



# UBUHLEBEZWE MUNICIPALITY

ASSET MANAGEMENT POLICY



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## **1. INTRODUCTION**

This policy is aimed at assisting management and employees of the municipality to implement and maintain consistent, effective and efficient asset management principles.

### **1.1 OBJECTIVE**

The objective of this policy is:

- To safeguard the fixed assets of the municipality and to ensure the effective use of existing resources
- To emphasise a culture of accountability towards the municipality's fixed assets
- To ensure that effective controls are communicated to management and staff through clear and comprehensive written documentation
- To provide a formal set of financial procedures that can be implemented to ensure that the municipality's financial asset policies are in compliance with the Municipal Finance Management Act 2003, Act 56 of 2003, herein referred to as the MFMA.

### **1.2 SCOPE**

This policy applies to all Property, Plant and Equipment including, but not limited to:

- Infrastructure assets
- Community assets
- Intangible assets
- Heritage assets
- Investment assets
- Biological assets

### **1.3 STATUTORY AND REGULATORY FRAMEWORK**

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, 1998



- Municipal Systems Act, 2000
- Municipal Finance Management Act No 56 of 2003
- Local Government: Municipal Asset Transfer Regulations, 2008

Also, this policy must comply with the standards specified by the Accounting Standards Board. The relevant currently recognized accounting standards include:

- GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 11 Construction Contracts
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 16 Investment Property
- GRAP 17 Property, plant or equipment
- GRAP 21 Impairment of non-cash generating assets
- GRAP 31 Intangible Assets
- GRAP 100 Discontinued Operations
- GRAP 103 Heritage Assets

## 2. DEFINITIONS

<b>TERM</b>	<b>EXPLANATION</b>
<b><i>Accounting Standards Board:</i></b>	Was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
<b><i>Amortisation:</i></b>	Is the systematic allocation of the depreciable amount of an intangible asset over its useful life.
<b><i>Asset:</i></b>	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.
<b><i>Asset Acquisition Plan:</i></b>	A plan setting out the asset needs for a particular office which is aligned to the Strategic Plan and the budget for a specific financial year.



<b>TERM</b>	<b>EXPLANATION</b>
<i>Asset category</i>	Are the asset categories as per the Fixed Asset Register
<i>Asset Disposal Committee:</i>	A committee appointed by the Municipal manager responsible for assessing and evaluating the reasonableness of the disposal of assets and give recommendation
<i>Asset Identification System:</i>	Physical labelling system placing an exclusive mark on an asset which is used by the Municipality to denote ownership, identify and keep track of its assets.
<i>Asset Manager:</i>	The person responsible for asset management for the Municipality.
<i>Asset Register:</i>	Data source that records information on individual assets. The recorded information must include the asset description, unique asset number, location, total cost, category, etc.
<i>Accumulated depreciation:</i>	Accumulated depreciation refers to the total depreciation allocations to a certain point with respect to assets still in use
<i>Capitalisation</i>	Is the recognition of expenditure as an Asset in the Fixed Asset Register.
<i>Capital Asset:</i>	An asset that can be used continuously and repetitively in production for at least one year and of which future economic benefits or service potential is expected to flow to the Municipality.
<i>Carrying amount:</i>	Is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation/amortisation and any impairment losses thereon.
<i>Community Assets:</i>	Assets that contribute to the community's well-being. Examples are parks, libraries and fire stations.
<i>Construction Contracts:</i>	A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or inter dependent in terms of their design, technology and function or their ultimate purpose or use.
<i>Cost:</i>	The purchase price of the asset plus the cost of activities (cash



<b>TERM</b>	<b>EXPLANATION</b>
	or equivalent) necessarily incurred to bring the asset to the condition and location essential for its intended use (e.g. purchase price plus delivery and installation).
<b><i>Depreciation:</i></b>	The systematic allocation of the depreciable amount of an asset over its useful life.
<b><i>Depreciable amount:</i></b>	Is the cost of an asset or other amount substituted for cost in the financial statements, less its residual value.
<b><i>Fair Value:</i></b>	The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
<b><i>Finance Lease:</i></b>	a lease which in effect transfers substantially all the risks and rewards associated with ownership of an asset from the lessor to the lessee.
<b><i>Future Economic Benefit:</i></b>	The potential to contribute directly or indirectly to the flow of cash or cash equivalents to the Municipality, or in providing a service to another party.
<b><i>Heritage Assets:</i></b>	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..
<b><i>Impairment Loss</i></b>	An impairment loss is the amount by which the carrying value of an asset exceeds the recoverable amount.
<b><i>Infrastructure Assets:</i></b>	Assets that are part of a network of similar assets. Examples are roads, water reticulation schemes sewerage purification works.
<b><i>Investment Properties:</i></b>	Are properties acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for resale in future years.
<b><i>Intangible Asset:</i></b>	An intangible asset is an identifiable non – monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, for example computer software and rights.



<b>TERM</b>	<b>EXPLANATION</b>
<b><i>Property, plant and equipment (PPE)</i></b>	Means tangible assets that: <ul style="list-style-type: none"> <li>• are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and</li> <li>• are expected to have a useful life extending for more than</li> <li>• one financial year.</li> </ul>
<b><i>Residual Value:</i></b>	The net amount that the Municipality expects to obtain for an asset at the end of its useful life after deducting the expected cost of the disposal.
<b><i>Recoverable Amount:</i></b>	Recoverable value is the higher of the asset's net selling price and its value in use. .
<b><i>Service Potential:</i></b>	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.
<b><i>Straight-line method of depreciation:</i></b>	Constant depreciation charge over the useful life of the capital asset calculated on its cost.
<b><i>Tangible Asset:</i></b>	An asset physical in nature, and can be either capital or minor, and can be moveable or immovable.
<b><i>Useful life:</i></b>	Either the period of time over which an asset is expected to be used by the municipality or the number of production or similar units expected to be obtained from the asset by the municipality. The following factors should be considered when assessing an asset's useful life: <ul style="list-style-type: none"> <li>• Expected use</li> <li>• Expected physical wear and tear</li> <li>• Technical obsolescence</li> <li>• Legal or other limits on the use</li> </ul>





### **3. ROLES AND RESPONSIBILITIES**

#### **3.1 ROLE OF MUNICIPAL MANAGER**

(a) The responsibility for management of fixed assets lies with the Accounting Officer. While the performance of this function can be delegated to the Chief Financial Officer in the finance department, this delegation does not alleviate the responsibilities of the Accounting Officer. In terms of Section 63(1) (a-b) of the Municipal Finance Management Act, 2003 (MFMA), the Accounting Officer is responsible for the management of the fixed assets of the municipality including the safeguarding and the maintenance of those fixed assets and will need to ensure that all the fixed assets are adequately insured against loss, theft and damage of any nature.

(b) Section 63(2) of MFMA states that *“the accounting officer must take all reasonable steps to ensure:*

- *that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;*
- *that the municipality’s assets are valued in accordance with standards of generally recognised accounting practice (GRAP); and*
- *that the municipality has and maintains a system of internal controls of assets, including a fixed asset register, as may be prescribed”.*

#### **3.2 ROLE OF CHIEF FINANCIAL OFFICER**

(a) The Chief Financial Officer shall be the custodian of the assets management system of the Municipality, and shall ensure that a complete, accurate and up-to-date computerised assets management system is maintained.

(b) No amendments, deletions or additions to the assets management system shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.

#### **3.3 ROLE OF DIRECTORS: DEPARTMENTAL HEADS**

In terms of Section 78(1) (e) of the MFMA, 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.

### 3.4 ROLE OF ASSET MANAGER

The asset manager:

- (a) Shall ensure that complete records of asset items are kept, verified and balanced regularly.
- (b) Shall ensure that all movable assets are properly tagged and accounted for.
- (c) Shall ensure that a verification report is compiled after completion of movable asset verification process. The report shall –
  - Reflect a complete list of all assets found during the verification;
  - Reflect whether appropriate records have been maintained indicating what articles / items should have been found during verification;
  - Reflect any discrepancies between the articles / items found during verification and the record referred to above;
- (d) Shall ensure that the assets management system is balanced monthly with the general ledger and the financial statements in conjunction with the Chief Financial Officer.
- (e) Shall ensure adequate bar codes to exercise the function relating to asset control are available at all times.
- (f) Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the assets management system.
- (g) Ensure that all audit queries are resolved in a timely manner.
- (h) Shall ensure that asset acquisitions are allocated to the correct asset code.
- (i) Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, countersigned by the Asset Management Unit, is presented.
- (j) Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from other departments.
- (k) Shall compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy.



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- (l) Shall compile and circulate a list of unused movable assets to enable other municipal departments to obtain items that are of use to them.
- (m) Shall ensure that the Supply Chain Management is notified of any auctioning or disposing of written-off asset or asset inventory items.

#### **4. FINANCIAL MANAGEMENT**

##### **4.1 PROCUREMENT OF ASSETS**

- (a) A capital budget must be compiled and approved for all capital acquisitions. This capital budget must be drafted in accordance with the MFMA as well as internal budget related policies.
- (b) Money can only be spent on a project / asset if:
- the money has been appropriated in the capital budget, and the future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
  - the project, including the total cost and funding sources, has been approved by Council;
  - the Chief Financial Officer confirms that funding is available for that specific project; and
  - the Supply Chain Management prescripts / procedures have been adhered to.
- (c) Authorisation for procurement should be as per the Directorates' delegation of authority and payment for assets should be in accordance with Financial Policies and regulations of the Supply Chain Management Policy.

##### **4.2 FUNDING**

- (a) The acquisition of assets will not be funded over a period longer than the useful life of that asset.
- (b) As stated in 4(1)(b) above for the new asset acquisitions the funding must be approved and available for use to acquire the asset.

##### **4.3 DISPOSAL OF ASSETS / ALIENATION OF FIXED ASSETS**

- (a) Assets must be disposed in such a way that:
- In financial terms, such disposal is always to the benefit of the municipality.



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- During the consideration and acceptance of tenders / quotations or any bid for such assets, the image of the municipality is not impaired.
  - Assets must be disposed off as stipulated in the approved Supply Chain Management Policy of the municipality.
  - Authorisation for disposal should be as per the Directorates' delegation of authority.
  - ICT will do an analyses to identify ICT equipment that needs to be disposed.
- (b) 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.
- (c) Every head of department shall report in writing to the chief financial officer on 31 October of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate by public auction or public tender. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.
- (d) The council shall delegate to the municipal manager the authority to approve the alienation of any fixed asset with a carrying value less than R5 000 (five thousand rand).
- (e) The council shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2003 which states:
- “(1) A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.*
- (2) A municipality may alienate any other capital asset, but provided:*
- (a) The council, in a meeting open to the public, has first determine that the asset is not required to provide a minimum level of basic municipal services, and*



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*(b) 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. ”*

- (f) Once the fixed assets are alienated, the chief financial officer shall delete the relevant records from the fixed asset register.
- (g) If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the income statement of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the income statement of the department or vote concerned.
- (h) All gains realised on the alienation of fixed assets shall be appropriated annually to the municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.
- (i) Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.
- (j) Other writes-offs of fixed assets
- A fixed asset even though fully depreciated shall be written off only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the council of the municipality.
  - Every head of department shall report to the chief financial officer on 30 April of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. The chief financial officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.



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

## **5. INTERNAL CONTROLS**

### **5.1 SAFE KEEPING OF ASSETS**

Every head of department shall:

- (a) be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question;
- (b) ensure that assets of the municipality are not used for private business and gain by any employee;
- (c) 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; and
- (d) upon the resignation of an official, an asset clearance form must be completed by a resigning official and be forwarded to finance department for further attention.

### **5.2 ASSET IDENTIFICATION**

- (a) 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.
- (b) 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.
- (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.



### 5.3 VERIFICATION

- (a) Every head of department shall at least twice 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, shall be undertaken and completed by 30 November and 30 May every financial year and that the resultant report shall be submitted to the chief financial officer not later than the last day of the month. All fixed assets used by employees leaving the employment of the company must be verified on the day such employees leave. To this effect the Human Resources Department must inform the Asset Management Unit in writing of any persons leaving the employment of the municipality.
- (c) It is the responsibility of the Asset Management Unit to initiate and facilitate the annual fixed asset verification process.

### 5.4 MOVEMENT / MONITORING

- (a) Any disposal, movement, impairment or any change in the nature of the asset must be monitored and communicated to the Asset Management Unit and other role players as the communication channel may prescribe.
- (b) A responsible occupant will sign-off on the assets under his/her control and thus become the custodian thereof. Any movement or changes to said list of items must be communicated to the Asset Management Unit.
- (c) Assets that are used by officials outside of their workplace (e.g. laptops taken home) must be approved by the relevant director.

### 5.5 INSURANCE COVER

- (a) The municipal manager shall ensure that all movable fixed assets are insured immediately at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.
- (b) If the municipality operates a self-insurance reserve (assuming such reserve to be allowed), the chief financial officer shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets



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and insurable values of all relevant fixed assets from the heads of departments concerned.

- (c) 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.
- (d) 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.
- (e) If the municipality or municipal property is involved in an incident that may result in charges against the municipality. The municipality must be notified immediately and a senior manager or asset manager from the municipality must be present at the incident scene. The incident must be reported to the nearest SAPS within 48 hours. The incident must be reported to the municipality within 48 hours in writing and all supporting evidence must be attached. Late notification and lack of supporting evidence may jeopardise your claim.

## 5.6 MAINTENANCE OF ASSETS

### (a) Maintenance Plans

- (i) 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 of the municipality for approval.
- (ii) If so directed by the municipal manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.
- (iii) The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.





(b) Deferred Maintenance

- (i) 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.
- (ii) If no such plans have been formulated or are likely to be implemented, the chief financial officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

(c) General Maintenance of Fixed Assets

- (i) Every head of department shall be directly responsible for ensuring that all assets other than infrastructure assets which are dealt with in 5.6 (a) & 5.6 (b) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

## 5.7 FIXED ASSETS REGISTER

- (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 other accounting requirements which may be prescribed.
- (b) The fixed asset register shall reflect the following information:
  - a brief but meaningful description of each asset
  - the date on which the asset was acquired or brought into use
  - the location of the asset
  - the department(s) or vote(s) within which the assets will be used
  - the erf number, in the case of fixed property
  - where applicable, the identification number (barcode), as determined in compliance with 5.2 above



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- the original cost, or the revalued amount or the fair value if no costs are available
  - the (last) revaluation date of the fixed assets subject to revaluation
  - who did the (last) revaluation
  - historical carrying amount of assets held using the Revaluation method.
  - 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
  - disposal price
  - the date on which the asset is disposed of or retired from use
  - useful life of the asset
  - current insurance arrangement
- (a) 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.
- (b) A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it meets the definition and recognition criteria of an assets. 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.
- (c) A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. No fixed asset shall be recorded at a nil carrying amount in the fixed asset register.



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## 6. CLASSIFICATION OF FIXED ASSETS

In compliance with the requirements of the National Treasury, the chief financial officer of the Municipality 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.

### 6.1 CLASSIFICATION TYPES

#### (a) Property, Plant And Equipment

- Land and 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 - Assets which are 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 specialised in nature and do not have alternative uses,
  - They are immovable; and
  - They may be subject to constraints on disposal.
- Community assets -resources contributing to the general well-being of the community. The following are the list of community assets
  - Community Halls
  - Sportfields facilities
  - Skills care
  - Creches

#### (b) Inventory

- Housing - rental stock or housing stock not held for capital gain.

#### (c) Investment Property

- Investment assets -resources held for capital or operational gain.

#### (d) Intangible Assets

- Licences
- Software



- Goodwill
- customer list
- development costs
- patents
- copyrights

(e) Heritage Assets

- Defined as culturally significant resources. Heritage assets are accounted for in terms of GRAP 103. Examples are works as follows:
  - historical buildings
  - art, museum and library collection
  - monuments
  - land preserved in its existing nature to maintain the historic value of the territory
  - other cultural assets
- The chief financial officer shall adhere to the classifications indicated in the annexure on fixed asset lives below, and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

## 6.2 CLASSIFICATION DESCRIPTIONS

(a) Investment Property

- Investment assets 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.

(b) The following will be classified as investment property:

- land held by the municipality 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 occupy the land (including for the use of providing services) or that it will sell the land in the short term in the ordinary course of operations, the land is deemed to be held for capital appreciation and classified as investment property until the use is determined.
- 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. The municipality is not occupying the land, rather earning rentals and thus classified as investment property.
- building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties. Intention here is to earn rentals and as such classified as investment property.
- Property being constructed or developed for future use as investment property.

(c) The following property falls outside the scope of GRAP 16 and shall not be classified as investment property:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale. The intention is to sell the property and therefore it is inventory rather than investment property. It should be accounted for according to the GRAP 12 on Inventories.
- property being constructed or developed on behalf of third parties. This property should be accounted for in terms of the GRAP 11 on Construction Contracts.
- owner-occupied property should be accounted for in accordance with the GRAP 17 on Property, Plant and Equipment. This also includes, amongst others, property that is held for future use as owner-occupied property and owner-occupied property awaiting disposal accounted for in accordance with GRAP 100.
- property that is being constructed or developed for future use as investment property. The GRAP 17 on Property, Plant and Equipment applies to the property until it is complete and ready to be used as investment property.



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- property that is leased to another municipality under a finance lease in accordance with GRAP 13.
  - property held to provide a social service and which also generates cash inflows, such as a Housing Board that holds 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 the Standard of GRAP on Property, plant and equipment; and
  - property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP 17 on Property, plant and equipment.
- (d) 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.
- (e) Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the Statement of Financial Positions 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.
- (f) An expert valuer shall be engaged by the municipality to undertake such valuations.
- (g) If the council 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.

### 6.3 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



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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 inventory shall be accounted for in terms of GRAP 12 Inventory of this nature shall be accounted for at Fair Value.

#### 6.4 RECOGNITION OF HERITAGE ASSETS

- (a) A heritage asset shall be recognised as an asset if it is probable that future economic benefits or service potential associated with the asset will flow of the municipality and if the cost or fair value of the asset can be measure reliably. In rare instances where the cost of fair value of the asset can be measured, the municipality will list the asset in the fixed asset register at no value.
- (b) For annual financial statements purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

#### 6.5 RECOGNITION OF DONATED ASSETS

- (a) 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.

#### 6.6 BIOLOGICAL ASSETS

- (a) Accounting for biological assets shall take place in accordance with the requirements of GRAP 27
- (b) The chief financial officer, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as an operating revenue.



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- (c) If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the head of department concerned in exactly the same manner as though the asset were an ordinary fixed asset.
- (d) Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record altogether and such details shall reflect the information which the chief financial officer, in consultation with the head of department concerned and the internal auditor, deems necessary for accounting and control purposes.
- (e) The chief financial officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the council of the municipality considers such insurance desirable and affordable.

## **7. ACCOUNTING FOR ASSETS**

### **7.1 CAPITALISATION**

#### **(a) Capitalisation Criteria: Material Value**

- No item with an initial cost or fair value of less than R1500 (one thousand five hundred rand) or such other amount as the council of the municipality may from time to time determine on the recommendation of the municipal manager, shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense. *However, the cost of assets shall be looked at in total and not individually i.e. if the municipality purchases 500 chair @ R1500.00 each, the total value would be R75, 000.00. The value is therefore too material to be written off as an operating expense.*
- 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 amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes.





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(a) Capitalisation Criteria: Intangible Items

- The Municipality shall recognise an intangible asset only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.
- Intangible item dealing with research and development expenses shall not be recognised as a fixed asset, except that the Chief Financial Officer, acting in strict compliance with the criteria set out in GRAP 31 (dealing with research and development expenses) may recommend to the council that specific development costs be recognised as an asset.
- Intangible assets shall be recognised at cost and amortised over their useful lives.
- Intangible assets with an infinite useful life shall be tested for impairment annually.

## 7.2 RECOGNITION OF AN ASSET

(a) Fixed Assets

- A fixed asset is an asset with a useful life of more than one year and is used in the business of the municipality. Characteristics of a depreciable fixed asset are the following:
  - It is estimated that the asset will be used for more than one financial period;
  - It has a limited useful life;
  - It is used in a process of delivering services;
  - The resource should provide future economic benefits;
  - The future economic benefits should accrue to the municipality;
  - The event giving rise to the municipality's right to the recourse and control over the future economic benefits must already have occurred; and
  - It should be possible to determine the cost of the asset reliably.
- 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 derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

(b) Accounting For 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 it does not own the asset.
- Examples of situations that would normally lead to a lease being classified as finance lease are:
  - The lease transfers ownership of the asset to the lessee by the end of the lease term;
  - The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
  - The lease term is for the major part of the economic life of the asset even if title is not transferred; and
  - At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
- Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:
  - If the lessee can cancel the lease, the lessor's losses associated with the cancellation are born by the lessee,
  - Gains or losses from the fluctuation in the fair value of the residual fall to the lessee (for example in the form of a rent rebate equalling most of the sales proceeds at the end of the lease), and



- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent

### 7.3 MEASUREMENT

#### **Cost of an asset**

- Cost of a fixed asset includes the cost of activities (cash or equivalent) necessarily incurred to bring the fixed asset to the condition and location essential for its intended use (e.g. purchase price plus transport and installation).
- The following are examples of costs that should be capitalized if it can be directly attributed to the acquisition of the asset or bringing the asset to its working condition:
  - Administration and other general overhead costs;
  - Start-up and other pre-production costs;
  - Interest paid if part of a capital project; and
  - Any trade discount and rebates are to be deducted in arriving at the purchase price.

#### (a) Contract costs

- Contract costs should comprise:
  - Costs that relate directly to the specific contract,
  - Costs that are attributable to contract activity in general and can be allocated to the contract, and
  - Such other costs are specifically chargeable to the customer under terms of the contract.
- Examples of costs that relate directly to a specific contract include:
  - Site labour costs, including site supervision,
  - Costs of materials used in construction
  - Depreciation of plant and equipment used on a contract,
  - Costs of moving plant, and equipment to and from the contract site,
  - Costs of hiring plant and equipment,
  - Costs of design and technical assistance that is directly related to the contract,



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- The estimated costs of rectification and guarantee work, including expected warranty costs, and
  - Claims from third parties.
  - Examples of costs that relate to the contract activity in general and can be allocated to specific contracts include:
    - Insurance
    - Cost of design and technical assistance that are not directly related to a specific contract, and
    - Construction overheads.

(b) Research costs

- Research costs should be recognized as an expense in the period in which they are incurred and should not be recognized as an asset. Examples of activities typically included in research are:
  - Activities aimed at obtaining new knowledge,
  - The search for applications of research findings or other knowledge,
  - The search for product or process alternatives, and
  - The formulation and design of possible new or improved product or process alternatives.

(c) Development costs

- The development costs of a project should be recognized as an expense in the period in which they are incurred, unless all of the following criteria are met:
- The product or process is clearly defined and the costs attributable to the product or process can be separately identified and reliably measured.
- The technical feasibility of the produce and market or use the product or process.
- The existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise can be demonstrated.
- Adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.
- Examples of activities typically included in development are:



- The evaluation of product or process alternatives,
- The design, construction and testing of pre-production prototypes and models,
- The design of tools, jigs, moulds and dies involving new technology, and
- The design, construction and operation of a pilot plant that is not of a scale that is economically feasible for commercial production.

(d) Changes in Accounting Estimates

- As a result of the uncertainties inherent in business activities, many financial items cannot be measured but can only be estimated.
- The estimation process is based on judgments based on the latest financial information available.
- Estimates may be required, for example bad debts, inventory obsolescence or the useful lives or expected pattern of consumption of economic benefits or depreciable assets.
- An estimate may need to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments.
- In practice the Department may decide to revise the useful life of an asset or a group of assets due to certain circumstances.
- The effect of a change in accounting estimate should be included in the determination of net profit or loss in:
  - The period of the change if the change effects the period only, or
  - The period of change and future periods, if the change affects both

## 7.4 DEPRECIATION

(a) Depreciation of Fixed Assets

- All fixed assets, except land, investment properties and heritage assets, shall be depreciated – or amortised in the case of intangible assets.
- Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.



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- Depreciation shall generally take the form of an expense both calculated and debited on an annual basis against the appropriate line item in the department or vote in which the asset is used or consumed.
  - However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired, or, in the case of construction works and plant and machinery, the day following the day in which the fixed asset is brought into use, until the end of the financial year concerned. Thereafter, depreciation charges shall be calculated annually.
  - Each head of department, acting in consultation with the chief financial officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.
  - The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

(b) Rate of Depreciation

- The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. In determining such a useful life the chief financial officer shall adhere to the useful lives set out in Annexure A.
- In the case of a fixed asset which is not listed in this annexure, the chief financial officer shall determine a useful operating life, if necessary in consultation with the head of department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

(c) Method of Depreciation

Except in those cases specifically identified in 7.5 below, the chief financial officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.



(d) Amendment of Asset Lives and Impairment of Fixed Assets

- Only the chief financial officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the chief financial officer shall inform the council of the municipality of such amendment.
- The Municipality shall assess at each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality shall estimate the recoverable service amount of the asset
- Irrespective of whether there is any indication of impairment, the Municipality shall also test an intangible asset with an indefinite life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.
- In assessing whether there is any indication that an asset may be impaired the Municipality shall consider as a minimum the following indications:

(i) *External indicators*

- Cessation or near cessation of the demand or need for services provided by the asset
- Significant long term changes with an adverse effect on the on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment which the Municipality operates.

(ii) *Internal indicators*

- Evidence is available of physical damage of an asset.
- Significant long term changes with an adverse effect on the municipality have taken place during the period, or are expected to take place in the near future in the extent to which or manner in which the asset is used or expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs or plans to disposes of an asset before the previously expected date



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- A decision to halt the construction of the asset before it is complete or in a usable condition
  - Evidence is available from internal reporting that indicates that the service performance of an asset is or will be significantly worse than expected
  - In the foregoing instances the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.
  - The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
  - If the value of 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.
  - Similarly, if an item of property, plant and equipment 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.

#### 7.5 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 municipal manager to provide:





- estimates of statistical information required by the chief financial officer to prepare estimates of depreciation expenses for each financial year; and
  - actual statistical information, for each financial year.
- (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 inform the council of the municipality of the decision in question.

#### 7.6 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 where applicable.
- (b) 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.

#### 7.7 REVALUATION OF FIXED ASSETS

- (a) All land and buildings recorded in the municipality's fixed asset register accounted for under GRAP 17 shall be revalued every 3 years with the first valuation taking place in the 2012 financial year end.
- (b) The chief financial officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value as per the experts valuations, provided the chief financial officer is satisfied that such value reflects the fair value of the fixed asset concerned.
- (c) 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.
- (d) If the amount as per the expert 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 reducing the carrying value to the experts value. A



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decrease up to the Historical Cost value will be treated as devaluation, with the decrease below being treated as impairment. The impairment loss will be debited against the Statement of Financial Performance whilst the devaluation will be debited against the Revaluation Reserve in the Statement of Changes in Net Asset.

- (e) 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).

#### 7.8 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 norms and standards applicable to the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.



## 7.9 USEFUL LIFE

- (a) The parameters set for the useful lives of assets are based on best practice as issued by National Treasury in the Local Government Asset Management Guideline.
- (b) These guidelines for the useful lives of assets may be adapted based on past experience and specific municipal preference.
- (c) The useful life set out for a specific asset will determine the depreciation on the asset.
- (d) It may be necessary to review the useful life of assets as the original estimate of useful life may become inappropriate. Such an adjustment is deemed to be a change in estimate and the depreciation charge for the current and future periods should be adjusted.

*NOTE: See attached Annexure A for the useful life table.*

## 7.10 IMPAIRMENT

The accounting treatment relating to impairment losses is outlined as follows in GRAP 17:

- 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 recognised as an expense immediately.
- 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.

(a) The following may be indicators that an item of PPE has become impaired:

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



## ANNEXURE A: FIXED ASSET LIVES

### 1. INFRASTRUCTURE ASSET

The following is the list of infrastructure assets, with the estimated useful life in years indicated in brackets in each case.

#### \* **Roads**

Motorways	(15)
Other roads	(10)
Traffic islands	(10)
Traffic lights	(20)
Street lights	(25)
Overhead bridges	(30)
Stormwater drains	(20)
Bridges, subways and culverts	(30)
Car parks	(20)
Bus terminals	(20)

#### \* **Pedestrian malls**

Footways	(20)
Kerbing	(20)
Paving	(20)
<b>(Security measures)</b>	
Access control systems	(5)
Security systems	(5)
Security fencing	(3)

### 2. COMMUNITY ASSETS

The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets:

#### \* **Buildings and other assets**

Care centres	(30)
Cemeteries	(30) #
Civic theatres	(30)



Community centres	(30)
Fire stations	(30)
Game reserves and rest camps	(30)
Indoor sports	(30)
Libraries	(30)
Parks	(30)
Public conveniences and bath houses	(30)
Recreation centres	(30)
Sports and related stadiums	(30)
<b>* Recreation facilities</b>	
Bowling greens	(20)
Tennis courts	(20)
Golf courses	(20)
Jukskei pitches	(20)
Outdoor sports facilities	(20)
Organs (pipe organs that are fixtures in a municipal hall or other centre)	(20)
Fountains	(20)
Flood lighting	(20)

# Sum-of-units method of depreciation may be preferred.

### 3. HERITAGE ASSETS

The following is a list of at least some typical heritage assets encountered in the municipal environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

- Museum exhibits
- Works of art (which will include paintings and sculptures)
- Public statues
- Historical buildings or other historical structures (such as war memorials)
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

### 4. INVESTMENT ASSETS

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality. However, the following will be among the most frequently encountered:

- Office parks (which have been developed by the municipality itself or jointly between the



municipality and one or more other parties)	(30)
- Shopping centres (again developed along similar lines)	(30)
- Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit)	(30)

## 5. OTHER ASSETS

The following is a list of other assets, again showing the estimated useful life in years in brackets:

### \* Buildings

Caravan parks	(30)
Compacting stations	(30)
Hostels used to accommodate the public or tourists	(30)
Hostels for municipal employees	(30)
Housing schemes	(30)
Kilns	(30)
Laboratories	(30)
Fresh produce and other markets	(30)
Nurseries	(30)
Office buildings	(30)
Old age homes	(30)
Quarries	(30) #
Tip sites	(30) #
Training centres	(30)
Transport facilities	(30)
Workshops and depots	(30)

### \* Office equipment

Computer hardware	(5)
Computer software	(3-5)
Office machines	(3-5)
Air conditioners	(5-7)

### \* Furniture and fittings

Chairs	(7-10)
Tables and desks	(7-10)
Cabinets and cupboards	(7-10)



**\* Emergency equipment**

Fire hoses	(5)
Other fire-fighting equipment	(15)
Emergency lights	(5)

**\* Motor vehicles**

Ambulances	(5-10)
Fire engines	(20)
Buses	(15)
Trucks and light delivery vehicles	(5-7)
Ordinary motor vehicles	(5-7)
Motor cycles	(3)

**\* Specialised Vehicles**

Refuse Truck	(7-10)
Fire Truck	(10-20)

**\* Plant and equipment**

Graders	(10-15)
Tractors	(10-15)
Mechanical horses	(10-15)
Farm equipment	(5)
Lawn mowers	(5)
Compressors	(5)
Laboratory equipment	(5)
Radio equipment	(5)
Firearms	(5)
Telecommunication equipment	(5)
Cable cars	(15)
Irrigation systems	(15)
Cremators	(15)
Lathes	(15)
Filling equipment	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(15)
Pulverising mills	(15)

**\* Other**

Christmas Lights	(3-5)
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Tents
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(3)
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# Sum-of-units may be preferred.



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## **ANNEXURE B: FIXED ASSET ACCOUNTING POLICY**

### **1. PROPERTY, PLANT AND EQUIPMENT**

#### **Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, including import duties and non-refundable taxes.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The cost of an item of property, plant and equipment shall be recognised as an asset if it is probable that future economic benefits or service potential associated with the



item will flow to the Municipality and the cost of the item can be measured reliably.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Costs incurred in using or redeploying an item are not included in the carrying amount of that item.

### **Initial Measurement**

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If the payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the item in accordance with the Standard of GRAP on Borrowing Costs.

### **Subsequent Measurement**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses in accordance with the cost model. Land is not depreciated as it is deemed to have an indefinite useful life.

Where an asset is acquired through a non-exchange transaction, its cost shall be measured at fair value as at the date of acquisition.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an item of Property, Plant and Equipment is capitalised when it meets the definition and recognition criteria of an asset.



### **Depreciation**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation charge for each period shall be recognised in the statement of financial performance unless it is included in the carrying amount of another asset. The annual depreciation rates are based on the following estimated average asset lives:

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in accordance with the Standard of GRAP on accounting policies, changes in accounting estimates and errors.

### **Derecognition**

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance.

## **2. INTANGIBLE ASSETS**

### **Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.



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"Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.
- the expenditure attributable to the intangible asset during its development can be reliably measured by the Municipality."

Intangible assets are initially recognised at cost. Where an intangible asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up

### **Subsequent Measurement**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test, and the useful life is reviewed at each reporting date, if the useful life has changed from indefinite and definite, it is treated as a change in accounting estimate in Statement of Financial Performance.

### **Amortisation**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:



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Computer software 3-5

Each item of intangible asset is amortised separately. Rights consist mainly of servitudes. Rights are not amortised as they have an indefinite useful life. A servitude right is granted to the Municipality for an indefinite period. The life of the servitude will remain in force as the Municipality exercises its rights under such servitudes. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised prospectively as a change in accounting estimate in the Statement of Financial Performance.

### **Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## **3. BIOLOGICAL ASSETS**

### **Initial Recognition**

Biological assets include fruit plantations and are initially recognised at fair value less costs to sell. Where fair value is indeterminable, biological assets are initially valued at cost.

### **Subsequent Measurement - Cost Model**

Biological assets are valued at fair value at each reporting date. Where fair value is indeterminable, biological assets are depreciated over their estimated useful lives, which are estimated as follows: -

Plantations: 30 years

## **4. INVESTMENT PROPERTY**

### **Initial Recognition**



Investment property includes property (land or a building, or part of a building, or both land or buildings held (by the owner or lessee under a finance lease) to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Investment property is recognised as an asset when it is probable that future economic benefits or service potential that are associated with the investment property will flow to the entity and the cost or fair value of the investment property can be measured reliably.

### **Measurement at Recognition**

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.

### **Subsequent Measurement - Cost Model**

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Transfers to or from, investment property shall be made when there is a change in use evidenced by commencement or ending of owner occupation, commencement of



operating lease to another party and development with a view to sale.

Investment properties (excluding land) - 15 to 30 years

### **Derecognition**

An investment property is derecognised on disposal including disposal through non-exchange transactions or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance.

## **5. HERITAGE ASSETS**

A heritage asset is defined as an asset that is held and preserved for cultural, environmental, historical, natural, scientific, technological and artistic significance for the benefit of present and future generations.

### **Initial Recognition**

A heritage asset is recognised as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the Municipality and the cost or fair value can be measured reliably.

If the Municipality holds an asset that might be regarded as a heritage asset but on initial recognition, it does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about the asset shall be disclosed in the notes to the financial statements.

The municipality uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the heritage asset on the basis of the evidence available at the time of initial recognition

### **Initial Measurement**

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An asset that has met the recognition requirement criteria for heritage assets shall be measured at its cost if such an asset has been acquired through an exchange transaction.

Where a heritage asset has been acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Costs incurred to enhance or restore the heritage asset to preserve its indefinite useful life is capitalised as part of its cost.

The cost of the heritage asset is the cash price equivalent at the recognition date. If the payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit, unless such interest is recognised in the carrying amount of the heritage asset in accordance with the standard of GRAP on Borrowing costs.

### **Subsequent Measurement - Cost Model**

Heritage assets are measured using the cost model which is cost less accumulated impairment losses subsequent to initial recognition. Heritage assets are not depreciated due its nature, however the municipality assess at each reporting date whether there are indications of impairment and, if any, impairment exists, the Municipality estimates the recoverable amount or recoverable service amount of the heritage asset.

Transfers from heritage assets is made when a particular asset no longer meets the definition of a heritage asset and transfers to heritage assets is made when the asset meets the definition of a heritage asset.

### **Derecognition**

The carrying amount of a heritage asset is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.



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The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in the Statement of Financial Performance when the heritage asset is derecognised.

## 6. NON-CURRENT ASSETS HELD FOR SALE

### **Initial Recognition**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Properties assets are identified as held for sale following a Council resolution to dispose off such properties that are no longer required for municipal purposes and the sale should be expected to qualify for recognition as a complete sale within one year from the date of classification. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### **Subsequent Measurement**

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

## 7. INVENTORIES

### **Initial Recognition**

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in



bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

### **Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Unsold properties are valued at the lower of cost and net realisable value on a specific identification cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

In general, the basis of allocating cost to inventory items is the first-in, first-out method OR the weighted average method.