



# **DRAFT ASSET MANAGEMENT POLICY**

*Chief Albert Luthuli Local Municipality*

**CHIEF ALBERT LUTHULI LOCAL MUNICIPALITY**  
**ASSET MANAGEMENT POLICY**

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## **1 Background**

**1.1** The utilization and management of property, plant and equipment is the prime mechanism by which a municipality can fulfil its constitutional mandates for:

- 1.1.1 Delivery of sustainable services,
- 1.1.2 Social and economic development,
- 1.1.3 Promoting safe and health environments and,
- 1.1.4 Providing the basic needs to the community.

**1.2** As trustees on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in property, plant and equipment.

**1.3** The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment.

**1.4** Stewardship has two components being the:

- 1.4.1 Financial administration by the chief financial officer, and
- 1.4.2 Physical administration by the asset managers (General Managers of relevant departments).

**1.5** Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposal by a local government.

**1.6** Accounting standards are being promulgated by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment. The requirements of these new accounting standards include:

- 1.6.1 The compilation of asset registers covering all property, plant and equipment controlled by the municipality.
- 1.6.2 Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment.

**1.7** The standards to which these financial records must be maintained.

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**2 Objectives**

- 2.1 To ensure the effective and efficient control, utilization, safeguarding and management of Chief albert Luthuli Local Municipality's property, plant and equipment.
  
- 2.2 To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilisation.
  
- 2.4 To specify the process required before expenditure on property, plant and equipment occurs.
  
- 2.5 To prescribe the accounting treatment for property, plant and equipment in Chief Albert Luthuli Local Municipality including:
  - 2.5.1 The criteria to be met before expenditure can be capitalised as an item of property, plant and equipment,
  - 2.5.2 The criteria for determining the initial cost of the different items of property, plant and equipment,
  - 2.5.3 The method of calculating depreciation for different items of property, plant and equipment,
  - 2.5.4 The criteria for capitalising subsequent expenditure on property, plant and equipment,
  - 2.5.5 The policy for scrapping and disposal of property, plant and equipment,
  - 2.5.6 The classification of property, plant and equipment.

**3 Definitions**

- 3.1 **"Accounting Standards Board"** means the board established in terms of section 87 of the Public Finance Management Act (PFMA). The section refers to the function of the board, which is to establish standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa
  
- 3.2 **"Assets"** are resources controlled by an entity as the result of past events and from which future economic benefits or future service potential are expected to flow to the entity.

- 3.3** “**Asset Manager**” is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality’s assets in accordance with the council’s standards, policies, procedures and guidelines.
- 3.4** **Infrastructure** means assets that usually display some or all of the following characteristics
- 3.4.1 they are part of a system or network;
  - 3.4.2 they are specialised in nature and do not have alternative uses;
  - 3.4.3 they are immovable; and
  - 3.4.4 they may be subject to constraints on disposal
  - 3.4.5 Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication
- 3.5** **Community assets**-are defined as any asset that contributes to the community’s well-being. Examples are parks, libraries and fire stations.
- 3.6** **Community Facilities:** Discrete assets that provide a service directly to the community (such as parks, sports facilities, cemeteries, landfill sites etc
- 3.7** **Heritage assets**-are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- 3.8** **Investment properties**-are defined as properties that are acquired for economic and capital gains. Examples are leased office buildings and underdeveloped land acquired for the purpose of resale in future years.
- 3.9** “**Attractive items**” are items of property, plant or equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding.
- 3.10** “**Capitalization**” is the recognition of expenditure as an Asset in the Financial Asset Register.
- 3.11** “**Carrying amount**” is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon. is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses
- 3.12** “**Cost**” is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

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- 3.13 **“Cost of acquisition”** is all the costs incurred in bring an item of plant, property or equipment to the required condition and location for its intended use.
- 3.14 **Component** is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting requires that each such part should be separately accounted for and is treated separately for depreciation, recognition and de-recognition purposes. It is also referred to as separately depreciable parts
- 3.15 **“Depreciation”** is the systematic allocation of the depreciable amount of an asset over its useful life.
- 3.16 **“Depreciable amount”** is the cost of an asset, or other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value.
- 3.17 **Economic Life** is either:
- 3.17.1 the period over which an asset is expected to yield economic benefits or service potential to one or more users, or
  - 3.17.2 the number of production or similar units expected to be obtained from the asset by one or more users
- 3.18 **Enhancement/Rehabilitation** is an improvement or augmentation of an existing asset (including Separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality
- 3.19 **“Fair value”** is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm’s length transaction.
- 3.20 **“Fixed asset register”** is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy.is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.
- 3.21 **Financially Sustainable**, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of—the initial capital expenditure required for the service; operating the service; and maintaining, repairing and replacing the physical assets used in the provision of the service

- 3.22** **Property, plant and equipment**” are tangible assets that: *Are held by a municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose, and are expected to be used during more than one period.*
- 3.23** **Recoverable amount**” is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.is the higher of a cash-generating asset’s or units net selling price and its value in use.
- 3.24** **“Recognition**” is the process by which expenditure is included in the Financial Asset Register as an asset.
- 3.25** **Recognition** is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:
- It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and
- The item has a cost or value that can be measured reliably
- 3.26** **Refurbishment/Maintenance** to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved
- 3.27** **“Residual value**” is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life
- 3.28** **Remaining Useful Life** is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness
- 3.29** **“General manager/director**” is a manager referred to in section 56 of the municipal systems act being someone reporting directly to the municipal manager.

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- 3.30** **Service Potential** is a tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life
- 3.32** **"Stewardship"** is the act of taking care of and managing property, plant or equipment on behalf of another.
- 3.33** **"Useful life"** is either:
- 3.33.1 *The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality,*  
Or
- 3.33.2 *The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality.*



#### **4 Statutory and regulatory framework**

**4.1** This policy must comply with all relevant legislative requirements including:

4.1.1 The constitution of the republic of south Africa, 1996

4.1.2 Municipal systems act, 2000

4.1.3 Municipal Finance Management Act

**4.2** This policy will be updated whenever legislative or accounting standard amendments significantly change the Requirements pertaining to asset management in general and the administration of council's Assets.

**4.3** This policy does not over rule the requirement to comply with other policies like procurement, tendering or budget policies. The Chief Financial Officer will provide guidance or adjust this police where an apparent conflict exists between this policy and other policies, legislation or regulations.

## **5 Responsibilities and accountabilities**

**5.1 The Municipal Manager** is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

- 5.1.1 The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- 5.1.2 The municipality's assets are valued in accordance with standards of generally recognized accounting practice
- 5.1.3 That the municipality has and maintains a system of internal control of assets, including an asset register; and
- 5.1.4 That senior managers and their teams comply with this policy

### **5.2 The Chief Financial Officer.**

- 5.2.1 The CFO shall be the custodian of the fixed asset register of the Municipality;
- 5.2.2 Appropriate systems system of financial management and internal control are established and carried out diligently;
- 5.2.3 The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- 5.2.4 Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- 5.2.5 Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Fixed Asset Register.
- 5.2.6 Financial processes are established and maintained ensure the municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- 5.2.7 The municipal manager is appropriated advised on the exercise of powers and duties pertaining to the financial administration of assets;

- 5.2.8 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;

This policy and any supporting procedures or guidelines are established, maintained and effectively communicated

**5.3 Asset Manager** must ensure that:

- 5.3.1 Appropriate systems of physical management and control are established and carried out for asset in their area of responsibility;
- 5.3.2 The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- 5.3.3 Any unauthorized, irregular or fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, are prevented;
- 5.3.4 Their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
- 5.3.5 They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
- 5.3.6 The asset manager may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed
- 5.3.7 Shall ensure that complete asset registers kept, verified and balanced regularly.
- 5.3.8 Shall ensure that all movable assets are properly bar coded and accounted for.
- 5.3.9 Shall conduct quarterly and annual audit inventory by scanning selected movable assets and compare this inventory with the Departments asset sign offs.
- 5.3.10 Shall ensure that the Fixed Asset Register is balanced annually with the general ledger and the financial statements.
- 5.3.11 Shall ensure that asset acquisitions are allocated to the correct asset code.
- 5.3.12 Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset management Section, is presented.
- 5.3.13 Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments.
- 5.3.14 Shall compile a list of the items to be auctioned in accordance with the Supply Chain Management (SCM) Policy.

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- 5.3.15 Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- 5.3.16 Shall ensure that the SCM unit is notified of any auctioning or disposing of written-off asset or asset inventory item

**5.5 General Managers**

- 5.5.1 Shall ensure that employees in their departments adhere to the approved Asset Management Policy. Shall
- 5.5.2 ensure that an assets coordinator with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset management 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 general manager.
- 5.5.3 Shall ensure that employees who contravenes the operational procedure or who use the council assets negligence and for their personal gain are disciplined accordingly.

**5.7 ALL Council employees**

- 5.7.1 Shall ensure that assets assigned to them are utilized effectively, efficiently, economically and transparently
- 5.7.2 Shall ensure that the assets of the council are not used for private gain
- 5.7.3 Shall notify the assets management section of all obsolete, damaged and stolen assets, without delay.
- 5.7.4 Shall ensure that all assets under their possession are properly bar-coded.
- 5.7.5 Shall ensure that on termination of service they returned the assets to their supervisors and complete a termination assets clearance form.
- 5.7.6 Shall notify the assets management unit of the movement and transfer of assets assigned to them by completing an assets transfer form.
- 5.7.7 Shall ensure that they comply with the operational procedures.

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**6. Financial Management**

**6.1 Pre-Acquisition Planning**

- 6.1.1 Before a capital project is included in the budget for approval, the senior manager of the relevant department must demonstrate that they have considered:
- 6.1.2 The projected cost over all the financial years until the project is operational;
- 6.1.3 The future operational costs and revenue on the project, including tax and tariff implications;
- 6.1.4 The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- 6.1.5 The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- 6.1.6 The inclusion of this capital project in the integrated development plan and future budgets;
- 6.1.7 The chief financial officer is accountable to ensure the senior manager of the relevant department receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

**6.2 Approval to Acquire Property Plant and Equipment**

6.2.1 Money can only be spent on a capital project if:

- 6.2.1.1 The money has been appropriated in the capital budget,
- 6.2.1.2 The project, including the total cost, has been approved by the council,
- 6.2.1.3 The CFO confirms that funding is available for that specific project, and
- 6.2.1.4 Any contract that will impose financial obligations beyond two years after the budget year must be appropriately disclosed.
- 6.2.1.5 Acquisition of the Assets will then follow the normal process of the Supply Chain Management Policy and Procedures

**6.3 Funding of capital projects**

Within the municipality's on-going financial, legislative or administrative capacity, the chief financial officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its Strategic objectives as stated in the integrated development plan.

#### **6.4 Disposal of property plant and equipment.**

- 6.4.1 The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipality services.
- 6.4.2 The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the council, in a meeting open to the public
- 6.4.3 Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and
- 6.4.4 Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 6.4.5 The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset been sold, transferred or otherwise disposed of.
- 6.4.6 The municipal manager may approve the disposal of an item of property, plant and equipment as delegated by the municipal council. The delegations to approve contracts for the disposal an item of property, plant and equipment is stated in the Preferential Procurement Policy.
- 6.4.7 The disposal an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management. The Preferential Procurement Policy covers these issues.
- 6.4.8 Transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions.

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**7. Internal Controls**

**7.1 Financial Asset registers**

**7.1.1 Establishment and Management of the Financial Asset Register**

- 7.1.1.1 The Chief Financial Officer will establish and maintain the Asset Register containing key financial data on each item of Property, Plant or Equipment that satisfies the criterion for recognition. Asset Managers are responsible for establishing and maintaining any additional register or database required to demonstrate their physical management of their assets.
- 7.1.1.2 Each asset manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition all assets in their registers.

**7.1.1 Contents of the Financial Asset Register**

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- 7.1.2.1 Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the fixed asset register shall reflect at least the following information:
  - 7.1.2.1.1 A brief but identifiable description of each asset
  - 7.1.2.1.3 classification of each asset
  - 7.1.2.1.4 the date on which the asset was acquired for use
  - 7.1.2.1.5 the location of the asset
  - 7.1.2.1.6 the departments within which the assets will be utilized
  - 7.1.2.1.7 the responsible person for this asset
  - 7.1.2.1.8 the title deed number, in the case of fixed property
  - 7.1.2.1.9 the stand number, in the case of fixed property and  
unique identification number.
  - 7.1.2.1.10 the original cost or fair value if no costs are available
  - 7.1.2.1.11 the (last) effective date of revaluation of the fixed assets subject to  
revaluation
  - 7.1.2.1.12 the revalued value of such fixed assets
  - 7.1.2.1.13 the valuer who did the (last) revaluation
  - 7.1.2.1.14 accumulated depreciation to date
  - 7.1.2.1.15 the carrying value of the asset
  - 7.1.2.1.16 whether this is a cash or non-cash generating asset
  - 7.1.2.1.17 the method and, where applicable, the rate of depreciation

- 7.1.2.1.18 impairment losses
- 7.1.2.1.19 impairment recovery
- 7.1.2.1.20 the source of financing
- 7.1.2.1.21 whether the asset is required to perform basic municipal services;
- 7.1.2.1.22 the date on which the asset is disposed of
- 7.1.2.1.23 the disposal proceeds
- 7.1.2.1.24 the date on which the asset is retired from active use, and held for disposal
- 7.1.2.1.25 the residual value of each asset
- 7.1.2.1.26 measurement model

## **8. Management and Operation of Assets**

### ***8.1 Accountability to manage property plant and equipment***

8.1.1 Asset Manager is accountable to ensure that municipal resource are utilized effectively, efficiently, economically and transparently. This would include;

8.1.1.1 Developing appropriate asset management systems, procedures, processes for controlling and management of assets,

8.1.1.2 Providing accurate, reliable and up to date account of assets under their control,

8.1.1.3 The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the municipality's strategic objectives.

### ***8.2 Contents of a strategic asset management plan***

8.2.1 *Senior Managers need to manage assets under their control to provide the required level of service*

Or economic benefit at the lowest possible long term cost. To achieve this, Asset Manager will need to develop strategic asset management plans that cover:

8.2.2 Alignment with the Integrated Development Plan

8.2.3 Operational guidelines,

8.2.4 Performance monitoring,

8.2.5 Maintenance programs,

8.2.6 Renewal, refurbishment and replacement plans,

8.2.7 Disposal and Rehabilitation plans,

8.2.8 Operational, financial and capital support requirements, and

8.2.9 Risk mitigation plans including insurance strategies

### ***8.3 Bar-coding and Physical Verification***

8.3.1 Bar coding means to place a control number on a piece of equipment or property.

8.3.2 All movable assets must be bar code if probable.

8.3.3 The primary purpose of bar coding is to maintain a positive identification of assets.



### **8.3.1.1 Bar coding is important to:**

- 8.3.1.1.1 Provide an accurate method of identifying individual assets
- 8.3.1.1.2 Aid in the annual physical inventory
- 8.3.1.1.3 Control the location of all physical assets
- 8.3.1.1.4 Aid in maintenance of fixed assets

### **8.3.2.1 Fixed property and plant is not bar coded; such as:**

- 8.3.2.1.1 Buildings (record legal description in asset record),
- 8.3.2.1.2 Land (record legal description in asset record),
- 8.3.2.1.3 Infrastructural assets.

## **8.4 Physical verification of all movable assets**

8.4.1 The Asset Management Section will conduct a physical verification of movable assets quarterly. 8.4.2 They will require the cooperation of departmental personnel in accomplishing the physical verification of movable task and will attempt to minimize the time demanded of them.

8.4.3 The designated officials in the different Departments within Council must execute the functions listed below.

- a. Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included.
- b. Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Section.
- c. Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.

## **8.5 Asset Management Section must be notified by the relevant Department of any of the Following possible movements:**

- 8.5.1 Donations
- 8.5.2 Additions / Improvements
- 8.5.3 Departmentally manufactured items
- 8.5.4 Loss or damage

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- 8.5.5 Transfers
- 8.5.6 Terminations
- 8.5.7 Land Sales

## **9. Classification, aggregations & components**

### **9.1 Classification of Assets**

- 9.1.1 Assets that meet the definition and the recognition criteria shall be capitalized in the fixed assets register and be classified as follows
- 9.1.2 Property Plant and equipment if its meet the definition of property plant and equipment as per GRAP17,
- 9.1.3 Intangibles assets if its meet the definition of an intangible assets as GRAP 102,
- 9.1.4 Investment properties if it's the definition of the investment properties as per GRAP 16
- 9.1.5 Biological assets if it's the definition of biological assets as per GRAP 101.

### **9.2 Major Component**

- 9.2.1 An Asset Manager may, with agreement of the Chief Financial Officer, treat specified major Components of an item of property plant or equipment as a separate asset for the purposes of this Policy.
- 9.2.2 These major components may be defined by its physical parameters (e.g. a reservoir roof) of its financial parameters (e.g. a road surface).
- 9.2.3 In agreeing to these treatments the CFO must be satisfied that these components:
  - 9.2.3.1 *Have significantly a different useful life or usage pattern to the main asset,*
  - 9.2.3.2 *Align with the asset management plans,*
  - 9.2.3.3 *The benefits justify the costs of separate identification,*
  - 9.2.3.4 *It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,*
  - 9.2.3.5 *The cost of the asset to the municipality can be measured reliably,*
  - 9.2.3.6 *The municipality has gained control over the asset,*
  - 9.2.3.7 *The asset is expected to be used during more than one financial year.*

## **10. Accounting for Assets**

### **10.1 Recognition of Assets**

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

10.1.1. it is probable that future economic benefits or service potential associated with the item will flow to the entity, and

10.1.2. the cost or fair value of the item can be measured reliably

### **10.2 Measurement at recognition.**

10.2.1. An item of assets that qualifies for recognition as an asset shall be measured at its cost.

10.2.2. Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

### **10.3 Elements of cost**

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

10.3.1 Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

10.3.2 Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

10.3.3 The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

### **10.4 Examples of directly attributable costs are**

10.4.1 Costs of employee benefits (as defined in the Standard of Generally Recognised Accounting Practice on *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment,

10.4.2 costs of site preparation,

10.4.3 initial delivery and handling costs,

10.4.4 installation and assembly costs,

10.4.5 costs of testing whether the asset is functioning properly, after deducting tenet proceeds from selling any items produced while bringing the asset to that location and condition.

10.4.6 Professional fees.

### **10.5 Measurement after recognition**

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

- 10.5.1 Each part of an item of property, plant and equipment with a cost that insignificant in relation to the total cost of the item shall be depreciated separately
- 10.5.2 The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.
- 10.5.3 Depreciation of an asset begins when it 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.
- 10.5.4 Depreciation of an asset ceases when the asset is derecognised.
- 10.5.5 Therefore, depreciation does not cease when the asset become sidle or is retired from active use held for disposal unless the asset is fully depreciated.
- 10.5.6 The depreciable amount of an asset is determined after deducting its residual value.
- 10.5.7 The residual value for infrastructure assets, Heritage assets, community assets and intangible assets shall be zero at initial measurement.

### **10.6 Initial determination useful life**

10.6.1. Each Asset Manager needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecasts the expected useful life that asset. This should be developed as part of the Pre-Acquisition Planning that would consider the following factors:

- 10.6.1.1 The operational, maintenance, renewal and disposal program that will optimize the expect long term costs of owning that asset,
- 10.6.1.2 economic obsolescence because it is too expensive to maintain,
- 10.6.1.3 functional obsolescence because it no longer meets the municipalities needs,
- 10.6.1.4 technological obsolescence,
- 10.6.1.5 social obsolescence due to changing demographics, and
- 10.6.1.6 Legal obsolescence due to statutory constraints.

### **10.7 Review of useful life, depreciation method and the residual value**

10.7.1 The useful life, depreciation method and the residual value applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method, useful life and residual value shall be changed to reflect the changed pattern.

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10.7.2 Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors

**10.8 Review of depreciation method**

10.8.1 The depreciation method applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an

10.8.2 accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors

**10.9 Subsequent expenditure on property plant and equipment <sup>vii</sup>**

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

10.9.2 Enhancements / Rehabilitation:

10.9.3 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.

10.9.4 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.

10.9.5 Disbursements of this nature relating to an asset, which has already been recognized 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 Council over the remaining life of the asset.

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

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

10.9.7 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.

10.9.8 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.

#### **10.10 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.

### **11. Financial Disclosure**

11.1 The financial statements shall disclose, for each class of property, plant and equipment recognised in The financial statements:

- 11.1.1 the measurement bases used for determining the gross carrying amount,
- 11.1.2 the depreciation methods used,
- 11.1.3 the useful lives or the depreciation rates used,
- 11.1.4 the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
- 11.1.5 a reconciliation of the carrying amount at the beginning and end of the period showing:
  - 11.1.5.1. additions,
  - 11.1.5.2. disposals,
  - 11.1.5.3. acquisitions through business combinations,
  - 11.1.5.4. increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in net assets under the Standard of GRAP on Impairment of Assets, impairment losses recognised in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets,
  - 11.1.5.5. impairment losses reversed in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets,
  - 11.1.5.6. depreciation,
  - 11.1.5.7. The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the

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translation of a foreign operation into the presentation currency of the reporting entity, other changes. 11.2 The financial statements shall also disclose for each class of property, plant and equipment

Recognised in the financial statements:

- 11.2.1 the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities,
- 11.2.2 the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction,
- 11.2.3 the amount of contractual commitments for the acquisition of property, plant and equipment, and
- 11.2.4 If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.
- 11.2.5 If items of property, plant and equipment are stated at revalue amounts, the following shall be disclosed:
  - 11.2.5.1 the effective date of the revaluation,
  - 11.2.5.2 whether an independent valour was involved,
  - 11.2.5.3 the methods and significant assumptions applied in estimating the items' fair values,
  - 11.2.5.4 the extent to which the items' fair values were determined directly by
    - 11.2.5.4.1 reference to observable prices in an active market or recent market
    - 11.2.5.4.2 transactions on arm's length terms or were estimated using other
    - 11.2.5.4.3 valuation techniques,
    - 11.2.5.4.4 for each revalue class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model, and
    - 11.2.5.4.5 The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.
- 11.2.6 Financial statements shall also disclose the following for each class of property, plant and equipment:
  - (a) The carrying amount of temporarily idle property, plant and equipment,
  - (b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use, and
  - (c) The carrying amount of property, plant and equipment retired from active use and held for disposal.

11.2.7 The financial statement shall disclose the following for each class of intangible assets, distinguishing between the internally generated intangible assets and other intangibles assets:

11.2.7.1 Whether the useful lives are indefinite or finite and, if finite, the useful

11.2.7.2 Lives or the amortisation rates used.

11.2.7.3 The amortisation methods used for intangible assets with finite useful lives.

11.2.7.4 The gross carrying amount and any accumulated amortisation

11.2.7.5 (Aggregated with accumulated impairment losses) at the beginning and end of the period.

11.2.7.6 The line item(s) of the statement of financial performance in which any amortisation of intangible assets is included.

11.2.7.7 A reconciliation of the carrying amount at the beginning and end of the period showing:

11.2.7.7.1 additions, indicating separately those from internal development and those acquired separately;

11.2.7.7.2 disposals;

11.2.7.7.3 assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations ;

11.2.7.7.4 increases or decreases during the period resulting from revaluations under paragraphs .78, .88 and .89 and from impairment losses recognised or reversed directly in net assets in accordance (if any) with the Standards of GRAP on Impairment of Assets;

11.2.7.7.5 impairment losses recognised in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets; 11.2.7.7.6 impairment losses reversed in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets);

11.2.7.7.7 any amortisation recognised during the period; net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

11.2.7.7.8 Other changes in the carrying amount during the period.



# **Annexures**

## Annexure A

TABLE OF ESTIMATED USEFUL LIVES				
	CLASSES OF ASSETS	CATEGORIES	USEFUL LIVES IN YEARS	
			MIN	MAX
<b>Infrastructure Assets</b>				
	<b>Land</b>	Developed	Indefinite	Indefinite
		Undeveloped	Indefinite	Indefinite
	<b>Buildings</b>	<b>Dwellings</b>		
		Caravans	5	30
		Homes for aged	25	30
		Hostels	25	30
		Residences (personnel)	25	30
		<b>Non Residential Dwellings</b>		
		Airport and associated buildings	25	30
		Bus Shelters	10	30
		Bus Terminals	25	30
		Community Centres and Public entertainment building	25	30
		Driver Vehicle Testing Centres	25	30
		Fire Stations	25	30
		Industrial Building	25	30
		Laboratories	25	30
		Libraries	25	30
		Museums and art galleries	25	30
		Office Building	25	30
		Public Parking	25	30
		Research Facilities (Inc. weather)	25	30
		Stadiums	25	30
		Taxi Ranks	15	30
		Warehouses (storage facilities, Inc. data)	25	30
<b>Other Infrastructure Assets</b>				
	<b>Electricity</b>	Mains	25	55
		Meters		
		Prepaid	25	55
		Credit	25	55
		Supply / Reticulation	25	55
		Transformers	25	55
		Lines		
		Underground	25	55
		Overhead	25	55
		Cables	25	55
		Substations		
		Switchgear	25	55
		Equipment		
		Outdoor	25	55
		GIS	25	55

		Indoor	25	55
		Electrical Panels	25	55
		Telemetry	25	55
	<b>Roads</b>	<b>Bridges</b>		
		Vehicle		
		Concrete	60	80
		Steel	40	50
		Timber	25	40
		Pedestrian		
		Concrete	60	80
		Steel	40	50
		Timber	25	40
		Railway		
		Concrete	60	80
		Steel	40	50
		Timber	25	40
		Expansion and construction joints	15	20
		<b>Storm Water</b>		
		Culverts	25	40
		Concrete	40	60
		Armco	25	40
		Drains		
		Earthworks	80	100
		Concrete lining	25	50
		Stop banks	40	50
		Pipes	25	50
		Coastal		
		Structure (Retaining walls)	20	40
		Piers	60	80
		Storm water outfalls	60	80
		<b>Roads</b>		
		Kerbs and channels	40	50
		Municipal roads		
		Asphalt surface	10	20
		Asphalt layer	30	50
		Concrete surface	10	30
		concrete layer	30	50
		Gravel surface	3	10
		Crash barriers	10	30
		Retaining walls	30	60
		Overload control centres	15	20
		electronic hardware	10	15
		Other equipment	10	20
		Pedestrian footpaths	15	30
		Street lighting	25	40
		Traffic islands	40	50
		Traffic Lights	15	20

		Traffic signs	5	15
	<b>Airports</b>			
		Airport and radio beacons	25	30
		Aprons	25	30
		Aerodrome	15	30
		Runway	15	20
		Taxiways	15	20
	<b>Water</b>			
		Dam		
		Structure		
		concrete	80	100
		earth	30	50
		Mechanical and electrical	15	40
		Meters	15	20
		Standpipes	15	20
		Metalwork (steel stairs, ladders, handrails, weirs)	15	30
		Pump station		
		Structure	30	55
		Electrical	15	40
		Mechanical	15	40
		Perimeter protection	15	25
		Reservoirs		
		Structure	30	50
		Electrical	15	40
		Mechanical	15	40
		Perimeter protection	10	25
		Supply / Reticulation	20	50
		Underground chambers		
		Valves	15	25
		Meters	15	20
		Transition	15	20
		Other	5	10
		Water purification works		
		Structure	30	55
		Electrical	15	40
		Mechanical	15	40
		Perimeter protection	10	25
		Meters	10	15
		Telemetry	10	15
	<b>SEWERAGE</b>			
		Bulk pipelines(outfall sewers)		
		Raising mains	40	50
		Gravity mains	40	50
		Sewerage pump stations		
		Structure	30	55
		Electrical	25	40
		Mechanical	25	40

		Perimeter protection	25	40
		Metalwork	25	40
		Sewers/reticulation	30	60
		Waste purification works		
		Structure	30	55
		Electrical	25	40
		Mechanical	25	40
		Perimeter protection	25	40
		Meters	25	40
	<b>SOLID WASTE DISPOSAL</b>			
		Collection		
		Vehicle	5	10
		Containers/Bin	10	15
		Transfer stations and processing facilities		
		Structure	30	55
		Electrical	15	40
		Mechanical	15	40
		Perimeter protection	10	25
		Landfill site		
		Earthmoving and compaction equipment	10	15
		Landfill preparation	N/A	
		Structure	30	55
		Weighbridge		
		Mechanical	15	40
		Electrical	15	40
		Perimeter protection	10	25
	<b>CEMETERIES</b>		25	30
<b>CAPITAL/INFRASTRUCTURE WORK IN PROGRESS</b>	<b>WIP</b>			
		Buildings	N/A	
		Infrastructure	N/A	
		Other	N/A	
<b>Movable Assets</b>	<b>OTHER MACHINERY AND EQUIPMENT</b>			
		Audio-visual equipment	5	10
		Building air conditioning systems	5	10
		Cellular phones (over R5 000)	0	10
		Cellular routers	3	10
		Domestic equipment (Non-kitchen appliances)	3	10
		Electric wire and power distribution equipment (compressors, generators & allied equipment)	5	10
		Emergency/rescue equipment	5	10

		Elevators systems	15	20
		Farm/Agriculture equipment	5	15
		Fire Fighting equipment	3	10
		Gardening equipment	2	10
		Irrigation equipment	10	15
		Kitchen appliances	5	10
		Laboratory equipment- Agriculture	5	10
		Medical testing	5	10
		Roads and transport	5	10
		Laundry equipment and industrial sewing machines	10	15
		Learning ,training support and library material(curriculum equipment)	5	10
		Machines for metallurgy	5	10
		Machines for mining and quarrying	5	10
		Machines for textile production	10	15
		Music instruments	10	15
		Photographic equipment	5	10
		Pumps, plumbing, purification and sanitation equipment	5	10
		Radio equipment	5	10
		Road construction and maintenance equipment	10	15
		Saddles and other tack	5	10
		Security equipment/systems/materials		
		Fixed	3	10
		Movable	3	10
		Ship and marine equipment	5	10
		Sport and recreational equipment	5	10
		Survey equipment	5	10
		Telecommunication equipment	3	10
		Tents, flags and accessories	5	10
		Woodworking machinery and equipment	5	10
		Workshop equipment and loose tools		
		Fixed	5	10
		Movable	3	10
	<b>Furniture and Office Equipment</b>			
		Advertising boards	6	15

		Air conditioners (individual fixed & portable)	6	15
		Cutlery and crockery	6	15
		Domestic and hostel furniture	6	15
		Office equipment (Inc. fax machines)	6	10
		Office furniture	6	15
		Paintings, sculptures, ornaments (homes and office)	6	15
	<b>Computer Equipment</b>			
		Computer hardware (Inc. Operating System)	6	10
		Networks	6	10
	<b>Transport Assets</b>			
		Aircraft	10	15
		Aircraft engines	5	7
		Airport transport equipment (stairs and luggage)	10	15
		Busses	10	15
		Cycles	4	7
		Emergency vehicles (Ambulances and fire engines)	5	10
		Mobile clinics	10	15
		Motor vehicles	4	7
		Trailers and accessories	5	10
		Trucks	5	7
	<b>Heritage Assets</b>			
		Archives	N/A	N/A
		Areas of land of historic or specific significance (i.e. world heritage site)	N/A	N/A
		Culturally significant buildings	N/A	N/A
		National monuments	N/A	N/A
		National Parks / reserves	N/A	N/A
		Paintings	N/A	N/A
		Sculptures	N/A	N/A
		Municipal jewellery	N/A	N/A
		Work Art	N/A	N/A
		Other antiques and collections	N/A	N/A
	<b>Intangible Assets</b>			
		Website	2	5

## Annexure B

### CONDITION ASSESSMENT

The regular assessment of the condition and performance of all the tangible capital assets allows the municipality to determine the ability of tangible capital assets to continue to perform and provide services into the future.

<b>Condition rating table</b>			
<b>Grade</b>	<b>Description</b>	<b>Detailed Description</b>	<b>Estimated Remaining Life</b>
1	Very Good / Excellent (90%)	New, sound structure or appearance, well maintained. Continue with planned maintenance	As estimated
2	Good (70%)	Performance acceptable with minor deterioration (<5%). Normal planned maintenance continues.	As estimated
3	Fair (50%)	Clearly evident deterioration (10-20%). Significant maintenance required, consider impairment.	Less than estimated
4	Poor (30%)	Significant deterioration in structure or appearance. Significant impairment of performance. Significant maintenance required.	Significantly less than estimated
5	Very Poor / Bad (10)	Unsound, does not perform. Reconstruction or replacement required (>50% needs replacement).	None or nominal



## **Annexure C**



# Department of Finance

## Asset Management

### ASSET TRANSFER/ MOVEMENT FORM

Purpose of Request:

#### Current Location/ User

Information Department

Room Number

Room Barcode No.

User Name &  
Surname

Telephone No.

#### New Location/ User Information

Department

Room Number

Room Barcode No.

User Name &  
Surname

Telephone No.

No.	Asset Bar Code	Asset Description (as per Asset Inventory Sheet)

#### Transfer/ Move of Asset Sign Off

Description	Name	Signature	Date
Current User			
HOD			
New Asset User (receiving)			
Asset Management Unit			