITION AND CAPITALISATION CRITERIA: MATERIAL VALUE**

All assets may only be acquired in terms of council's Supply Chain Management Policy and in terms of the budgetary provisions. The responsibility for the purchase of assets would be delegated in terms of council's Delegation Framework and Supply Chain Management Policy. Depending on the cost of the asset to be purchased the following procedure for purchasing an asset must be followed:

- ❖ Head of department shall at all times ensures that there are enough funds in their departmental budgets before requesting approval to any requisition to purchase an asset;
- ❖ Head of department shall ensure that the correct vote and expenditure line item are used and recorded on the requisition requesting approval to purchase an asset;
- ❖ Tenders or quotations as required in terms of council's Supply Chain Management policy should be obtained and where required submitted to council's tender committee for approval;

- ❖ The tender committee resolution of the approved tender or recommended quotation should be attached to the requisition signed by the relevant head of department;
- ❖ The order would then be generated by the Budget and Treasury department;
- ❖ Once delivered the asset must be labelled / bar-coded by the Budget and Treasury department before such asset is put into use;

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- ❖ The head of department should endorse receipt of the asset on the invoice and forwarded it for payment to the Budget and Treasury department; and
- ❖ The Budget and Treasury department would then generate payment.

The completion of any immovable asset by or under control of every head of department should promptly be declared to the Chief Financial Officer in writing stating the full details required for recording in the assets register.

No item with an initial cost or fair value of less than R10 000 (ten thousand rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the municipal manager shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

When payment for an asset is deferred beyond normal credit terms, its costs are the cash price paid. Administration and general overhead costs are not a component of the asset's cost unless it can be directly attributable to the acquisition of the asset or bringing the asset to its working condition. When an asset is acquired by exchange or part exchange of a dissimilar asset or other asset, the cost is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred. Subsequent expenditure relating to an asset that has already been capitalized, should only be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.

Every head of department shall, however, ensure that any item with an estimated useful life of more than one year, shall be recorded on a stock sheet. Every head of department shall moreover ensure that the existence of items recorded on such stock sheets is verified from time to time, and at least once in every financial year, and any amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes.

#### **[14] CAPITALIZATION CRITERIA: INTANGIBLE ITEMS**

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

#### **[15] CAPITALIZATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

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

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 communication costs.

**[16] MAINTENANCE PLANS**

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of **R200 000** (two hundred thousand rand) or more is promptly prepared and submitted to the Municipal Manager / Chief Financial Officer of the municipality for approval.

If so directed by the municipal manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

**[17] DEFERRED MAINTENANCE**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see paragraph 16 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 of the municipality 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 Chief Financial Officer shall predetermine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

**[18] GENERAL MAINTENANCE OF FIXED ASSETS**

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets, which are dealt with in paragraph 16 and paragraph 17 above) are properly maintained and in a manner, which will ensure that such assets attain their useful operating lives.

**[19] DEPRECIATION OF FIXED ASSETS**

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

- ❖ Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services
- ❖ Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed

However, depreciation shall initially be calculated:

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

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

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.

## **[20] RATE OF DEPRECIATION**

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 (see paragraph 33 below).

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 department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

## **[21] METHOD OF DEPRECIATION**

Except in those cases specifically identified in paragraph 23 below, the Chief Financial Officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

## **[22] AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS**

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.

If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the fixed asset register.

In the all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

### **[23] ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES**

The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services. The Chief Financial Officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the municipal manager to provide:

- ❖ estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation
- ❖ expenses for each financial year; and
- ❖ actual statistical information, for each financial year

The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.

Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer shall inform the council of the municipality of the decision in question.

### **[24] CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION**

**NOTE:** Paragraph 24 has been prepared on the assumption that these reserves are allowed.

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

The Chief Financial Officer shall thereafter ensure that in the case of depreciable fixed assets an amount equal to the monthly depreciation expenses of the fixed asset concerned is transferred each month from such non-distributable reserve to the municipality's appropriation account.

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.

### **[25] CARRYING VALUES OF FIXED ASSETS**

All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.

The only exceptions to this rule shall be revalued assets (see paragraph 26 below) and heritage assets in respect of which no value is recorded in the fixed asset register (see paragraph 8 above).

**[26] REVALUATION OF FIXED ASSETS**

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

The Chief Financial Officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the Chief Financial Officer is satisfied that such value reflects the fair value of the fixed asset concerned.

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

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

The Chief Financial Officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary (see paragraph 24 above).

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the Chief Financial Officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll.

Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

**[27] VERIFICATION OF FIXED ASSETS**

- ❖ Every head of department shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned
- ❖ Every head of department shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.



**[28] ALIENATION OF FIXED ASSETS**

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

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

Every head of department shall report in writing to the Chief Financial Officer on 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate by public auction or public tender.

The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

On the alienation of assets the following:

- ❖ Assets can only be alienated by tender or on public action;
- ❖ Twenty one (21) days' notice of such a tender or public action should be placed in the newspaper circulating within its area and shall also be affixed to all notice boards at municipal offices;
- ❖ Instead of selling council may resolve to donate any asset to an organisation / individual / local government or other persons within its area of jurisdiction;
- ❖ Fixed asset lives and current value reflected in council's assets register should be taken into account when tender or bid amounts are considered.

The Specifications & Evaluations Committee will also be the Disposal Committee and will inspect the disposals before it goes out on tender.

A Disposal Committee and will inspect the disposals before it goes out on tender.

The Specifications and Evaluation Committee will make a recommendation to the Adjudication Committee.

The Disposal Committee will make a recommendation to the Adjudication Committee.

The Specifications Committee will deal with the specifications, then go to the Evaluation Committee, the Evaluation Committee will make a recommendation to the Adjudication Committee.

The council shall delegate to the municipal manager the authority to approve the alienation of any fixed asset with a **carrying value less than R10 000** (ten thousand rand). The council shall ensure that the alienation of any fixed asset with a carrying **value equal to or in excess of R10 000** (ten thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004 (see paragraph 34 below).

Once the fixed assets are alienated, the Chief Financial Officer shall delete the relevant records from the fixed asset register. If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the income statement of the department or vote concerned.

If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the income statement of the department or vote concerned.

All gains realised on the alienation of fixed assets shall be appropriated annually to the municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned.

If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

### **[29] OTHER WRITE-OFFS OF FIXED ASSETS**

A fixed asset even though fully depreciated shall be written off only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the council of the municipality.

- ❖ Every head of department shall report to the Chief Financial Officer on 31 October and 30 April of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation
- ❖ The Chief Financial Officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off
- ❖ The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, destruction or material impairment of the fixed asset in question
- ❖ In every instance where a not fully depreciated fixed asset is written off, the Chief Financial Officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also paragraph 22)

### **[30] REPLACEMENT NORMS**

The municipal manager, in consultation with the Chief Financial Officer and other heads of departments, shall formulate norms and standards for the replacement of all normal operational fixed assets.

Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality 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 fixed assets which are required for service delivery but which have become uneconomical to maintain.

### **[31] INSURANCE OF FIXED ASSETS**

The municipal manager or heads of departments to whom the responsibility of the assets have been delegated shall ensure that all movable fixed assets are insured at least against fire and theft,

and that all municipal buildings are insured at least against fire and allied perils. The municipal manager and heads of department will annually revise council insurance portfolio to ensure that all assets are adequately insured. Where the insurance broker permits insurance of employee assets as part of the insurance of the municipality, such insurance shall take place at no cost to the municipality. The services of an insurance broker would be required in terms of council's Supply Chain Management policy.

Any theft, loss or damage to a fixed asset should immediately be reported to council's insurance brokers by the relevant head of department under whose responsibility the asset falls. A copy of the insurance claim submitted should be forwarded to the Chief Financial Officer who must record such claim in the insurance register. It is the responsibility of the relevant head of department to ensure that all documents / information for the completion of the claim is forwarded to council's insurance brokers and that copies thereof is forwarded to the Chief Financial Officer. The head of department should in writing request the replacement of the asset which can only be authorized by the Municipal manager after consultation with the Chief Financial Officer.

If the municipality operates a self-insurance reserve (assuming such reserve to be allowed), the Chief Financial Officer shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.

The municipal manager shall recommend to the council of the municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

The Chief Financial Officer shall annually submit a report to the council of the municipality on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

### **[32] 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 head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs.

Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

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

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

The Chief Financial Officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the council of the municipality considers such insurance desirable and affordable.

### **[33] INSURANCE OF SUBSIDISED VEHICLES**

The council will insure amongst its assets all the vehicles registered under the names of its employees who contributes towards the duties. The council shall be liable for the annual premiums.

The vehicle insured will include the car hire which will be in line with the vehicle used by the official

In the view of the fact that the council has interest on that vehicle during that specific period for which the vehicles was used for official service of the council, the council shall bear the full cost of the insurance on behalf of the of the approved official trip authority.

The payment of excess fees in the event of an insurance claim shall be, in the case of claim arising from the official use of the vehicle, the council shall reimburse the official on proof of validity of that claim and in the case of the claim arising from private use of the vehicle the excess fees must borne by the official. Therefore, it is advisable that each department should budget for insurance premiums on subsidised vehicles.

Consequently, any reimbursement of excess payment in respect of claim resulting from the official use of the vehicle are credited to the council and any reimbursement of an excess payment in respect of a claim from private use of the vehicle be paid by official.

The official will be responsible for all traffic fines incurred.

Taxation\_ in the event where there is directive from SARS subsidised vehicle the taxed implication will be treated as such.

### **[33] ANNEXURE: FIXED ASSET LIVES**

At each reporting date the Municipality assesses whether there is any indication that expectations about the useful life of an asset may have changed since the preceding reporting date. If any such indication exists, the expected useful life are revised and the effect of any changes in estimate are accounted for on a prospective basis.

Refer to the Accounting Policy in the Annual Financial Statements for the estimated useful lives per asset type.

### **[34] PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003**

- ❖ a municipality may not alienate any capital asset required to provide a minimum level of basic municipal services
- ❖ a municipality may alienate any other capital asset, but provided the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- ❖ that the council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.