



The Msunduzi Municipality

ASSET MANAGEMENT IMPLEMENTATION GUIDELINE



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TABLE OF CONTENTS

Glossary.....	vi
Definitions.....	viii
1 Introduction	1
2 Legislative Framework	2
3 Institutional Arrangement	4
4 Roles and Responsibilities.....	4
4.1 Asset Management Control Unit	4
4.2 Project Management Unit	5
4.3 Supply Chain Management Unit	5
4.4 Human Resources Office.....	6
4.5 All Business Units	6
5 Pre-Acquisition Planning.....	8
5.1 Approval to Acquire Property Plant and Equipment	8
5.2 New Capital Projects.....	9
5.2.1 Procedures and Rules.....	9
5.3 Recording Capital Projects on the FAR.....	9
5.3.1 Procedures and Rules.....	9
5.3.2 Capitalisation of Assets	10
6 Funding Sources	13
6.1 External Loans	13
6.2 Grants, Subsidies and Public Contributions	13
6.3 Capital Replacement Reserves.....	14
6.4 External Loans	15
7 Asset Classification	16
7.1 Procedures and Rules.....	17
Capitalisation of Assets.....	19
7.2 Capitalisation of Assets	19
7.3 Creation of New Infrastructure Assets.....	19
7.3.1 Procedures and Rules.....	19
7.4 Self-Constructed Assets	20
7.4.1 Procedures and Rules.....	20

7.5	Donated Assets	21
7.5.1	Procedures and Rules.....	21
8	Recognition of Assets.....	22
8.1	Identification of Capital Assets	22
8.1.1	Procedures and Rules.....	22
8.1.2	Movable Asset Barcoding Allocation	22
8.2	Recognition of PPE	23
8.2.1	Initial Recognition of PPE	23
8.2.2	Initial Measurement of PPE	24
8.2.3	Updating Procedures	25
8.2.4	Subsequent Expenses on PPE	25
8.2.5	Enhancement (Upgrades)/ Rehabilitation	26
8.2.6	Maintenance/ Refurbishment.....	27
8.2.7	Revaluation of PPE	27
8.3	Recognition of Heritage Assets	27
8.3.1	Measurement of Heritage Assets	28
8.4	Recognition of Investment Property.....	28
8.4.1	Initial Measurement of Investment Property	28
8.4.2	Subsequent Measurement of Investment Property	29
8.5	Recognition of Leased Assets.....	30
8.5.1	Initial Measurement of Leased Assets	30
8.6	Recognition of Intangible Assets.....	30
8.6.1	Initial Measurement of Intangible Assets	30
9	The Fixed Asset register	31
9.1	Format of the FAR	31
9.1.1	Procedures and Rules.....	32
9.2	FAR Asset Categories	33
9.2.1	Immovable Assets:	33
9.2.2	Movable Assets:	33
9.3	Updating the FAR	34
9.3.1	Procedures and Rules.....	34

10	Useful Lives of Assets.....	35
10.1	Useful Life of Assets.....	35
10.1.1	Procedures and Rules.....	35
10.2	Revised Useful Life.....	35
10.2.1	Procedures and Rules.....	35
11	Residual Values.....	37
11.1.1	Procedures and Rules.....	37
12	Depreciation / Amortisation of Assets.....	38
12.1	Depreciation Method of business unit.....	38
12.2	Offset of Depreciation.....	38
12.2.1	Assets Financed by the Grants Reserve.....	38
12.2.2	Procedures and Rules.....	39
12.3	Depreciation Calculation.....	39
12.3.1	Tangible Assets.....	39
12.3.2	Intangible Assets - Amortisation period and amortisation method of business unit... 40	
12.4	Alternative Method of business units of Depreciation in Specific Instances.....	40
12.5	Disclosure Requirements.....	41
13	Impairment.....	43
13.1	Impairment of Tangible and Intangible Assets.....	43
13.1.1	External Impairment Indicators.....	43
13.1.2	Internal Impairment Indicators.....	44
13.1.3	Procedures and Rules.....	44
13.2	Disclosure of Impairment Losses.....	45
13.3	Reversal of an Impairment Loss.....	46
14	Transfer and Disposal of Assets.....	47
14.1	Disposal.....	47
14.1.1	Procedures and Rules.....	47
14.2	Transfers of Investment Property.....	48
14.2.1	Procedures and Rules.....	48
14.3	Disposal or Permanent Withdrawal from use of Investment Property.....	49
14.3.1	Procedures and Rules.....	49
14.3.2	Disclosure.....	49

14.4	Transfer of PPE.....	50
14.4.1	Procedures and Rules.....	52
14.5	Disposal of PPE.....	52
14.5.1	Procedures and Rules.....	52
14.6	Land Disposals.....	54
14.6.1	Procedures and Rules.....	54
14.7	Exchange of Assets.....	56
14.7.1	Procedures and Rules.....	56
14.8	Movement of Assets	56
14.8.1	Procedures and Rules.....	56
14.8.2	tracking of assets movements	56
14.9	Updating the Asset Management System	57
14.9.1	Procedures and Rules.....	57
14.10	Depreciation on disposal.....	57
14.11	Disposal Committee	57
14.12	Writing-off of Assets	59
14.12.1	Procedures and Rules.....	59
14.13	Disclosure.....	59
15	Updating Fixed Asset register	61
15.1	Unbundling of Components.....	61
15.2	Asset Verification	61
15.2.1	Verification of Movable Assets	61
15.2.2	Verification of Fixed Assets.....	62
15.3	Review of Asset Conditions.....	62
15.3.1	Delphi Group Sessions	62
15.3.2	Conditional Assessments	63
15.4	Review of RUL	63
16	Maintenance of Assets.....	64
16.1	Maintenance of Assets in the Asset Register.....	64
16.1.1	Procedures and Rules.....	64
16.2	Renewal of Assets	65

16.2.1	Procedures and Rules.....	65
16.3	Replacement of Assets.....	65
16.3.1	Procedures and Rules.....	65
16.4	Maintenance Plans.....	66
16.5	Deferred Maintenance Plans	66
16.6	General Maintenance	67
17	Asset Risk Management.....	68
17.1	Insurance.....	68
17.2	Other Risk Reducing Method of business units	68
18	General Procedures	69
18.1	Tagging.....	69
18.2	Physical Inventory of all Movable Assets.....	69
18.3	Acquisition	70
18.4	Receiving.....	71
18.5	Asset Management Responsibilities	71
18.6	Additions / Improvements.....	72
18.7	Termination of Employee’s Service	72
18.8	Safeguarding and protection of assets	72
18.9	Transfer of Assets.....	73
18.10	Reconciliation.....	73
18.11	Derecognition.....	73
18.12	Sale of Land and Buildings	73
18.13	Issues not covered	74
19	Amendments to the Asset Management Implementation Guide	75
	Annexure A – Best Practice Guidelines.....	76
	Annexure B – Expected Useful Lives.....	135
	Annexure C – Impairment Questions and Values	140
	Annexure D – Capital Works Project Form	145
	Annexure E – Purchase of Asset Form	146
	Annexure F – Request for all Risk Insurance Cover for New Assets Purchased.....	148
	Annexure G – Asset Movement and Transfer Form	149
	Annexure H – Asset Disposal/ Transfer Form	150
	Annexure I – Asset Retirement Disposal Checklist	152

Glossary

AFS	Annual Financial statements
AP	Accounting Procedure. This is a procedure which is executed to ensure that reliable information is recorded in the annual financial statements.
AR	Asset Register
ASB	Accounting Standards Board
ASB	Accounting Standards Board.
BUIL	Business Unit Inventory Listing
CDF	Capital Development Fund
CFO	Chief Financial Officer
CFO	Chief Financial Officer
CLF	Consolidated Loans Fund
COA	Chart of accounts
COID	Compensation for Occupational Injuries and Diseases
CR	Capitalisation Reserve
CRC	Current Replacement Cost
CRR	Capital replacement reserve
DCM	Deputy City Manager
DRC	Depreciated Replacement Cost
EFF	External Financing Fund
EUL	Expected Useful Life
FAR	Fixed Asset Register
FCP	Financial Control Procedure. This is a procedure that is executed to ensure that financial control takes place within the municipality
FMBPR	Financial Management Best Practice Requirement. This is the accounting standard, finance legislation or accounting control best practice requirement that the municipality is expected to comply with
FSOP	Finance Standard Operating Procedure
FSOP Type	Type of Finance Standard Operating Procedure
FSOPM	Finance Standard Operating Procedures Manual
GAAP	Generally Accepted Accounting Practice. SA GAAP is the set of accounting standards that is followed by private sector entities in SA for the preparation of AFS
GAMAP	Generally Accepted Municipal Accounting Practice
GL	General Ledger
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards. These standards are the guidelines that are followed by private sector entities for the preparation of AFS.
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards.
IIR	Insignificant Items Register
IPSAS	International Public Sector Accounting Standards. The IPSAS are the public sector equivalent of the IAS and are regarded as being internationally accepted accounting best practice for public sector entities.

LCP	Legislation compliance procedure. This is a procedure that is executed to ensure that the municipality adheres to all legislation relevant to municipalities.
MFMA	Municipal Finance Management Act
CM	City Manager
MSA	Municipal Systems Act
NT	National Treasury
PPE	Property, plant and equipment
RUL	Remaining Useful Life
SCM	Supply Chain Management
WIP	Work in Progress

Definitions

ITEM	DESCRIPTION
Asset	An asset is a resource, tangible or intangible, controlled by the municipality/entity which is expected to last more for than twelve months and from which future economic benefits or service potential will flow.
Asset management	Management of the assets of the municipality as required by municipal legislation which inter alia includes the compilation of a fixed asset register
Accounting Standards Board (ASB)	Accounting Standards Board 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.
Carrying Amount	The amount at which an asset is included in the statement or financial position after deducting any accumulated depreciation and any impairment losses thereon
Cash-generating assets	Assets held with the primary objective of generating a commercial return.
Cash-generating unit	The smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
Chief Financial Officer (CFO)	Chief Financial Officer or the official acting in that capacity
Commencement of the lease term (Msunduzi as the lessee)	The date from which the municipality is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction
Depreciation	This is the systematic allocation of the depreciable amount of an asset over its useful life
Depreciable amount	The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value

ITEM	DESCRIPTION
Disposal Committee	A committee establish in accordance with the provisions of Section 4 of Msunduzi Municipality's Supply Chain Management Policy.
Fair Value	The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction
Fair Value less costs to sell	The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
FAR	Fixed Assets Register preferably in computerized format and maintained strictly in accordance with this document, which shall reflect all the assets of the municipality.
Finance Lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
Impairment	An asset is impaired when the carrying amount exceeds its recoverable amount
Lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
Lease Term	The non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset with or without any further payments, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.
Non-Cash-generating assets	Assets other than cash-generating assets.
PPE	<p>Property, Plant & Equipment – These are tangible assets that:</p> <ul style="list-style-type: none"> • are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and • are expected to be used during more than one reporting period

ITEM	DESCRIPTION
Recoverable amount	The estimated amount that the municipality 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.
Residual Value	The estimated amount which the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
Recoverable service amount	The higher of a non-cash-generating asset's fair value less costs to sell and its value in use.
Useful Life	<p>Useful life is either:</p> <ul style="list-style-type: none"> • the period over which an asset is expected to be available for use by the municipality, or • the number of production or similar units expected to be obtained from the asset by the municipality.
Recognition	Recognition is the process by which expenditure is included in the Financial Asset Register as an asset or attractive item.
Replacement Value	Replacement Value is the amount which is needed in current terms to replace an asset.
Value in use	Is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.
Value in use of a non-cash-generating asset	The present value of the asset's remaining service potential.

1 INTRODUCTION

The objective of this guideline is to provide a standardised and documented approach to the implementation of the Asset Management Policy and associated asset management practices within Msunduzi Municipality. This document therefore details the actions and processes required for the effective management of all assets under the control of the municipality as prescribed by the Msunduzi Asset Management Policy, in line with the relevant legislative prescripts.

The overall objectives of this Asset Management Implementation Guide are:

- To provide direction for the management, accounting and control of Property, Plant & Equipment (PPE), investment property and associated intangible assets owned or controlled by the municipality, detailing the relevant processes and procedures to follow.
- To ensure compliance to the Msunduzi Asset Management Policy as well as all relevant legislative prescripts.

Within the context of this document an asset is identified as 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. An asset may be used over several accounting periods; hence the municipality is required to retain certain critical information about each asset that is purchased.

This Asset Management Implementation Guide does not contain policy decisions required from Council, but rather describes the responsibilities and actions of management required to comply with such policy decisions, applicable legislation (especially GRAP standards) and best practices.

2 LEGISLATIVE FRAMEWORK

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

- Providing democratic and accountable government for local communities,
- Ensuring the provision of services to communities in a sustainable manner,
- Promoting social and economic development,
- Promoting a safe and healthy environment, and
- Encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its PPE is fundamental to meeting the above objectives. The Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable. Similarly, the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner.

Section 63 of the Municipal Finance Management Act Number 56 of 2003 governs Asset and Liability Management and states the following:

1. *The accounting officer of a municipality is responsible for the management of –*
 - a. *The assets of the municipality, including the safeguarding and the maintenance of those assets; and*
 - b. *The liabilities of the municipality.*
2. *The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure –*
 - a. *That the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;*
 - b. *That the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and*
 - c. *That the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed*

The Municipal Finance Management Act Number 56 of 2003 will be the legislative framework for this document whilst the Generally Recognised Accounting Practice (GRAP) will be the accounting framework

The asset management processes and practices prescribed in this Guideline Document therefore comply with all relevant legislative requirements governing asset management within South Africa, including:

- The Constitution of the Republic of South Africa, 1996,
- Municipal Structures Act, 1998,
- Municipal Systems Act, 200,
- Division of Revenue Act (enacted annually), and
- Municipal Finance Management Act, Act No. 56 of 2003.

This document also complies with the standards specified by the Accounting Standards Board. The relevant recognised accounting standards include:

- GRAP 17 on Property, Plant and Equipment,
- GRAP 16 on Investment Property,
- GRAP 13 on Leased Assets
- GRAP 103 on Heritage Assets,
- GRAP 21 on Impairment of Non-Cash Generating Assets
- GRAP 27 on Agricultural Assets,
- GRAP 31 on Intangible Assets,

As accounting officer of the city, the City Manager shall be the principal custodian of all the Municipality's assets, and shall be responsible for ensuring that the Asset Accounting Policy is scrupulously applied and adhered to.

The Asset Accounting Policy regulates the acquisition, safeguarding, maintenance of all assets and disposal of assets where the assets are no longer used to provide a minimum level of basic service as regulated in terms of section 14 of the MFMA.

This Asset Management Implementation Guide should be reviewed on an annual basis to ensure compliance with relative legislative prescripts, accommodating all amendments and updated to legislation and best practices.

3 INSTITUTIONAL ARRANGEMENT

Asset Steering Committee, comprising of GM, Infrastructure, Process Manager: Roads and Transportation, Process Manager: Electricity, CFO, Senior Manager: Assets & Liabilities, Project Manager: Land Fill Site, Manager: Project Management Unit, etc.

4 ROLES AND RESPONSIBILITIES

The responsibility for developing and implementing procedures rests with management. Every member of the organisation is responsible for ensuring compliance with the documented and approved procedures. The overall responsibility for the development and amendment of this procedure manual will lie with the Chief Financial Officer. Internal / External audit should assess compliance with these procedures and provide recommendations for their improvement.

4.1 Asset Management Control Unit

The CFO shall be responsible for the operation and management of the Asset Management Unit (AMCU). Under the guidance of the CFO, the AMCU will be responsible for the following:

- Ensuring that complete records of asset items are kept, verified and balanced regularly.
- Ensuring that all movable assets are properly tagged and accounted for.
- Ensuring that physical asset verification is performed annually to verify the assets on the asset register. The results of this verification must be reported to the City Manager and Council.
- Compiling an asset verification report, upon completion of the asset verification process, that will:
 - Reflect a complete list of all assets found during the verification;
 - Reflect whether appropriate records have been maintained reflecting what assets should have been found during verification;
 - Reflect any discrepancies between the assets found during verification and the complete record referred to above.
- Ensuring that the assets management system is balanced monthly with the general ledger and the financial statements in conjunction with the CFO.
- Ensuring adequate bar codes, description, name-plates etc. to facilitate asset control at all times.
- Providing the Auditor-General (AG) or his personnel, on request within the indicated reporting/response period, with the financial records relating to assets belonging to Council as recorded in the assets management system.
- Ensuring that all audit queries are resolved in a timely manner.

- Ensuring that the relevant information relating to the calculation of depreciation is obtained from the Strategic Business Units and provided to the Strategic Business Unit Finance in the prescribed format.
- Ensuring that asset acquisitions are allocated to the correct asset code.
- Ensuring that, before accepting an obsolete or damaged asset(s) or asset inventory item(s), a completed asset disposal form, countersigned by the Asset Management Unit, is presented.
- Ensuring that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from Strategic Business Units.
- Compiling a list of the items to be auctioned in accordance with the guidelines in the Supply Chain Management (SCM) Policy.
- Compiling and circulating a list of unused assets to enable other Strategic Business Units to obtain items that are of use to them.
- Ensuring that the Supply Chain Management is notified of any auctioning or disposing of written-off asset(s) or asset inventory item(s).

4.2 Project Management Unit

- Shall ensure that the Assets Control Unit receive information regarding all projects, from inception to completion.
- Shall ensure that the Assets Management unit is updated on a monthly basis regarding all progress payments effected on each contract, as per schedules supplied.
- Shall provide the Assets Management Unit with the details of all components of any infrastructure created, including values and estimated life span, on an ongoing basis as and when required.
- Shall inform the Assets Management Unit when the work in progress is completed, and supply a copy of the relevant completion certificates, As-built drawings, Bill of Quantity and Close-Out Report. .

4.3 Supply Chain Management Unit

- Ensure that invoices authorised for payment are matched to the goods received note before processing such payment.
- Shall dispose of assets in accordance with the provisions in the Supply Chain Management (SCM) Policy, MFMA and Municipal Asset Transfer Regulations.
- The Bid Adjudication / Bid Specification Committee must comply with and be constituted in accordance with the procurement SCM policy.

4.4 Human Resources Office

The Human Resources (HR) Departments of Business Units:

- Shall ensure that no monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant Department.
- Shall ensure that every asset resignation form is counter signed by the Asset Management Unit before processing the termination of service.

4.5 All Business Units

- Shall ensure that employees in their Departments adhere to the approved Asset Management Policies.
- Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in his / her Department. The Asset Management Unit 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 manager of the Department.
- Shall ensure that assets are properly maintained in accordance with their respective asset maintenance plans.
- Shall ensure that the assets and / or inventory items of the Municipality are not used for private gain.
- Shall ensure that all their movable assets as reflected on the Assets Management System are bar coded.
- Shall ensure that the Asset Management Unit is notified of any changes in the status of the assets under the Department's control.
- This must be done on the prescribed form and include the following:
 - Movements/Disposals which relate to the transfer of assets (inter Departmental transfers)
 - Changes in the estimated useful lives of assets for depreciation purposes.
 - The identification of impairment losses on assets by following the procedures as outlined in this document.
- Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
- Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Unit without delay.

- Shall be responsible for maintaining and managing their own Department Inventory Listing (DIL) for items that will not be recorded in the Fixed Asset Register These inventory assets are acquired via the operational budget. The information to be recorded in the DIL must include the description, quantity and location of the items.
- Shall ensure that the correct cost element and description are being used before authorising any requisitions.
- Shall not put any asset to use until the asset number is allocated, and will ensure that assets are bar-coded by the Assets Management Unit and insured by Finance (Insurance Department).

5 PRE-ACQUISITION PLANNING

Acquisition of assets refers to the purchase of assets by buying, building (construction) or leasing.

The CFO shall ensure that the Supply Chain Management (SCM) Policy makes provision for principles prescribing the acquisition of assets. The CFO shall furthermore ensure that all acquired assets are appropriately insured.

Before a capital project is included in the draft municipal budget for approval, the relevant Business Units must prove that they have considered:

- The projected acquisition and implementation cost over all the financial years until the project is operational,
- The future operational costs and revenue on the project, including tax and tariff implications
- The financial sustainability of the project over its economic life span including revenue generation and subsidization requirements,
- The physical and financial stewardship of the asset through all stages in its life span including acquisition, installation, maintenance, operations, disposal and rehabilitation, and
- The inclusion of the capital project in the Integrated Development Plans and future budgets.

The Chief Financial Officer is accountable to ensure that the relevant responsible persons receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

5.1 Approval to Acquire Property Plant and Equipment

Funds can only be invested with a capital project if:

- They have been appropriated in the capital budget,
- The project, together with the total project cost, has been approved by the Council;
- The Chief Financial Officer confirms that funding is available for that specific project, and
- Any contract that will impose financial obligations more than two years beyond the budget year is appropriately disclosed.

All PPE acquired shall be recorded at cost on the date of acquisition in the FAR. An item of PPE can also be initially recognised at its fair value, if it is acquired at no or nominal measurable cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

5.2 New Capital Projects

5.2.1 Procedures and Rules

- Capital Works Project Form must be completed for all projects by the Department responsible for the Capital Project (Refer to Annexure D)
- The Capital Works project form must be signed by the responsible official in the Department as proof that the new project has been authorised.
- The authorised capital works project form must be forwarded to the AMU.
- The assets controller must review the form to ensure that the details are correct and that the form has been duly authorised.
- If the assets controller is satisfied that the form has been correctly completed and authorised, the asset controller must create the asset on the assets management system.
- The asset number should be recorded on the form and the form should be signed and dated by the asset controller.
- The capital works project form with asset number recorded thereon should be filed sequentially by the AMU and a copy should be forwarded to the Department requesting the creation of the new project.
- The Accountant: Asset Management must maintain a register of all approved purchase orders together with a file containing copies of the purchase orders.
- The Accountant: Asset Management should review the purchase order register on a regular basis to ensure that long outstanding purchase orders are investigated and followed up on with the Procurement department.
- The Senior Accountant: Asset Management must review the pending file of Purchase Orders (PO) on a weekly basis to ensure that long outstanding orders are followed up on.

5.3 Recording Capital Projects on the FAR

5.3.1 Procedures and Rules

- On a monthly basis the Asset Management unit in consultation with the Project management unit must create an Excel spreadsheet detailing all new capital projects created for the month.
- The Project Management Unit sends a SDBIP report for the preparation of the new capital projects spreadsheet by the AMU.
- The spreadsheet detailing new capital projects must contain the following:
 - Asset description and class,
 - Budgeted cost of asset,
 - Cost incurred on the project,
 - Asset number,

- Vote /WBS number,
 - Serial number / Registration number / Title deed number,
 - Project start date,
 - Project end date,
 - Project details, and
 - Comments.
- The spreadsheet must be sent electronically to the AMU requesting them to update the Assets Management System with the new capital project.
 - On completion of the monthly updates to the Assets Management System, the Asset Management Unit must send a report to the Expenditure Control Office, listing all capital projects under construction (WIP).
 - On completion of the monthly updates to the Project Progress Schedules the Project Management Unit must send a report to the Expenditure Control Office, detailing all capital expenditure in respect of capital projects that need to be updated to the Assets Management System. The report must which include the following minimum information:
 - Asset number,
 - Description of additions (components),
 - Date of additions,
 - Amount of expenditure (excluding claimable VAT),
 - Estimated remaining life of asset, and
 - Serial numbers (if any).
 - The Expenditure Control Office must review the report of new projects from the Project Management Unit and agree the details to the Excel spreadsheets and actual expenditure recorded in the financial system. Any discrepancies must be timeously followed up and resolved.
 - The Expenditure Control Office must then forward the capital expenditure details to the Asset Management Unit on a monthly basis for updating in the Assets Management System.

5.3.2 Capitalisation of Assets

Assets will only be capitalised in the asset register on completion or finalization of the project.

Projects to be completed over more than one financial year will be initially disclosed in the asset register and financial statements as work in progress (WIP) thereafter only on completion the asset will be capitalised and depreciated.

- All relevant spatial information must be provided in electronic format (cad, pdf, dwg or shp) for capital projects that have been completed.

- The PMU must send a copy of the Completion Certificate for each project to the Asset Management Unit, when issued, for capitalisation of the asset at the date it is brought into use, and calculation of depreciation, and costing to the relevant Business Unit.
- The Bill of Quantities must be provided to facilitate componentisation of the assets.

Figure 1 below depicts a high level overview of the asset acquisition process.

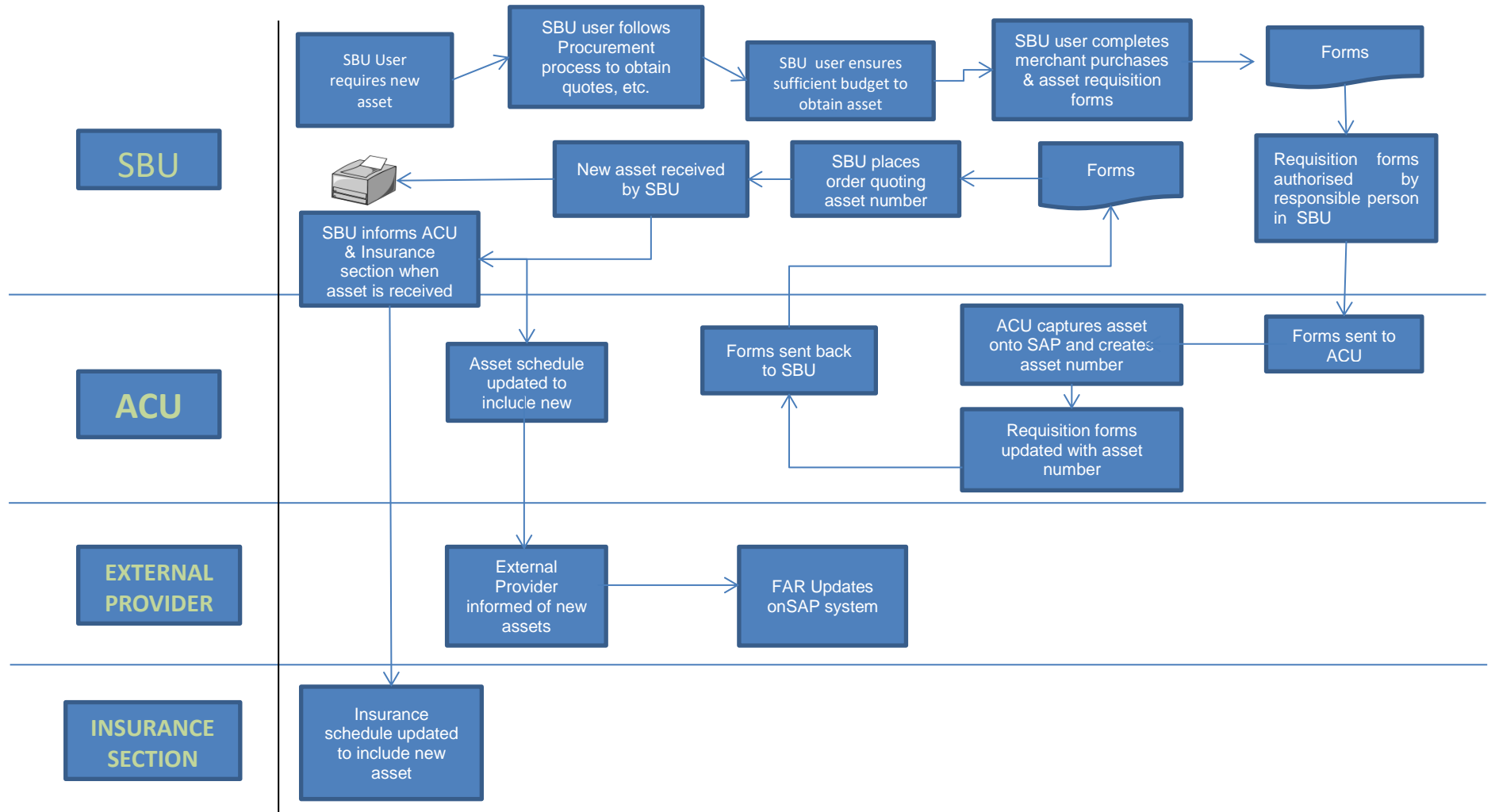


Figure 1 Asset Acquisition Process

6 FUNDING SOURCES

The main sources of finance utilised to acquire assets are:

1. External Loans
2. Grants, Subsidies and Public Contributions
3. Revenue Contributions
4. Capital Replacement Reserve

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of Section 19 of the Municipal Finance Management Act.

There will be a departure from GRAP 1.144 regarding Capital Reserves, in accordance with GRAP 1.22 and 1.23, read with GRAP 3.07, as the inclusion of capital receipts applied for the purchase of Property, Plant and Equipment in the Accumulated surplus will lead to a misinterpretation by users, particularly Council and Ratepayers/Consumers. These Reserves will be disclosed in accordance with GRAP 1.86.

6.1 External Loans

Major expenditure on PPE, especially Infrastructure and major items of Plant, can be financed from external financing sources, if the municipality complies to the requirements of the MFMA in this regard. Costing of this source of finance must include finance costs and depreciation against the Statement of Financial Performance over the period of financing. The period of financing should ideally be aligned to the estimated lifespan of the assets thus financed, but should never exceed such.

6.2 Grants, Subsidies and Public Contributions

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/ (deficit) to the Grants Reserve equal to the Grant recorded as revenue in the Statement of Financial Performance. When such items of property, plant and equipment are depreciated, a transfer is made from the Reserve to the accumulated surplus/ (deficit). The purpose of this procedure is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from Grants.

Unspent conditional grants are reflected on the Statement of Financial Position under current liabilities as Unspent Conditional Grants. These funds always have to be backed by cash. The following conditions are set for the creation and utilisation of these funds:

- The cash which backs up the grant is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If the conditions are silent on investment interest it is recognised as interest earned in the Statement of Financial Performance and might be allocated, in part or fully, to the unspent portion of the grant if it is so stated in the accounting policy.
- Whenever an asset is acquired from a conditional government grant an amount equal to the cost of the asset is transferred from the Unspent grant creditor to the Statement of Financial Performance as revenue. Thereafter an equal amount is transferred to the Grant Reserve. This account must have equal book value of assets purchased from conditional government grants and is utilised to offset depreciation charged on assets purchased out of conditional government grants.

When an asset, previously financed by a conditional government grant, is disposed of with a balance left on the Grants Reserve account such a balance must be transferred to the Accumulated Surplus account.

6.3 Capital Replacement Reserves

The CRR is an asset financing source that represents an alternative to the other funding sources available to the municipality namely external loans (interest bearing borrowings) and government grants & subsidies. It is a GRAP requirement that the balance on the CRR must always be represented by cash, which must be held in a separate identifiable investment account.

Subsequent to the implementation of GRAP in 2008, Reserves and Funds had to be discontinued as they are not permissible in terms of GRAP. However, the National Treasury determined that the CRR is one of the few funds and reserves that are allowed. Therefore, it is a requirement that since fund accounting is not allowed in terms of GRAP, for disclosure in the Annual Financial Statements, CRR should form part of Accumulated Surplus and should not be disclosed on the face of the Statement of Financial Position.

As a matter of principle, the focus is the manner in which these reserves are created and accounted for, which in this instance the capital replacement of major components of Infrastructure Assets in the event of technical failure. For accounting purposes, the CRR will be created by transferring amounts out of Accumulated surpluses/deficits to the respective reserve account, or vice versa, in the Statement of Changes in Net Assets. The net effect of these transfers will be nil in the Statement of Changes in Net Assets, and will not affect the value of reserves in totality. It is the requirement of GRAP that no transactions should be accounted for, directly to the Statement of Changes in Net Assets other than those specifically allowed in terms of GRAP, i.e. Revaluation Surplus Reserve. Therefore situations should be avoided where reserves are created and accounted for, by taking amounts

directly to the Statement of Changes in Net Assets thereby circumventing the Statement of Financial Performance.

The municipality should determine a policy on the revenue sources that will be used to maintain or increase the balance of the CRR. These revenue sources may include, but not limited to, the following:

- Interest earned by the municipality on the CRR investment account;
- Cash proceeds from the sale of any item of PPE or Investment Property;
- Percentage of amount that was utilised in the previous financial year for the purchase of items of PPE;
- VAT input recovered from SARS.

The CRR will only be utilised for the purpose of purchasing items of property, plant and equipment for the municipality and will not be used for the maintenance of such items.

6.4 External Loans

Major expenditure on PPE, especially Infrastructure and major items of Plant, can be financed from external financing sources, if the municipality complies to the requirements of the MFMA in this regard. Costing of this source of finance must include finance costs and depreciation against the Statement of Financial Performance over the period of financing. The period of financing should ideally be aligned to the estimated lifespan of the assets thus financed, but should never exceed such.

7 ASSET CLASSIFICATION

In compliance with National Treasury as well as GRAP regulations, the CFO shall ensure that all assets are classified under the following asset categories.

Assets will be classified in to the following asset types in accordance with the relevant definitions detailed in the Asset Management Policy.:

1. Property Plant and Equipment (GRAP 17)
 - Land and Buildings (land and buildings not held as investment and not attached to infrastructure, community, leased or heritage assets),
 - Infrastructure Assets (assets which are part of a network of similar assets, immovable assets that are used to provide basic services),
 - a) Electricity
 - b) Gas
 - c) Sewerage
 - d) Road
 - e) Pedestrian malls
 - f) Airports
 - g) Security measures
 - h) Water
 - i) Buildings
 - Community Assets (resources contributing to the general well-being of the community),
 - a) Buildings
 - b) Recreational facilities
 - c) Security
 - Other Assets (utilised in normal operations):
 - a) Emergency equipment
 - b) Office equipment
 - c) Furniture and fittings
 - d) Bins and containers
 - e) Motor vehicles
 - f) Aircraft
 - g) Watercraft

- h) Plant and equipment
- 2. Leased Assets (assets held in terms of finance leases) (GRAP 13),
- 3. Heritage Assets (culturally significant resources) (GRAP 103),
- 4. Intangible Assets (GRAP 31),
- 5. Investment Property (GRAP 16), and
- 6. Agricultural Assets (GRAP 27).

7.1 Procedures and Rules

- The CFO shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.
- The CFO shall inform the Business Units of the classification requirements.
- Heads of Business Units shall in writing provide the CFO with information or assistance required to compile a proper classification of all assets.
- The CFO shall adhere to the classifications indicated in the annexure on useful life of assets (as per Annexure B), 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.

Definitions of the above mentioned Capital Asset categories are detailed in the Asset Management Policy for Msunduzi Municipality.

The following asset decision tree, illustrated in Figure 2 shall be applied when determining the relevant asset types.

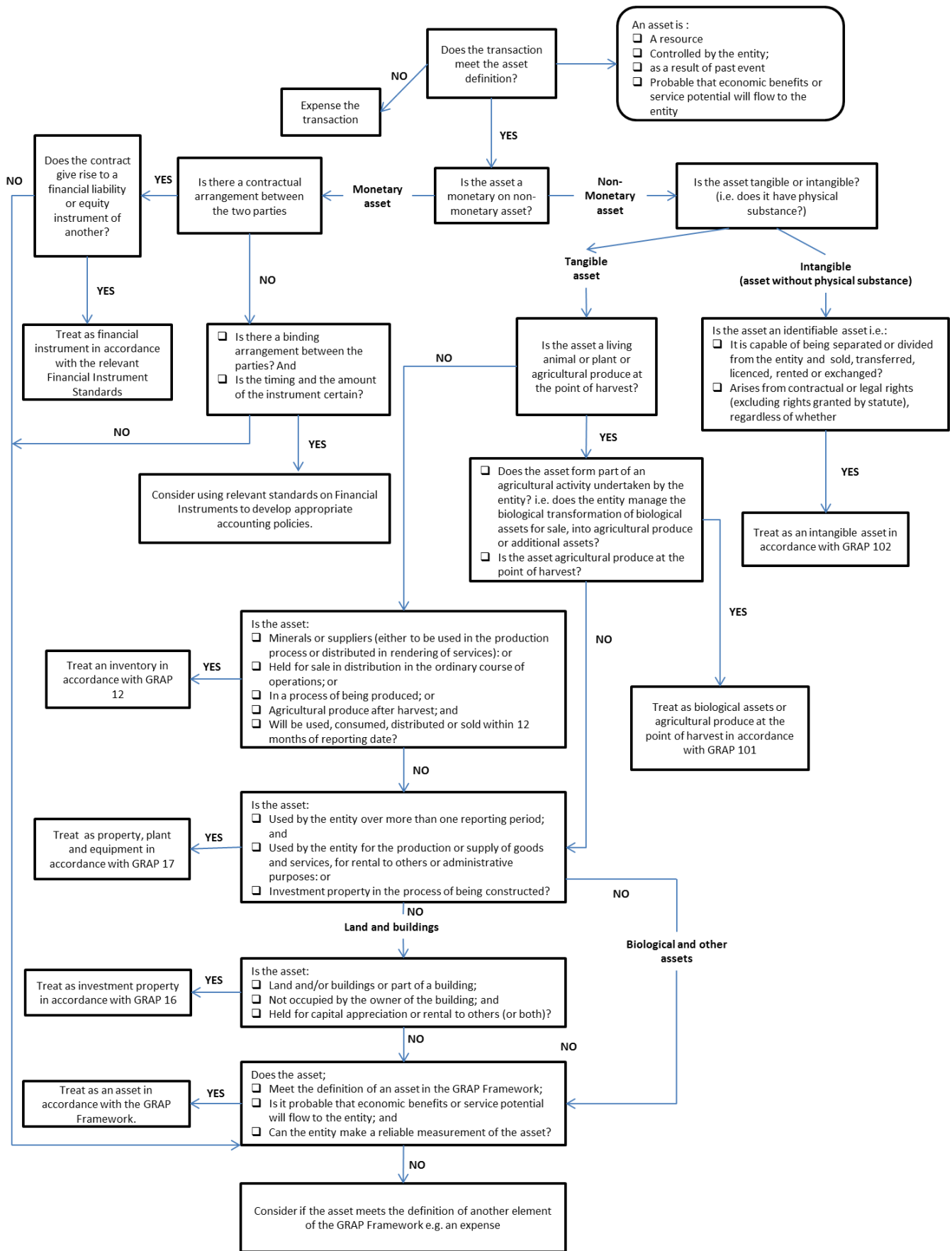


Figure 2 Asset Decision Tree

7.2 Capitalisation of Assets

All PPE that comply with the definition of an asset and role of asset as per Msunduzi Asset Management Policy, in accordance with GRAP 17 standards, must be capitalised in the FAR inclusive of non – claimable vat.

ALL PPE that meets the prescribed definitions will therefore be accounted for in accordance with GRAP 17 standards.

Assets will only be capitalised in the FAR on completion or finalisation of the project. Projects to be completed over more than one financial year will be initially disclosed in the FAR and financial statements as “Work in Progress” (WIP). Only on completion will the asset be capitalised and depreciated.

7.3 Creation of New Infrastructure Assets

Creation of new infrastructure assets refers to the purchase, construction and/or donation of totally new assets that has not been in the control or ownership of the municipality in the past.

All items of PPE acquired that comply with the relevant asset definition must be capitalised in the FAR at cost and be provided for on the capital budget.

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.

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

7.3.1 Procedures and Rules

- The Heads of Business Units shall ensure that relevant documentation, detailing all necessary information pertaining to the new asset, is completed and submitted to the Asset Management Unit. The form is to include all relevant details of the work in progress.
- The Heads of Business Units shall notify the Asset Management Unit when the works have been completed and the assets can be recognised and capitalised accordingly.
- The Heads of Business Units shall guide service providers to submit invoices of work in progress as per the classification of assets and components in the FAR so as to facilitate the apportioning of project cost to all constituent assets and components.

- The cost of an item of PPE shall be recognized as an asset if, and only if:
 - It is probable that future economic benefits or services potential associated with the item will flow to the entity and
 - The cost of fair value of the item can be measured reliably.
- The Asset Manager, in consultation with the Business Units, must ensure that assets are capitalised and recorded in the FAR as soon as it is acquired/ completed.
- Assets constructed over more than one financial year must be recorded as WIP until it has been completed and available for use, where after it shall be appropriately capitalised as an asset.
- In addition to the classification of assets into PPE the Asset Manager will furthermore be responsible for annually presenting all PPE information by:
 - Class of PPE,
 - Funding Source, and
 - Responsible Business Unit.

Refer to Annexure A for Best Practice Requirements

7.4 Self-Constructed Assets

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the FAR and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the FAR (as per section 5.3.1 and 7.3.1) until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

7.4.1 Procedures and Rules

- Heads of Business Units shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.
- Heads of Business Units shall open a job card for each infrastructure project constructed by the municipality.
- On completion of the infrastructure project, the Heads of Business Units shall ensure that all costs (both direct and indirect) associated with the construction of the assets be summed and be capitalised to the assets that make up the project.

- Infrastructure assets constructed will be componentised based on the information contained in the following documents:
 - Completion Certificates,
 - Completion Reports,
 - As-Built drawings, and
 - Final adjusted Bill of Quantities.
- The Heads of Business Units shall guide service providers to submit invoices of work in progress as per the classification of assets and components in the AR so as to facilitate the apportioning of project cost to all constituent assets and components.

7.5 Donated Assets

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

Donated assets should be measured at fair value, reflected in the asset register, and depreciated as normal assets.

7.5.1 Procedures and Rules

- The CFO must be informed of any donation to the municipality
- Donated assets must initially be measured at its fair value, at the date of acquisition, and included on the AR.
- Where the value of the asset is known, such value shall be included in the register in line with recognition criteria.
- It shall be the responsibility of the Heads of Business Units to notify the CFO of such assets for capitalisation purposes.

8 RECOGNITION OF ASSETS

When accounting for Capital Assets, the municipality must follow the various standards of GRAP relating to Capital Assets. An item will be recognised as a Capital Asset if it satisfies the definition as well as the criteria for recognition of assets.

The municipality therefore needs to first establish whether the item meets the definition of an asset. If the item satisfies the definition of an asset, the nature of the asset should be determined, and thereafter the recognition criterion must be applied.

8.1 Identification of Capital Assets

An asset identification system is to be used as an effective method of business unit to uniquely identify each municipal asset in order to ensure that each asset can be accounted for on an individual basis. The asset identification system must be operated and applied in conjunction with the FAR.

As far as practicable, every individual asset shall have a unique identification. Movable assets will be identified using a barcode system and immovable assets will be identified using a unique numbering convention.

8.1.1 Procedures and Rules

- Immovable assets will be identified by means of a unique asset identification code in addition to an accurate asset description and physical location information to be recorded on the AR. The components of immovable assets will carry the description of the parent asset as well as its own unique component identification code to be recorded on the FAR.
- The naming and numbering conventions applied to immovable assets must enable easy location of the asset in the field.
- Movable assets will be identified using a barcoding system, attaching a barcode to each item and recording the corresponding barcode on the AR.
- Heads of Business Units shall ensure that all the assets under their control are correctly identified.

8.1.2 Movable Asset Barcoding Allocation

Department procuring the asset is required to complete a Purchase of Asset form (Refer to Annexure E). The Purchase of Asset forms must include following information and all relevant supporting documentation must be attached:

- Requisition
- Approved quotation
- Type-1 Pro Forma
- Award letter

The AMU is responsible for verifying that all necessary information is supplied with signatures, cost-centres and budgets (must be available)

If budgets are not provided the “Purchase of Asset” form will not be processed and will be returned to the relevant Business Unit.

If all the necessary information has been provided the purchase of asset will be processed and a barcode allocated. All barcodes are registered via SAP.

A copy needs to be provided to the AMU and the Business Units will be responsible for submitting the documents to SCM to process the official order.

8.2 Recognition of PPE

All fixed assets that satisfy the definition PPE, as detailed in the Asset Management Policy, must be capitalised in the FAR inclusive of non – claimable vat.

First step of the recognition process is to determine if the item meets the definition of an asset.

8.2.1 Initial Recognition of PPE

The initial recognition criteria are illustrated by Figure 3 below.

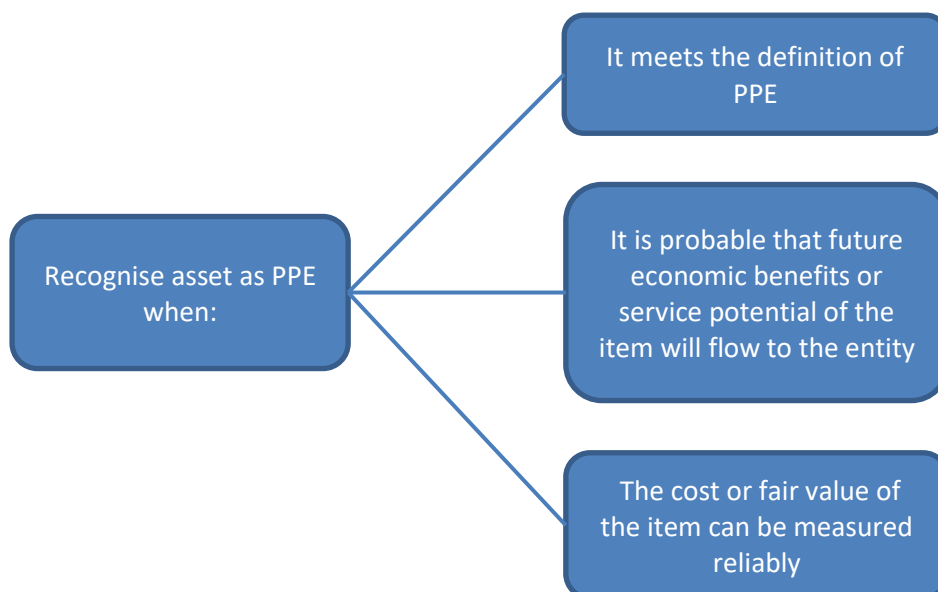


Figure 3 Initial Recognition Criteria

8.2.2 Initial Measurement of PPE

An item of PPE that qualifies for recognition as an asset should initially be measured at its cost at the date of acquisition. An item of PPE can also be initially recognised at its fair value, at the date of acquisition, if it is acquired at no or nominal measurable cost (Donations).

Where there is insufficient supporting documentation to verify or confirm the actual costs, the deemed cost method of business unit shall apply. Assets obtained at no cost or nominal cost should be measured at fair value on the date of acquisition.

Spare parts and servicing equipment are usually carried as inventory in terms of the Standard of GRAP on Inventories and recognised in surplus or deficit as consumed. Major spare parts and stand-by equipment will however qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the 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.

The cost of an item of PPE comprises its purchase price and any other directly attributable costs of bringing the asset to the location and condition necessary for its intended use. The cost of PPE includes:

- Import duties and non-refundable purchase taxes,
- Any trade discounts and rebates, and
- The initial estimates of the costs of dismantling and removing an item and restoring the site on which an item is located.

Directly attributable costs include:

- Employee costs as defined in GRAP 25 on Employee Benefits,
- Those costs that arises as a result of direct involvement in the construction or acquisition of the item of PPE,
- Costs to prepare the site where PPE will be located,
- Initial delivery and installation cost;
- Costs of testing the asset, and
- Professional fees.

8.2.2.1 Rules and Procedures

- The Head of every Business Unit shall ensure that all assets under their control are correctly accounted for and recognised as assets.
- Where the deemed cost method of business unit applies, the asset's fair value shall either be its market price or the amount the asset can be sold for in an arm's length transaction between two knowledgeable willing parties.
- The obligation to incur dismantling or relocation costs on PPE arises either when the entity acquires the asset, or as a result of using the asset over a certain period, except when the asset is used to produce inventory during that period. If the asset is used to produce inventory during a period, an entity applies GRAP 12 on Inventory to the cost of obligations for dismantling, removing and restoring the site on which the asset is located.

8.2.3 Updating Procedures

On receipt of the asset, the relevant Business Unit, as the custodian of the asset, will be responsible for ensuring that the Insurance section has been informed of the new purchase, and that the asset has been adequately insured. A Request for all Risk Insurance Cover for New Assets Purchased form (Refer to Annexure F) must be completed and submitted to the Insurance Section.

Once satisfied that the asset is in good condition and that all documentation is in place, the Business Unit must forward the following documentation to the Asset Management Unit:

- Copy of the official order.
- Copy of the original invoice.
- Asset Addition Form.
- Copy of Insurance Schedule.

On receipt of these details, the Asset Management Unit must update the acquisition of the asset in the Asset Management System, and if a movable item issue a bar-coded label for affixation to the asset.

8.2.4 Subsequent Expenses on PPE

PPE assets are often modified during their life. There are two main types of modification which may affect the measurement of an asset:

1. Enhancement (upgrades)/ rehabilitation, and
2. Maintenance/ refurbishment.

8.2.5 Enhancement (Upgrades)/ Rehabilitation

Enhancement/ rehabilitation refer to work carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset, and or may extend an asset's useful life and result in an increase in value.

These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances. Disbursements of this nature relating to an asset, which has already been recognised in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the entity over the remaining life of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when 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

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

- Modification of an item or plant to extend its useful life, including an increase in its capacity for service delivery.
- Upgrading machine parts to achieve a substantial improvement in the quality of output.
- Adoption of new production enabling a substantial reduction in previously assessed operating costs.
- Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift.
- Improve the performance of the asset.
- Prolong the expected working life of the asset.
- Increase the size of the asset.
- Change the shape of the asset.

The carrying amount of a replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they are incurred.

8.2.6 Maintenance/ Refurbishment

Expenditure related to maintenance or refurbishments of PPE are made to restore or maintain the future economic benefits or service potential that an entity can expect from the asset.

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

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

8.2.6.1 Procedures and Rules

- The CFO shall ensure that all PPE are correctly recorded in the AR and revaluated (if applicable) in terms of the municipality's policies.
- The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:

Capital Expenditure	Maintenance Expenditure
<ul style="list-style-type: none">• Acquiring a new asset• Replacing an existing asset• Further developing an existing asset so that its original useful life is extended	<ul style="list-style-type: none">• Restoring an asset so that it can continue to be used for its intended purpose• Maintaining an asset so that it can be used for the period for which it was initially intended. Enhancing an existing asset so that its use is expanded

8.2.7 Revaluation of PPE

Increases in the carrying amount arising on revaluation of assets are credited to a Revaluation Reserve in the Statement of Changes in Net Assets. Decreases that offset previous increases of the same asset are charged against the Revaluation Reserve directly in the Statement of Changes in Net Assets; all other decreases are charged to the Statement of Financial Performance.

8.3 Recognition of Heritage Assets

Accounting for Heritage Assets must be carried out in accordance with GRAP 103. Assets satisfying the description of Heritage Assets, detailed in the Asset Management Policy, must be capitalised in the FAR.

8.3.1 Measurement of Heritage Assets

An asset that qualifies for recognition as a Heritage Asset shall be measured at its cost, or when acquired through a non-exchange transaction (donation), its cost shall be measured at its fair value as at the date of acquisition, which will not be considered as revaluation.

Heritage Assets are considered to have an infinite life, and will not be depreciated, but will be regularly assessed for impairment.

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

When the municipality does not recognise a heritage asset, or a class of heritage assets as a result of reliable measurement not being possible on initial measurement, the municipality shall disclose the following for each heritage asset or class of heritage assets:

- A description of the heritage asset or class of heritage assets, and
- The reason why the heritage asset or class of heritage assets could not be measured.

8.4 Recognition of Investment Property

Accounting for Investment Property must be carried out in accordance with GRAP 16. Only assets satisfying the prescribe definition of Investment Property, as detailed in the Asset Management Policy, must be capitalised in the FAR.

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

8.4.1 Initial Measurement of Investment Property

Investment property that qualifies for recognition should initially be measured at its cost (including transaction costs). Where an investment property is acquired at no cost (donated assets), or for a nominal cost, its initial cost will be measured as its fair value at the date of acquisition.

The cost of a purchased investment property includes:

- Purchase price,
- Any directly attributable expenditure, such as:
 - Professional fees
 - Legal services, and
 - Property transfer taxes and other transaction costs.

The cost of a self-constructed investment property will be measured as its cost at the date when the construction or development has been complete. Until that date, the Municipality applies the GRAP

standard on accounting for PPE. At the completion date, the property will become Investment Property and GRAP 16, Standard on Investment Property will apply.

8.4.2 Subsequent Measurement of Investment Property

Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the entity. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

After initial recognition of the investment property the Municipality may choose to reflect the investment property at fair value or at cost less accumulated depreciation.

The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. After initial recognition, an entity that chooses the fair value model should measure all of its investment property at its fair value at each Statement of Financial Position date. A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises. No depreciation will be calculated on this property.

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

Figure 4 below illustrates subsequent measurement of Investment Property.

Figure 4 Subsequent Measurement for Investment Property

8.5 Recognition of Leased Assets

At the beginning of the lease term all leased assets should be recognised as an asset and the lease commitment must be recognised as a liability in the statement of financial position.

8.5.1 Initial Measurement of Leased Assets

The leased asset should be measured at lower of:

- The fair value of the leased property, or
- The present value of the future minimum lease payments.

The present value of the future minimum lease payments is discounted at the interest rate implicit in the lease, which can usually be calculated from the information provided in the contract. If it is not possible to calculate the rate implicit in the lease, then the entity uses its incremental borrowing rate (i.e. entity / government lending rate).

The initial measurement for leased assets must include the initial direct costs that the Municipality or Business Unit incurred to negotiate and arrange the lease.

8.6 Recognition of Intangible Assets

A municipality frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Intangible assets may also be transferred or donated to a municipality. Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, and the right to use water and/or land.

8.6.1 Initial Measurement of Intangible Assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method of business unit are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

9 THE FIXED ASSET REGISTER

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

The FAR consists of an inventory of all assets, each having been assigned a unique asset identification code in accordance with the asset identification system.

9.1 Format of the FAR

All relevant asset data must be recorded in the FAR. The minimum data requirements for the FAR are as follows:

- a brief but identifiable description of each asset,
- Classification of each asset,
- The date on which the asset was acquired or commissioned,
- The location of the asset,
- The Business Unit or cost centre within which the assets will be utilised,
- The Responsible Person for the asset,
- The title deed number, in the case of fixed property,
- The stand number and physical address, in the case of fixed property,
- Encumbrances or impediments upon fixed property such as servitudes, caveats, mortgages, etc.,
- Status of the fixed property (land) in terms of the municipal town planning scheme,
- Where applicable, the identification number, as determined in compliance with 7.2 below,
- The original cost or fair value if no costs is available,
- The (last) revaluation date of the fixed assets subject to revaluation,
- The re-valued value of such fixed assets,
- Accumulated depreciation to date,
- The carrying value of the asset,
- Whether this is a cash or non-cash generating asset,
- The method of business unit and rate of depreciation,
- Impairment losses,
- Impairment recovery,
- The source of financing;

- The current insurance arrangements,
- The date on which the asset is disposed of,
- The disposal price, and
- The date on which the asset is retired from active use, if not disposed of.

9.1.1 Procedures and Rules

- All Heads of Business Units under whose control any fixed asset falls must promptly provide the CFO, in writing, any information required to compile the FAR.
- All Heads of Business Units must promptly advise the CFO, in writing, of any material change which may occur in respect of information contained in the FAR.
- A fixed asset, satisfying the prescribed descriptions, must be capitalised in the FAR as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, thereafter it shall be appropriately capitalised as a fixed asset.
- A fixed asset shall remain in the FAR for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.
- Immovable assets on the asset register will not be physically numbered with barcode labels but will have a unique asset number.
- If an asset has been fully depreciated but is still being used by the Municipality, it indicates that the asset's remaining useful life (RUL) needs to be reviewed and re-estimated. This adjustment needs to take into consideration the condition of the asset. The municipality will therefore have to account for a change in estimate based on the Business Unit, using the asset's adjusted RUL and condition at the time of adjustment (This applies to assets with material values).
- Capital work-in-progress (WIP); Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is commissioned into use.

9.2 FAR Asset Categories

The FAR will contain the following types of assets categorised as immovable or movable assets (in accordance with the prescribed asset classifications):

9.2.1 Immovable Assets:

- Infrastructure assets
 - Electricity assets
 - Water networks and related assets
 - Waste water networks and related assets
 - Roads and Storm-water
- Land and Buildings
- Investment properties
- Community assets
- Heritage assets
- Intangible assets
- Agricultural assets
- Other assets

9.2.2 Movable Assets:

- Office Equipment
- Furniture and Fittings
- Bins and Containers
- Emergency Equipment
- Motor Vehicles
- Aircraft
- Watercraft
- Plant & Equipment

9.3 Updating the FAR

The FAR must be updated on a monthly basis

9.3.1 Procedures and Rules

- The Asset Management Unit will be responsible for monthly updating the FAR.
- During the month, the Acquisitions, Disposals and Movements spreadsheets must be updated with information obtained from the Asset Addition form, Asset Movement/ Transfer form (Refer to Annexure G) as well as Asset Disposal/ Transfer form (Refer to Annexure H), and the necessary transaction processing completed.
- A backup of the FAR is to be made and located on the server.
- It is the responsibility of the Asset Management Unit to carry out the necessary checks and balances with regards to the transactions processed.
- Should there be any discrepancies, the necessary follow-up queries must be administered and corrected immediately.

10 USEFUL LIVES OF ASSETS

10.1 Useful Life of Assets

The useful life (UL) or expected useful life (EUL) of assets will be assigned by to each asset type as prescribed by the MFMA guidelines.

Should the municipality decide on a UL outside the given parameters, the National Treasury, Auditor General, should be informed and provided with a motivation, for its agreement of the rate utilised. The calculation of UL is based on a particular level of planned maintenance.

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

10.1.1 Procedures and Rules

- The CFO is responsible for assigning the EUL of assets.
- The CFO shall adhere to the EUL set out in Annexure B, in accordance with MFMA guidelines.
- In the case of an asset which is not listed in Annexure B, the CFO shall determine a UL, if necessary in consultation with the of the Business Unit (who shall control or use the fixed asset in question) and shall be guided either by the UL assigned in Annexure B to the fixed asset most closely comparable to the asset in question or by the likely pattern in which the asset's economic benefits or service potential will be consumed.

10.2 Revised Useful Life

10.2.1 Procedures and Rules

- The municipality shall assess at each reporting date whether there is any indication that the municipality's expectations about the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality shall revise the expected useful life accordingly.
- In assessing whether there is any indication that the expected useful life of an asset has changed, the municipality considers the following indications:
 - a) The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.
 - b) The use of the asset has changed, because of the following:
 - 1.1 The municipality has changed the manner in which the asset is used.
 - 1.2 The municipality has changed the utilisation rate of the asset.
 - 1.3 The municipality has made a decision to dispose of the asset in a future reporting period
 - (s) such that this decision changes the expected period over which the asset will be used.

1.4 Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.

1.5 Legal or similar limits placed on the use of the asset have changed.

1.6 The asset was idle or retired from use during the reporting period.

c) The asset is approaching the end of its previously expected useful life.

d) Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.

e) Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.

f) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.

g) The asset is assessed as being impaired in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets.

- The CFO is responsible for ensuring that the RULs are revised
- The CFO must therefore Issue a memorandum to Heads of all Business Units, at year end, requesting them to ensure that they assess whether there is any indication that the useful life of an assets under their control have changed since the preceding reporting date
- The Asset Management Unit should be notified of items of PPE with RULs shorter than those reflected on the AR at the year end.
- Review of the RUL must take the condition of the asset/ component into consideration.
- The change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. IF the reviewed RULs, Following the review of RULs, are significantly different from previous estimates, the depreciation charge for the current and future periods shall be adjusted.
- The RUL is calculated using the condition based RUL calculation where the RUL is calculated according to the asset condition. RUL calculated for this method of business unit will therefore be independent of the age of the asset.

$$RUL = EUL \times \left(1 - \left(1 - \frac{CI}{100}\right)^{\frac{1}{2}}\right)$$

11 RESIDUAL VALUES.

In accordance with GRAP 17, the residual value is defined as the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. In practice the residual value of an asset is often insignificant and, therefore, is more immaterial in the calculation of the depreciable amount.

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. Assets typically not sold by the municipality are infrastructure and community assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The municipality shall assess at each reporting date whether there is any indication that the municipality's expectations about the residual value of an asset have changed since the preceding reporting date.

11.1.1 Procedures and Rules

- Heads of each Business unit must determine the reasonable residual values of the assets under their control.
- Changes in residual values must be approved by the CFO.
- The CFO is responsible for ensuring that residual values, and changes thereof, are properly recorded and accounted for in the AR and the general ledger.
- The municipality shall assess whether there is any indication that the residual values of assets have changed since the preceding reporting date and the changes shall be accounted for as changes in accounting estimates in terms of GRAP 3.
- In assessing whether there is any indication that the expected residual value of an asset has changed, the municipality shall consider whether there has been any change in the expected timing of disposal of the asset, as well as any relevant indicators.
- The CFO is responsible for ensuring that the residual value of an asset is reviewed.
-
- Review of the residual values must be amended in the AR for items identified as a result of the previous procedure and ensure that the depreciation charge for these items is adjusted for future periods.

12 DEPRECIATION / AMORTISATION OF ASSETS

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed, from the date that the asset is brought into use i.e. acquired and available for use (purchase dates/invoice date).

Each Head of Department, acting in consultation with the CFO, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the Business Unit 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.

12.1 Depreciation Method of business unit

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method of business unit. The depreciation method of business units are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis, in accordance with GRAP 3.

Depreciation will be charged to the applicable Department utilising the service of each asset on a monthly basis, and will form part of the operating expenses of such Department, and will commence when an asset is brought into use. The date brought into use will be considered to be the delivery date for movable items, and the date of completion in respect of buildings and infrastructure.

Depreciation will be charged in terms of the approved estimated lifespan for each type of asset, but will be adjusted when the remaining estimated life of an asset is adjusted.

Heritage assets, which are defined as culturally significant resources are not depreciated as they are regarded as having an infinite life. Land is also not depreciated for the same reason.

12.2 Offset of Depreciation

12.2.1 Assets Financed by the Grants Reserve

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

The Grants Reserve was created and is credited with the equivalent amount used to finance an asset through Government Grant funding. This liability is then utilised to offset the depreciation charges that will emanate from the relevant asset being brought into commission (IAS 20: Accounting for Government Grants).

12.2.2 Procedures and Rules

- All fixed assets, except Land, Investment property and heritage assets, shall be depreciated – or amortised in the case of intangible assets.
- Because land normally has unlimited life it is not depreciated.
- Heritage assets are not depreciated as these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine their useful lives.
- The amortisation period of an intangible asset with a finite UL shall be allocated on a systematic basis over its UL, and reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be amended accordingly.

12.3 Depreciation Calculation

12.3.1 Tangible Assets

The city uses the straight-line depreciation method of business unit whereby items of property, plant and equipment are depreciated on a constant or uniform amount over their estimated useful life.

For example, if a vehicle is purchased and has an estimated useful life of 5 years, each month 1/60th of the vehicle will be depreciated.

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

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

When depreciation is calculated, a corresponding accumulated depreciation account is created. The accumulated depreciation account is a statement of financial position item (it is an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was brought into commission.

The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

12.3.2 Intangible Assets - Amortisation period and amortisation method of business unit

a. Finite useful life

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

b. Infinite useful life

No amortisation will take place.

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

12.4 Alternative Method of business units of Depreciation in Specific Instances

The Chief Financial Officer may employ the sum-of-units method of business unit of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The Chief Financial Officer shall only employ this method of business unit of depreciation if the Head of Department controlling or using the fixed asset in question gives a written undertaking to the City Manager to provide:

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

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

Where the Chief Financial Officer decides to employ the sum-of-units method of business unit 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.

Offset Depreciation - Assets financed by Government Grants or Public Contributions

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

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

Offset Depreciation - Assets financed by the Capital Replacement Reserve (CRR)

To offset the double cost allocation by having to fund annual depreciation charges as well as contributions to the CRR, when the Capital Replacement Reserve is used to finance the acquisition of assets, a once-off transfer equal to the amount used to finance the item of property, plant and equipment is made from the Reserve to Accumulated Surplus / Deficit account to accommodate future annual depreciation charges on these assets.

12.5 Disclosure Requirements

According to GRAP 17 the following information relating to depreciation should be disclosed in the financial statements:

- In the Accounting Policy Notes
 - The depreciation method of business units used and the depreciation rates or useful lives.
- On the Statement of Financial Position
 - The depreciation is part of the Net Property, Plant and Equipment amount.
- On the Statement of Financial Performance
 - The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.
- In the notes to the Statements
 - The gross carrying amount and the accumulated depreciation at the beginning and end of the period in respect of each class of property, plant and equipment, together with all the other movements on the asset accounts.
- In Annexure B and C to the Financial Statements
 - Additions
 - Disposals
 - Acquisitions through business combinations
 - Increases or decreases resulting from revaluations
 - Reductions in carrying amount (impairment losses)
 - Depreciation

When PPE is disposed of whether by selling or destroyed, the asset values must be offset against the proceeds, if any, resulting in a profit or loss on the particular item of property, plant and equipment. If this item was previously financed from a Government Grant and there is still a balance left regarding this item on the Deferred Income Account: Government Grant, this balance must then be transferred to the Accumulated Surplus / Deficit account.

13 IMPAIRMENT

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

An impairment loss will be recognised when the recoverable amount is less than the asset's carrying amount. The impairment amount will therefore be calculated as the amount by which the carrying amount of the asset exceeds its recoverable service amount.

The recoverable service value of an asset will be calculated as the depreciated replacement cost (DRC) assessing the remaining useful life. Where the DRC is less than the carrying amount, the carrying amount should be reduced to the DRC amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

13.1 Impairment of Tangible and Intangible Assets

Annually the municipality must assess whether there are any indications that an asset/ component may be impaired. Only if such indications exist (in accordance with the impairment indicators listed below) will the DRC of the asset/ component be compared to its carrying value so as to calculate impairment loss where relevant.

To assess whether there is an indication that an asset/ component may be impaired both external as well as internal impairment indicators need to be considered.

13.1.1 External Impairment Indicators

- Significant long-term changes with adverse effect on the municipality in technology, market, economic, Government or legal environment have taken place or will take place in the near future. For example, sanctions have been imposed on the importing of a significant component of the asset, or a vehicle that does not meet new emission standards.
- There is cessation, or near cessation, of the demand or need for services provided by the asset. For example, the need for a service (provided by an asset) has ceased because the parties to whom the service was provided for has obtained its own asset to perform the services. Another example may be where the demand for the service has decreased due to adverse economic conditions.
- The demand or the need for services (not necessarily a near cessation or cessation as indicated in first bullet point above) provided by the asset has taken a significant long term decline. For example, a number of countries have made use of services provided by certain assets of an entity, but during the current period, other entities also provided similar services to certain of those countries. As a result, the entity will be experiencing a significant long term decline in the demand for the services provided by its assets, and
- An asset's market value has declined significantly during the reporting period, more than would have been expected as a result of the passage of time or normal use.

13.1.2 Internal Impairment Indicators

- There is evidence of the obsolescence or physical damage to an asset. For example, flood damage to a bridge.
- Significant long-term changes in the manner or extent to which an asset is used, or expected to be used during the period or in the near future, that will have an adverse effect on the entity. These changes may include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- Internal reporting indicates indicated that the economic performance of an asset is, or will be, significantly worse than expected. This evidence relates to the ability of the asset to provide services (i.e. internal source), rather than a decline in the demand or need for services provided by the asset (i.e. external source). Examples can include a significant increase in the cost of maintaining or operating the asset and significantly lower service or output levels than those originally budgeted and expected respectively.
- Entity has decided to taken to halt the construction of the asset before it is complete or in a usable condition.
- Reviews of:
 - Significantly decreased remaining useful life (includes various types of obsolesces);
 - significantly decreased residual value, and
 - Significantly decreased replacement cost.

13.1.3 Procedures and Rules

- Impairment loss will be calculated at asset and component level.
- The recoverable amount is calculated as being the DRC of the asset/ component.
- Assets/ components will be reviewed annually (at the same time during the financial reporting period) to assess the presence of impairment indicators. Should assets/ components meet the criteria of the prescribed impairment indicators it will signal the potential need for the asset/ component to be impaired. The DRC will therefore be compared to the carrying value of these assets/ components to establish impairment loss. 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, unless it reverses a previous revaluation on properties in which case it should be charged to the Revaluation Reserve in accordance with GRAP 17.
- The DRC of individual assets/ components, or groups of identical assets/ components, will be determined separately and the carrying amount reduced to the DRC amount on an individual asset/ component, or group of identical assets/ components, basis.
- Internal and External impairment indicators need to be considered.

- Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its DRC.
- Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment.
- Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.
- Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its DRC, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the Statement of Financial Performance, unless the asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a Revaluation Reserve increase.

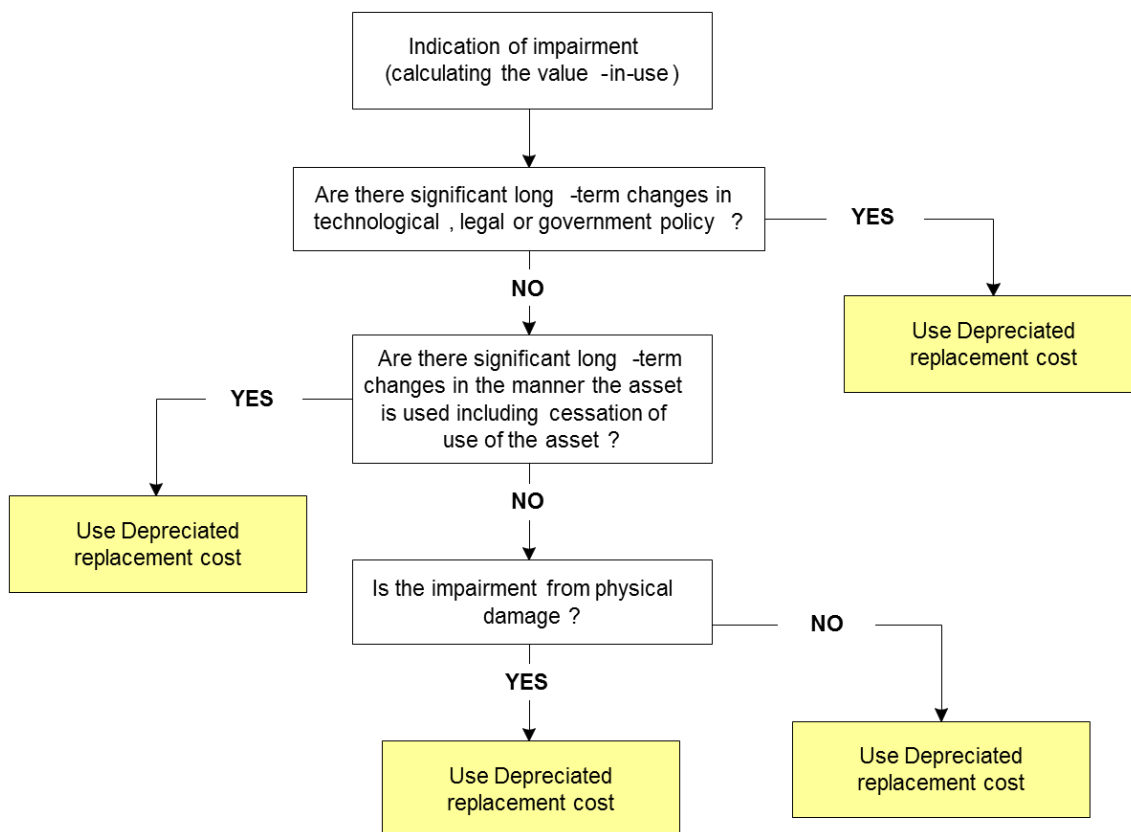


Figure 5 Impairment Process Flow

Refer to Annexure C for more information relating to Impairment queries and values.

13.2 Disclosure of Impairment Losses

All impairment losses must reflect on the Statement of Financial Performance.

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

Material impairment losses need to be disclosed in the notes to the Statement of Financial Performance as a separate item.

13.3 Reversal of an Impairment Loss

The same procedures as for the identification of impaired assets are followed as to whether there is an indication that impairment may have decreased. If so, the recoverable amount must be added to the carrying value of the asset.

The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.

Reversal of an impairment loss must be recognised as income in the Statement of Financial Performance and depreciation must be adjusted for the remaining life cycle.

14 TRANSFER AND DISPOSAL OF ASSETS

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

14.1 Disposal

When assets are disposed of the following procedures must be adhered to:

- An Asset Retirement and Disposals Checklist (Refer to Annexure I) as well as Asset Disposal/ Transfer form (Refer to Annexure H) must be completed and submitted to the AMU,
- The asset register must be updated, and
- The journal entries to record the sale, disposal, transfer or purchase must be processed.

Asset disposals must be in accordance with the Supply Chain Management Policy and the Asset Transfer Regulations released in September 2008.

14.1.1 Procedures and Rules

- All Heads of Business Units must report in writing to the CFO on a quarterly basis on all fixed assets controlled or used by the Business Unit wishes to dispose of by public auction or public tender. The CFO will thereafter consolidate the requests received from the various Business Units, and report the consolidated information to the Council or the City Manager, recommending the process of disposal to be adopted.
- The maintenance schedules or replacement plans may indicate those assets that have reached a point of replacement and therefore to be disposed of.
- Any items declared obsolete or damaged will be handed in to the AMU for safekeeping. No items will be received by the AMU without a completed Asset Disposal/ Transfer form (Refer to Annexure H) counter-signed by the AMU, describing the status of the item and the reason for writing-off the item.
- Each Business Unit must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is the responsibility of each Business Unit to ensure that all such assets to be disposed of are delivered to and received at the AMU.
- An independent official with the necessary technical knowledge will be requested to assess the status of the assets in accordance with the report.
- The Council shall ensure that the disposal of any fixed asset takes place in compliance with Section 14 of Municipal Financial Management Act of 2004 and the Supply Chain Management Policy.
- Heads of Business Unit must ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the Business Unit is promptly reported in

writing to the Insurance Section as well as the AMU by using the Asset Disposal/ Transfer form (Refer to Annexure H) to the internal auditor, and, in cases of suspected theft or malicious damage, also to the South African Police Services. Once the fixed assets are disposed, the CFO shall remove the relevant records from the fixed asset register.

It is important to note that a disposal of an asset must comply with the following requirements:

- Capital assets needed to provide the minimum level of basic municipal services may not be disposed of.
- Capital assets may only be disposed of after the municipal council in a meeting open to the public:
 - Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, and
 - Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

14.2 Transfers of Investment Property

14.2.1 Procedures and Rules

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

- Commencement of own-occupation, for a transfer from investment property to own-occupied property;
- Commencement of development with a view to sale, for a transfer from investment property to inventories;
- End of own-occupation, for a transfer from other classified property to investment property;
- Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
- End of construction or development, for a transfer from property in the course of construction or development to investment property.

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

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

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

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

14.3 Disposal or Permanent Withdrawal from use of Investment Property

14.3.1 Procedures and Rules

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

14.3.2 Disclosure

The disclosure requirements to be adhered to when disclosing information on investment property reflected at fair value include:

- The criteria developed by the Municipality to distinguish investment property from own-occupied property and from property held for sale in the ordinary course of operations.
- The method of business units and significant assumptions applied in determining the fair value was supported by market evidence or was more heavily based on other factors (which the entity should disclose) because of the nature of the property and lack of comparable market data.
- The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed.
- The amounts included in the Statement of Financial Performance for:
 - Rental revenue from investment property.
 - Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period.
 - Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.
- The existence and amounts of restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal.

14.4 Transfer of PPE

Transfers of Assets between services or Departments must be approved by both line managers, with the proviso that assets with a value in excess of R50, 000 in value can only be transferred with the approval of the City manager.

The applicable Transfer Form must be completed and forwarded to the AMU

Figure 6 below depicts a high level overview of the asset transfer process.

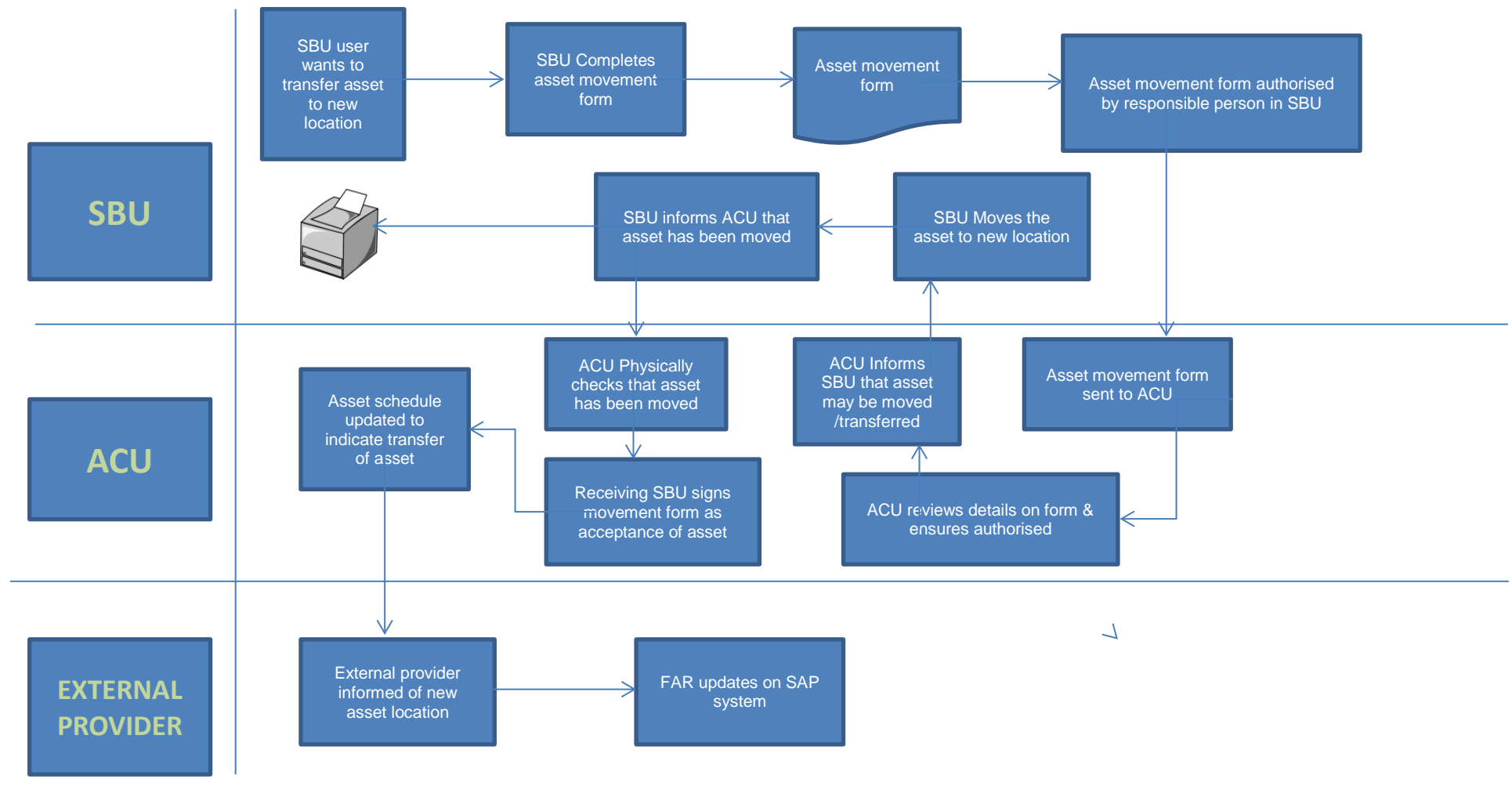


Figure 6 Asset Transfer Process

14.4.1 Procedures and Rules

- The Business Unit Heads must ensure that whenever an asset are being transferred, all asset transfer information is captured onto the Asset Disposal/ Transfer form (Refer to Annexure H), completed in full and forwarded to the Accountant: Asset Management.
- The CFO must ensure that a process is in place to capture and record asset transfer data.
- Staff of the municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.
- No person shall transfer any IT equipment without the knowledge and written consent of the IT Department.
- The Business Unit Heads must immediately report to the CFO of any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.
- Municipal staff required to remove equipment from the building, i.e. computer equipment, furniture, etc. for repair or any other reason need to obtain a permit from a delegate of the CFO. Failure to produce such a permit will result in the unauthorised removing of equipment.

14.5 Disposal of PPE

Disposal is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

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

All disposals must be done in compliance to the principles and prescriptions of Section 14 and 90 of the Municipal Finance Management Act and Municipal Asset Transfer Regulations.

14.5.1 Procedures and Rules

- Business Units must submit Asset Disposal/ Transfer form (Refer to Annexure H) for movable assets that have been identified as obsolete, lost or stolen to AMU for inspection and processing.
- Asset Disposal form must detail:
 - Description of asset to be disposed.
 - Make, model and serial number
 - Asset number.
 - Barcode
 - Current location.
 - Reason for disposal.

- Relevant Business Unit
- The asset disposal form must be signed by the responsible official within the Business Unit as proof that the disposal of the asset has been authorised.
- The authorised asset disposal form must be forwarded to the AMU.
- For assets that are obsolete, the asset will be inspected and for assets that are damaged beyond repair have their images taken for record purposes,
- The asset barcodes are to be removed from assets to be disposed and the asset must be sent to the landfill site once the disposal form has been approved
- For assets that have been lost or stolen the Business Units must submit their disposal form accompanied by the Loss Claim form as well as an affidavit reflecting the Case Number
- Business Units will submit their Assets for Disposal form to the Disposal Committee for their recommendation
- Assets with a Disposal Value threshold of under R 500 000 is sent to the Accounting Officer for approval
- Assets with a Disposal Value in excess of R 500 000 must be sent to the Strategic Management Committee for their recommendation following which:
 - It is then sent to the Portfolio Committee for their recommendation
 - The report is then sent to Exco for final recommendation to Council
 - Should the request for disposal be rejected, then it is shelved
 - Based on the approval, the assets are either donated, auctioned or disposed of as e-waste and written-off in the case of a loss
- The accounting entries must be executed in SAP(ie. With regards to the actual disposal and the proceeds thereof).
- The FAR must be updated once the disposal process has been completed (these assets have to be removed from the premises within 2 working days).
- The AMU must maintain a listing of all assets awaiting disposal. The list must contain the following detail:
 - Asset description
 - Asset number
 - Serial number/registration number
 - Reason for disposal
 - Date received in storage

- Department requesting the disposal
- The Disposals List must be forwarded to the Disposal Committee for approval.
- The Disposal Committee must perform the relevant procedures and site inspections as required by the SCM Policy. The Committee must also verify the validity of the reason for disposal, and may get technical opinions where required.
- The Disposal Committee must prepare a report and table a final report to EXCO with recommendations around the disposals.
- The SCM Department must dispose of the assets approved for disposal in terms of the requirements of the SCM Policy.

14.6 Land Disposals

14.6.1 Procedures and Rules

- All disposals of Land must be dealt with in accordance with Council authority. This is the responsibility of the City Manager's Department.
- b) When Land has been disposed of by the City Manager's Department, the AMU is informed of the disposal via a listing sent by the City Manager's Department.
- The listing must detail the following:
 - Description of land disposed
 - Title deed number
 - Selling price
 - Date of sale
 - Method of business unit of disposals

Figure 7 below depicts a high level overview of the asset disposal process.

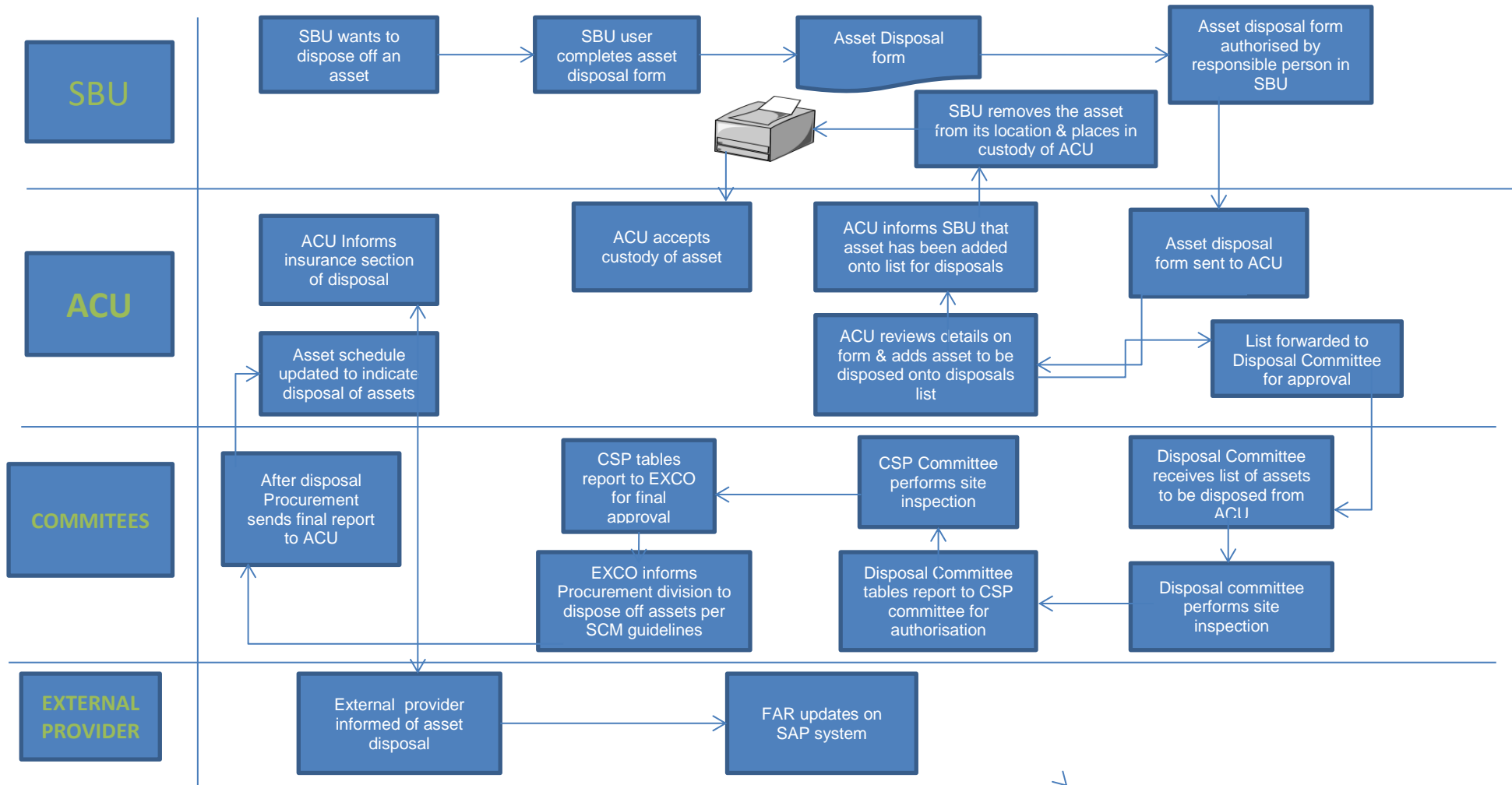


Figure 7 Overview of the Asset Disposal Process

14.7 Exchange of Assets

According to GRAP 17.33 an item of PPE may be acquired in exchange for a nonmonetary asset or assets, or a combination of monetary and non-monetary assets.

The cost of such an item of property, plant and equipment is measured at fair value unless:

- The exchange transaction lacks commercial substance, or
- The fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

14.7.1 Procedures and Rules

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The CFO shall approve all asset exchanges in consultation with the relevant Business Unit Head.

14.8 Movement of Assets

14.8.1 Procedures and Rules

- Business Units must complete a Movement Transfer form to be submitted to the AMU.
- The asset will then be scanned as per its new location.
- If custodianship has changed the information has to be updated on SAP(Type 1 Form refers).
- The scanned information is then uploaded to SAP
- An updated inventory list from SAP must be printed and handed to the relevant Business Unit as for acknowledgement of being custodian of the asset and a copy of the acknowledgement must be filed for record purposes as confirmation of the move and or change in custodians.

14.8.2 tracking of assets movements

- HEAD OF BUSINESS UNITThe Head of business unit must assign certain officials within the department to look after the assets and track their movements where possible.
- HEAD OF BUSINESS UNITThe Head of business unit should request employees to sign an acknowledgement of receipt of assets prior to issuing of assets to them.
- On a monthly basis, each department to do spot checks on its assets and then send a return to the Assets Management unit confirming the assets under the department's custody.
- Should a department identify any assets not belonging to them, they should notify the Assets Management unit if they cannot link it to a specific department.
 -
- On the employees' resignation/ termination the list of assets issued to employees should be reviewed. The assets should be collected prior to the release of the employee and payment of the termination benefits (i.e. leave pay) and list be submitted to the Asset unit for filing purposes.

14.9 Updating the Asset Management System

14.9.1 Procedures and Rules

- Once the assets have been disposed of, the SCM Department must provide the AMU with a final report detailing the following:
 - Asset number
 - Method of business unit of disposal
 - Serial number / Registration number
 - Selling price
 - Date of Sale/disposal
 - Reason for disposal
- The details on this report must be used by the AMU to update the disposal forms in the Disposals List.
- The AMU must inform the Insurance Section in writing of assets that have been disposed so that these are removed from the Insurance register.
- The AMU must sign and date these forms as confirmation that all details are complete and accurate and that the Insurance section has been notified of the disposals.
- The asset controller must review the forms and sign and date the forms as proof of review.
- The AMU must use the information on these to update the Assets Management System.

14.10 Depreciation on disposal

When assets are disposed of for any reason the asset must first be depreciated up to the month of its disposal and then the accumulated depreciation must be cleared with the accumulated depreciation balance of the particular asset. If this asset was financed from a government grant the Government Grant Reserve balance regarding this asset must be cleared as well, and similarly if the value equates a value in the Revaluation Reserve.

14.11 Disposal Committee

A committee established in accordance with the provisions of Municipality's Supply Chain Management Policy. The Committee comprises of the following officials:

- Process Manager: Asset Management & Liabilities
- Manager: Fleet
- Manger Real Estates and Valuations

- Legal Advisor
- Process Manger Area Based Management
- Process Manager ICT

14.12 Writing-off of Assets

The write-off of assets is the process to permanently remove the assets from the asset register. Assets can be written-off after approval of the City Manager of a report indicating that:

- The useful life of the asset has expired,
- The asset has been destroyed,
- The asset is outdated,
- The asset has no further useful life,
- The asset does not exist anymore,
- The asset has been sold/donated and or disposed of
- Acceptable reasons have been furnished leading to the circumstances set out above.

14.12.1 Procedures and Rules

- An asset, even though fully depreciated, shall be written-off only on the recommendation of the Heads of Business Units controlling or using the asset concerned, and with the approval of the City Manager.
- In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.
- Assets that are replaced should be written-off and removed from the asset register.

14.13 Disclosure

The disclosure requirements adhered disclosing information on investment property reflected at fair value:

- The criteria developed by the Municipality to distinguish investment property from own-occupied property and from property held for sale in the ordinary course of operations,
- The method of business units and significant assumptions applied in determining the fair value was supported by market evidence or was more heavily based on other factors (which the entity should disclose) because of the nature of the property and lack of comparable market data,
- The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed,

- The amounts included in the Statement of Financial Performance for:
 - Rental revenue from investment property,
 - Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period, and
 - Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;
- The existence and amounts of restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal,
- Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements,
- A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following:
 - Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure,
 - Additions resulting from acquisitions through entity combinations,
 - Disposals,
 - Net gains or losses from fair value adjustments,
 - The net exchange differences arising on the translation of the financials statements of a foreign entity,
 - Transfers to and from inventories and owner-occupied property, and
 - Other movements.

15.1 Unbundling of Components

The unbundling or componentization of the PPE assets is required to update the FAR as well as for effective asset maintenance and provision of services. The FAR will annually be updated for all assets and components. All new assets to be recorded on the Far would there for have to be unbundled into its constituent components and all components be recorded on the FAR under the parent asset.

The unbundling of parent assets into children components will be to a level that is sufficient for GRAP 17 compliance. Generally, the componentization of the PPE assets will be based on the component value, type of component (civil, electrical & mechanical) as well as anticipated lifespan of the component.

A list of generic components per asset type is listed in Annexure B. Additional/ special components would however also have to be considered when unbundling assets.

15.2 Asset Verification

15.2.1 Verification of Movable Assets

A physical inventory of all movable assets is to be taken annually by each the Asset Management Unit to verify assets recorded in the FAR. An annual physical verification of all movable assets must be completed in the first half of the financial year. Thereafter, within the second half of the same financial year, written confirmation must be submitted to the AMU that the inventory lists remain unchanged as per the inventory lists produced during the physical verification. Inventories must be completed prior to the financial reporting due date.

The designated officials within the Business Units must execute the functions listed below:

- 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.
- Complete the asset movement form when transfers (Refer to Annexure G) occur and forward the completed original form with all relevant signatures as the approval to Asset Management Unit.
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.

- AMU must be notified by the relevant Business Unit within 14 days of any of the following possible movements:
 - Donations.
 - Additions / Improvements.
 - Departmentally manufactured items.
 - Loss or damage.
 - Transfers.
 - Terminations.
 - Land Sales.

15.2.2 Verification of Fixed Assets

The AMU shall at least once during every financial year provide all Business Units with a comprehensive list of assets which is registered under their control.

The Heads of all Business Units will be responsible for verifying this list with the assets under their control and investigate any discrepancies arising out of the asset verification exercise. The Heads of all Business Units will be required to sign and date a declaration stating that the list of assets verified for his/her Business Unit is complete & accurate except for the discrepancies as reported to the AMU.

15.3 Review of Asset Conditions

The condition for all assets recorded on the FAR will be reviewed annually. Business Units will be responsible for the review and amendments of conditions for all assets under their control. Assets conditions will be reviewed using either Delphi Group sessions or through conditional assessments depending on the review cycle.

15.3.1 Delphi Group Sessions

In between conditional assessment review periods the Business Units will use Delphi Group sessions to review the conditions of assets under their control.

The Delphi Group sessions will consist of all relevant members of the business units with the necessary operational knowledge of the assets in question. The condition of each asset will be reviewed to identify any decrease or increase in the condition of the assets.

The table below details the condition index ranges to be used.

Grade	Description	Details	Condition Index Ranges	Indicative or Guidance RUL
1	Very good	Sound structure, well maintained. Only normal maintenance required.	92-100%	71-100% of EUL
2	Good	Serves needs but minor deterioration (<5%). Minor maintenance needed.	71-91%	46-70% of EUL
3	Fair	Marginal, clearly evident deterioration (10-20%) Significant maintenance needed	45-70%	26-45% of EUL
4	Poor	Significant deterioration. Significant renewal required.	21-44%	11-25% of EUL
5	Very Poor	Unsound, failed needs reconstruction / replacement (>50%)	0-20%	0-10% of EUL

The Business Units must submit all amendments to the asset conditions to the AMU along with the necessary proof of the Delphi Group review process (attendance registers or declarations of Delphi Group sessions conducted)

15.3.2 Conditional Assessments

Conditional assessments must be conducted once every three years.

Conditional assessments will consist of visual inspections using the same condition index rating as indicated for the Delphi sessions. Conditional assessments must be conducted at component level.

15.4 Review of RUL

The RUL of assets must be reviewed annually, at financial year end, 30 June as per section 10.2.1.

16 MAINTENANCE OF ASSETS

16.1 Maintenance of Assets in the Asset Register

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its EUL, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance. For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

The splitting of linear infrastructure has a data management implication, but it is the easiest method of business unit that maintains the data integrity over time. Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are individually identified in the asset register.

16.1.1 Procedures and Rules

- The Heads of Business Units are responsible for the control and utilisation of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.
- The Heads of Business Units shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- The Heads of Business Units shall report to the Council annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.
- The Heads of Business Units shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes.
- The Heads of Business Units shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

16.2 Renewal of Assets

Asset Renewal is the restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial UL of the asset. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

16.2.1 Procedures and Rules

- If the service provided by the asset is still required at the end of its UL, the asset must be renewed. However, if the service is no longer required, the asset should not be renewed.
- Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.
- The CFO, in consultation with Heads of Business Units, must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.
- Heads of Business Units must ensure that renewals expenditure are correctly budgeted for in the capital budget and expensed against this budget.
- Heads of Business Units must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

16.3 Replacement of Assets

Replacement of assets refers to the complete replacement of an asset that has reached the end of its UL so as to provide a similar or alternative agreed level of service.

16.3.1 Procedures and Rules

- The City Manager, in consultation with the CFO and other Heads of Departments shall formulate strategies and standards for the replacement of all operational PPE. Such strategies and standards shall be incorporated in a formal plan, which shall be submitted to the Council for approval. This plan shall cover the replacement of infrastructure and operational movable vehicles and equipment.
- The replacement strategy should take into consideration:
 - The nature of the asset,
 - The usage of the asset,
 - Priorities,
 - Available funding,
 - Operational and maintenance costs,
 - Operational skills,

- Future expected developments,
 - Technology,
 - Outsourcing, and
 - Private sector partnerships.
- The CFO, in consultation with Heads of Business Units, must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.
 - Heads of Business Units shall ensure that replacement expenditure are correctly budgeted for in the capital budget and expensed against this budget.

16.4 Maintenance Plans

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

Every Manager of a Department shall ensure that a maintenance plan in respect of infrastructural asset is prepared and submitted to the Council of the Municipality for approval.

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

The Managers of Departments controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Council, not later than 31 March, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance and/or budgetary constraints may have on the useful operating life of the asset concerned.

16.5 Deferred Maintenance Plans

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

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

16.6 General Maintenance

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

17 ASSET RISK MANAGEMENT

17.1 Insurance

Departments are responsible for managing the risks associated with their activities.

This decision will depend on the amount of excess the Municipality are prepared to carry, the types of risks they insure against, taking due cognisance of the budgetary constraints of the Municipality.

Complete property, plant and equipment identification and valuations may prevent the Municipality from being over or under insured. Specific supportable insurable values are defined in the insurance policy in effect and should be reviewed regularly. In some instances, an in-house estimate of cost or insurable value may not be sufficient to substantiate the amount of a loss. Rather, an appraisal by an independent third party may be required.

17.2 Other Risk Reducing Method of business units

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

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

18 GENERAL PROCEDURES

18.1 Tagging

Tagging means to place a control number on a piece of equipment or property.

All movable assets and movable “Attractive assets” must be tagged.

The primary purpose of tagging is to maintain a positive identification of assets.

Tagging is important to:

- a) Provide an accurate method of business unit of identifying individual assets.
- b) Aid in the annual physical inventory.
- c) Control the location of all physical assets.
- d) Aid in maintenance of fixed assets.
- Fixed property and plant is not tagged; such as:
 - a) Buildings (record legal description in asset record).
 - b) Land (record legal description in asset record).
 - c) Infrastructural assets.

Consistently place asset tags in the same location on each similar type asset. If possible, the tags shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will aid in taking inventory.

18.2 Physical Inventory of all Movable Assets

A physical inventory of movable assets is taken to verify assets recorded in the Asset register. Inventories are taken at least annually and shall be completed prior to the financial reporting due date.

The AMU will in liaison with other Business Units conduct a physical inventory of movable assets annually. They will require the co-operation of Departmental personnel in accomplishing the physical inventory task and will attempt to minimize the time demanded of them.

The designated officials in the different Departments within the Municipality must execute the functions listed below:

- 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.
- Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Unit.

- Ensure that a completed asset disposal form is submitted when an asset item is disposed of
- after the necessary approval has been obtained.
- Asset Management Unit must be notified by the relevant Department within 14 days of any of the following possible movements:
 - Donations.
 - Additions / Improvements.
 - Departmentally manufactured items.
 - Loss or damage.
 - Transfers.
 - Terminations.
 - Land Sales.

18.3 Periodic stock take

- Random verification of assets within their departments should be carried out throughout the year by the Head of business units. HEAD OF BUSINESS UNIT.
- The Assets Management unit should conduct a physical verification of all assets as at the end of each financial year.
- All variances should be recorded and issued to the Manager: Asset Management.
- All relevant results of the verification process should be forward to the CFO and reported to Council.
- All assets that are identified as damaged, obsolete should be noted and recorded separately so that they can be included in the Disposal Schedule.

18.3 Acquisition

In making the decision to acquire an asset the following fundamental principles should be carefully considered:

- Proposals for new assets must be justified by a thorough evaluation of all service delivery options, and, as part of the budgetary process, be the subject of a comprehensive appraisal or investment evaluation.
- As part of the process of determining the Procurement Plan, the Manager: SCM must determine the asset acquisition plan which should define the type and timing of asset requirements, and set out the proposed method of business unit of acquisition and financing.
- Each department will forward a requisition form containing the specifications of assets that are required to the Procurement department.
- The purpose for which the fixed asset is required in keeping with the objectives of the Municipality and will provide significant, direct and tangible benefit to it.

- The Capital Budget must be informed by a detailed listing of all projects scheduled for the year, as well as well informed estimate of the minor acquisitions together with repairs and maintenance.
-
- The fixed asset has been budgeted for.
- The purchase is absolutely necessary as there is no alternative Municipal asset that could be upgraded or adapted.
- The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset.
- The fixed asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources.
- Space and other necessary facilities to accommodate the asset are in place.
- The CFO, in consultation with the management, must determine and classify the asset acquisition options for different asset groups i.e. to buy, to construct or to lease.
- An Asset Maintenance Plan must be developed for the various categories of assets. Such plan must be able to determine those assets that are reaching their useful lives, so that planning for the acquisition of replacement assets can commence (Replacement Strategy).
- The most suitable and appropriate type, brand, and model etc. has been selected.

18.4 Receiving

- On receipt of assets by the requesting department, asset management unit is informed to allocate an asset number and barcode to the asset.
- The copy of an invoice will be sent to the Accountant: Asset Management as evidence of verification and matched to the Purchase Order file.
- Once the asset has been received and barcoded, it is updated on the additions list of the asset register by the Accountant: Assets Management by using the asset master amendment form.
- Once the asset has been received and barcoded, it is updated on the additions list of the asset register by the Accountant: Assets Management by using the asset master amendment form.
- On a monthly basis, the inventory lists for all sections that received the assets is updated and given to the departmental head for control purposes.
- Regarding the Constructed Assets, when the final completion certificate has been issued, the asset is updated on the additions list of the asset register by the Accountant: Asset Management by using the assets master amendment form.

18.5 Asset Management Responsibilities

- Utilisation – All assets should be used for the purposes they were acquired.
- Asset performance should be regularly reviewed to identify under-utilised and under-performing assets. The reasons for this should be critically examined and appropriate action taken.
- Disciplinary action must be taken against individuals if there is misuse of Council's assets.

18.6 Additions / Improvements

Depending upon the type of addition or improvement to a specific asset, the responsible official in the Department must notify Asset Management Unit of the change in status. The asset master record will be amended on receipt of the required asset acquisition form from the responsible Department.

When capital expenditure is incurred for any enhancement / improvement of an asset, the Department shall complete the necessary asset acquisition form and forward it to the Asset Management Unit.

When any changes to vacant land or land and buildings are effected such as subdivision, transfer to another Department, extent or holders title, the current owner must complete the relevant asset movement/transfer form and forward it to the Asset Management Unit.

18.7 Termination of Employee's Service

At the termination of an employee's service, the applicable Department representative must complete the asset resignation form and forward the original to the Asset Management Unit. This form is a statement that the inventory and assets entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary. A copy of this form is forwarded to the HR Office concerned or its relevant Department for further investigation in the case of missing assets.

18.8 Safeguarding and protection of assets

- All assets must be kept in a safe and healthy environment, not subjecting them to any preventable hazards.
- Fire extinguishers must be clearly visible and should be serviced properly at all times.
- There must be sufficient or adequate insurance cover in place, which covers all the key assets of the municipality. The insurance status of the assets should be included in the fixed assets register.
- When an asset with an insurance cover is either damaged or is stolen, a report should be submitted to the responsible HEAD OF BUSINESS UNIT within 48 hours.

The following documents must be submitted:

- A full report of the incident
- Police case number (where applicable)
- Quotations for the repair or replacement
- The CFO should decide, in consultation with the HEAD OF BUSINESS UNIT and/or MM if necessary, whether a claim to the insurance company will be submitted.
- For movable assets, the security personnel must follow a clear & consistent process of monitoring the movement of assets in and out of the municipality, with sufficient records being kept.
- Access to municipal offices should be restricted and burglar guards and alarm systems should be in place.
- For motor vehicles, they must be installed with reliable tracking devices, which must be tested on a regular basis.
- A hotline should be implemented in order to record complaints in relation to the abuse of assets.

18.9 Transfer of Assets

When a Department transfers an asset or inventory item within the Department, the asset movement form must be completed and forwarded to the Asset Management Unit. The copy of this form must be forwarded to the party receiving the asset or inventory item. When a Department transfers an asset or inventory item to another Department, the transferring Department must approve the transfer. After approval has been granted the asset movement form must be completed and forwarded to the Asset Management Unit. Prior to the transfer, the receiving HEAD OF BUSINESS UNIT should accept responsibility for the receipt of the asset. Prior to the transfer, the receiving HEAD OF BUSINESS UNIT should accept responsibility for the receipt of the asset. The Accountant: Assets Management must update the asset register with the transfer.

18.10 Reconciliation

- On a monthly basis, the Accountant: Assets Management must prepare a reconciliation between the fixed assets register and the general ledger in the financial system.
- On a monthly basis, the Accountant: Assets Management must prepare a reconciliation between the fixed assets register and the general ledger in the financial system.

18.11 Derecognition

When an asset has met the derecognition criteria as per the applicable GRAP standards, the Senior Accountant: Assets Management must ensure that the asset or group of assets are removed from the financial system and the fixed assets register.

18.12 Sale of Land and Buildings

All Departments must submit the properly completed asset disposal forms together with copies of all relevant approvals for the sale of land and buildings to the Asset Management Unit.

18.13 Issues not covered

The Accounting Standards Board recognises that the scope of GRAP is incomplete and that users will seek guidance in respect of those issues not considered. The attention of preparers is drawn to the following paragraph in the Standard of Generally Recognised Accounting Practice on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3):

“In the absence of a particular Standard of Generally Recognised Accounting Practice that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

- Relevant to the economic decision-making needs of users.
- Reliable in that the financial statements:
 - Represent faithfully the financial position, financial performance and cash flows of the entity.
 - Reflect the economic substance of transactions, other events and conditions, and not merely the legal form.
 - Are neutral, i.e. free from bias.
 - Are prudent.
 - Are complete in all material respects.

In making the judgement described in the paragraph above, management shall refer to and consider the applicability of the following sources in descending order:

a) The requirements and guidance in the Standards of Generally Recognised Accounting Practice, dealing with similar and related issues; and

b) The definitions, recognition criteria and measurement concepts for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. In making the judgement prescribed in the paragraph above, management may also consider the most recent pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with the requirements in the paragraph above. For example, pronouncements of, in descending order, the International Federation of Accountants – Public Sector Committee, the International Accounting Standards Board (including the Framework for the Preparation and Presentation of Financial Statements), the South African Accounting Practices Board and the South African Institute of Chartered Accountants’ Accounting Practices Committee.”

19 AMENDMENTS TO THE ASSET MANAGEMENT IMPLEMENTATION GUIDE

Document Version Control Table				
Version	Author	Date	Reviewed By	Date

Revision Control Table			
Section	Description	Revision	Date

Annexure A – Best Practice Guidelines

Recognition of PPE

Definition of PPE

#	Financial Management Best Practise Requirements (FMBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>According to GRAP 1 asset are resources controlled by the entity as a result of past event and from which future economic benefits of Service potential are expected to flow to the entity.</p> <p>GRAP 17 defines PPE as follows: Property, plant and equipment are tangible assets that:</p> <ul style="list-style-type: none"> ▪ Are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and ▪ Are expected to be used during more than one reporting period. <p>According to GRAP 17.07 (IPSAS 17.14) An item of property, plant and equipment shall be recognized as an asset when:</p> <ul style="list-style-type: none"> ▪ It is probable that future economic benefits or service potential associated with the asset will flow to the entity, and ▪ The cost of fair value of the asset to the entity can be measured reliably. 	<ol style="list-style-type: none"> 1) Ensure that an asset is regarded as PPE when it meets the definition of assets and PPE as well as the recognition criteria stipulated in GRAP 17. 2) Examples of property that meet the definition of property, plant and equipment and which should be accounted for in accordance with GRAP 17: <ul style="list-style-type: none"> • Property that is owner-occupied, for example, a building that is occupied by the entity for administrative purposes or to supply goods and services: • Property, i.e. housing, rented to employees, regardless of whether the rent is ,market related or not; and • Property held to provide a social service and which also generates cash inflows, for example, an entity rents out one of its properties (buildings) to other parties on an ad-hoc basis. The rental revenue is indicated to the purpose for which the property is held; therefore it is treated as property plant, and equipment and not investment property. 3) Other examples of property that do not meet the definition of PPE, includes : <ul style="list-style-type: none"> • RDP housing , which should be treated as Inventory (Where the entity acts as principle for contracting these houses) 4) Where software is an integral part of the related hardware, i.e. the hardware cannot operate without the software, the software will be treated as property, plant and equipment together with the related hardware already recognized which will normally be computer equipment. 5) Examples where biological assets are used for the supply of goods and services (and therefore may fall within the scope of GRAP 17) include: <ul style="list-style-type: none"> • Trees in Municipal parks; • Police horses and dogs 	AP	Manager: Assets	Monthly

#	Financial Management Best Practise Requirements (FMBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		<ul style="list-style-type: none"> • Management of biological assets held for research experimental or public recreational purposes, for example zoos. <p>6) Other items that can be captioned as property, plant and equipment include:</p> <ul style="list-style-type: none"> • Some major parts and stand-by equipment will qualify as property, plant and equipment, when an entity expects to use them during more than more period; • Spare parts and servicing that can only be used in connection with a specific item of property, plant and equipment and are material; and • Assets that were acquired for safety and environmental purpose which may not necessarily increase the economic benefit of the asset directly or the service potential, but may be necessary for the entity to derive economic benefits or service potential from other assets; and • Leasehold improvements i.e. improvements made to lease assets can be capitalized if they meet the definition of property, plant and equipment. <p>7) Refer to Annexure 9, the asset decision tree that can assist in determining how an asset should be classified.</p>			

Acquisition of PPE Procedures

The Capitalization Rules Pertaining to PPE

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	According to GRAP 17. PPE are tangible assets held by an entity for use in the production or supply of goods or services, for rental to others ,or for administrative purposes and which are expected to be used during more than one reporting period	<ol style="list-style-type: none"> 1) Identify PPE purchased (expenditure that fits the definition of PPE above) identify throughout the month all invoices paid relating to PPE/ 2) If PPE purchased is identified, allocate the expense to a capital asset account in the GL in order to capitalize the PPE (the expenditure is therefore not allocated to an expense vote). 	AP	Manager: Assets	Monthly
2	Accounting for the acquisition of PPE	Purchases of assets should be debited and creditors should be credited in this regard with the cost price of the PPE. When payment is made for the PPE the payment should be allocated to the creditor raised i.e. credit bank account, debit accounts payable.	AP	Manager: Assets	Date of Purchase of PPE
3	Calculation of the cost of PPE	<ol style="list-style-type: none"> 1) An item of property, plant and equipment which qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of PPE should compromise its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Ant trade discount and rebates should be deducted in arriving at the purchase price. 2) According to GRAP 17.26 (IPSAS 17.30) the cost of an item of PPE also includes the estimated cost of dismantling and removing the asset and restoring the site, as far as provisions has been recognized for these costs. 3) Where an asset is acquired at no cost, or a nominal cost, its cost is its fair value as the date of acquisition. 4) The responsible official for asset capitalization should familiarize him-/herself of all costs that need to be included in the initial cost price of PPE 5) Scrutinize invoices to identify attribute costs that must be capitalized as part of cost of PPE, as defined above. 6) The system should be set up in such a way that all relevant costs are always included in the cost price of the PPE 	ACP	Manager: Assets	Date of purchase of PPE

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
4	Determination capitalization thresholds	<p>Capitalization threshold – Applicable to entities / municipalities with an internal policy concerning a threshold.</p> <p>It is important to note that assets should be capitalized in accordance with GRAP 17 when it meets the definition of property, plant and equipment, regardless of the cost price of an asset. Therefore, in accordance with GRAP 17, if an asset is expected to be used for more than one reporting period, it should be capitalized.</p> <p>The implication of having a capitalization threshold is that assets below the threshold are depreciated over years regardless of the assets useful life, a practice not in line with GRAP 17, entity could either have an internal policy concerning a threshold (option A) or a depreciate all assets correctly accordingly to depreciation periods per asset classification (option B).</p> <p>if an entity does have a policy with a capitalization threshold below which assets are expended, this policy should be an internal policy of the entity and should not appear in the accounting policies to the financial statements, as this would constitute non-compliance with GRAP 17</p> <p>Option A – if an entity wishes to have an internal policy concerning a threshold for recognizing capital assets they may do so. This should however not be included as part of the disclosed according policy in the annual financial statements because it is not line with GRAP 17. The assets below the threshold should then be listed and carried forward from year to year. The external auditors will measure the cumulative figure against materiality on annual basis. In other words, they will annually calculate the correct carrying value for these assets and if the omission thereof in the statement of Financial Position is material it would lead to a qualification</p> <p>Option B – The correction of assets previously expended over one year should be treated as a prior period error and corrected retrospectively, as GRAP 17 had previously been incorrectly applied.</p> <ol style="list-style-type: none"> 1) Ensure that where a number of individual PPE items with a cost price per item of less than the capitalization threshold (inclusive of non0claimable VAT), purchased in bulk as a single order purchase, and a total purchase value exceeding capitalization threshold, these items are captured on the AR. 2) If the item purchased are uniform in terms of their useful lives and application, ensure that they are capitalized as a single item on the AR .If the items differ in terms of their useful lives and application, ensure that they are capitalized as individual assets on the AR. 	ACP	Manager: Assets	Date of Purchase of PPE

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		3) Ensure that PPE items with a cost price per item of less than the capitalization threshold, inclusive on non-claimable VAT, are not capitalised, but are expensed on delivery. They are not shown on the AR, but are reflected on a list of items kept for control purposes (e.g. an "Asset Control List")			
5	According to GRAP 17.28 (IPSAS 17.38) an item of PPE may be gifted or contributed to the entity, Land may be contributed to an entity by a developer to enable the development of parks, roads and paths. An asset may also be acquired at nil nominal consideration through sequestration. The cost of an item is its fair value as at the date acquired, contributed or gifted.	<ol style="list-style-type: none"> 1) Issue a memo to all managers of departments within the entity at the end of the month, requesting them to inform the Manager: Budget Control of any items of PPE that have been donated to the entity. 2) The Manager: Budget Control should determine the fair value of items of PPE donated to the entity. 3) To ensure that all items of donated PPE are marked with a unique identification number as soon as they are delivered to the entity, provide the official responsible with relevant information relating to donated items of PPE. 	AP	Manager: Assets	Monthly
6	<p>According to GRAP 13.06 (IPSAS 13.06): A lease is an agreement whereby the lessor conveys to the lessee in return for a payment of series of payments the right to use an asset for an agreed period of time.</p> <p>A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.</p>	<p>Capitalization of PPE obtained by means of a finance lease</p> <ol style="list-style-type: none"> 1) Ensure the correct accounting treatment of assets obtained by means of finance leases in the financial statements of the lessees: <ul style="list-style-type: none"> • Assets obtained by means of a finance lease should be capitalised. • Annual depreciation on the leased asset should be expensed. 	AP	Manager: Assets	Date of purchase of PPE

Recording Purchases of PPE on the Asset Register

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>Section 63 (2)© of the (South African) MFMA requires the accounting officer to take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register as may be prescribed.</p> <p>Section 51 (a) (1) of the PFMA requires accounting authorities a public entity to ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.</p>	<p>1) As the compilation of an Asset Register is a legislative requirement, management should ensure that it continuously contains, as a minimum, the details as set out in section 2.1.2 above.</p> <p>2) Ensure that all moveable items of PPE are marked (bard coded) with a unique identification number as soon as they are delivered to the municipality.</p> <p>3) For immovable items such as land and building, ensure that a unique identification number, linked to a property number or physical address, is allocated to the asset.</p>	ACP	Manager: Assets	Ongoing
2	<p>The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:</p> <ul style="list-style-type: none"> ▪ It is probable that future economic benefits or services potential associated with the item will flow to the entity and ▪ The cost of fair value of the item can be measured reliably. 	<p>Ensure that assets are capitalized and recorded in the AR, as soon as acquired. If the asset is constructed over a period of time, ensure it l s recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalized as an asset.</p>	AP	Manager: Assets	Date on which PPE is acquired
3	<p>In addition to classification of assets into property, plant and equipment, there also needs to be further classifications in a public sector environment.</p> <p>The purpose of these classifications is to develop a benchmark accounting treatment to assist in the measurement of property, plant and equipment and to assist users to understand better the nature of the assets included as property, plant and equipment.</p>	<p>In addition, the information referred to above should be presented annually by</p> <ul style="list-style-type: none"> • Class of property, plant and equipment. This information will be used to prepare the notes to the AFS on property, plant and equipment. • Funding source. This will enable the accounting entries relating to the EFF, CRR, and Government Grant reserves Capitalisation Reserve as well as the Public Contributions and Donations Reserve to be easily prepared. • Department or function. This will enable management to report on the Segmental Analysis of property, plant and equipment. 	AP	Manager: Assets	Year end

Procedures During the Useful Life Of PPE

Depreciation of Items of PPE

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>GRAP 17 defines depreciation as the systematic allocation of the depreciable Amount of an asset over its useful life.</p> <p>The useful life of an asset is the time between the asset being placed into service and the asset being replaced or renewed because it no longer provides a service. This is not a theoretical concept; it is based on experience with each type of asset.</p> <p>Depreciable amount is the cost of an asset (or other amount substituted for the cost in the financial statements) less its residual value. GRAP 17.59(IPSAS 17.69) states that the depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and therefore, it immaterial in the calculation of depreciable amount. When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition and is not subsequently increased for changes in prices</p>	<p>Ensure that each item of property plant and equipment is listed individually in the Asset register, and all assets, as per the AR, are depreciated separately (Please note that land is not depreciated)</p> <p>1) The following factors are considered in determining the useful life of an asset :</p> <p>a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.</p> <p>b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.</p> <p>c) Technical or commercial obsolescence arising from changes or improvements in production or change in the market demand of the product or service output of the asset.</p> <p>d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.</p>	AP	Manager: Assets	Date of GRAP implementation thereafter ongoing
2	<p>GRAP 17 states that the residual value is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. In practice, the residual value of an asset is often insignificant and,</p>	<p>1) Ensure that the residual value of an asset is taken into account when determining the depreciable amount of the asset. The depreciable amount implies that if an asset has a cost price of R100 000 and an estimated residual value of R30 000 the depreciable amount is R70 000</p> <p>2) The following points need to be taken into account when developing a method of business unitology for the calculation of residual values – especially motor vehicles:</p>	AP	Senior Manager: Assets & Liabilities	Date which GRAP is implemented

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	<p>therefore, is immaterial in the calculation of the depreciable amount.</p> <p>Residual values should be considered when an assets depreciable amount is calculated.</p>	<ul style="list-style-type: none"> In theory, the residual value should be estimated for each asset individually on an asset per asset basis and should be reviewed at least at each financial year-end. Vehicles should be classified into categories according to the type of vehicles, make model and engine capacity. These categories will definitely have an effect on the residual value. Residual values will need to be reviewed annually for each vehicle, taking the condition of the vehicle and the future market conditions into account. Any change in residual value will have to be accounted for as a change in estimate and dealt with prospectively in future. It is probably not pragmatic or practicable to review residual values for each asset annually on an individual basis. Therefore as a minimum, indicators will have to be developed and applied to all assets (on a class by class basis) to highlight those assets for which residual needs to be reassessed. 			
3	<p>According to GRAP 17.61 (IPSAS 17.71) 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</p>	<p>Be aware that assets need to be depreciated from the date the asset is available for use (and not from the date that the asset is put in to use) and that depreciation ceases at the earlier of the date the asset is classified as held for sale or the asset is recognized.</p> <p>Depreciation therefore does not cease when the asset becomes idle or is retired from active use unless it is fully depreciated.</p> <p>Ensure that the Senior Manager: Assets & Liabilities is made aware of the date on which assets are available for use.</p>	AP	Senior Manager: Assets & Liabilities	Date at which assets are put into use
4	<p>Depreciation on assets bought during the month</p>	<p>Ensure that the AR parameters are set up in such a way that broken periods, which can be calculated on a days or months basis are taken into account when calculating depreciation. For example, if an asset is brought into use on 26th April , them depreciation for the financial year will be apportioned based on the number of days between 26 April and 30 June (4 days/365 days) or 2 months /12months, which is the number of months between 26 April and 30 June.</p>	AP	Manager: Assets	Date at which GRAP is implemented and thereafter ongoing
5	<p>Calculating depreciation charge</p>	<p>Ensure that the actual depreciation charge for the financial year is calculated using the AR as a basis and that it takes into account the following:</p> <ul style="list-style-type: none"> Full depreciation on assets that are controlled by the entity for the entire year. 	AP	Manager: Assets	Year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP P Type	Responsible Official	FSOP Date
		<ul style="list-style-type: none"> • Pro-rata depreciation on asserts that are sold or purchased during the financial year. • Accelerated /decelerated depreciation on assets where their useful lives are reviewed during the financial year and they are written off quicker or slower than originally anticipated. • Refer to example 4 for an illustration of depreciation on an asset with significant parts. 			
6	<p>Recording depreciation and accumulated depreciation in the GL</p> <p>The accumulated depreciation account is a statement of financial position item (an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalized since the assets was available for use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item to which it relates.</p>	<ol style="list-style-type: none"> 1) Ensure that a depreciation GL account is created. 2) Ensure that, for each category of PPE, corresponding accumulated depreciation accounts are created. 	AP	Manager: Assets	Date at which GRAP is implemented and thereafter ongoing

Procedure to Be Performed At the End of Each Reporting Date

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>GRAP 17 requires certain procedures to be performed on an annual basis.</p>	<p>A entity must at the end of each reporting date (for municipalities 30 June):</p> <ul style="list-style-type: none"> • Review the useful life of an item of PPE (GRAP 17.56): • Review the depreciation method of business unit applied to PPE (GRAP 17.67): • Assess whether there is any indication that an asset may be impaired – if so , the entity should determine the asset’s recoverable amount; • Review the residual values of an item of PPE. 	AP	Manager: Assets	Year end
2	<p>GRAP 17.56 (IPSAS 17.67) states that useful life of an item of property, plant and equipment shall be reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods shall be adjusted.</p>	<ol style="list-style-type: none"> 1) Issue a memorandum to all departments’ managers at year end, requesting them to ensure that the remaining useful life of all items of PPE is reviewed at 30 June to identify items with a shorter remaining useful life that the one reflected on the AR. The manager responsible for assets management should be notified of items of PPE with remaining useful lives shorter than those reflected on the AR at the year end. 2) To determine whether a change in the useful life of an asset occurred, an assessment of the condition of each asset, based on predetermined assessment criteria should be performed. An example of this basic-condition assessment criteria on p27-28 of Annexure B in (South African)(South African) MFMA – Local Government Capital Asset Management Guideline, 2008 (National Treasury). 3) One of the objectives of the condition assessment, performed during the asset verification, is to determine if a movable asset which will achieve its estimated useful life. Where the assessment indicates that the remaining useful life will most likely not be achieved , a decision <ul style="list-style-type: none"> • Has to be taken on the type of intervention to be adopted (e.g. change in useful life, impairment or disposal). 4) Estimated useful lives (EUL) are determined at initial recognition of assets and, as part of the verification process, remaining useful lives (RUL) are estimated. 5) There may be assets in the AR that are in still use but which will have been fully depreciated previously by the entity as the assets’ outlived their original EUL. 	AP	Manager: Assets	Year End

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		<p>6) RUL life is a key factor in determining the fair value for individual assets. Estimating the age (acquisition date) as well as setting the remaining period over which an asset will be depreciated.</p> <p>7) Evidence which may suggest that the expected life should be changed , will include:</p> <p>Internal Sources</p> <ul style="list-style-type: none"> • Basic condition assessment indicates significant change in expected useful life. The rating scale in the table at the end of this session could be used in the annual reviewing of useful lives, based on condition assessment. • Significant increase in utilization ; • Asset performance significantly less than expected; • Increase or excessive level of maintenance; • Plans to replace that asset included in CAPEX; • Service delivery not at acceptable levels due to complaints received; and • Evidence or reports of physical damage <p>External Sources</p> <ul style="list-style-type: none"> • Changes in demographics; • Legislative changes that will make the asset obsolete; • changes in the original industry or manufacturer life estimates; • expectations that new technological advances will lead to early obsolescence ; • economic obsolescence due to the new more cost – effective alternatives; and • changes to industry standards. • Another objective of the condition assessment is to assess assets for indications of impairment on annual basis (refer to the section below on the impairment of assets). 			

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
3	According to GRAP 17 , the residual value is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. In practice the residual value of an asset is often insignificant and, therefore, is more immaterial in the calculation of the depreciable amount.	<p>1) The residual value of an asset must be reviewed annually at year end and if expectations differ from previous estimates, the change are accounted for as changes in accounting estimates in terms of GRAP 3.</p> <ul style="list-style-type: none"> Motor vehicles are a good example of municipal assets whose residual values should be considered and reviewed annually to ensure that annual carrying amounts equals the recoverable amounts 	AP	Manager: Assets	Year end
4	Updating useful lives and residual values	1) Amend the useful lives and residual values in the asset register for items identified as a result of the previous procedure and ensure that the depreciation charge for these items is adjusted for future periods.			
5	Accounting for change in estimate	<p>1) Obtain sufficient details of the above-mentioned change in accounting estimate from the official responsible for asset management to disclose the nature of the change in estimate, the amounts involved and the effect the future periods (if practicable to do so and if the amounts involved are material).</p> <p>2) Ensure that this information is disclosed as a non-adjusting post balance sheet event in a note to the AFS; this information needs to be disclosed as a change in estimates in the next year's AFS if the amounts involved are material.</p> <p>3) Refer to example 3 for an example of a re-estimation of useful an residual values</p>			

Impairment of Assets – Cash Vs Non –Cash Generating Assets

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>Impairment on assets is treated according to;</p> <ul style="list-style-type: none"> • Non cash generating assets – GRAP 21 • Cash generating assets – GRAP 26 <p>GRAP 21 defines non cash generating assets as assets other than cash generating assets, In turn it defines cash generating assets as those that are held to generate a commercial return GRAP 21.10 (IPSAS 21.16) expands further on what is meant by a commercial return by stating that an asset generates a commercial return when it is deployed in a manner consistent with that adopted by s profit-orientated entity. Holding as asset to generate a “commercial return” indicates that an entity intends to generate positive cash inflows from the asset (or of the unit of which the asset is part) and earn a return that reflects the risk involved in holding the asset.</p>	<ol style="list-style-type: none"> 1) Determine whether the relevant asset that have indications of impairment, should be classified as either cash generating or non- cash generating. 2) Assets are classified as cash-generating if the entity intends to generate positive cash inflows from asset and earn a commercial return that reflects the risk involved in holding the asset. In other words, in addition to the mere intention to hold assets to generate cash flows the intentions should also be generate market related cash flows from that asset. To the extent that the cash flows are not market related, those cash flows are not representative of the risk involved in holding the asset. 3) Management may hold assets with the intention to generate a commercial return, even if it does not achieve the objective during a certain period. These assets can still be classified as cash generating assets; In this case the substance over form should be determined. 4) In some situations, it may not be clear what the main objective of holding an asset is (i.e. whether it is to generate a commercial or not) in such a situation, it is then necessary to evaluate the significance of the cash flow generated from utilizing the asset. 5) Refer to example 5 that illustrates the difference between cash generating and non-cash assets. 	AP	Senior Manager: Assets & Liabilities	Year End
2	<p>According to GRAP 21.18-19 (IPSAS 21.26 & 26A) and GRAP 26.19-20 (IPSAS 26.21.22) an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.</p> <p>In assessing whether there is any indication that an asset may be impaired, an entity should consider , as a minimum, the following indications:</p> <p>External sources of information</p>	<ol style="list-style-type: none"> 1) To account for impairment losses, at year end issue a memorandum to all departments requesting them to identify assets that: <ul style="list-style-type: none"> • Are in a state of permanent damage at year end (no impairment losses will be recognized in respect as assets damaged that will be repaired after year end): • Are technologically obsolete at the yearend (this can be facilitated by supplying departments with a AR printout pertaining to major assets showing the remaining useful lives of assets – the departments can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout): • Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life; 	AP	Manager: Assets	Year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	<ul style="list-style-type: none"> • Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, market legal or government policy environment in which the entity operates. <p>Specific to non-cash generating assets</p> <ul style="list-style-type: none"> • Cessation, or near cessation, of the demand or need for services provided by the asset. <p>Specific to cash-generating assets</p> <ul style="list-style-type: none"> • Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating • An asset's value in use and materially decrease the asset's recoverable amount. • An assets market value has declined significantly during the reporting period, more than would have been expected as a result of the passage of time or normal use. <p>Internal sources of information</p> <ul style="list-style-type: none"> • Evidence is available of physical damage to or obsolescence of an asset. • Significant long-term changes with an adverse effect on the entity 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 as asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an 	<p>2) The following are some typical situations where impairment has occurred:</p> <ul style="list-style-type: none"> • An entity owns a building that it rents to external parties, and there is a significant decline in market rentals. • New environmental legislation is passed that restricts the use of certain landfill sites • New technical evidence shows that a certain type of underground pipe has significantly shorter than expected. • High rainfall has damaged certain roads and their associated infrastructure. • New wireless technology has been developed that will make certain wire-based computer networks obsolete. 			

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	<p>asset belongs, or plans to dispose of an asset before the previously expected date.</p> <ul style="list-style-type: none"> • Evidence is available from internal reporting that indicates that service performance of an asset is, or will be, significantly worse than expected. • Reviews of <ul style="list-style-type: none"> ○ Significantly decreased remaining useful life; ○ Significantly decreased residual value; ○ Significantly decreased replacement cost. <p>Specific to non-cash-generating assets</p> <ul style="list-style-type: none"> • A decision to halt the construction of the asset before it is complete or in a usable condition. 				
3	<p>Method of business unitology to be followed to calculate and recognize impairment losses.</p> <p>As stated above the calculation of an impairment loss is done if the recoverable service amount of a non-cash generating asset is less than its carrying amount. Also, as stated above, the Recoverable service amount is the higher of non-cash generating asset's fair value less costs to sell and its value in use. The purpose of this section is to provide guidance to entities on the actual calculation of recoverable service amount and therefore impairment losses.</p> <p>Fair value less costs to sell</p>	<ol style="list-style-type: none"> 1) The impairment loss per asset needs to be calculated and accounted for as an expense in the statement of financial performance. 2) Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. 	AP	Senior Manager: Assets & Liabilities	Year End

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	<p>GRAP 21 paragraph 35-39 (IPSAS 21 paragraphs 40-43) and GRAP 26 Paragraph 36-40 (IPSAS 26 paragraphs 38-42) provides the following relevant information on how to calculate fair value less costs to sell.</p> <p>information on how to calculate fair value less costs to sell.</p> <p>The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.</p> <p>If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the assets market price less the costs of disposal. The appropriate market price is usually</p> <p>The current bid price. When current bid price are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the estimate is made.</p> <p>GRAP 21.38 (IPSAS 21.43) states that the costs of disposal other than those that have been recognized as liabilities are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in the standard of GRAP on Employee Benefits) and costs</p>				

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	associated with reducing or reorganizing an operation following the disposal of an asset are not direct incremental costs to dispose of the asset.				
4	<p>Value in use – Non Cash Generating Assets GRAP 21 Paragraph 40 (IPSAS 21.44) – Value in use can be determined by using any one of the following approaches:</p> <ul style="list-style-type: none"> • The Depreciated replacement costs approach 41.43 (IPSAS 21. 45-47) • Restoration costs approach .44 (IPSAS 21.48) • Service units approach 45 (IPSAS 21.49) <p>For each material impairment loss the approach used to calculate value in use, if it forms the recoverable service amount. Must be disclosed.</p> <p>Depreciated Replacement Cost Approach</p> <p>Under this approach, the present value of the remaining service potential of an asset is determined as the depreciation replacement cost of an asset is the cost to replace the asset's gross service potential. The cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement costs of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such costs , to reflect the already consumed or expired service potential of the asset</p>	<ol style="list-style-type: none"> 1) The depreciation replacement cost (DRC) of an asset is essentially the current costs that will have to be incurred to replace the asset, depreciation over the assets current age. 2) Determine what the replacement cost (RC) of the impaired asset (or if only a major component of an asset been impaired, the replacement value thereof) currently. 3) Determine what the economic useful life (EUL) of the asset impaired is, as well as the remaining useful life (RUL). 4) Determine the depreciated replacement cost as follows:- $DRC=RCXRUL/EUL$ 	AP	Senior Manager: Assets & Liabilities	Year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
5	<p>Restoration cost approach</p> <p>Under the restoration cost approach the recoverable service amount of the asset is the depreciated replacement cost (as discussed above), less the cost required to repair the damaged asset</p>	<ol style="list-style-type: none"> 1) Use the same steps as followed for the depreciated replacement cost. 2) Determine the cost to repair/restore the damaged asset. 3) Recoverable service amount of the asset is the depreciated replacement cost (as discussed above), less the cost required to repair the damaged asset. 	AP	Senior Manager: Assets & Liabilities	Year End
6	<p>Service units approach</p> <p>The service units approach is used when there is a decline in the output level, or a reduction in the extent of use of an asset. Under the service units approach, the present value of the remaining service potential of the asset is determined by reducing the current costs to take into account the decline in the service potential of the asset. The current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated restoration or replacement costs of the asset before impairment whichever is lower.</p>	<ol style="list-style-type: none"> 1) Determine the service units potential of the origin assets , as expressed in units 2) Determine the portion of the asset that has been lost as expressed in terms of units 3) Reduce the replacement service unit potential with the portion of units that have been lost. 	AP	Senior Manager: Assets & Liabilities	Year End
7	<p>Value in use- cash Generating Assets</p> <p>GRAP 26 paragraph 41 (IPSAS 26.43). Value in use of cash –generating asset is determined as the present value of the estimated future cash flows expected to be derived from continuing use of an asset and from its disposal at the end of its useful life.</p> <p>GRAP 26.42 (IPSAS 26.43) Estimating the value in use of an asset involves the following steps:</p> <p>a) Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and</p>	<ol style="list-style-type: none"> 1) The following guidance should be used in determining the future cash flows and the discount rate: 2) Estimates of future cash flows should reflect assumptions that are consistent with the way the discount rate is determined. If this is not done, It could result in double –counting or ignoring the effect of some assumptions. 3) The cash inflow from financing activities (such as repayments of a loan to finance an asset) is excluded from estimates of future cash flows. Because the time value of money is considered by discounting the estimated future cash flows should exclude inflows and outflows from financial activities 4) Income tax payments and receipts, where applicable, should be excluded from estimates of future cash flows. Because an entity is required to use a pre-tax discount rate, the future cash flows should also be determined on a pre-tax basis. 	AP	Senior Manager: Assets & Liabilities	Year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	b) Applying the appropriate discount rate future cash flows.	<p>5) Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributes to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows also include the effect-estimated in nominal terms (i.e. nominal value). If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows also excludes the effect –estimated in real terms (i.e. nominal value less effect of inflation) (but include future specific price increases or decreases).</p> <p>6) The following are included in the estimated future cash inflows:</p> <ul style="list-style-type: none"> • Projection for the day to day servicing of the asset; and • Future overheads that can be attributed directly, or allocated on a reasonable and consistent basis to the use of the asset. <p>7) The following are not included in the estimates of future cash flows:</p> <ul style="list-style-type: none"> • Cash inflows from assets generating cash inflows that are largely independent of the cash inflows from the asset subject to impairment testing (for example, receivables); <p>8) Cash outflows that relate to obligations that have been recognized as liabilities (for example, payables, provisions or pensions).</p> <p>9) Refer to example 14 for an example of impairment of a cash generating assets.</p>			
8	<p>Impairments where an entity uses the cost or revaluation basis</p> <p>An impairment loss is recognized immediately in surplus or deficit, except where an asset is carried at a relevant amount in accordance with another standard of GRAP (for exam GRAP 17- Property, Plant and Equipment, GRAP 31, Intangible Assets or GRAP 103 – Heritage Assets). Such as impairment loss is treated as a revaluation decrease – i.e. is recognized in the revaluation reserve to the extent of a revaluation surplus available (except in the case of a reversal of a previous impairment loss recognized in</p>	<p>1) Determiner which model is used by the entity for the specific class of asset impaired.</p> <p>2) Where the cost model is used, an impairment loss is recognized immediately in surplus or deficit.</p> <p>3) Where the revaluation model is used, the impairment loss Is treated as a revaluation decrease - i.e. is recognized in the revaluation reserve to the extent of a revaluation surplus available (except in the case of a reversal of a previous impairment loss recognized in surplus or deficit, in which case only the excess will be recognized in the revaluation reserve).</p>			

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	surplus or deficit, in which case only the excess will be recognized in the revaluation reserve).				
9	GRAP 21.56 (IPSAS 21.59) and GRAP 26.98 (IPSAS 26.99) states that an entity assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exists or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset.	<ol style="list-style-type: none"> 1) Determine if there are indications that an individual asset impaired is no longer impaired, the reversal of the impairment loss is recognized in surplus or deficit, unless the asset is carried at revalued amount in accordance with another standard of GRAP (for example GRAP 17 – property , plant and equipment, GRAP 31 – Intangible Assets or GRAP 103 – heritage Assets). 2) Such a reversal of an impairment loss should be treated as a revaluation increase – i.e. is recognized in the revaluation reserve (unless it is first recognized in surplus or deficit to reserve a previous impairment loss recognized in surplus or deficit, in which case, only an excess will be recognized in the revaluation reserve). 3) Where the carrying amount of an asset increased due to the reversal of an impairment loss, the increased carrying amount should not exceed what the carrying amount of the asset would have been if no impairment loss had been recognized in prior periods. 	AP	Senior Manager: Assets & Liabilities	Year end
10	GRAP 26 defines a cash-generating unit as the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from the other assets or groups of assets.	<ol style="list-style-type: none"> 1) Certain cash-generating units may contain non-cash generating assets. Where such an asset is impaired, a proportion of the carrying amount of that non-cash generating asset should be allocated to the carrying amount of the cash-generating unit prior to estimation of recoverable amount of the cash generating unit. 2) Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity (for example, products at an intermediate stage of a production process), this asset or group of assets forms a separate cash-generating unit if the entity could sell the out-put on an active market. 			
11	Insurance compensation on impaired assets	<ol style="list-style-type: none"> 1) Compensation received or receivable from third parties for damages caused to the entity's assets that lead to impairment losses should be identified and recorded in a statement of financial performance of the entity when it becomes receivable. 2) It should be noted that the compensation received should not be set off against the insurance expenditure account. 3) The claims officer needs to identify and notify the responsible official of all agreements reached with third parties, where compensation from third 	FCP	Manager: Assets	Date on which insurance compensation is received or become receivable.

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		<p>parties will be received as compensation for items of ASSETS that were impaired.</p> <p>4) The responsible official must record these amounts as revenue in the financial year that they become receivable</p>			
12	<p>MFMA 102 (2) stipulates that the board of directors of the municipal entity must promptly report to the South African Police Service any-</p> <p>a) Irregular expenditure that may constitute a criminal offence; and</p> <p>b) Other losses suffered by the municipal entity which resulted from suspected criminal conduct.</p>	<p>1) Communicate via a memorandum to managers of the various departments within the municipality that they are to ensure that any incident of loss, theft or destruction of any PPE item is promptly reported in writing to the official responsible for asset management and also to the SAPS</p>	ACP	Manager: Assets	Year end

Revaluation of Items of PPE

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>GRAP 17 (IPSAS 17) does not require entities to revalue items of property, plant and equipment, It does, however, permit entities to revalue assets if they wish to do so. In other words, voluntary revaluation of land and buildings, and other assets for which there is an active market, is permitted.</p>	<ol style="list-style-type: none"> 1) A decision should be reached and accepted by council whether to revalue any class of PPE. 2) Ensure that accounting policy is drafted and accepted to revalue certain classes of PPE. 3) Ensure that all PPE items within a specific class of PPE are revealed annually. 4) Revaluation of PPE can only be used subsequent to initial recognition (recording in books of account). The revaluation reserve will be retained until the relevant property, plant and equipment is disposed of. 5) Revaluations should be made with sufficient regularity to ensure that the carrying amount of the item of property, plant and equipment does not differ materially from the fair value at the reporting date. 6) The frequency of revaluation depends on the changes in the fair value of the assets being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. For an asset that shows insignificant changes in fair value, it may be necessary to revalue the asset only 3 to 5 years. Assets that experience significant and volatile changes in fair value require annual revaluation. This is an accounting policy choice. 7) When one item of property, plant and equipment in a class is revalued, then the entire class should be revalued. 8) Also note that the movement in the revalued amount is recognized in net assets – under the revaluation surplus (with certain exceptions) and not in surplus and deficit. 	AP	<ul style="list-style-type: none"> • Senior Manager: Assets & Liabilities 	Date at which GRAP is implemented.
2	GRAP 17.34 (IPSAS 17.44)	<ol style="list-style-type: none"> 1) A revaluation will be based on the fair values of an item of PPE , and can be determined by applying one of three method of business units: <ul style="list-style-type: none"> • Market values • Market values of assets with similar circumstances and locations • Reproduction cost/replacement cost 2) The fair value of many assets can be determined by reference to quoted process in an active and liquid market; 			

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		3) Where market values are not available, estimates can be made with reference to the market value of assets with similar characteristics, in similar circumstances and location or with reference to recent arm's length transactions concluded for similar assets; or 4) If an asset is of a specialized nature, and market-based fair value is not available, an entity may need to estimate the fair value using either the reproduction cost or replacement cost. To determine the depreciated replacement cost of an asset, reference can be made to the cost of components used to produce the asset or to the indexed price for similar assets based on a price of the previous period. 5) The depreciated replacement cost of an asset is the current reproduction or replacement cost of the asset, less accumulated depreciation, to reflect the already consumed or expired service potential of the asset. 6) The replacement cost is the cost to replace the service potential of an asset. 7) The reproduction cost is the cost of creating an exact replica of the asset.			
2	GRAP 17.35 (IPSAS 17.45) stipulates that an appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification.	Determine the basis of revaluation of PPE items and consider using a specialist accredited valuator to revalue the PPE items annually.	ACP	<ul style="list-style-type: none"> • Senior Manager: Assets & Liabilities 	Year End
3	Accounting for revaluations GRAP 17.40 states that when an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways: (a) Restated proportionately with the change in gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method of business unit is often used when an asset is revalued by means of applying an index to its depreciated replacement costs.	Revalue the PPE items affected in the accounting records as follows: <ul style="list-style-type: none"> • Determine the difference between the revalued amount and the carrying of the PPE item; • One of the following two options can be followed for the treatment of accumulated depreciation; • Restatement: Restate both the gross carrying amount and the accumulated depreciation, so that the new carrying amount equals the revalued amount. This method of business unit is often used when an asset (mostly plant or equipment) is revalued by means of applying an index to its depreciated replacement cost: or • Elimination: The accumulated depreciation is eliminated against the gross amount of the asset and the net amount is restated to the revalued 	AP	<ul style="list-style-type: none"> • Senior Manager: Assets & Liabilities 	Year End

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	(b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method of business unit is often used for buildings.	<p>amount. The method of business unit is often used for property (buildings).</p> <ul style="list-style-type: none"> • The amount of the adjustment on the accumulated depreciation is part of the increase or decrease in the carrying amount as discussed below. • Under the revaluation model, the difference between the revealed amount and the carrying amount is recognized in the revaluation surplus. In the case of a reversal of an increase in excess of the increase previously recognized in the revaluation surplus, or a reversal of a decrease previously recognized in surplus or deficit, it will be recognized in surplus or deficit. • Ensure that the adjustment is reflected in the AFS. 			
4	Adjusting depreciation after revaluations	Adjust the depreciation charge for revalued items by taking the increased carrying amounts of PPE in terms into consideration.	AP	<ul style="list-style-type: none"> • Senior Manager: Assets & Liabilities 	Year end

Other Yearly Procedures

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>For reporting and audit purposes, an AR should reflect all PPE of the entity and the PPE reported should be assets that actually exist and are controlled by the entity.</p> <p>Consequently certain procedures should be performed on a yearly basis</p>	<p>At each end the following procedures should be performed (each procedure is discussed in more detail further on in the document);</p> <ul style="list-style-type: none"> • Physical verification of assets. • Condition assessment of assets. • Analysis of all current year expenditure (additions) to identify expenditures relating to assets and linking of the expenditure to the physical relevant asset. • Review of asset disposals during the period under review. • Evaluate verification results and implement steps to ensure correctness of the asset register. • Complete review and reconciliation of the municipal property portfolio inclusive of housing stock and investment properties. • Review of intangible assets to ensure completeness and correct classification in the Asset Register (AR). • Review of work in progress (Assets under construction). • Review and update of capital lease register and correction in Asset Register where needed. • Updating of the asset Register to the electronic system of choice. • AR and AFS restatement procedures. • Preparation of the PPE note to the A FS inclusive of preparation of the relevant appendices. 			Year end
2	<p>Physical verification of assets for reporting and audit purposes, an AR should reflect all PPE of the entity; and the PPE reported should be assets that actually exist and are controlled by the entity.</p>	<p>1) The AR should be the end result of the physical verification of assets. All assets listed in the AR should contain a clear cryptic description of the asset as well as a unique identifiable asset number.</p> <p>Bar coding could be used for all moveable assets and even building while property (erf) numbers, for example, could be used for identification of land.</p> <p>2) A certificate should be issued by the team involved in establishing the AR to the extent that all assets contained on the AR have been physically verified.</p>	ACP	Manager: Assets	Year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		The ideal is that a physical verification is performed at year-end (30 June). Alternatively a physical verification can be done on 31 March, with the movements in carrying value of PPE (such as addition, disposals and depreciation) between 31 March and 30 June being well documented.			

The Asset Register

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>Section 63 (2)(c) of the (South African) MFMA stipulates that all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register as may be prescribed.</p>	<p>1) The AR should be the end result of the physical verification of assets. All assets listed in the AR should contain a clear cryptic description of the asset as well as a unique identifiable asset number.</p> <p>Bar coding could be used for all moveable assets and even buildings, while property (erf) numbers, for example, could be used for identification of land.</p> <p>2) A certificate should be issued by the team involved in establishing the AR to the extent that all assets contained on the AR have been physically verified.</p> <p>The ideal is that a physical verification is performed at year end (30 June) Alternatively a physical verification can be done on 31 March with the movements in carrying value of PPE (such as additions, disposals and depreciation) between 31 March and 30 June being well documented.</p> <p>The compilation of an Asset Register is a legislative requirement. Management should ensure that it contains, as a minimum, the following:</p> <ul style="list-style-type: none"> • Acquisitions dates of all items of property, plant and equipment. • Clear descriptions of individual items of property, plant and equipment. • Expected useful lives of individual items of PPE or depreciation rates determined in accordance with the principles set out in GRAP 17 • Historical cost or fair value of individual items of property, plant and equipment or the fair value of assets received as donations. • The locations of the asset. • Department or Service that use or controls the item of PPE. • Identification reference, i.e. an unique asset number for physical verification and asset management purposes (bar code) • Accumulated depreciation attributable to individual items of PPE. • Impairment losses attributable to individual items of PPE. • Carrying value of the asset 	ACP	Manager: Assets	Implement ation of GRAP and Year end of each year thereafter

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		<ul style="list-style-type: none"> • Funding sources of individual items of PPE • Where land and building are revalued, the revalued amount attributable to individual items of land and buildings as well as the date and basis of such valuations. • Residual values • Whether the assets is pledged as security for any external loan or other obligation. 			
2	<p>For reporting and audit purposes and AR should reflect certain annual requirements.</p> <p>GRAP 17.56 states that the residual value and the useful life of an asset should be reviewed at least at each reporting date, while GRAP 17.67 requires the depreciation method of business unit applied to an asset to be reviewed at each reporting date</p>	<p>To facilitate the preparation of GRAP compliant AFS , ensure that the AR is able to provide the following information on an annual basis :</p> <ul style="list-style-type: none"> • A summary of all acquisitions of property, plant and equipment. <ul style="list-style-type: none"> i. Transaction Date ii. Description iii. Amount iv. Supplier/contractor v. Reference (invoice/contractor/payment/order no) • A summary of all disposals or write-offs of PPE during the year. <ul style="list-style-type: none"> vi. Transaction Date vii. Description viii. Amount <p>The disposals or write-offs amount should include both cost and accumulated depreciation.</p> <ul style="list-style-type: none"> • The aggregate depreciation expense for the year • Initially estimated useful life and reassessed useful life of each asset at reporting date. • Any impairment losses incurred during the year. • The opening and closing balances of PPE at costs. • The opening and closing balances of accumulated depreciation. • Movements in the relevant portion of PPE. 		Manager: Assets	Year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
3	<p>In addition to classifications of assets into property, plant and equipment, there also needs to be further classifications in a public sector environment. The purpose of these classifications is to develop a benchmark accounting treatment to assist in the measurement of property, plant and equipment and to assist users to understand better the nature of the assets included as PPE</p>	<p>In addition, the information referred to above should be presented annually by:</p> <ul style="list-style-type: none"> • Class (and sub-classes if applicable) of PPE. This information will be used to prepare the notes to the AFS on PPE • Funding source. This will enable the accounting entries relating to the EFC, CRR, Government Grant Reserve, Capitalization Reserve as well as the public Contributions and donations reserve to be easily prepared. • Department or function. This will enable management to report on the Segmental Analysis of property, plant and equipment. 	AP	Manager: Assets	Year end
4	<p>Disclosure in the AFS is required per class of PPE, and according to GRAP 17.42, a class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. Examples of separate classes are land, operational buildings, motor vehicles, furniture and fixtures, office equipment, etc.</p> <p>GRAP 17 does not define the following classes, but certain classes of PPE, as defined in GAMAP 17 and IPSAS 17, will be applicable in the municipal environment.</p> <p>Infrastructure assets are assets that are part of a network of similar assets. Examples of infrastructure assets are roads water reticulation schemes, sewerage purification and train mains.</p> <p>Community assets are any assets that contribute to the community's well-being. Examples are parks, libraries and fire-stations.</p> <p>Other assets are assets utilized in operations. Examples are plant and equipment, motor vehicles and furniture and fitting.</p>	<p>1) Categorize PPE into classes of assets, as explained in GRAP 17. These categories are important from a disclosure perspective.</p>	AP	Manager: Assets	Year end

Reconciliations Between GL and AR

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	Reconciliation is a key control procedure which should be performed to ensure correctness of asset transactions and balances in the GL on a monthly basis and of reporting purposes at year-end.	<p>A monthly reconciliation of PPE in its different classifications between the GL and the AR should be performed on the following and deviation found during this reconciliation process should be cleared:</p> <ul style="list-style-type: none"> • Asset at cost price • Accumulated depreciation and depreciation • Accumulated impairment and impairment 	AP	Manager: Assets	Monthly

Physical Control Over Items of PPE

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>SECTION 63 1(a) of (South African) MFMA States that the accounting officer of a municipality is responsible for the management, including the safeguarding and maintenance of the assets of the municipality.</p> <p>Section 63 of the (South African) MFMA states that the municipality must maintain a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.</p> <p>Section 51 (1)(a) (i) of the PFMA requires accounting authorities a public entity to ensure that that publicity entity has and maintains effective and transparent systems of financial and risk management and internal control;</p>	<p>1) Ensure that the existence of assets is verified periodically by physical inspection of the PPE, items should be identified from AR and their existence confirmed through physical inspection. During the physical inspection of PPE, ensure that :</p> <ul style="list-style-type: none"> • The PPE exists. • The PPE is not damaged (if it is damaged it should be evaluated if an impairment of the asset is necessary). • The PPE has been serviced (properly maintained) at the correct intervals. • The details of the inspection are recorded on the AR • Record should be kept on spreadsheets of all PPE inspected throughout the course of the year and also to identify PPE not inspected during the year. <p>2) Any amendments to the AR and supporting documentation/authorization and journal should be kept for audit purposes.</p> <p>3) The completeness of the AR should be confirmed by identifying PPE registered in the name of the municipality and then confirming that the assets are recorded on the AR. These processes should be done at least once a year for all municipality PPE items, as close as possible to the end of each financial year, and the result report shall be submitted to the official responsible for asset management or delegated official.</p> <p>4) A report on the results of the annual PPE physical verification should be prepared for consideration by the SENIOR MANAGER: ASSETS & LIABILITIES and the accounting records should be updated with the results of the verification i.e. assets should be impaired or written –off if the results of the verification indicate that this is necessary.</p>	ACP	Manager: Assets	Year end or as close to year end as possible (At least once a year)
2	<p>Section 78 1 (e) of the South African) MFMA states that 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</p>	<p>A clause should be included in the duty sheet of officials that they are responsible doe the management, including the safeguarding, of the assets and the management of liabilities within the official's area of responsibility.</p>	ACP	Senior Manager: Assets & Liabilities	Date at which GRAP is implemented

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	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.				

Subsequent Expenditure

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>According to GRAP 17.14 (IPSAS 17.24), subsequent expenditure relating to an item of property, plant and equipment that has already been recognized shall be added to the carrying amount of the asset when it is probable that future economic benefits or service potential over the total life of the assets in excess of the most recent assessed standard of performance of the existing asset, will flow to the entity. All other subsequent expenditure shall be recognized as an expense in the period in which it is incurred.</p> <p>According to GRAP 17.5 (IPSAS 17.25) subsequent expenditure on property, plant and equipment is only recognized as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recent assessed standard of performance.</p>	<ol style="list-style-type: none"> 1) Finance should be aware of the criteria to be used to differentiate between capital expenditure and current operating expenditure (repairs and maintenance). 2) Only costs incurred to improve an asset i.e. improvements, or to replace a part of an asset, can be capitalized if they meet the recognition criteria. 3) If there is uncertainty as to whether the costs incurred relating to an asset should be expensed or capitalized, the following can be considered, and if the answer is yes to one or more, the cost should be capitalized: <ul style="list-style-type: none"> • Does the cost incurred satisfy the recognition criteria? • Will the cost enhance the service provision of the asset beyond its original expectations? • Will the cost increase the performance of the asset beyond its original performance? • Will the cost increase the useful life of the asset beyond its original life? • Is the cost incurred not primarily for labour, consumables or small parts? • Is the cost incurred to increase the size of the asset or change its shape? • Is the cost incurred to replace a significant part of the asset? <p>All invoices need to be scrutinized throughout the year to identify and allocate maintenance expenditure to operating expenditure and to identify and properly allocate capital expenditure. These expenses should be reconciled to the bank statements and then journalized to the expenses categories.</p>	AP	Manager: Assets	Date at which subsequent expenditure is incurred.

Transfers of Items of PPE

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	Transfers (out) of PPE to other entities	<p>The official for asset management should be notified when assets are going to be transferred from this entity to another entity.</p> <p>A list must be drawn up of the assets to be transferred indicating the description, acquisition date, remaining useful life, cost price, accumulated depreciation as well as book value of the assets.</p> <p>Write these out of the AR of the entity. The listing of the assets must be provided to the Senior Manager: Assets & Liabilities once the transfer is approved so that the transfer can be recorded on the accounting records of the entity.</p>	AP/ACP	Manager responsible for asset	Date on which PPE items are transferred
2	Transfers (in) of PPE into the entity	<p>In scenario where the entity is receiving PPE items, the entity should insist on a listing of assets that supplies a description, acquisition date, remaining useful life, costs price, accumulated depreciation and book value to be supplied by the transferring department.</p> <p>On receipt of the asset, record the assets in the AR of the entity record these assets in the accounting records of the entity.</p>			
3	Transfers of PPE	The transferring entity as well as the receiving entity must sign the PPE transferred listings on receipt of the PPE after the actual PPE received is compared to the listing to confirm its accuracy.	ACP	Manager: Assets	Date of PPE item receipt / transfer
4	Transfers within an entity , where a change in use arises	Refer to the chapter on Investment property, where the transfer between classes of assets (such as inventory, investment property, PPE etc.) is discussed.			

Procedures at the End Of The Useful Life of the PPE

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	An item of property , plant and equipment shall be laminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.	<ol style="list-style-type: none"> 1) Notify the official responsible for asset management immediately when assets are disposed of or when no future economic benefits are expected from the use or disposal of an asset. 2) Inform the SENIOR MANAGER: ASSETS & LIABILITIES when PPE has been identified that will have no future benefits. 3) Derecognize these assets in entity's AR and AFS. 4) The cost price of the asset should be credited and accumulated depreciation debited to derecognize the asset in the AFS of the entity. 	AP	Manager: Assets	Date of disposal of PPE item
2	GRAP 17.77 (IPSAS 17.83) states that gains or losses arising from the retirement or disposal of an item of property, plant and equipment shall be determined as the difference between estimated net disposal proceeds and the carrying amount of the assets. For the purposes of display in the financial statements, the gain or loss shall be included in the statement of financial performance as an item of revenue or expense, as appropriate.	<p>On the sale of assets, perform the following;</p> <ul style="list-style-type: none"> • The official responsible for asset management and the SENIOR MANAGER: ASSETS & LIABILITIES should be notified of the detail of the PPE sold as well as the proceeds on asset sale; • The cost price of the mentioned asset as well as its accumulated depreciation up to the disposal should be written out of the accounting records of the entity and a gain or loss on the sale of the asset should be calculated and recorded in the applicable GL account (the calculation of the gain or loss on the sale of assets will be calculated by using a formula, as indicated below). 	AP	Manager: Assets	Date of disposal of PPE item
3.	<p>Section 90 of the (South African) MFMA – Disposal of capital assets.</p> <p>a) Municipal entity may not transfer ownership as a result of sale or other transaction or otherwise dispose of a capital asset needed to provide the minimum level of basic municipal services.</p> <p>b) A municipal entity may transfer ownership or otherwise dispose of a capital asset other than an asset contemplated in subsection (a) above but only after the council , in a meeting open to the public –</p> <ul style="list-style-type: none"> • Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic services 	Ensure compliance with section 90 of the (South African) MFMA	LCP	Senior Manager: Assets & Liabilities	At year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	<ul style="list-style-type: none"> • Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset. c) Any transfer of ownership of a capital asset must be fair , equitable , transparent and competitive and consistent with the supply chain management policy which the municipal entity have and maintained in terms of section 111. 				

Identification of Investment Property

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>GRAP 16.05 (IPSAS 16.07) defines investment property as property (land or building – or part of a building – or both) held (by owner or by the lease under finance lease) to earn rentals or for capitals appreciation or both, rather than for:</p> <ul style="list-style-type: none"> • Use in the production or supply of goods or services or for administrative purposes; or • Sale in the ordinary course of operations. 	<p>Review the complete GRAP compliant AR of the entity and identify property, that fits the definition of investment property, by doing the following:</p> <ul style="list-style-type: none"> • Identify and reclassify as investment property (IP) all land and buildings reflected on the updated AR meeting the definition of investment property as per GRAP 16 (IPSAS 16.). • Some of the indicators include: • Land held for long-term capital appreciation rather than for short – term sale in the ordinary course of operations. • Land held for a currently undetermined future use; • A building owned by the reporting entity (or held by the reporting entity under finance lease) and leased out under one or more operating leases on commercial basis; and • A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties. • A property owned by entity and leased out at a below market rental. • Property that is being constructed or developed for future use investment property. <p>The decision tree at the end of this section should assist in determining whether an asset qualifies for recognition as investment property. To ensure consistency, management should develop criteria for identification of IP</p>		Manager Assets	Date of Implementation of GRAP
2	<p>According to GRAP 16.06 (IPSAS 16.08) a property interest that is held by lessee under an operating lease may be classified and accounted for as investment property if, and only if the property would otherwise meet the definition of an investment property and the lessee uses the fair value model to measure the investment property.</p>	<ul style="list-style-type: none"> • A property interest held by a lease under an operating lease may be classified and accounted as investment property provided: • The property would meet the definition of an investment property. • The lease uses the fair value model for the asset recognition. • Where a property interest held under operating lease is classified as investment property, the item accounted for at fair value is the interest and not the underlying property. 		Manager Assets	Year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	<p>This classification alternative is available on a property- by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model.</p>	<ul style="list-style-type: none"> • The owner (lessor) of the property will still recognise the property leased to the holder of the property interest (lessee) as investment property in its own financial statements and measure the physical property using the fair value or cost model. The lessee will account for the interest in the property (not the property itself) at fair value. • This classification alternative is available on a property- by property basis, which implies that an entity may choose to classify and account for a particular property interest held under an operating lease as investment property but may choose not to account and classify other property interests held under operating leases as investment property. • Once this classification alternative is selected for one such property interest held under an operating lease all property classified as investment property (including properties owned by the entity as well as leased properties where the investment property selection is made) shall be accounted for using the fair value model. 			

Measurement of Investment Property Subsequent to Initial Recognition

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>According to GRAP 16.36 (IPSAS 16.42), an entity shall choose either the fair value model or the cost model and shall apply that policy to all its investment property.</p> <p>An exception is when a property interest held by a lessee under an operating lease is classified as an investment property. In such a case the fair value model shall be applied GRAP 16.47 (IPSAS 16.49).</p>	<ol style="list-style-type: none"> 1) Decide on which accounting model, cost or fair value, the entity will apply to investment property after initial recognition. 2) The above-mentioned chosen model becomes an accounting policy for the entity, thus council has to formally accept this model as such. 3) After initial recognition, reflect the investment property in the AFS of the entity at fair value or at cost less accumulated depreciation, based on the accounting policy elected above. 4) An entity that chooses the cost model, measures all the investment property using the cost model in GRAP 17 on property, plant and equipment. Investment property is therefore valued at cost less accumulated depreciation and impairment losses. 5) The appropriateness of the cost model for subsequent measurement of investment property is doubted by the author, as the cost model for IP may not result in fair presentation (it is highly unlikely that IP will depreciate in value, nor should its value be impaired under normal circumstances- entities are encouraged to rather apply the value model as opposed to the cost model. 			
2	Subsequent expenditure is capitalised in the accordance with GRAP 17 , when applying the cost model.	<ol style="list-style-type: none"> 1) Ensure that subsequent expenditure relating to an investment property that has already been recognised is only added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the entity. 		Manager Assets	Date when Subsequent Expenses are incurred.
3		<ol style="list-style-type: none"> 2) All other subsequent expenditure should be recognised as an expense in the period in which it is incurred. 			
4	<p>According to GRAP 16.44 (IPSAS 16.47), the fair value of investment property shall reflect market conditions at the reporting date.</p> <p>Arm's length transaction according to GRAP 16.50 (IPSAS 16.53) is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market</p>	<ol style="list-style-type: none"> 1) If the entity elects the fair value model, ensure that all of its investment property is measured at its fair value at each reporting date (fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction) 2) A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises. 		Senior Manager: Assets & Liabilities	Year End

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	conditions. The transaction is presumed to be between unrelated parties, each acting independently.				
5	A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and lessees uses the fair value model.	<ol style="list-style-type: none"> 1) A property interest held by a lessee under an operating lease 2) The initial cost of a property interest held under an operating lease and classified as investment property shall be accounted for, as prescribed for finance lease (from a lessee's perspective) under the statement of leases. 3) The asset borne from the property interest shall be recognised at the lower of the fair value of the property interest and the present value of the minimum lease payments. An equivalent amount shall be recognised as a lease liability with minimum lease payments. <ul style="list-style-type: none"> • Apportioned on subsequent measurement to the lease liability between finance charges and capital reduction of the lease liability. 4) After initial recognition, the property interest held by the lessee under an operating lease and classified as investment property shall be measured using the fair value model only. 		Senior Manager: Assets & Liabilities	Year End
6	<p>This standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model) (GRAP 16.38 (IPSAS 16.42)</p> <p>An entity is encouraged but not required to determine the fair value of investment property on basis of valuation by independent valour who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.</p>	<p>Disclose the fair value of all investment properties, irrespective of the measurement model (fair value or cost) used</p> <p>An entity may use its own valour to determine fair value of investment property- it doesn't need to be an independent valuer who holds s recognised and relevant professional qualification.</p>		Senior Manager: Assets & Liabilities	

Compiling and Maintaining an Investment Property Register

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>Section 63 (2) of the (South African Legislation) MFMA stipulates:</p> <p>The accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register as may be prescribed.</p>	<ol style="list-style-type: none"> 1) Ensure that an investment property register is prepared and that the assets listed under this category actually meet the definition of investment. 2) Applying the criteria (referred to in section 2.3.2) developed by management for identification of IP compile or downloads a complete list and details of investment properties as at 31 March /30 June. 3) Alternatively, the list and details of investment properties could be updated during the year (e.g. monthly/quarterly and only finalised at 31 March / 30 June. 4) To ensure the availability of information for reporting and disclosure purposes, the following information should be contained in the IP register and updated on a continuous basis as changes occur during the financial period. 		Senior Manager: Assets & Liabilities	Year End
2		<p>General asset information</p> <ul style="list-style-type: none"> • Asset number • Formal property (cadastral) description • Location (e.g. 16 km south of Worcester bordering the N1 highway) • Zoning of the property (as per relevant town planning legislation) • Type of asset (describe the function of the asset for example commercial accommodation, vacant land, residential accommodation etc.) <p>Descriptions of asset</p> <ul style="list-style-type: none"> • Extent of building /structure (recorded in m2) • Building name and address (or erf number if vacant land <p>Ownership</p> <ul style="list-style-type: none"> • Ownership (state- owned or leased) • If owned, details of title deed, title conditions/ restrictions • If owned, cost of acquisition & current valuation of asset (if available) 			

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		<ul style="list-style-type: none"> • If leased, details of lease (term, rental, escalation, responsibility for maintenance) <p>Encumbrances</p> <ul style="list-style-type: none"> • Leases over the asset (both short and long term) • Name of lessee • Contact details • Nature of lease • Term of lease • Expiry date of lease • Special conditions of lease • Rental (income per month/ annum)and escalation rate and date of escalation • Reference to lease agreement, property and debtor management systems • Other rights over the asset in favour of another organ of state or private entity (e.g. right of way, power line/ pipe line servitude, usufruct, etc.) • Land restitution claims lodged against the asset (in terms of the restitution of land rights Act, 1994). <p>Management responsibility</p> <ul style="list-style-type: none"> • Cost centre • Operating expenditure (e.g. municipal rates & service charges / maintenance/ management cost) • Type and contact details of all relevant guarantees, warranties and maintenance contracts. <p>Rights of the entity over assets</p> <ul style="list-style-type: none"> • Is the right contained in the title deed? If so, provide number and holder of title deed. 			

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		<ul style="list-style-type: none"> • If no, in terms of what documents (other than the title deed) does the entity hold this right? (e.g. Agreement of sale / donation, official correspondence, etc. <p>5) To facilitate the preparation of GRAP compliant AFS, ensure that the IP register is able to provide the following information on annual basis:</p> <ul style="list-style-type: none"> • A summary of all acquisitions of IP's • A summary of all disposals of IP's during the year. • The disposals should include cost (inclusive of disposal dates, amount received for disposal of the asset and accumulated depreciation, profit or loss on the disposal) (cost model) • The aggregate depreciation expense for the year (cost model) • Any impairment losses incurred during the year (cost model) • The opening and closing balances of accumulated depreciation (cost model) • The opening and closing balances of assets (cost model) • Movements in the fair value of assets (fair value model) • Direct operating expenses (including repairs and maintenance) arising from investment property. 			

Guidelines In Connection With Transfers Between Investment Property And Owner Occupied Property And Inventories

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>According to GRAP 16.65 (IPSAS 16.66) transfers to or from investment property shall only be made when there is change in use evidenced by:</p> <p>(A) Commencement of owner- occupation, for a transfer from investment property to owner- occupied property;</p> <p>(B) Commencement of development with a view to sale, for transfer from investment property to inventories;</p> <p>(C) End of owner-occupation for transfer from owner- occupied property to investment property;</p> <p>(D) Commencement of an operating lease (on commercial basis) to another party, for a transfer from inventories to investment property;</p>	<p>1) Ensure that transfers to and from investment property are only made when there is change in use.</p>		Manager Assets	Date of transfer
2		<p>1) For transfers from investment property carried at fair value to owner – occupied property or inventories, in future apply the FSOPM on PPE.</p> <p>2) The property's cost for subsequent accounting under GRAP 17 (IPSAS 17) on PPE or GRAP 12 on inventories should be it fair value at the date of change in use.</p>		Manager Assets	Date of transfer
3		<p>1) For owner- occupied property which becomes an investment property that will be carried at fair value, an entity should apply the FSOPM on PPE up to the date of change in use.</p> <p>2) At this date, treat any difference between the carrying amount of the property and its fair value in same way as a revaluation under GRAP 17 (IPSAS 17) on PPE by crediting a non-distributable reserve.</p>		Manager Assets	Date of transfer
4		<p>1) For a transfer from inventories to investment property that will be carried at fair value, recognise any difference between the fair value of the property at that date and its previous carrying amount in in net surplus/ deficit for the period.</p>		Manager Assets	Date of transfer

Guidelines In Connection With Disposals Of Investment Property

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1.	<p>The (South African) MFMA section 14 (1) to (2) stipulates:</p> <p>A municipality may not transfer ownership as a result of sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.</p> <p>A municipality may transfer ownership or otherwise dispose of a capital asset other than the one contemplated above, but only after the municipal council, in a meeting to the public has considered the fair market value of the asset and economic and community value to be received in exchange for the asset.</p>	<p>Council should (or if the power is delegated to the accounting officer of the entity, then this officer should):</p> <ul style="list-style-type: none"> Investigate and prove that there are reasonable grounds for disposal of investment property, as the asset is not needed any more to provide the minimum level of basic municipal services ; and Consider the fair value of the asset and the economic and community value to be received in exchange for such asset. 		Senior Manager: Assets & Liabilities	
2	<p>The (South African) MFMA section 14 (5) stipulates that any transfer of ownership of a capital asset is fair, equitable, transparent, competitive and consistent with the supply chain management policy which the municipality has adopted.</p>	<p>Council should ensure that the transfer of ownership of an investment property complies with section 14 (5) of the MFMA.</p>		Senior Manager Assets & Liabilities	Before Proposed disposal of investment property.
3	<p>According to GRAP 16.76 (IPSAS 16.77) an investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.</p>	<p>Eliminate a specific investment property from the statement of financial position on disposal thereof or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.</p>		Manager Assets	Date of disposal of investment property
4		<p>Determine gains or losses arising from the retirement or disposal of investment property as the difference between the net disposal proceeds and the carrying amount of the asset.</p> <p>Present the gain or loss in the statement of financial performance as an item of revenue or expense.</p>		Manager Assets	Date of disposal of investment property and year End

INTANGIBLE ASSETS

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>According to GRAP 31.21 (IPSAS 31.26) the recognition of an item as an intangible asset requires an entity to demonstrate that the item meets :</p> <ul style="list-style-type: none"> • The definition of an intangible asset; and • the recognition criteria <p>According to GRAP 31.23 (IPSAS 31.28) an intangible asset shall be recognised if, and only if :</p> <ul style="list-style-type: none"> • It is probable that the expected economic benefits that are attributable to the asset will flow to the entity; and • The cost can be measured reliably. <p>Internally generated goodwill shall not be recognised as an asset.</p>	<p>Ensure that an asset is only classified as an intangible asset when it :</p> <ul style="list-style-type: none"> • does not have a physical form • is identifiable; • has future economic benefits that are controlled by the entity • is possible to reliably measure the cost <p>a) Identifiable : An asset meets the identifiable criterion in the definition of intangible assets when it :</p> <ul style="list-style-type: none"> • Is separable: Is capable of being separated or divided from the entity and sold transferred; rented either individually or together with a related contract, asset or liability. • Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity. <p>b) Control: An entity controls an asset if the entity has the power to obtain future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits .The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.</p> <p>c) Future economic benefits: The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings or other benefits resulting from the use of the asset by the entity .For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues. The entity shall assess the probability of the expected future economic benefits using reasonable and supportable assumptions that represent management’s best estimate of the economic conditions that will exist over the useful life of the asset.</p> <p>Examples of items which may meet the of an intangible asset in the municipal environment are :</p> <ul style="list-style-type: none"> • A licence fee for operating a tip site where the fee grants to the municipality the right to operate the tip site for a period of longer than one year. 	AP	Senior Manager: Assets & Liabilities	Date of recognition of the intangible asset.

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		<ul style="list-style-type: none"> • The cost incurred to obtain mining rights, where a municipality has mining operations. • Servitudes over land • Computer software • Website costs 			
2.		<p>Assets with tangible and intangible elements.</p> <p>The definition of an intangible asset may result in confusion as to what asset or part of the asset is intangible and what part of the asset is tangible and should be treated in accordance with GRAP 17(Property, plant and equipment) .Such instances require professional judgement and an assessment should be made of which element is more significant, the physical (tangible) or non-physical (intangible) element.</p> <p>For example, computer software should also be capitalised as an intangible asset except if the software packages forms and integral part of the computer (for example Windows). These operating systems should be capitalised as Property, plant and equipment since the most significant element would be considered to be the tangible machine and the operating system is considered integral to the machine.</p> <p>Software packages for example MS Office qualify as an intangible asset and are usually bought separately from the computer hardware (stand-alone' software).</p> <p>The majority of municipal accounting systems are not sold separately to municipalities but includes and forms an integral part of computer hardware systems installed at the municipality.</p> <ul style="list-style-type: none"> • If the cost of the system can be broken down between hardware and software (Itemised) then it should be classified separately as PPE and intangible assets. • If the system can't be itemised between its tangible and intangible elements then the municipality should classify the whole system as Property, plant and equipment since an intangible asset cannot have a physical form. 			

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
3.	<p>According to GRAP 31.27(IPSAS 31.31) An intangible asset shall be measured initially at cost in accordance with paragraphs .28 to .39. Where an intangible asset is acquired through a non- exchange transaction its initial cost at the date of acquisition, shall be measured at its fair value as at that date.</p> <p>GRAP 31.30 PSAS 31.34) states that the cost of an intangible asset comprises its purchase, including import duties and non-refundable purchase taxes , and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.</p>	<p>Initial measurement of intangible assets</p> <p>Intangible assets should be measured initially at its cost price.</p> <p>Cost should be capitalised only where they are incurred in bringing the assets to a location and condition that enables it to be used as intended by management.</p> <p>Examples of directly attributable costs are :</p> <ul style="list-style-type: none"> • Costs of employee benefits (as defined in the Standard of GRAP on Employees Benefits) arising directly from bringing the asset to its working condition • Professional fees for legal services. • Costs incurred to test whether the asset is functioning properly; • Professional fees arising directly from bringing the asset to its working condition; and • Costs of testing whether the asset is functioning properly <p>Examples of expenditures that are not part of the cost of an intangible asset are :</p> <ul style="list-style-type: none"> • Costs of introducing a new product or service (including costs of advertising and promotional activities) • Costs of conducting operations in a new location or with a new class of customer (including costs of staff training) • Administration and other overhead costs. 	AP	Senior Manager: Assets & Liabilities	Date of recognition of the intangible asset.
4.	<p>According to IGRAP 16, A website arising from development should be recognised as an intangible asset if, and only if, an entity is able to satisfy the requirement to demonstrate how its website will generate probable future economic benefits or service potential, for example, the web site is used for increased service delivery when used by taxpayers to submit tax returns electronically.</p> <p>When an entity is not able to demonstrate how a web site developed to comply with a statute or to be used primarily in providing information</p>	<p>Recognition of a Website as an intangible asset.</p> <p>One criteria that needs to be demonstrated by an entity with the recognition of a website as an intangible asset is how the website will generate probable future economic benefits.</p> <p>Future economic benefits flowing from an intangible asset, as stated in GRAP 16 may include revenue from the sale of products or services, cost savings, or benefits resulting from the use of the asset by the entity.</p> <p>Therefore future economic benefits from a website may be assessed when the website is capable of generating revenues. A website developed solely or primarily for advertising and promoting an entity's own products or</p>	AP	Senior Manager: Assets & Liabilities	Date of recognition of the intangible asset.

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	to the public at large on the generation of future economic benefits or service potential, all expenditure on developing such a web site should be recognised as an expense when incurred.	services is not recognised as an intangible asset because the entity cannot demonstrate the future economic benefits that will flow to the entity. All expenditure on developing a website solely or primarily for promoting and advertising is recognised as “advertising expenses when incurred.			

Recording Intangible Assets In The Asset Register

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>Section 63(2)(c) of the South African (MFMA) stipulates:</p> <p>The accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register.</p>	<p>Compile /update the Intangible Asset register and ensure that it reflects the following information :</p> <ul style="list-style-type: none"> • A clear description of each intangible asset • Acquisition date of each item • The location of the asset • The department or service that controls or uses the intangible asset • An unique asset identification number • The original cost of the intangible asset • Accumulated amortisation to date • The amortisation charge for the current financial year. • The carrying value of the asset • The method of business unit and rate of amortisation • Impairment losses incurred during the financial year (and the reversal of such losses ,where applicable) • The source of funding • The date on which the asset was disposed. • The disposal price • The date on which the asset is retired from use if not disposed of. 	FCP	Manager: Assets	Date when GRAP is implemented and thereafter at year end
2.		<p>Ensure that intangible assets are capitalised, that is, recorded in the Intangible Asset Register as soon as acquired. If the intangible asset is internally generated over a period of time, ensure that developments costs are recorded as work -in -progress until it is available for use, where after it shall be capitalised as an intangible asset.</p>	AP	Manager: Assets	Date on which IA is acquired
3.		<p>Ensure that the Intangible Asset Register is able to present information on intangible assets on an annual basis by:</p> <ul style="list-style-type: none"> • Funding Source .For the preparation of the accounting entries of deferred income, the CRR, Government Grant Reserve, 	AP	Senior Manager: Assets & Liabilities	Year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
		Capitalisation Reserve as well as the Public Contributions and Donations Reserve (if applicable). <ul style="list-style-type: none"> • Department or function .For the preparation of the Segmental Information in the Financial Statements. 			

Accounting Treatment Of Intangible Assets

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1.	<p>GRAP 31.70(IPSAS 31.71) states that an entity shall choose either the cost model or the revaluation model as its accounting policy .If an intangible asset is accounted for using the revaluation model, all other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets</p>	<p>1) Ensure that an intangible asset is carried at its carrying amount, after initial recognition, which is the amount at which an asset is recognised in the Statement of Financial Position after deducting any accumulated amortisation and accumulated impairment losses thereon.</p> <p>2) Entities are allowed to carry intangible assets at their fair value, if an active market exists for the intangible asset. It will be uncommon for the entity to control intangible assets from which an active market exists and therefore the entity carries intangible assets at carrying amount as defined above.</p>	AP	Senior Manager: Assets & Liabilities	Date on which IA is acquired
2		<p>Subsequent Expenditure</p> <p>Ensure that the subsequent expenditure incurred after the purchase or completion of an intangible asset are expensed when incurred unless it is probable that the expenditure would enable the asset to generate future economic benefits in excess of the originally assessed standard of performance and the expenditure can be measured and attributed to the asset reliably.</p>	AP	Senior Manager: Assets & Liabilities	At year end

AMORTISATION

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>GRAP 31.95 (IPSAS 31.96) states that the amortisation shall begin when the asset is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date the asset is classified as held for sale GRAP 100 and the date the asset is derecognised.</p> <p>The amortisation method of business unit used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight line method of business unit shall be used.</p>	<p>Amortisation</p> <p>1) The Municipality should amortise its intangible assets over their useful lives.</p> <p>Amortisation begins when the asset is available for use. (i.e. not from when the entity actually starts to use the asset.</p> <p>Amortisation shall cease on the date on which the asset no longer generates an inflow of economic benefits see example 1.</p> <p>2) A variety of amortisation method of business units can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These method of business units include :</p> <ul style="list-style-type: none"> • Straight line method of business unit • The diminishing balance method of business unit • Unit of production method of business unit 	AP	Senior Manager: Assets & Liabilities	At year end
2	<p>GRAP 31.95 (IPSAS 31.96) states that the depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.</p> <p>The amortisation method of business unit shall reflect in which the assets future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight line method of business unit shall be used.</p> <p>According to GRAP 31.98 (IPSAS 31.99) the residual value of an intangible asset with a finite useful life shall be assumed to be zero unless :</p> <p>1) There is a commitment by a third party to purchase the asset at the end of its useful life or:</p> <p>2) There is an active market for the asset, where its residual vale can be</p>	<p>1) Ensure that the intangible assets are amortised according to the straight line method of business unit over their expected useful lives and the amortisation expenses is reflected in Statement of Financial Performance when incurred.</p> <p>2) An entity must at each reporting date assess whether there is an indication that an intangible asset with a finite useful life is impaired .If so the asset must be tested for impairment in terms of IAS 36.</p>	AP	Senior Manager: Assets & Liabilities	At year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	determined by reference to that market and it is probable that such a market will exist at the end of the asset's useful life.				
3.	<p>If there is no foreseeable limit to the period over which the intangible asset will generate net cash flow, the asset is regarded as having an indefinite useful life .An annual review should be conducted to ensure that events and circumstances still continue to support an indefinite useful life assessment of these assets. Should an indefinite useful life assesses not be appropriate, based on the annual review, this would be accounted for as a change in accounting estimate in term of GRAP 3.</p> <p>The change of the useful life of an asset from indefinite to finite could be an indication of impairment.</p>	<p>1) Intangible assets with an indefinite useful life are not amortised, but is tested for impairment.</p> <p>2) The term indefinite does not mean 'Infinite", an indefinite useful life means that there is no foreseeable limit over which the asset is expected to generate net cash inflows for the municipality.</p> <p>3) Intangible assets, for example servitudes on land with an indefinite useful life, should be tested for impairment in terms of GRAP 21 and 26.</p> <ul style="list-style-type: none"> • Annually by comparing the carrying amounts with the recoverable amounts. • Whenever there is an indication of impairment. 	AP	Senior Manager: Assets & Liabilities	At year end
4	<p>According to GRAP 31.88 (IPSAS 31.93) many factors should be considered in determining the useful life of intangible assets which include <i>inter alia</i> the following :</p> <p>(a) The expected usage of the asset by the entity.</p> <p>(b) Typical product life cycles of similar assets that are used in the similar way.</p> <p>(c) Technical, technological, commercial or other types of obsolescence.</p> <p>(d) The stability of the industry in which the asset operates and changes in market demand for the products from the asset.</p> <p>(e) Expected actions by competitors or potential competitors.</p> <p>(f) The level of maintenance expenditure required to obtain the expected future economic benefits from the assets.</p>	<p>An entity should disclose in its financial statements for an intangible asset assessed as having an indefinite useful life, the reasons for supporting the assessment of an indefinite useful life.</p> <p>In giving these reasons the entity should consider the list of factors in GRAP 31 (IPSAS31) paragraph 93.</p>	AP	Senior Manager: Assets & Liabilities	At year end

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
	(g) Period of control over the asset and legal or similar limits on the use of the asset, such as expiry dates of related leases. (h) Whether the useful life of the asset is dependent on the useful life of other assets in the municipality.				

Review Of Useful Life And Residual Value Of Intangible Assets

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>According to GRAP 31.102 (IPSAS 31.103) the amortisation period for an intangible asset with a finite useful life should be reviewed at least at each financial year end.</p> <p>If the expected useful life of the asset is different from the previous estimates, the amortisation period should be changed accordingly. Such changes shall be accounted for as changes in accounting estimates.</p>	<p>1) Ensure that the entity review the amortisation period for an intangible asset with a finite useful life at least at each financial year end.</p> <p>2) At the end of each financial year the following should be reviewed in respect of intangible assets with finite useful lives:</p> <ul style="list-style-type: none"> • Amortisation period • Amortisation method of business unit • Residual values and • Recoverable amount (for impairment) <p>Refer to FSOPM on accounting for changes in accounting policies, changes in accounting estimates and errors, for the accounting treatment of changes in accounting estimates.</p>	AP	Senior Manager: Assets & Liabilities	At year end

Retirements And Disposals

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>According to GRAP 31.110 (IPSAS 31.111), an intangible asset shall be derecognised :</p> <p>(a) On disposal ;or</p> <p>(b) When no future economic benefits /service potential are expected from its use or disposal</p>	<p>De-recognition of intangible assets.</p> <p>1) Derecognise an intangible asset on disposal or when no future economic benefits are expected from its use or disposal. It is highly unlikely that an entity will dispose of its intangible assets, and it is therefore amortised until it no longer generates any economic benefits for the entity, and then derecognised.</p> <p>2) Generally, the intangible assets for the entity will be amortised to a carrying amount of R0 after which they are derecognised and no gain or loss on de recognition/retirement is reflected.</p>	AP	Senior Manager: Assets & Liabilities	Date of de- recognition

The Distinction Between Research And Development Activities

#	Financial Management Best Practise Requirements (MBRP)	Financial Standard Operating Procedure (FSOP)	FSOP Type	Responsible Official	FSOP Date
1	<p>Research – is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding (GRAP 31.11; IPSAS 31.16).</p> <p>Development - is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials ,devices ,products ,processes ,systems or services prior to the commencement of commercial production or use (GRAP 31.11;IPSAS 31.16).</p>	<p>Research and development and other closely related activities.</p> <p>Clear distinction needs to be made between research and development activities and other closely related activities.</p>	AP	Senior Manager: Assets & Liabilities	Date when GRAP is implemented

Annexure B – Expected Useful Lives

System	Community Assets	Component Grouping	EUL Range
Asset Type	Buildings		
Component	Electrical Fittings	Electrical	15-25
Component	Elevator	Mechanical	30
Component	Foundation	Civil	30-50
Component	Generator	Electrical	10
Component	HVAC	Mechanical	15
Component	Internal Furnishes & Fittings	Civil	15-20
Component	Roof	Civil	20-40
Component	Structural Fabric	Civil	40-50
Asset Type	Fence		
Component	Fence	Civil	15-30
Component	Gate	Civil	15-20
Asset Type	Grandstand		
Component	Structural Fabric	Civil	20-30
Asset Type	Grass/Sports Field/Tennis Court/Ball Court/Playground		
Component	Sports Furniture	Equipment	7
Component	Surface	Civil	10-30
Asset Type	High mast Light		
Component	Distribution Box	Electrical	5-7
Component	Foundation	Civil	40
Component	Luminaires	Electrical	10
Component	Mast	Civil	40
Asset Type	Lighting		
Component	Papi Light	Electrical	20
Asset Type	Miscellaneous/Minor structures		
Component	Structural Fabric	Civil	60
Asset Type	Monument/ Statue		
Component	Monument/Statue	Civil	20
Asset Type	Open Spaces		
Component	Open Space	Civil	100
Asset Type	Paved Area		
Component	Drainage	Civil	15
Component	Kerbs & Edging	Civil	20
Component	Surface	Civil	20
Asset Type	Tank		
Component	Structural Fabric	Civil	20-50
Asset Type	Retaining Wall		

System	Community Assets	Component Grouping	EUL Range
Component	Structural Fabric	Civil	60
Asset Type	Shelter		
Component	Structural Fabric	Civil	10
Asset Type	Swimming Pool		
Component	Structural Fabric	Civil	40

System	Electricity	Component Grouping	UL Range
Asset Type	Buildings		
Component	Switch Gear	Electrical	30
Component	Electrical Fittings	Electrical	25
Component	Foundation	Civil	50
Component	Ground Transformer	Electrical	40
Component	Internal Furnishes & Fittings	Civil	20
Component	Roof	Civil	20-40
Component	Structural Fabric	Civil	40
Component	Power Transformer	Electrical	40
Asset Type	Fence		
Component	Fence	Civil	15-30
Component	Gate	Civil	15-20
Asset Type	Paved Area		
Component	Switch Gear	Electrical	30
Component	Mechanical Breaker	Electrical	25-30
Component	Auxiliary Transformer	Electrical	40
Component	Current Transformer 01	Electrical	40
Component	Drainage	Civil	15
Component	Gas Breaker	Electrical	20
Component	Ground Transformer	Electrical	40
Component	Power Transformer	Electrical	40
Component	Kerbs & Edging	Civil	20
Component	Mechanical Isolator	Electrical	20-25
Component	Oil Breaker	Electrical	20
Component	Supporting Steel Structure	Civil	20
Component	Surface	Civil	7-20
Component	Transformer	Electrical	40
Component	Vacuum Breaker	Electrical	40
Component	Voltage Transformer	Electrical	40
Asset Type	Retaining Wall		
Component	Structural Fabric	Civil	60

System	Sanitation	Component Grouping	EUL Range
Asset Type	Fence		
Component	Fence	Civil	15-30
Component	Gate	Civil	15-20
Asset Type	Paved Area		
Component	Surface	Civil	20
Asset Type	Pumpstation - Sanitation		
Component	Foundation	Civil	50
Component	Inlet_Channel	Civil	60
Component	Internal Finishes and Fittings	Civil	40
Component	Electrical Motor Control Centre	Electrical	10
Component	Pipes Delivery	Civil	50
Component	Pipes Suction	Civil	50
Component	Pump sets	Mechanical	10
Component	Roof	Civil	20-40
Component	Structural Fabric	Civil	40
Component	Telemetry	Electrical	7-10
Asset Type	Gravity Pipes	Civil	15-40
Asset Type	Pressure Pipes	Civil	10-50
Facility Type	Waste Water Treatment Works		
Asset Type	Bioreactor	Civil	30
Asset Type	Clarifier	Civil	55
Component	Clarifier scraper	Mechanical	15
Component	Flowmeter-sewage	Mechanical	15
Component	Gearbox	Mechanical	15
Component	Gormann Rupp Pump	Mechanical	10
Asset Type	Inlet works	Civil	25-30
Component	Motor	Electrical	20
Component	Pipes	Civil	20
Asset Type	Pond	Civil	55
Component	pond lining	Civil	50-55
Component	Pump	Mechanical	10
Component	Rotating arm	Mechanical	15
Component	Submersible Pump	Mechanical	10
Asset Type	Sump	Civil	20
Component	Surface Aerator	Mechanical	40
Component	WWTW-Electrical works	Electrical	40

System	Water	Component Grouping	EUL Range
Asset Type	Buildings		
Component	Electrical Fittings	Electrical	15-25
Component	Foundation	Civil	50
Component	Internal Furnishes & Fittings	Civil	15-20
Component	Roof	Civil	20-40
Component	Structural Fabric	Civil	20-40
Asset Type	Chambers		
Component	Gate Valve	Mechanical	35
Component	Non-Return Valve	Mechanical	35
Component	Pipe Inlet	Civil	50
Component	Pipe Outlet	Civil	50
Component	Structural Fabric	Civil	20-40
Asset Type	Fence		
Component	Fence	Civil	15-30
Component	Gate	Civil	15-20
Asset Type	Pumpstation - Water		
Component	Foundation	Civil	50
Component	Internal Finishes and Fittings	Civil	40
Component	Electrical Motor Control Centre	Electrical	10
Component	Pipes Delivery	Civil	50
Component	Pipes Suction	Civil	50
Component	Pump sets	Mechanical	10
Component	Roof	Civil	20-40
Component	Structural Fabric	Civil	40
Component	Telemetry	Electrical	7-10
Asset Type	Reservoir		
Component	Structural Fabric	Civil	30-40
Component	Steel Ladder	Civil	15
Component	Telemetry	Electrical	7-10
Asset Type	Gravity Pipes	Civil	15-40
Asset Type	Pressure Pipes	Civil	10-50

System	Solid Waste	Component Grouping	EUL Range
Asset Type	Buildings		
Component	Electrical Fittings	Electrical	15-20
Component	Foundation	Civil	50
Component	Internal Furnishes & Fittings	Civil	20
Component	Roof	Civil	20
Component	Structural Fabric	Civil	40
Asset Type	Fence		
Component	Fence	Civil	15-30
Component	Gate	Civil	15-20
Asset Type	Paved Area		
Component	Surface	Civil	20
Asset Type	Retaining Wall		
Component	Structural Fabric	Civil	60
Asset Type	Shelter		
Component	Structural Fabric	Civil	10
Asset Type	Waste Containment Cell		
Component	Cover Fabric	Civil	55

System	Roads	Component Grouping	EUL Range
Asset Type	Paved Roads		
Component	Surface	Civil	8-20
Component	Pavement	Civil	20
Component	Formation	Civil	50
Component	Kerbs	Civil	20
Component	Sidewalks	Civil	20
Asset Type	Gravel Roads		
Component	Surface	Civil	10
Component	Wearing Course	Civil	5
Asset Type	Street Lighting	Electrical	30
Asset Type	Overhead Gantry	Civil	20
Asset Type	Structures	Civil	50-60

Annexure C – Impairment Questions and Values

The sections below contain queries, relevant to the various asset types, that can be used to determine whether any impairment has occurred.

Roads Infrastructure:

- Has the need to re-surface or re-seal road or pavement surfaces increased?
- Have roads been re-surfaced or re-sealed on a more frequent basis than originally planned? (i.e. is there a higher occurrence of pot holes?)
- Have any of the roads been replaced by detours?
- Has there been any damage to any of the road or pavement surfaces?
- Have road signs and/or street names been increasingly vandalised?
- Are any of the roads (or portions thereof) used extensively by heavy load bearing trucks?

Electricity Infrastructure:

- Has there been an increase in distribution losses overall or in any part of the electricity distribution network?
- Have any elements/portions of the electricity network been damaged? Has the damage impeded the performance thereof?
- Has there been an increase in the frequency with which repairs of the electricity distribution network have had to be undertaken?
- Has there been an increase in the frequency with which the substations and mini-substations had to be repaired as a result of increased loads for example?
- Has there been an increase in the frequency with which the electricity cables needed replacing?
- Has there been an increase in the extent to which wooden electricity poles needed to be replaced due to rotting?
- Has there been an increase in the regularity of power failures in any of the areas serviced by the municipality?
- Have there been changes in technology that have rendered certain parts of the electricity distribution network obsolete?
- Has the manufacturing of certain parts (spare parts etc.) of the substations/mini-substations ceased necessitating an earlier than expected upgrade of these stations?
- Have changes in technology rendered new replacement parts incompatible with the existing equipment again necessitating earlier than expected equipment replacement?

- Have changes in technology resulted in improved equipment that will improve the performance of the electricity distribution network and which will hasten the replacement of existing equipment?
- Has any of the equipment been unable to continue working for the same periods of time that it previously used to?
- Have any portions of the electricity distribution network been taken out of use?

Water & Sewer Reticulation:

- Has there been an increase in distribution losses overall or in any part of the Water distributions?
- Have any elements/portions of the water network been damaged? Has the damage impeded the performance thereof?
- Has there been an increase in the frequency with which repairs of the water & sewerage pipes have had to be undertaken?
- Has there been an increase in the frequency with which the reservoirs and pump stations had to be repaired as a result of increased demand for example?
- Has there been an increase in the frequency with which the water & sewerage pipes needed to be replaced?
- Has there been an increase in the regularity of meter leakages in any of the areas serviced by the municipality?
- Have there been changes in technology that have rendered certain parts of the water distribution network obsolete?
- Has any of the equipment been unable to continue working for the same periods of time than it previously used to?
- Have any portions of the water & sewerage distribution network been

Buildings and Community Assets:

- Has there been for any roof leakages?
- Has there been a pipe leakage affecting building?
- Have there been any minor or minor cracks on buildings?
- Has there been any breakdown for air conditioning, lifts, fencing etc.?
- Has there been any break-ins happened to buildings and community assets?

Vehicles:

- Has there been an increase in the break-down of motor vehicles?
- Has the frequency to replace certain part of vehicle increased?
- Has the mileage increased than expected during certain period of time?
- Is physical appearance of vehicle damaged?
- Has vehicle caused accident?
- Has the vehicle halted from its operation?
- Is the vehicle being serviced regularly?

Other Movable Assets:

- Is physical appearance damaged?
- Is the asset halted from its operation?
- Is expected economic benefit or service performance worse than expected?
- Did remaining useful life of asset decrease significantly than expected?
- Is change in technology contributed to substitute an asset?
- Is price change in the market contributed to substitute an asset?
- Is residual value of asset reduced significantly than expected?
- Is decision taken to early dispose an asset?
- If fair value/ replacement cost of asset reduced significantly?

Intangible Assets:

- Did the software package upgraded due to change in technology?

For all classes of assets, the impairment values are measured using the following parameters from National Treasury Guideline:

Movable Assets

Condition status	Impairment % applied	Economic benefit /service potential % applied	General description of status rating	Ratings
GOOD (100 – 61 %)	0%	100%	The movable PPE has no apparent defects. Appearance is as new. No intervention needed	1
FAIR (60 – 41%)	40%	60%	The movable PPE exhibits superficial wear and tear, with minor defects and minor signs of deterioration. Minor expenditure on maintenance needed.	2
POOR (40 – 21%)	60%	40%	The movable PPE are in average condition and require substantial maintenance work.	3
SCRAP (20 – 1%)	100%	0%	The movable PPE have deteriorated badly, With serious badly problem. General Condition is poor with significant Defects. High maintenance cost and movable May need to be rehabilitation. Cost vs benefits Should be considered. Asset is unfit for Normal use. Extremely high maintenance costs Will be incurred. Replacement is better Option (costs vs benefit).	4

Immovable Assets

Condition status	Impairment % applied	Economic benefit / service potential % expected	General description of status ratings	Ratings
EXCELLENT (100 – 81%)	0%	100%	Immovable asset has no apparent defects. Appearance is as new. Fractional cost on maintenance relating to value required to keep specialised asset in existing condition.	C5
GOOD (80 – 61%)	20%	80%	The immovable asset exhibits superficial wear and tear, with minor defects and minor signs of deterioration. Minor expenditure on maintenance needed.	C4
FAIR (60 – 41%)	40%	60%	Immovable asset is in average condition. Deteriorated surface finishes required attention, and backlog of maintenance work exists. Condition of building causes inconvenience to users. Medium maintenance costs In relation to value of building required to upgrade immovable asset.	C3
POOR (40 – 21%)	60%	40%	Immovable asset is deteriorated badly, with serious, visible structural problems. General condition is poor With eroded protective surfaces and a significant number of major defects. High risk to health & safety. High maintenance costs in relation to value of immovable asset as immovable asset need to be refurbished and upgraded.	C2
VERY POOR (20 – 1%)	100%	20%	Age, lack of maintenance and structural defects make immovable asset unfit for occupation. Very High risk to health and safety and generally unsuitable relation to value of immovable asset implied, as total collapse is imminent. Not worth upgrading.	C1

Annexure D – Capital Works Project Form

THE MSUNDUZI MUNICIPALITY

CAPITAL WORKS PROJECT

CAPITAL PROJECT DETAIL/ DESCRIPTION

BUSINESS UNIT	DEPARTMENT

CONTRACT NUMBER	VOTE

SUPPLIER

PROJECT START DATE	PROJECT FINISH DATE

PROJECT COST	MAINTENANCE PLAN COST	MAINTENANCE VOTE

PROJECT MANAGER: NAME:	GM/PROCESS MANAGER: NAME:
SIGNATURE:	SIGNATURE:
CONTACT NUMBER:	CONTACT NUMBER:

ASSET CONTROL

ASSET NUMBER/PROJECT NUMBER

DATE RECEIVED	DATE RECORDED IN FAR

ASSET CONTROL: NAME:
SIGNATURE:

Annexure E – Purchase of Asset Form**MSUNDUZI MUNICIPALITY
ASSET CONTROL FORM
PURCHASE OF ASSET FORM**

STRATEGIC BUSINESS UNIT	DEPARTMENT

NEW ASSET	REPLACING OLD ASSET	NEW STAFF MEMBER	REDUNDANT/OBSOLTE	DAMAGED	STOLEN

MOVEMENT FORM COMPLETED	DISPOSAL FORM COMPLETED	INSURANCE SCHEDULE COMPLETED

REQUISITION NO	ORDER NO	INVOICE NO	INVOICE DATE	VOTE/JOB NO.

DATE	SUPPLIER	LOCATION/ROOM NO.

ASSET DESCRIPTION	PURCHASE PRICE	ASSET NO.

REQUESTED BY:	AUTHORISED BY(DLEGATED AUTHORITY)
NAME:	NAME:
SIGNATURE:	SIGNATURE:
CONTACT No.	CONTACT No.

ASSET CONTROLLER:
NAME:
SIGANATURE:
CONTACT NO.:

ASSET CONTROL

DATE RECEIVED	DATE RECORDED IN THE ASSET REGISTER	NAME	SIGNATURE



Annexure F – Request for all Risk Insurance Cover for New Assets Purchased

**REQUEST FOR ALL RISKS INSURANCE COVER
FOR NEW ASSETS PURCHASED**

Please provide all risks insurance cover for the following item:

BUSINESS UNIT : _____

DESCRIPTION : _____

MAKE : _____

MODEL : _____

SERIAL No. : _____

ASSET No. : _____

CELL No. : _____

PURCHASE DATE : _____

PURCHASE PRICE : _____

USER : _____

INSURANCE VOTE: _____

PURCHASE VOTE : _____

(COST CENTRE)

RISK : _____

(HIGH, MED, LOW)

Please delete the following item:

DESCRIPTION : _____

SERIAL No. : _____

DELETION DATE : _____

Signed _____

For: S E M

Annexure G – Asset Movement and Transfer Form**MSUNDUZI MUNICIPALITY****ASSET CONTROL FORM****MOVEMENT/TRANSFER FORM**

STRATEGIC BUSINESS UNIT	DEPARTMENT

ASSET NUMBER	ASSET DESCRIPTION	FROM DEPT(CODE) AND ROOM NO.	TO DEPT(CODE) AND ROOM NO.	REASON FOR TRANSFER	DATE OF TRANSFER

REQUESTED BY: (DEPT TRANSFERRED FROM)	AUTHORISED BY: (DELEGATED AUTHORITY)	RECEIVED BY:
NAME :	NAME :	NAME :
SIGNATURE:	SIGNATURE:	SIGNATURE:
CONTACT NUMBER:	CONTACT NUMBER:	CONTACT NUMBER:

ASSET CONTROL

DATE RECEIVED	DATE RECORDED IN ASSET REGISTER	NAME	SIGNATURE
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Annexure H – Asset Disposal/ Transfer Form

**MSUNDUZI MUNICIPALITY
ASSET CONTROL FORM
DISPOSAL/RETIREMENT FORM**

STRATEGIC BUSINESS UNIT	DEPARTMENT

ASSET NUMBER	ASSET DESCRIPTION	PRESENT LOCATION/ ROOM NO	REASON FOR DISPOSAL/RETIREMENT	DATE

REQUESTED BY:	AUTHORISED BY: (DELEGATED AUTHORITY)	BROUGHT TO STORAGE BY:
NAME :	NAME :	NAME :
SIGNATURE:	SIGNATURE:	SIGNATURE:
CONTACT NUMBER:	CONTACT NUMBER:	CONTACT NUMBER:

ASSET CONTROL

DATE RECEIVED	NAME	SIGNATURE	DATE RECORDED IN FAR

METHOD OF BUSINESS UNIT OF DISPOSAL	DATE IN STORAGE	DATE OF SALE	BOOK VALUE	SELLING PRICE

Annexure I – Asset Retirement Disposal Checklist

THE MSUNDUZI MUNICIPALITY

ASSET RETIREMENT AND DISPOSALS CHECKLIST FOR BUSINESS UNITS

STRATEGIC BUSINESS UNIT	DEPARTMENT

Business Units that intend to dispose of Vehicle, Plant, Equipment and other Assets must ensure the following:

1. Date of the next Auction Sale to be obtained from the Asset Control Unit.
Date of Auction: _____
2. If the Licence expires before the Auction date,
 - Renew Licence ,or
 - De- register vehicle at the Licensing Office.Ensure the following are removed from vehicles/plant
 radios, tachos, revolving lights, all other accessories
3. All vehicle/plant to be examined for possible tyres spares exchange.
4. Release in respect of any Insurance Claim cancelling all Insurance on vehicles/plant to be auctioned.
5. All Retirement /disposal forms to be sent to the Asset Control Unit who will verify:
 - If the vehicle licence, Certificate of Registration , Clearance Certificate and Notice of Change of Ownership ,and
 - If the vehicle is de-registered, copy of the M.V.R.I.A must accompany the Asset Form.

Checked by:	Authorised By
Name :	Name:
Signature:	Signature:
Contact Number:	Contact Number:

Asset Control

Date Received:
Checklist Confirmation:
Name:
Signature: