



Revised IYM Asset Management Policy

(2014/2015 financial year)

Asset Management Policy

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Asset Management Policy

1. Policy Objectives

- 1.1.1 To facilitate the effective management, control and maintenance of the assets of the municipality.
- 1.1.2 To ensure that the assets of the municipality are accounted for in terms of Generally Recognised Accounting Practice (GRAP).

An asset shall mean any resource controlled by Intsika Yethu Local Municipality, from which the municipality expects to derive economic benefits or use for service delivery to the general public over a period extending beyond one financial year.

2. Format of the Fixed Asset Register

The fixed asset register shall be maintained in a format that complies with the requirements of GRAP. The following information shall be reflected in the fixed asset register:

- 2.1.1 A detail asset description
- 2.1.2 A unique identification number (eg: Bar code, serial number, erf number)
- 2.1.3 The location of the asset
- 2.1.4 Purchase price (The original cost, or the fair value if no costs are available)
- 2.1.5 Acquisition date
- 2.1.6 Estimated useful life (original)
- 2.1.7 Estimated residual value
- 2.1.8 Remaining useful life
- 2.1.9 Depreciation
- 2.1.10 Accumulated depreciation
- 2.1.11 Disposal – date, proceeds, depreciation up to date of disposal
- 2.1.12 Information on a change in accounting estimate as a result of change in useful life or residual value – date reassessed etc.
- 2.1.13 Impairment loss recognised or reversed
- 2.1.14 Carrying amount at the beginning and end of the reporting period
- 2.1.15 Funding source
- 2.1.16 Condition of the asset (this will assist in determining the remaining useful life of an asset and whether it may possibly be impaired)
- 2.1.17 Person responsible for safeguarding and maintaining the asset

This information should be provided for each type of asset eg: Property, plant and equipment, intangible assets, investment property, and each class eg: buildings, office equipment, and computer equipment.

The fixed asset register shall be reconciled on a quarterly basis to the general ledger of the municipality.

3. Property, plant and equipment

Property, plant and equipment shall be accounted for in terms of GRAP 17.

3.1 Identification

- 3.1.1 Property, plant and equipment shall comprise of tangible items that 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.

3.2 Specialised classes of property, plant and equipment

- 3.2.1 Infrastructure assets: assets that usually display some or all of the following characteristics

- (a) they are part of a system or network;
- (b) they are specialised in nature and do not have alternative uses; and
- (c) they are immovable

Examples of infrastructure assets include road networks, sewer systems, water and power supply system and communication networks.

- 3.2.2 Community assets: assets that contribute to the community's well-being.

Examples are parks, libraries and fire stations.

- 3.2.3 Work in progress (WIP): assets that council of the municipality resolves to construct or develop themselves.

Examples are roads built by the municipality. Such roads shall be transferred to infrastructure assets once the road is completed.

3.3 Initial measurement

- 3.3.1 Property, plant and equipment is initially recognised at cost. Cost includes the purchase price and any direct expenditure necessary to bring the property, plant and equipment to the condition necessary for it to be capable of operating in the manner intended by management.

- 3.3.2 If the Property, plant and equipment is acquired at no cost, then its cost should be measured at fair value on the date of acquisition.

- 3.3.3 Specifically included in property, plant and equipment is the landfill site: the initial estimates of the cost of dismantling and removing an item and restoring the site on which an item is located, should be included in the cost of the asset (this will be the present value of the future cost to rehabilitate).

- 3.3.4 When an asset is procured, the asset management department must be informed and an asset number allocated to that asset. A bar-code should be done and stuck onto that asset.

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3.4 Subsequent measurement

- 3.4.1 The cost model is adopted and property, plant and equipment are subsequently carried at cost less accumulated depreciation less accumulated impairment.
- 3.4.2 Subsequent costs incurred are expensed if it relates to day to day servicing (ie: repairs and maintenance). Costs incurred to improve an asset or to replace a part of an asset are capitalised (ie: they meet the recognition criteria for an asset).

3.5 Depreciation and impairment

- 3.5.1 The straight line method of depreciation is used. Depreciation is the systematic allocation of the depreciable amount of an asset over its **useful life**.
- 3.5.2 **Useful life:** the period over which an asset is expected to be available for use by the municipality
- 3.5.3 The depreciable amount is the cost of an asset less its **residual value**.
- 3.5.4 **Residual value:** estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.
- 3.5.5 The useful life and residual value is to be assigned by CFO and should be reviewed each year for any changes.
- 3.5.6 Depreciation of an asset commences when the asset is available for use and should be calculated on an annual basis.
- 3.5.7 At each reporting date, the municipality must assess whether or not there is any indication that Property, plant and equipment might be impaired. If there is any indication of impairment, then the recoverable amount or recoverable service amount should be determined retrospectively in terms of GRAP 21 (for Non-cash generating assets) and GRAP 26 (for cash generating assets).

3.6 Derecognition

- 3.6.1 Property, plant and equipment should be derecognised if it has been lost, stolen or damaged beyond repair. If it has physically ceased to exist, it shall be written off the fixed asset register and this will require council approval.
- 3.6.2 The loss is recognised as a deficit when the asset is derecognised.
- 3.6.3 Disposal of capital assets should be in terms of section 14 of the Local Government Municipal Finance Management Act (No. 56 of 2003).
- 3.6.4 In terms of section 14 (4) of the Local Government Municipal Finance Management Act (No. 56 of 2003), the municipal council delegates to the Municipal Manager its power to approve disposals to a value of R xx.
- 3.6.5 An asset write off / disposal form (Annexure A) should be completed by the person requesting the asset to be written off / disposed of.
- 3.6.6 Once the asset write off / disposal has been approved by the relevant authority, the fixed asset register should be updated.
- 3.6.7 A separate file should be kept for all asset write off / disposal forms.

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3.7 Insurance

3.7.1 Insurance: The municipal manager shall ensure that all movable assets are insured at least against fire and theft and that all municipal buildings are insured against fire.

3.7.2 Warranty register: A warranty register is to be kept for all assets purchased and updated by the asset management department on a monthly basis.

3.8 Maintenance plans

3.8.1 Maintenance plans: The head of department controlling or using infrastructure assets shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is prepared and submitted to council for approval.

3.8.2 The head of department controlling or using infrastructure asset in question shall report annually to the council the extent to which the relevant maintenance plan has been complied with.

3.9 Physical verification

3.9.1 Every head of department shall ensure the existence of all “minor assets” on an annual basis.

3.9.2 Every head of department shall ensure the existence of all moveable assets on an annual basis and immovable assets every 5 (five) years.

3.9.3 The assessment of the condition of the asset should be done during the physical verification into the following categories:

- Very good (brand new, ie: an addition in the current year)
- Good (still in good working condition, but is not brand new)
- Fair (still in working condition, just needs to keep to its maintenance plan to continue)
- Poor (Requires a lot of maintenance, but is still working)
- Very poor (Is broken and should be written off)

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3.10 Location changes of assets

- 3.10.1 When an asset is moved, an asset transfer form (Annexure B) should be completed and signed by the person moving the asset. This form must be sent to the Asset department. Once the change in location has been updated on the fixed asset register, the form should be signed by the person updating the fixed asset register.
- 3.10.2 A separate file should be kept for all asset transfer forms.

4. Work in progress

Under GRAP 17, cost incurred on self-constructed assets is regarded as capital expenditure. A relevant and reliable measurement of the cost can be derived from the transactions with parties external to the entity for the acquisition of the materials, labour and other inputs used during the construction process. If internal labour is used, the monthly cost of this labour should be taken into account. If the labour did not spend the entire month on the project, their time should be apportioned accordingly. GRAP 17 furthermore states that the cost of a self-constructed asset is determined using the same principles as those used for an acquired asset. The cost of abnormal amounts of wasted material, labour or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset.

Capital work in progress must be accumulated on a project basis and included in the asset register as work in progress as incurred. The accumulation of all costs will be transferred to the relevant class of asset in the asset register once the asset is complete and available for use. No depreciation will be calculated on the work in progress as it is not, as yet, an asset ready for use. In the financial records this work in progress will be budgeted and accounted for under capital expenditure.

5. Investment Property

Investment Property shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.

5.1 Identification

- 5.1.1 Investment property shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

5.2 Initial measurement

- 5.2.1 Investment property is initially recognised at cost. Cost includes the purchase price and any direct expenditure necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management.

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- 5.2.2 If an investment property is acquired at no cost, then its cost should be measured at fair value on the date of acquisition.

5.3 Subsequent measurement

- 5.3.1 Investment property is subsequently carried at cost less accumulated depreciation less accumulated impairment.
- 5.3.2 Subsequent costs incurred are expensed if it relates to day to day servicing (ie: repairs and maintenance). Costs incurred to improve an asset or to replace a part of an asset are capitalised (ie: they meet the recognition criteria for an asset)

5.4 Depreciation and impairment

- 5.4.1 At each reporting date, the municipality must assess whether or not there is any indication that investment property might be impaired. If there is any indication of impairment, then the recoverable amount or recoverable service amount should be determined retrospectively in terms of GRAP 21 (for Non-cash generating assets) and GRAP 26 (for cash generating assets).

5.5 Derecognition

- 5.5.1 Investment property should be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal.
- 5.5.2 Any gain or loss should be recognised in surplus or deficit when the asset is derecognised.
- 5.5.3 Once investment property is disposed of, it should be taken out of the asset register.
- 5.5.4 In terms of section 14 (4) of the Local Government Municipal Finance Management Act (No. 56 of 2003), the municipal council delegates to the Municipal Manager its power to approve disposals to a value of R xx.
- 5.5.5 An asset write off / disposal form (Annexure A) should be completed by the person requesting the asset to be written off / disposed of.
- 5.5.6 Once the asset write off / disposal has been approved by the relevant authority, the fixed asset register should be updated.
- 5.5.7 A separate file should be kept for all asset write off / disposal forms.

5.6 Physical verification

- 5.6.1 Every head of department shall ensure the existence of all investment property on an annual basis.
- 5.6.2 The assessment of the condition of the asset should be done during the physical verification into the following categories:
- Very good (brand new, ie: an addition in the current year)
 - Good (still in good working condition, but is not brand new)

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- Fair (still in working condition, just needs to keep to its maintenance plan to continue)
- Poor (Requires a lot of maintenance, but is still working)
- Very poor (Is broken and should be written off)

6. Intangible assets

Intangible assets shall be accounted for in terms of GRAP 31

6.1 Identification

- 6.1.1 Intangible assets shall comprise identifiable (capable of being separated / divided from the municipality or arises from a binding arrangement), non-monetary assets without physical substance (normally cannot be touched).
- 6.1.2 Computer software can be classified as either a tangible asset, i.e. property, plant and equipment or an intangible asset, depending on the level of integration with the related hardware.
- 6.1.3 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 recognised, which will normally be computer equipment. Where the software is not an integral part of the related hardware, i.e. the hardware can operate without the software; the software will be treated as an intangible asset.

6.2 Initial measurement

- 6.2.1 Intangible assets are initially recognised at cost. Cost includes the purchase price and any direct expenditure necessary to get the asset ready for its intended use.
- 6.2.2 If an intangible asset is acquired at no cost, then its cost should be measured at fair value on the date of acquisition.
- 6.2.3 When an asset is procured, the asset management department must be informed and an asset number allocated to that asset. A bar-code should be done and stuck onto that asset.

6.3 Subsequent measurement

- 6.3.1 Intangible assets are subsequently carried at cost less accumulated amortisation less accumulated impairment.

6.4 Depreciation and impairment

- 6.4.1 Intangible assets are either classified as having an indefinite useful life or a finite useful life.
- 6.4.2 Intangible assets will be classified as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is

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expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. If there is any indication of impairment, then the recoverable amount or recoverable service amount should be determined retrospectively in terms of GRAP 21 (for Non-cash generating assets) and GRAP 26 (for cash generating assets)

- 6.4.3 Intangible assets classified as having a finite useful life will be amortised on a straight line basis over their useful life. The amortisation period and method will be reviewed at each reporting date.

6.5 Derecognition

- 6.5.1 Intangible assets should be derecognised on disposal or when no future economic benefits or service potential is expected from its use or disposal.
- 6.5.2 Any gain or loss is recognised in surplus or deficit when the asset is derecognised.
- 6.5.3 Once intangible assets are disposed of, it should be taken out of the asset register.
- 6.5.4 In terms of section 14 (4) of the Local Government Municipal Finance Management Act (No. 56 of 2003), the municipal council delegates to the Municipal Manager its power to approve disposals to a value of R xx.
- 6.5.5 An asset write off / disposal form (Annexure A) should be completed by the person requesting the asset to be written off / disposed of.
- 6.5.6 Once the asset write off / disposal has been approved by the relevant authority, the fixed asset register should be updated.
- 6.5.7 A separate file should be kept for all asset write off / disposal forms.

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- 6.6.1 Every head of department shall ensure the existence of all intangible assets on an annual basis.
- 6.6.2 The assessment of the condition of the asset should be done during the physical verification into the following categories:
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6.7 Location changes of assets

- 6.7.1 When an asset is moved, an asset transfer form (Annexure B) should be completed and signed by the person moving the asset. This form must be sent to the Asset department. Once the change in location has been updated on the fixed asset register, the form should be signed by the person updating the fixed asset register.

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6.7.2 A separate file should be kept for all asset transfer forms.

Council resolution affecting the adoption / approval of the policy

The Insika Yethu Local Municipality Council resolves in terms of section 63 of the Local Government Municipal Finance Management Act (No. 56 of 2003), to adopt the revised policy as the Asset Management Policy of the municipality.

This revised Policy is hereby approved by Council:

MUNICIPAL REPRESENTATIVE

MUNICIPAL MANAGER

DATE

DATE