



The home of harmony, prosperity and growth

Fixed Assets Management Policy

Definitions

Fixed 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.

1. Objectives of the Policy

- a) To provide for custodianship of all the municipality's fixed assets;
- b) To provide for recognition criteria for items of fixed assets, correct classification thereof, measurement and disclosure in accordance with standards of generally recognised accounting practice (GRAP);
- c) To provide for planning for regular maintenance and repairs thereof of fixed assets; and
- d) To provide for framework for acquisition, depreciation and disposal of fixed assets and other related matters.

2. Legislative Requirement

- a) In terms of Municipal Finance Management Act, 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; and must for that reason take all reasonable steps to ensure that:
 - (i) the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
 - (ii) the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice (GRAP); and
 - (iii) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

3. Recognition Criteria for Fixed Assets

To be recognised as a fixed asset, an asset must also meet the criteria referred to in the following paragraphs:

3.1 Capitalization Criteria: Material Value

- a) No item with an initial cost or fair value of less than R 5 000 (five thousand rand) and has useful lifespan of more than 12 months, shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.
- b) Every head of department shall, however, ensure that any item with a value in excess of R250 (two hundred and fifty rand), and with an estimated useful life of more than one year, shall be recorded on a stock sheet. Every head of department shall moreover ensure that the existence of items recorded on such stock sheets is verified from time to time, and at least once in every financial year, and any

Ngwathe Local Municipality

Fixed Assets Management Policy

amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes.

3.2 Capitalization Criteria: Intangible Items

No intangible item (e.g with research and development costs) shall be recognised as a fixed asset, except that the Chief Financial Officer, acting in strict compliance with the criteria set out in IAS 38 (AC 129) may recommend to the council that specific development costs be recognised as fixed assets.

3.3 Capitalization Criteria: Reinstatement, Maintenance and Related Expenses

- a) 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.
- b) 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.
- c) 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.

3.4 Assets Under Finance Lease

An asset held under a finance lease, shall be recognised as a fixed asset, as the municipality has control over such an asset even though does not have ownership of the asset concerned.

4. Classification of Fixed Assets

The Chief Financial Officer shall ensure that all fixed assets are classified under the following main 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:

4.1 Property, Plant and Equipment

- a) Land (not held as investment assets)
- b) Infrastructure assets (assets which are part of a network of similar assets)
- c) Community assets (resources contributing to the general well-being of the community)

Ngwathe Local Municipality

Fixed Assets Management Policy

- d) Heritage assets (culturally significant resources)
- e) Other assets (ordinary operational resources)

4.2 Inventory

- Housing (rental stock or housing stock not held for capital gain)

4.3 Investment Property

- Investment assets (resources held for capital or operational gain)

4.4 Intangible Assets

- Research and Development costs (research and development costs which strictly comply with the criteria set out in IAS 38 (AC 129))

5. Investment Property

- a) Investment assets shall be recognised and accounted for in terms of IAS 40 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position.
- b) 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.
- c) 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 where investment property is recorded.
- d) Investment assets shall not be depreciated, but shall be annually valued by a professional valuer on balance sheet date to determine their fair (market) value, which value shall be recorded in the balance sheet. 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.
- e) 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.

6. Fixed Assets Treated as Inventory

- a) 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.
- b) 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.

7. Recognition of Heritage Assets in the Fixed Asset Register

- a) If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a fair value for the assets in question will be a expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned.
- b) For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

8. Recognition of Donated Assets

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

9. Fixed Assets Registers

- a) The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.
- b) The fixed asset register shall reflect the following information as a minimum:
 - (i) a brief but meaningful description of each asset
 - (ii) the date on which the asset was acquired or brought into use
 - (iii) the location of the asset

Ngwathe Local Municipality

Fixed Assets Management Policy

- (iv) the department(s) or vote(s) within which the assets will be used
 - (v) the title deed number, in the case of fixed property
 - (vi) the stand number, in the case of fixed property
 - (vii) where applicable, the identification number
 - (viii) the original cost, or the revalued amount determined in terms of this policy or the fair value if no costs are available
 - (ix) the (last) revaluation date of the fixed assets subject to revaluation
 - (x) the revalued value of such fixed assets
 - (xi) particulars of the person who did the (last) revaluation
 - (xii) accumulated depreciation to date
 - (xiii) the depreciation charge for the current financial year
 - (xiv) the carrying value of the asset
 - (xv) the method and rate of depreciation
 - (xvi) impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
 - (xvii) the source of financing
 - (xviii) the current insurance arrangements
 - (xix) whether the asset is required to perform basic municipal services
 - (xx) whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
 - (xxi) the date on which the asset is disposed off
 - (xxii) the disposal price
 - (xxiii) the date on which the asset is retired from use, if not disposed off.
- c) 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.
- d) 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.
- e) 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.

10. Identification of Fixed Assets

- a) The Accounting Officer shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.
- b) The identification system shall be determined by the Accounting Officer, 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.
- c) 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.

11. Depreciation of Fixed Assets

- a) All fixed assets, except land and heritage assets, shall be depreciated – or amortized in the case of intangible assets.
- b) Depreciation shall generally take the form of an expense both calculated and debited at monthly in arrears against the appropriate line item in the department or vote in which the asset is used or consumed.
- c) Such depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly in arrears.
- d) Each head of department, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.
- e) The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

11.1 Depreciation Rates

- a) 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 of assets and depreciation rates as set out in this policy.
- b) In the case of a fixed asset which useful life or depreciation rate is not specifically listed in this policy, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the head of department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

11.2 Method of Depreciation

Except where alternative depreciation method is applicable, the Chief Financial Officer shall depreciate all depreciable assets on the straight-line method over the assigned useful operating life of the asset in question.

11.3 Amendment of Asset Lives and Decrease in the Value of Fixed Assets

- a) Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the Chief Financial Officer shall report to council of such amendment.
- b) The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
- c) If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value, such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.
- d) Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the fixed asset register.
- e) In the all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

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

11.4 Alternative Methods of Depreciation in Specific Instances

- a) The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.
- b) The Chief Financial Officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the Accounting Officer to provide:
 - (i) estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and
 - (ii) actual statistical information, for each financial year.
- c) The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.
- d) Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer shall report to council of the decision in question.

12. Carrying Values of Fixed Assets

- a) 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.
- b) The only exceptions to this rule shall be in the case of revalued assets where such assets will be reported at valuation amount and heritage assets in respect of which no value is recorded in the fixed asset register.

13. Revaluation of Fixed Assets

- a) 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).
- b) 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.
- c) 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.
- d) 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.
- e) 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.
- f) 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.
- g) 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).

14. Verification of Fixed Assets

- a) 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.
- b) Every head of department shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.

15. Safekeeping of Assets

- a) Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.
- b) In exercising this responsibility, every head of department shall adhere to any written directives issued by the Accounting Officer to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's fixed assets.

16. Maintenance of Fixed Assets

16.1 Maintenance Plans

- a) Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the council for approval.
- b) If so directed by the Accounting Officer, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.
- c) The head of department controlling or using the infrastructure asset in question, shall annually report to the council, by the end of the financial year (i.e June), of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

16.2 Deferred Maintenance

- a) If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.
- b) If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall, necessary in consultation with the head of department controlling or using such asset, re-determine the useful operating life of the fixed asset in question, and shall recalculate the annual depreciation expenses accordingly.

16.3 General Maintenance of Fixed Assets

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets requiring specific maintenance plan as set out above) are properly maintained and in a manner which will ensure that such assets attain their expected useful lives.

17. Disposal of Fixed Assets

- a) Every head of department shall report in writing to the Accounting Officer at the end of the third quarter (i.e 31 March) of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to dispose off by public auction or public tender.
- b) The Accounting Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council recommending the process of disposal to be adopted.
- c) The council shall ensure that the disposal of any fixed asset with a carrying value equal to or in excess of R10 000 (ten thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act.
- d) Once the fixed assets are disposed off, the Chief Financial Officer shall remove the relevant records from the fixed asset register.

- e) 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.

18. Insurance Cover for Fixed Assets

- a) The Accounting Officer 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 associated risks.
- b) The Accounting Officer shall, in consultation with the Chief Financial Officer, recommend to the council 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.

19. Procedure in Case of Loss, Theft, Destruction, or Impairment of Fixed Assets

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

20. Review and Approval

This policy and underlying strategies shall be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

Approved by Council on: _____