

MAGARENG LOCAL MUNICIPALITY



ASSET MANAGEMENT POLICY

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DOCUMENT REVIEW AND APPROVAL

Revision history

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1. GENERAL INFORMATION

1.1 Definitions and Abbreviations

Item	Description
Asset	An asset is a resource controlled by the entity which is expected to last more than twelve months and from which future economic benefits or service potential will flow.
Capitalisation	The recognition of expenditure as an asset or inventory item in the asset register
Carrying Amount	The amount at which an asset is included in the statement or financial position after deducting any accumulated depreciation and any impairment losses thereon.
CFO	Chief Financial Officer
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
Depreciation	This is the systematic allocation of the cost of use of an asset over its useful life.
Depreciable amount	The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
Fair Value	The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
FAR	Fixed Assets Register
Finance Lease	A lease that transfers substantially all the risks and rewards incidental to the ownership of an asset. Title may or may not eventually be transferred
Fixed Assets Register	The controlled register recording the financial and other key details for all municipal assets recognised in accordance with this policy
GRAP	Standards of Generally Recognised Accounting Practice
IAS	International Accounting Standards
Impairment	Loss in the future economic benefits or service potential of an asset over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. An asset is impaired when the carrying amount exceeds its recoverable amount.
PPE	Property, Plant & Equipment – These are tangible assets that: <ul style="list-style-type: none"> • are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and • are expected to be used during more than one reporting period.
Recognition	The cost of an item of PPE shall be recognised as an asset only if: <ol style="list-style-type: none"> a) It is probable that future economic benefits or service potential associated with the item will flow to the municipality; and b) The cost or fair value of the item can be measured reliably
Residual value	The net amount that the municipality would currently obtain from disposal of the asset after deducting the costs of disposal,

Item	Description
	if the asset were already of the age and in the condition expected at the end of its useful life.
Recoverable amount	The estimated amount which the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
SCM	Supply Chain Management
Useful life	Useful life is either: <ul style="list-style-type: none"> • the period over which an asset is expected to be available for use by the municipality, or • the number of production or similar units expected to be obtained from the asset by the municipality.
Value in use	The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

1.2 OBJECTIVE OF THE ASSET MANAGEMENT POLICIES AND PROCEDURES

The Asset Management Policy provides direction for the management, accounting and control of Property, Plant & Equipment (Fixed Assets), investment property and associated intangible assets owned or controlled by the municipality. The policy commits the municipality to establish and maintain an asset register that complies with the latest accounting standards, and to account for the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.

The objective of this policy is therefore to:

- a) Implement prevailing accounting standards; and
- b) Provide a data platform that will support asset management practice in accordance with legal requirements and recognised good practice
- c) Ensure the effective and efficient control utilization, safeguarding and management of Magareng's property, plant and equipment
- d) Ensure that Heads of Departments are aware of their roles and responsibilities regarding PPE
- e) Set out the standard of physical verification, recording and internal control to ensure PPE are safeguarded against loss and/or inappropriate use
- f) To specify processes for acquisition, transfer and disposal of assets

1.3 CONSTITUTIONAL AND LEGAL FRAMEWORK

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects:

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

The manner in which a municipality manages its PPE is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager.

1.4 ACCOUNTING STANDARDS

The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice. Key changes include the recognition of depreciation of assets as an expense, and conditional grants as revenue when it is utilised. Immoveable assets are unbundled and each significant component is individually recognised and accounted for. PPE are measured at cost, though in cases where it is impracticable to establish the cost (e.g. where there are no reliable records, or records cannot be linked to specific assets), the cost is deemed to be the fair value of the PPE. Specialised buildings (such as community facilities) and infrastructure (such as a water supply network) are valued using a depreciated replacement cost as a Local municipality, Magareng Local Municipality (MLM) had to convert to GRAP on 1 July 2009.

1.5 MANAGEMENT OF INFRASTRUCTURE ASSETS

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important. The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians of infrastructure assets on behalf of the public.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation – for the above objectives to be achieved, the IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure. There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing on going changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, planning, human settlement, community services, financial planning, and corporate services.

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice. This document provides the framework and policy directives in terms of which MLM accounts for assets in a manner that satisfies the requirements of all relevant accounting standards

1.6 UPDATING THE POLICY

The Asset Management Unit of the municipality is responsible for updating the policy on an annual basis. All departments are responsible for submitting requests to change enhance or improve the existing policy. Requests should be submitted to the Asset Management Unit throughout the year. The requests should be evaluated by the Asset Management Unit on an annual basis and any changes agreed upon should be affected and presented to the Council on an annual basis. Advice on recommended internal control procedures and interpretation of this document may be obtained from the Department Asset Controller. It is critical that all changes made to the policy and procedures are properly and timeously communicated.

The version number on the front of the policy should be updated each time the policy is updated and approved. The "Document review and approval" section at the beginning of this policy must also be updated with each approved change to the policy.

2. POLICY & PROCEDURES

2.1 DEFINITION OF AN ASSET

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

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

1. The municipality has the capacity to control the service potential or future economic benefits of the asset, that it has control of the economic benefits or service potential of the asset rather than 'physical' control;
2. The service potential or future economic benefits arose from past transactions or events existing on reporting date (that is future assets cannot be recognised in the financial statements); and
3. The asset has future service potential or economic benefit for the municipality. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the municipality. The potential may be a productive one that is part of the operating activities of the municipality. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative process lowers the costs of providing a service.
4. Service potential is thus the capacity of an asset, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality.
5. An asset held under a finance lease, if it meets the remaining criteria of a fixed asset, shall be so recognized, as the municipality has control over such an asset even though it does not own the asset

A fixed asset is defined in GRAP 17 as a tangible item of property, plant or equipment held by a municipality for use in the productions 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.

2.1.1 Purpose of Assets

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

2.2 ROLES AND RESPONSIBILITIES

2.2.1 Role of Council

Council must approve the policy of the municipality and is responsible for the approval of the writing off or disposal of obsolete or redundant assets that the municipality is no longer deriving economic benefits.

2.2.2 Role of Municipal Manager

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

The Municipal Manager or his duly delegated representative is responsible to:

- Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA)
- Verify assets in possession of the Council regularly, during the course of the financial year.
- The Municipality's assets are valued in accordance with standards of generally recognized accounting practice.
- Keep a complete and balanced record of all assets in possession of the Council
- Report in writing all asset losses, where applicable, to Council
- Ensure that assets are valued and accounted for in accordance with GRAP.
- Ensure that assets are properly maintained and safeguarded.
- Heads of Departments and their staff comply with this policy.
- Asset management policy is reviewed annually.

2.2.3 Role of the Chief Financial Officer (CFO)

The CFO will be the custodian of the FAR of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained.

No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

The CFO must ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently.

- The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently.
- The systems, processes and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General.
- The CFO is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets

2.2.4 Asset Control Section

- Ensure that complete records of asset items are kept, verified and balanced regularly.
- Ensure that all movable assets are properly tagged and accounted for
- Conduct an annual audit inventory verification on movable assets.
- `Shall conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the Departments asset sign offs
- The asset verification report will reflect any discrepancies between the articles found during verification and the record referred to in the point above.
- Ensure that the FAR is balanced annually with the general ledger and the financial statements.
- Ensure adequate bar codes to exercise the function relating to assets control are available at all times.
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the FAR.
- Ensure that all audit queries are resolved in a timely manner.
- Ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the Finance department in the prescribed format.
- Ensure that asset acquisitions are allocated to the correct asset code.
- Ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset Control Section, is presented.
- Ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments.
- Compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy.
- Compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- Ensure that the Procurement section is notified of any auctioning or disposing of written-off asset or asset inventory items.
- Comment on Departmental assets items submission before such items serve in the respective Portfolio meetings and Council.
- Provide continuous support to Asset Controllers

2.2.5 Asset Users (Users)

- Each user is responsible for the assets under their control, allocated to/used by them in the performance of their duties.
- Each user must sign the room inventory list containing the bar-coded assets allocated to them. These lists must be visibly displayed for audit purposes, preferable at the back of the doors. The Asset Controllers and the Asset Management Division must keep copies of the movable assets' lists.
- Asset users are prohibited to move/transfer assets from the location recorded in the asset register without proper authorisation.
- Each user must take all reasonable precautions to protect their assets against losses and/or damage.
- Each user must maintain or take steps to maintain their assets for their useful life. Users must check and verify their physical assets against their assets lists regularly and ensure that changes in physical assets in their possession are updated in their asset's lists.
- Any damage to the asset items must be immediately reported to superiors as well as to their responsible Asset Controllers who will recommend appropriate steps to be taken in relevant incidents.
- The assets users must avail assets under their control at any time, at the request of the MMM or the Asset Management Division or External Audit or Internal Audit Section for verification purposes.
- In the event of such assets being missing stolen or lost, the responsible user shall accordingly report the incident to the SAPS. The reported case information will be the source document used to report missing/stolen/lost assets to their superiors, as well as to their responsible Asset Controllers who will take further appropriate action in the relevant incidents.
- Should it be found that users were not properly utilizing/maintaining/securing assets under their control/stewardship leading to asset/s damages/losses such users' Head of Department must recover the replacement costs of such assets from relevant users.
- Privately owned assets may only be used on council premises with the written authorisation of the HOD. The authorisation must contain a detailed description of the asset (serial number, make model, etc.) to clearly identify the asset and should be presented to representatives of the Asset Management Division or External Audit or Internal Audit Section for verification purposes.

2.2.6 All Departments / Directors

Heads of Departments must:

- Ensure that employees in their departments adhere to the approved Asset Management Policies
- Ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset Control Section 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 director
- Ensure that assets are properly maintained in accordance with their respective asset maintenance policy

- Ensure that the assets of the municipality are not used for private gain
- Ensure that all their movable assets as reflected on the FAR are barcoded where possible.
- Ensure that the Asset Control Section is notified of any changes in the status of the assets under the department's control. This must be done on the prescribed form and include the following:
 - Movements/disposals which relate to the transfer of assets (inter departmental transfers)
 - The identification of impairment losses on assets by following the procedures as outlined in 2.7.6 of this policy documents.
- Ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Control Section without delay
- Ensure that the correct cost element and description are being used before authorising any requisitions
- Ensure that assets are bar-coded by the Asset Control Section and insured by the Finance department
- They or their nominated officials perform physical verification, stocktaking of all assets annually and submit the accountability report to the Chief Financial Officer after verification has been completed. This has to be complied with, in order to adhere to the MFMA, section 126.

2.3 DELEGATIONS

All delegated authority must comply with the approved Delegations of Authority of the municipality

2.4 FORMAT OF THE ASSET REGISTER

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

Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the fixed asset register shall reflect the following minimum 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 2.8.3
- the original cost, or the revalued amount determined in compliance with 2.8.9, 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
- 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.

2.5 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:

2.5.1 PROPERTY PLANT & EQUIPMENT

Items of PPE are distinguishable from other assets as they are defined as tangible assets held by an entity for use in production, supply of good or services, rental to others or for administrative purposes and are expected to be used during more than one year. The Fixed Asset Register (FAR) for the Municipality will contain the following types of assets categorized as tangible assets (movable and immovable), intangible assets and biological assets.

Property, Plant and Equipment

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

Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks. Infrastructure can be considered as a single asset or more usefully as a collection of different assets. Each individual asset shall be measured at its own cost and own lifespan, which will influence the depreciation of such an asset.

- Community assets are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- Heritage assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- Capital Finance Lease assets are defined as assets financed by a Finance Lease if it is identified as such in terms of the requirements of GRAP 13.
- Biological assets are defined as biological assets which are living animals or plants and agricultural produce which is the harvested product of the biological assets.
- Other assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

2.5.2 Assets Held for Sale

- 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 non-current assets held for sale, and not included in either property, plant and equipment or investment property in the municipality's statement of financial position.
- Such assets 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.
- These assets must be available for sale in its present condition, subject only to terms that are usual and compulsory for sale of such assets, and its sale must be highly probable.
- Management must be committed to a plan to sell the asset and an active program to locate a buyer must be initiated
- The sale should be expected to qualify for recognition as a completed sale within one (1) year from date of classification, except when events or circumstances may extend the period to complete the sale beyond one year.
- Include the process of approval of classifying such assets from the council.
- There must be a process well documented on how the council approves such land portions.

2.5.3 General

- Immovable assets on the FAR will not be physically numbered with barcode labels but will have a unique master record number.
- Capital work-in-progress or incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use.

2.5.4 INVESTMENT PROPERTY

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

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.

2.5.5 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.

Other fixed assets to be treated as inventory include housing (rental stock or housing stock not held for capital gain)

2.6 CAPITALISATION CRITERIA

All asset acquisitions that comply with the definition of PPE.

- All items of PPE acquired that comply with the fixed asset definition must be capitalised in the FAR at cost and be provided for on the capital budget.
- Movable assets will be bar-coded
- Infrastructure assets acquired will be componentised based on the information contained in the following documents:
 - a) Completion Certificates
 - b) Close Out Reports
 - c) As-Built drawings
 - d) Final adjusted Bill of Quantities
- The existence of these assets must be confirmed prior to capitalisation.

2.7 GROUP ASSETS

Group assets are assets of a similar nature and usually purchased as a group.

Group items identified are:

- Water and electricity meters.
- Library books

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

2.8 Acquisition of property, plant and equipment

The Property, Plant and Equipment acquisition phase take effect through outright purchase or development/construction. Such Property, Plant and Equipment acquisitions must only be funded out of capital budget votes in line with IDP and NOT THROUGH OPERATIONAL BUDGET.

2.9 Physical Receipting and Management

The Head of Department or his/her nominee must:

- Ensure that the purchase of property, plant of equipment complies with all MMM's policies and procedures.
- Ensure all movable assets received into their stewardship are appropriately identified and safeguarded or prevented from inappropriate usage or loss. This will include appropriate control over the physical access to these assets and regular stock takes to ensure any losses do not occur. Any known losses should be immediately reported to the CFO.

2.10 Date of acquisition

The date of acquisition of property, plant and equipment is deemed to be the time when legal title and control pass to the Municipality.

2.11 Donations

The CFO must be informed about any donation to the municipality. Where an item of property plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the assets register (if the fair value is greater than the recognition threshold. Where the value of the asset is known, such value shall be included in the register in line with recognition criteria.

It shall be the responsibility of the Head of Department or his/her nominee to notify the CFO of such assets for capitalisation purposes.

Transfer of property plant and equipment

- Permanent transfers to another Department

The Head of Department retains managerial accountability and control for a particular asset unless.

- Another Head of Department agrees in writing to accept responsibility for those assets, and
- The CFO or his/her nominee endorses this transfer.

The Finance Department appropriately amends the Assets Register for all approved transfers.

The new Head of Department assumes all the accountabilities of the previous Head of Department.

- Relocation or Re-assignment of Property, Plant or Equipment

The Head of Department must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions.

The Head of Department must advise the CFO whenever an asset is permanently relocated or re-assigned from the location (or base) or cost centre recorded in the Asset Register.

The Head of Department must advise the CFO whenever an asset is temporarily relocated or re-assigned from the location (or base) or cost centre recorded in the Assets Register. In this case, the Head of Department must also advise the CFO when this asset is returned.

2.11.1 CAPITALIZATION: INTANGIBLE ASSETS

Intangible items shall be recognised as a fixed asset and amortised in accordance with the expected useful life

2.11.2 CAPITALIZATION: 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, installation, assembly and communication costs.

2.12 ACCOUNTING TREATMENT

2.12.1 Property Plant and Equipment

2.12.1.1 Recognition Criteria

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if: (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity, and (b) the cost or fair value of the item can be measured reliably.

Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Standard when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory in accordance with the Standard of GRAP on Inventories (GRAP 12).

2.12.1.2 Initial Measurement

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

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

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

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

2.12.1.3 Enhancements / Rehabilitation:

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

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

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

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

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

2.12.1.4 Maintenance / Refurbishment:

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

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

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

2.12.1.5 Capitalisation Threshold:

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. The capitalisation threshold is set at R500 (five hundred rand), but the application thereof will be determined annually by the municipality.

All assets with values less than the capitalisation threshold and with an estimated useful life of more than one year shall be recorded on a Minor Assets Control List ("toolbox items"). The existence of items recorded on such a list shall be physically verified from time to time, and any amendments which are made to such lists pursuant to such asset verifications shall be retained for audit purposes.

The Council shall specify which kinds of leases the municipality may enter into. A lease register shall be maintained with all the information that is necessary for reporting purposes if applicable.

2.12.1.6 Subsequent Measurement

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

If the carrying amount of an asset is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

If the carrying amount of an asset is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

2.12.2 INVESTMENT PROPERTY

2.12.2.1 Definition of Investment Property

Investment Property is defined as:

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

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of operations.
- Investment Property generates cash flows largely independently of the other assets of the municipality.

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

The following are examples of investment property:

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

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

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale.

- Property being constructed or developed on behalf of third parties.
- Own-occupied property, including (among other things) property held for future use as own-occupied property, property held for future development and subsequent use as own-occupied property, property occupied by employees such as housing (whether or not the employees pay rent at market rates) and own-occupied property awaiting disposal.
- Property that is being constructed or developed for future use as investment property. GRAP 17 applies to such property until construction or development is complete, at which time the property becomes investment property. However, existing investment property that is being redeveloped for continued future use as investment property remains investment property.
- Property that is leased to another entity under a finance lease.
- Property held to provide a social service, and which also generates cash inflows, for example, a housing Department may hold a large housing stock used to provide housing to low-income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with GRAP 17; and
- Property held for strategic purposes which would be accounted for in accordance with GRAP 17.
- Where a property is utilised partly in the ordinary course of operations and partly to generate rentals or for capital appreciation it will only be classified as investment property if a significant portion is utilised to generate investment income.

2.12.2.2 Initial measurement of Investment Property

- Investment property is measured initially at its cost (including transaction costs). Where an investment property is acquired at no cost (for example donated assets), or for a nominal cost, its cost is its fair value as at the date of acquisition.
- The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as, professional fees for legal services, property transfer taxes and other transaction costs.
- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, the municipality applies the GRAP standard on accounting for PPE (GRAP 17). At the completion date, the property becomes investment property and the Standard on investment property applies (GRAP 16).
- Investment property is only recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost or fair value of the investment property can be measured reliably.

Measurement of Investment Property subsequent to initial measurement

- Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will

flow to the municipality. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

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

- After initial recognition of the investment property the current accounting standard allows the Magareng Local Municipality to apply either the cost model or the Fair value model as an acceptable basis of measurement. The Magareng Local Municipality currently adopts the fair value model as its accounting policy for investment property.
- The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. After initial recognition, a municipality that chooses the fair value model should measure all of its investment property at its fair value at each Statement of Financial Position date. A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises. No depreciation will be calculated on this property.

For Example:

The municipality purchases four houses at a cost of R200, 000 each for purposes of leasing them out to senior managers of the municipality at market related rates. The legal fees and transport duties relating to the transaction amount to R16, 000. At the end of the financial year the fair value of the houses is determined to be R 900,000. This means that the municipality will recognise a fair value gain in the Statement of Financial Performance for the year of R 84 000. (R900,000 – R 816,000).

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

2.12.2.3 Transfers and disposals of investment properties

Transfers

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

- Commencement of own-occupation, for a transfer from investment property to own-occupied property.
- Commencement of development with a view to sale, for a transfer from investment property to inventories.
- End of own occupation, for a transfer from other classified property to investment property.

- Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
- End of construction or development, for a transfer from property in the course of construction or development to investment property.

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

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

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

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

Disposals

On disposal or permanent withdrawal from use of investment property:

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

2.12.2.4 Budget implications relating to Investment Property.

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

- Gains on the disposal of investment properties that are intended to be sold during the next financial year.
- Fair value gains that are expected to be obtained on investment properties that will be held during the next financial year.
- Depreciation on investment properties that are intended to be transferred to own-occupied properties during the next financial year.
- The effect of reduced depreciation on own-occupied properties that are intended to be transferred to investment properties during the next financial year.
- Revenue through operating lease income; and
- Fair value gains where the intention to sell a building (inventory) is changed and the inventory is held as an investment property on which rental income

and capital appreciation will be earned by the municipality in the next financial year.

2.12.2.5 Disclosure

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

2.12.3 Intangible Assets

2.12.3.1 Definition

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

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- Arises from contractual or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Examples of intangible items are:

- Mineral exploration rights
- Computer software excluding (operational software like windows)
- Licensing rights.
- Servitudes
- Copy and patent rights
- Advertising rights
- Encroachment rights

2.12.3.2 Recognition and measurement

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

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

Cost model

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

Revaluation model

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

2.12.4 Useful life

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

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

2.12.5 Retirements and disposals

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

2.12.6 Review of useful life assessment

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

2.12.7 Servitudes

Servitudes are rights granted by a property owner to another person or entity to use the land for a certain purpose. Servitudes may be acquired through an agreement between parties, court order, statute or other means.

a) Servitudes created by way of legislation

- The Municipality receive certain rights regarding the creation of servitudes through legislation e.g. servitudes registered over certain parts of the land that falls within the boundaries of a proclaimed township to install infrastructure to provide basic services. No compensation is payable to the landowner for servitudes granted to the municipality in terms of legislation.
- Servitudes granted under these conditions do not meet the 'identifiable' criteria because:
 - Servitudes cannot be sold, transferred, rented or exchanged freely and are not separable from the municipality
 - Servitudes arise from rights granted in statute and are specifically excluded from the 'identifiable' criteria (refer to the section on Identification for more detail).
- The cost incurred to register these servitudes will be expensed in accordance with GRAP 31.

b) Servitudes created by way of acquisition (either by agreement or expropriation)

The municipality may need a specific piece of land to install infrastructure, e.g. water power cables. Where the landowner is compensated for the rights received associated with the land, the registered servitude may be accounted for as an intangible asset. Servitudes created under these conditions meet the 'identifiable' criteria as they arise from contractual or other legal rights that are acquired through a binding arrangement.

2.12.8 HERITAGE ASSETS

2.12.8.1 Definition

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. Examples are works of art, conservation areas, historical buildings and statues.

2.12.8.2 Recognition and Disclosure of Heritage assets

The municipality shall choose as its accounting policy either the cost model or the revaluation model and shall apply that policy to an entire class of heritage assets.

Where no evidence is available to determine the market value in an active market of a heritage asset, a valuation technique may be used to determine its fair value. Valuation techniques include using recent arm's length market transactions if available. In the case of specialised heritage buildings and other man-made heritage structures, such as monuments, the municipality may need to determine fair value by using a replacement cost approach.

If the municipality is unable to determine the fair value due to market-determined prices or values that are unavailable and alternative estimates of fair value are determined to be clearly unreliable, the heritage asset shall be measured using the cost model.

2.12.9 Assets on Loan

When the municipality agrees to provide assets on a loan basis to another organisation/party for example "Artworks" at the museum or any other asset that meets the definition of a heritage asset a loan agreement must be entered in to with the relevant party. The agreement must clearly indicate the location where the asset will be kept, the period of the loan, any special arrangements like insurance and security measures and any other arrangements that might be required.

2.12.10 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 assets register in the same manner as other assets, but a separate section of the assets register shall be maintained for this purpose

2.12.11 DEPRECIATION OF ASSETS

2.12.11.1 Definition

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

Note: depreciation is not a method of financing the replacement of assets and is necessary even when assets are revalued every year (excluding valuation of biological assets).

Which assets must be depreciated

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

Although typically disclosed together, land and buildings are separable assets and because land normally has unlimited life it is not depreciated whilst buildings are. Heritage assets such as works of art, historical buildings and statues 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.

2.12.12 Determining useful lives of assets

- The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality's Fixed Asset Register. In determining such a useful life, the Chief Financial Officer shall adhere to the useful lives set out in the annexure to this document (refer Annexure A).
- The useful lives in Annexure A will be determined considering all the following factors:
 - Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
 - expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
 - technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
 - legal or similar limits on the use of the asset, such as the expiry dates of related leases.
 - the recommendation of the heads of the Departments involved.
- In the case of a fixed asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in

consultation with the Head of the department who shall control or use the fixed asset in question, and shall be guided in determining such useful life either by the useful lives assigned in the annexure to the fixed asset most closely comparable to the asset in question or by any appropriate statement of generally recognised accounting practice (GRAP).

- The useful life of an asset shall be reviewed at least at each reporting date.
- The amortisation period for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly.
- Only the Chief Financial Officer may amend the useful operating life assigned to any item of property, plant and equipment, and when any material amendments occur the Chief Financial Officer shall inform the Council of such amendments.
- The Chief Financial Officer shall amend the useful operating life assigned to any asset –after recommendation from the affected Department - if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life cycle will not be attained.
- If the value of an item of property, plant and equipment has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs. The additional depreciation expenses shall be debited to the Department's expense vote controlling or using the fixed asset in question.

2.12.13 Depreciation calculation

2.12.13.1 Tangible assets

The municipality considers from the following different methods of depreciation and applies the most appropriate method of depreciation to best reflect the pattern of use of an asset. These methods are:

- A. The straight-line depreciation method whereby items of property, plant and equipment are depreciated on a constant or uniform amount over their estimated useful life. For example, if a vehicle is purchased and has an estimated useful life of 5 years, each month 1/60th of the vehicle will be depreciated.
- B. The sum of unit's method whereby units consumed against total unit consumable for an asset are reflected as depreciation. For example, 50 graves have been sold for the month in the cemetery which can produce 1000 graves. The depreciation will then be 50/1000 times the cost of the cemetery capitalised.
- C. The diminishing balance method whereby a percentage of the cost will be depreciated every year. For example, an asset is to be depreciated at 10% per period on the carrying value.

Depreciation is an expense both calculated and debited on a monthly basis against the appropriate line item in the Department or vote in which the item of property, plant and equipment is used or consumed and should be recognised as such.

Depreciation shall be charged from the calendar month following the month in which an item of property, plant and equipment is available for use and will continue until the accumulated depreciation equals the cost or valuation amount of the respective item of property, plant and equipment or the item is disposed or written off.

When depreciation is calculated, a corresponding accumulated depreciation account is created. The accumulated depreciation account is a statement of financial position item (it is an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was available for use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

2.12.14 Intangible assets

Amortisation period and amortisation method

a. Finite useful life

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

b. Infinite useful life

No amortisation will take place.

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

2.12.14.1 Budget requirement

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 assets controlled or used by the Department in question or expected to be so controlled or used during the ensuing three financial years.

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

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

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

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

2.12.14.2 Offset Depreciation

Assets financed by Government Grants or Public Contributions

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

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

Assets re-valued

An amount equal to the annual depreciation portion of the re-valued assets should be transferred from the Revaluation reserve to the Accumulated surplus or deficit.

2.12.14.3 Disclosure requirements

In the accounting policy notes

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

On the Statement of Financial Position

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

On the Statement of Financial Performance.

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

In the notes to the statements

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

In Annexure B and C to the financial statements

- These Annexure disclose a more detailed analysis of the various classes of assets (Annexure B) as well as a detailed analysis on the allocation of assets to the various Departments and functions (Annexure C). These Annexure must show a reconciliation of the carrying amount at the beginning and end of the period showing:

- Additions
- Disposals
- Acquisitions through business combinations
- Increases or decreases resulting from revaluations
- Reductions in carrying amount (impairment losses)
- Depreciation
- Other movements

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

2.12.15 IMPAIRMENT LOSSES

2.12.15.1 Impairment

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

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

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

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

Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

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

- The item has been damaged.

- The item has become technologically obsolete.
- The item remains idle for a considerable period either prior to it being put into use or during its useful life.
- Land is purchased at market value and is to be utilised for subsidized housing developments, where the subsidy is less than the purchase price.

Example:

An example of where the Municipality has suffered an impairment loss is the purchase of land for an amount of R 5,000,000. The land will be utilised for new subsidized housing developments. If at year end the expectation is that the Municipality will receive only R 1,000,000 by way of subsidies an impairment loss of R 4,000,000 needs to be recognized. The recoverable amount (R 1,000,000) is calculated as being the larger of:

- Net Selling Price of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.
- Value in use of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

2.12.15.2 Reversal of an Impairment Loss

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

2.12.15.3 Cash-generating and non-cash-generating units

Cash-generating assets are assets held with the primary objective of generating a commercial return.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a "commercial return" indicates that an entity intends to generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part) and earn a commercial return that reflects the risk involved in holding the asset.

It is the view of the municipality that the primary objective of holding assets in the public sector is service delivery and not to generate a commercial return. Therefore, even through some assets do generate cash in the same way as profit orientated entities; because the primary objective of holding such assets is service delivery, all assets are non-cash-generating assets.

2.12.15.4 Impairment on non-cash-generating assets

If the carrying amount of an asset exceeds its recoverable service amount, then an expense (impairment loss) must be recognised.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use of a non-cash-generating asset.

Value in use of a non-cash-generating asset is considered to be the present value of the asset's remaining service potential. Three methods can be applied to determine this value (based on availability of data):

- Depreciated replacement cost approach – The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- Restoration cost approach - Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- Service units' approach - Under this approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

2.12.15.5 Disclosure of impairment losses

An entity shall disclose the criteria developed by the entity to distinguish non-cash-generating assets from cash-generating assets.

All impairment losses/reversals in surplus/deficit during the period must reflect on the Statement of Financial Performance.

All impairment losses/reversals on revalued assets recognised directly in net assets during the period.

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

Material impairment losses need to be disclosed in the notes to the income statement as a separately item with the following information:

- the events and circumstances that led to the recognition or reversal of the impairment loss
- the amount of the impairment loss recognised or reversed
- the nature of the asset
- whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use
- if the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell
- if the recoverable service amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

An entity shall disclose in the notes information about the key assumptions used to determine the recoverable service amount of assets during the period that have a significant risk of causing a material adjustment to the carrying amounts of assets.

2.13 GENERAL PROCEDURES

2.13.1 ACQUISITION

Acquisition of assets takes place through purchase or development/construction. Such PPE acquisitions must only be funded through the capital budget votes in line with the IDP and not through the operational budget.

The date of acquisition is deemed to be the time when legal title and control passes to the municipality.

2.13.2 SAFEKEEPING

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

Section 78 of the Municipal Financial Management Act (Act no 56 2003) determines each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary. A senior manager or such official must perform the functions subject to the directions of the accounting officer of the municipality

Every Head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the Department in question.

In exercising this responsibility, every Head of department shall adhere to any written directives issued by the Municipal Manager to the Department in question, or generally to all Departments, in regard to the control of or safekeeping of the municipality's fixed assets.

2.13.3 IDENTIFICATION AND VERIFICATION

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.

VERIFICATION

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.

Should there be assets that are not found during current year physical verification, the municipality will keep it in the register for another financial while conducting proper investigation, and if it's still not found in the year after, then such assets will be recommended for disposal.

Physical verifications on infrastructure should be done on regulate intervals as per GRAP. Due to the nature of Fixed Assets, Regular intervals to be assumed as every 3 years unless stated otherwise or the need arise to verify more frequent.

2.13.4 MAINTENANCE

2.13.4.1 Maintenance plans

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

Every Head of department shall ensure that a maintenance plan in respect of infrastructural asset is prepared and submitted to the Council of the municipality for approval.

If so directed by the Municipal Manager, the maintenance plan shall be submitted to Council prior to any approval being granted for the acquisition or construction of new infrastructural assets.

The Head of department controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Council on the extent to which the relevant maintenance plan has been complied with, and on the likely effect which any non-compliance and / or budgetary constraints may have on the useful operating life of the asset concerned.

2.13.4.2 Deferred Maintenance

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

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

2.13.4.3 General maintenance

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

2.13.5 DISPOSAL

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 annually on all fixed assets controlled or used by the Department concerned which such Head of Department wishes to dispose of such assets by public auction or public tender within the period up to 30 June of the next financial year. The Chief Financial Officer shall thereafter consolidate the requests received from the various Departments and shall promptly report such consolidated information to the Municipal Manager, as the case may be, recommending the process of disposal to be adopted. In the case of land and property disposals, the Chief Financial Officer and Head of Department: Planning shall consolidate the request for disposal through the Municipal Manager recommend the process to Council.

Any items declared obsolete or damaged will be kept in one place or a store room until management disposes them.

Each Department must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is the

responsibility of each Department to ensure that all such assets to be disposed of are delivered to and received at the Supply Chain Management Division.

The Council shall ensure that the disposal of any fixed asset takes place in compliance with Section 14 of the Municipal Finance Management Act 2004 and the Supply Chain Management Policy.

During the disposal of assets municipal employees will be provided to have the first preference to obtain the assets at their carrying value before the public individuals.

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 Insurance Section, the Asset Management Division, the internal auditor, and, in cases of suspected theft or malicious damage, also to the South African Police Services. Once the fixed assets are disposed of, the Chief Financial Officer shall remove the relevant records from the fixed asset register.

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 disposal shall be by private treaty.

All assets to be disposed of in the next financial period is to be transferred to the Non-current assets "held for sale" account, revalued to the lower of cost and expected selling price and to be disclosed on the Statement of Financial Position as Non-current assets held for sale under Current assets and not as Property, plant and equipment under Non-current assets.

In the event of Property and property transfer, where the property was sold but still registered under the municipalities name, the Substance over form principle will be applied.

2.13.5.1 Other write offs

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 final approval of Council.

Every Head of department shall annually report to the Chief Financial Officer 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 City Manager on the fixed assets to be written off.

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

2.13.5.2 Proceeds /Gain or Loss on disposal of assets

When assets are disposed of whether by disposal or written off the asset values needs to be readjusted and offset against the proceeds. If the proceeds of the

disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the cost centre of the Finance Department. If the proceeds of the disposal, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the cost centre of the Finance Department.

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

2.13.5.3 Disclosure of assets disposed

The carrying value of the asset disposed shall be removed from the records and will not reflect on the Statement of Financial Position as part of the balance on Property, Plant and Equipment under Non - Current assets

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

2.13.6 CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION

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.

2.13.7 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 and heritage assets in respect of which no value is recorded in the fixed asset register.

2.13.8 REVALUATION OF FIXED ASSETS

The municipality currently adopts and operated the cost model to account for their assets. However, all land and buildings recorded in the municipality's fixed asset register shall be revalued 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 value 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.

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).

2.13.9 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.

This strategy should take into consideration:

- The nature of the asset
- The usage of the asset
- Priorities
- Available funding
- Operational and maintenance costs
- Operational skills

- Future expected developments
- Technology
- Outsourcing
- Private sector partnerships

2.14 Asset Risk Management

2.14.1 INSURANCE OF FIXED ASSETS

The municipal manager 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 from date of delivery or completion

Where the operates a self-insurance reserve, 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.

2.14.2 Other risk reducing methods

Department regulations or "operating policies" can also reduce risks. Department managers should investigate their operations and set operating policies as to how personnel should operate and use property, plant and equipment to minimize risk. Examples are as follows:

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

3. **ANNEXURES**

ANNEXURE 1: SUMMARY OF ASSET MANAGEMENT RESPONSIBILITIES

The table below summarises the roles and responsibilities of departments, specific employee designations and structures referred to (explicitly or implied) with regards to asset management

Department	Human Resources	Administration	Budget & Treasury	All departments	HOD	CF O	MM	Council
4.2 Budget process		✓	✓	✓	✓	✓		
4.3 Acquisition of assets		✓	✓	✓	✓		✓	
4.4 Disposal of assets		✓	✓	✓	✓	✓	✓	✓
4.5 Departmental transfers of assets		✓	✓	✓	✓			
4.6 Resignations	✓			✓	✓			
4.7 Identification of assets				✓	✓	✓	✓	
4.8 Verification of assets		✓	✓	✓				
4.9 Safekeeping of assets					✓			
4.10 Alienation of assets			✓	✓	✓	✓	✓	✓
4.11 Reporting write-offs of assets			✓		✓	✓		
4.12 Maintenance					✓		✓	
4.13 Private use of municipal assets				✓	✓			
4.14 Replacement norms				✓	✓	✓	✓	
4.15 Insurance of assets			✓	✓		✓	✓	
4.16 Disposal of firearms				✓				
4.17 Biological assets					✓	✓		

ANNEXURE 2: USEFUL LIVES

LAND	INDEFINITE
BUILDINGS	10 – 50 years
INFRASTRUCTURE ASSETS	5 – 90 years
COMMUNITY ASSETS	7 – 30 years
LAND FILL SITES	10 – 15 years
HERITAGE ASSETS	N/A
OTHER ASSETS	4 – 15 years
INTANGIBLE ASSETS	3 – 10 years

The Applicable GRAP Standards and Legislation for the Policy are as follows.

- GRAP 3 – Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 13 – Leases
- GRAP 16 – Investment Property
- GRAP 17 – Property Plant and Equipment
- GRAP 31 – Intangible Assets
- GRAP 103 – Heritage Assets
- IGRAP 18 – Recognition and Derecognition of Land
- Local Government Capital Asset Management Guideline
- Asset Management Framework

ANNEXURE 3: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 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
- 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.

COMMENCEMENT

This Policy takes effect on 01 July 2026

-Implementation of the Policy

DATE OF ADOPTION: 28 MAY 2026

SIGNATURE OF THE MUNICIPAL MANAGER: _____

DATE: 28 MAY 2026

