**GAP ANALYSIS – MSUNDUZI MUNICIPALITY POLICY REVIEW AS AT 25 FEBRUARY 2017**

Definitions and Abbreviations

To be amended/ updated:

* Definition of carrying amount – correction of “*Statement of Financial Position*” and include “*accumulated*” in front of impairment losses (page 6).
* Definition of impairment – *“An impairment is a 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” (page 6).*
* Definition of recognition – “*The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if: it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost or fair value of the item can be measured reliably.*” Attractive item should be removed (page 6).

Considerations:

* Provide more clarity on an “Insignificant Items Register” “IIR” (page 6).

Section 1

The objective is that we not only comply or align to accounting standards but also SAN55001 which considers the full landscape of asset management, including leadership, people & organizational structure which are key enablers.

Section 2 – Role of the City Manager

Consider Policy Statements – ISO 55001 requires leadership demonstrates commitment to asset management system

Section 3 – Role of the CFO

To be amended/ updated:

* Under section 3.1 number 3 add the word “*movable*” since it will be very time-consuming and expensive verifying immovable assets on an annual basis (page 9).

Considerations:

* Does the municipality own a computerised asset management system as stated in the first paragraph (page 9)? Does it comply with the MSCOA reporting framework? If this is not the case, consider not stating this in policy.
* Is annual asset verification a 100% verification? Is it economically feasible to do 100% verification?
* Do the documents mention in 3.3. already exist? Consider incorporating how these documents will be integrated to the existing asset management framework of the municipality or used as mechanism to embed SANS 55001 asset management

Section 4 – Role of Other Strategic Business Units

Considerations:

* If the municipality have staff and social housing it should also be an asset class under immovable assets (page 13).

Section 5 – Definition and Role of an Asset

To be amended/ updated:

* GRAP does not recognise any capitalisation threshold. This should rather be removed. Terms and threshold are not clearly specified in the policy (page 14).
* Remove incorrect GRAP standard indicated for intangible assets. GRAP 102 was replaced with GRAP 31 (page 14).

Section 6 – Format of the Fixed Asset Register

To be amended/ updated:

* Under section 6.1 the asset hierarchy/ MSCOA hierarchy should be included (page 15).
* In paragraph 3 on page 16, the estimated useful life adjustment in accordance with GRAP 3 should not only be applicable to material asset values but all assets where the Business Units think a change in life is necessary.
* Number E on page 17 states that depreciation commence when the asset is commissioned into use. According to GRAP 17 that is not how it is indicated. *Depreciation commences when the asset is available for use in the manner intended by management.*

Considerations:

* Does the municipality construct their own assets? If so, how is borrowing cost treated?
* Does the municipality own staff- and social houses? If so, housing should be a separate asset class under immovable assets (page 16).
* Does the municipality own ICT assets? If so, ICT should be a separate class of infrastructure (page 16)

Section 7 – Classification and Identification of Fixed Assets

To be amended/ updated:

* Amend section 7.1 to include buildings (administrative) and other assets (page 18).
* Under section 7.2 include missing PPE classes (*Infrastructure and Community assets and Computer equipment*), and applicable also *Housing*.
* Under the section on Inventory assets, paragraph 3, is incorrect. The Housing Guideline should be implemented here. Land will not be classified as PPE until the township development is completed and then moved to inventory (page 19).
* Section 7.2 refers to PPE, but section 7.3 (Infrastructure) and section 7.4 (Community assets) are also PPE. To avoid confusion these sections should be consolidated (page 19 and 20).
* If the municipality own ICT assets, it should be indicated as an infrastructure class under section 7.3 (page 20).
* The last paragraph under section 7.6, page 21, is incorrect and should be amended. If a property is development for the purpose of being in investment property in the future; the property will be classified as investment property from the start.

Considerations:

* If the municipality owns biological assets, there should be a separate asset class for Agricultural assets (Section 7.1).
* If the municipality owns housing assets, there should be a separate Housing asset class (Section 7.1).

Section 9 – Donated Assets

To be amended/ updated:

* In case of infrastructure assets, where there are no market-based evidence because of the specialised nature of the item, the municipality may need to estimate the fair value using the reproduction cost or the depreciated replacement cost.

Section 11 – Capitalisation criteria

To be amended/ updated:

* Under 11.4 Intangible assets GRAP 102 should be changed to GRAP 31 (page 28).

Considerations:

* If the municipality have biological assets, paragraph 2 under the section “Definition of an Asset” should include Agricultural Assets GRAP 27 (page 26).

Section 12.2.2 – Maintenance/Refurbishment

Verify definition of Refurbishment and Rehabilitation from GRAP and align/agree with Technical departments on definition.

What about upgrades? What do you define them as in terms of financial treatment? Something to also iron out with Technical department as well.

Section 13 – Depreciation of Assets

To be amended/ updated:

* Under 13.4.1 Tangible assets, 3 paragraph, should include that fact that depreciation will cease when the asset is held for sale (page 32).
* Under 13.4.1 Tangible assets, 3 paragraph, the accumulated depreciation account can never exceed the depreciable amount (page 32).
* Under 13.8.2 include “accumulated” in front of depreciation (page 35).

Section 14 – Revaluation of Fixed Assets

To be amended/ updated:

* Under 14.2 the revaluation amount/ fair value of an asset should reflect in the asset register as well as in the revaluation reserve (page 37).
* Under 14.3 reference should be made to the fair value of investment property and not Net Realisable Value (page 37).

Section 18 – Impairment Losses

Considerations:

* The recoverable amount be explained (page 46).
* How an impairment loss is determined should be indicated in the policy. Or will the detail be reserved for the Financial unit/ Asset Unit?

Section 19 – Investment Property

To be amended/ updated:

* Add another example of investment property (page 52). A property that is constructed or developed for future use as investment property.
* Delete section (d) from examples of items that are NOT investment property (page 52).
* Under 19.3 (d) remove “*accumulated depreciation*”. Shown twice. Typo error (page 54).
* Under 19.4.1 (a) remove paragraph (v), it is incorrect (page 54).
* Under 19.4.1 remove paragraph (e), it is incorrect (page 55).

Section 22 – Maintenance of Assets

Consider adding more detail to link financial with technical aspects of maintenance of assets

Section 23 – Acquisitions

Consider using AMPs as a mechanism for long term planning and budgeting for CAPEX expenditure