

# LEKWA LOCAL MUNICIPALITY



## ASSET MANAGEMENT POLICY

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## 1.DEFINITIONS

*“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.

*“Agricultural assets”* biological assets when related to agricultural activity, example, the management of biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

*“assets”* are resources controlled by an entity as the result of past events and from which future economic benefits or potential service provision are expected to flow to the entity.

*“Asset categories”* are the main and subgroups used for the classification of assets.

*“Asset champion”* is an official delegated by the Asset manager in his/her department or section to assist him/her in performing asset management related functions and duties.

*“Attractive items”* are items of property, plant and equipment which are not significant enough for financial recognition in the fixed asset register, but are attractive enough to warrant special safeguarding. Such items are controlled through departmental attractive item (inventory) registers.

*“Asset manager”* is the director who has the functional accountability for and control of the physical management of a particular set of assets in order to achieve the municipality’s strategic objectives relevant to his/her directorate. The execution of this responsibility will require the asset manager to control the acquisition, utilization, management and disposal of this set of assets to optimize the achievement of these objectives.

*“Biological assets”* living animals or plants.

*“capitalization”* is the recognition of expenditure as an asset(s) in the fixed asset register.

*“Carrying amount”* is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation thereon.

*“cost”* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction plus costs incidental to the acquisition or acquirement. Also known as historical cost/value.

*“Cost of acquisition”* is all the costs incurred in bringing an item of plant, property and equipment to the required condition and location for its intended use.

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*“Control”* is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

*“Deferred maintenance”* is the extent of preventative maintenance that has not been performed.

*“depreciation”* is the systematic allocation of the depreciable amount of an asset over its useful life, and therefore reflects the consumption of economic benefits or service potential of the asset.

*“Depreciable amount”* is the cost of an asset, or other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value.

*“disposal”* is the act of derecognizing an asset that has reached the end of its useful life and no future economic benefits or service potential is further expected from its use.

*“donated”* an item donated to the municipality at no cost or for a nominal cost or acquired by means of an exchange of assets.

*“Executive Manager”* is a director referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.

*“Fair value”* is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

*“Fixed asset register”* (FAR) is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy.

*“GAMAP”* stands for *“generally accepted municipal accounting practice”*.

*“GRAP”* stands for *“generally recognized accounting practice”*.

*“Heritage assets”* assets held indefinitely for the benefit of present and future generations and have a cultural, environmental, historical, natural, scientific, technological and artistic significance.

*“impairment”* is when the recoverable amount of an asset is less than the carrying value of such an asset

*“Intangible assets”* are identifiable non-monetary assets without physical substance (identifiable means that the asset can be separated or divided from the entity and sold, transferred, rented or exchanged).

*investment property”* is property (land/building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both rather than for use in production or supply of goods or services or for administrative purposes or sale in the ordinary course of operations.

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*"maintenance"* is considered operating expenses incurred in ensuring that the useful operating life of assets is attained.

*"Preventative maintenance"* is the maintenance which is required on a systematic basis to ensure that the originally assessed future economic benefits or potential service position of the relevant asset is realized hence that the fixed asset reaches its estimated useful life.

*"Property, plant and equipment"* are tangible assets that:

- a) are held by a municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purposes; and
- b) are expected to be used during more than one (1) period.

*"Recoverable amount"* is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

*"recognition"* is the process by which expenditure is included in the fixed asset register as an asset(s).

*"Replacement value"* is the amount which is needed in current terms to replace an asset.

*"Residual value"* is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs for disposal.

*"director"* is a director referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.

*"Senior management teams"* are the incumbents of post level 1, 2 and 3 in each directorate being the director and everyone up to two (2) levels below them.

*"stewardship"* is the act of taking care of and managing property, plant or equipment on behalf of another.

*"Useful life"* is either:

- a) the estimated period of time over which the future economic benefits or future service potential embodied in an asset is expected to be consumed by the municipality; or
- b) the estimated total service potential expressed in terms of production or similar units that are expected to be obtained from the asset by the municipality.

*"Occupied"* means a building, seat, etc. being used by someone (Oxford Languages, Occupied, 2023).

*"Fence"* means a barrier, railing, or other upright structure, typically of wood or wire, enclosing an area of ground to prevent or control access or escape (Oxford Languages, Fence, 2023)

*"Retrospective"* means looking back on or dealing with past events or situations (Oxford Languages, Retrospective, 2023).

## **2. INTRODUCTION**

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

- a) Delivery of sustainable services,
- b) Social and economic development,
- c) Promoting safe and healthy environments; and
- d) Providing the basic needs to the community.

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

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

Stewardship has two components being the:

- a) Financial administration by the Chief Financial Officer; and
- b) Physical administration by the individual asset managers.

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

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

- a) The compilation of asset registers covering all property, plant and equipment controlled by the municipality.
- b) Accounting treatment for the acquisition, disposal, recording, valuation, condition assessment, impairment and depreciation of property, plant and equipment.
- c) The standards to which these financial records must be maintained.

To align with our dedication to enhancing asset management practices and ensuring comprehensive and accurate reporting, the Lekwa Local Municipality has decided to apply the Asset Management Policy retrospectively. Such a retrospective application enables us to capture historical data, evaluate past asset management practices, and establish a consistent approach to asset management across all assets within our jurisdiction. Through applying this policy retrospectively, we aim to improve the accuracy and completeness of asset information and historical records, assess the performance, condition, and useful lives of assets based on consistent criteria, identify any discrepancies, gaps, or opportunities for improvement in previous asset management practices, and enhance the transparency and reliability of financial reporting related to our assets.

### **3. OBJECTIVE**

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's property, plant and equipment.
- To ensure asset managers are aware of their responsibilities with regard to property, plant and equipment.
- To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilization.
- To specify the process required before expenditure on property, plant and equipment occurs.
- To emphasize a culture of accountability over assets.
- To ensure compliance with all legal and accounting prescriptions and requirements.

The Lekwa Local Municipality believes that an asset management policy is essential to ensure effective and efficient utilization of public monies and accountability thereof is heavily dependent on accurate records and accounting.

### **4. STATUTORY AND REGULATORY FRAMEWORK**

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act 117 of 1998
- Municipal Systems Act 32 of 2000
- Division of Revenue Act (enacted annually)
- Municipal Finance Management Act, Act 56 of 2003
- Municipal Asset Transfer Regulations
- Generally Recognized Accounting Practices (GRAP)
  - GRAP 12 Inventory
  - GRAP 13 Leases
  - GRAP 16 Investment property
  - GRAP 17 Property, plant or equipment
  - GRAP 21 Impairment of non-cash generating assets
  - GRAP 26 Impairment of cash generating assets
  - GRAP 100 Non-current assets held for sale and discontinued operations
  - GRAP 31 Intangible assets
  - GRAP 103 Heritage assets



This policy does not overrule the requirement to comply with other policies like Supply Chain Management, tendering or budget policies.

## **5. RESPONSIBILITIES AND ACCOUNTABILITIES**

This must be in line with section 63 of Municipal Finance Management Act, Act 56 of 2003

The Accounting Officer of a municipality is responsible for the management of—

- the assets of the municipality, including the safeguarding and the maintenance of those assets; and
- the liabilities of the municipality. assets of the municipality, including the safeguarding and the maintenance of those assets.

The Accounting Officer must:

- Approve the temporary and/or permanent transfer of all moveable assets exceeding approved limits, as stipulated in the “Powers of Delegation” of the municipality.
- Ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality’s assets are valued in accordance with standards of generally recognized accounting practice and generally accepted municipal accounting practice;
- The municipality has and maintains a system of internal control of assets, including an asset register; and
- The Executive managers and their teams comply with this policy.
- Report in writing to Council the full facts in the event of an asset or attractive item being demolished, destroyed and damaged or occurrence of any other event materially affecting its value.
- The municipality complies with standards of GRAP.

The Chief Financial Officer is responsible to ensure that the financial investment in the municipality’s assets is safeguarded and maintained.

The Chief Financial Officer must ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless and wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;

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- The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained at standards sufficient to satisfy the requirements of the Auditor-General.
- Financial processes are established and maintained to ensure that the municipality's financial resources are optimally utilized through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- The senior managers and asset champions are appropriately advised on their powers and duties pertaining to the financial administration of assets.
- The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions, but they will remain accountable for ensuring these activities are performed.
- The policy and supporting procedures or guidelines are established, maintained and effectively communicated.
- Report in writing to the Accounting Officer the full facts in the event of an asset or attractive item being demolished, destroyed and damaged or occurrence of any other event materially affecting its value.
- Approve the temporary or permanent transfers of movable assets between departments as determined in the "Powers of Delegation" of the municipality.
- Approve the reclassification of assets as attractive items and the subsequent transfer of such items to the departmental attractive item register, as determined in the powers of delegation.

### The Executive Managers must ensure that:

- Appropriate physical management and control systems are established and maintained for all assets in their area of responsibility.
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently.
- The assets under their control are appropriately safeguarded, maintained to the extent necessary and risk management systems are in place and applied.
- Any unauthorized, irregular or fruitless or wasteful utilization and losses of assets resulting from criminal or negligent conduct are prevented.
- Their asset management system and controls can provide an accurate, reliable and up to date account of assets under their control.
- They be able to justify that their asset plans, budgets and purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
- The purchase of assets complies with all municipal policies and procedures.
- All movable and immovable assets are duly processed and identified when it is received into his/her stewardship.
- All movable and immovable assets received into his/her stewardship are appropriately safeguarded for inappropriate use or loss. This will include control over the physical

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access to these assets and regular asset counts to ensure no losses have occurred. Any known losses should be immediately reported to the Chief Financial Officer, and

- Assets are appropriately utilized for the purpose for which the municipality acquired them for.
- The Executive Manager may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.
- Certify in writing at the end of each financial year-end, that he/she has assessed and identified impairment losses on all assets under his/her control.
- Report in writing to the Chief Financial Officer the full facts in the event of an asset or attractive item being stolen, demolished, destroyed and damaged or the occurrence of any other event materially affecting its value.
- Approve the temporary or permanent transfers of a movable asset between departments as determined in the "Powers of Delegation" of the municipality.

### The Asset Manager must ensure that:

- Appropriate physical management and control systems are established and maintained for all assets.
- That municipal resources assigned are utilized effectively, efficiently, economically and transparently.
- Any unauthorized, irregular or fruitless or wasteful utilization and losses of assets resulting from criminal or negligent conduct, are prevented.
- That asset management system and controls can provide an accurate, reliable and up to date account of assets.
- To advise and inform the chief financial officer on the acquisition of new assets in order to update inventory lists and subsequently the asset register of the respective department as well as the municipality.
- That all assets of the Municipality are appropriately safeguarded and maintained to the extent necessary that risk management systems are in place and applied.
- The asset manager may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.
- To certify in writing at each financial year-end,
  - That all assets have been assessed and if required which assets need to be impaired,
  - That all assets useful lives have been reviewed.
- The full facts of cases are reported in writing to the chief financial officer, accounting officer and subsequently to the council in the event of an asset or attractive item being stolen, demolished, destroyed, damaged or any occurrence of any other event materially affecting its value.
- Approve the temporary or permanent transfers of a movable asset between departments as determined in the powers of delegation of the municipality.
- The Chief Financial Officer is informed in writing after the completion of a project of acquisition of all moveable and immovable property, plant and equipment to be included for insurance purposes.

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- The asset manager must ensure that property, plant and equipment are appropriately utilized and that these assets are used for the purpose that the municipality acquired them; and
- An annual stock take of property, plant and equipment as part of the annual reporting process, as required by regulatory and legislator prescriptions in co-ordination with the chief financial officer, is done. The condition of the asset should be assessed during the verification process and reported to the chief financial officer.
- The asset manager must, in conjunction with HR, on termination of an employee's services, ensure that the respective assets and inventory items lists indicating all items entrusted to the specific asset user, is confirmed to be existent and returned in good order, prior to the final salary payment being made to the employee.
- Ensure inventory lists are verified and kept updated in collaboration with the Chief Financial Officer; and
- Identify obsolete and redundant assets and attractive items at least once per financial year, compile a report and obtain the necessary approval for the disposal thereof.

### The Asset Champion must:

- Assist the Asset Manager in performing his/her functions and duties in terms of asset management.
- Ensure inventory lists are verified and kept current in collaboration with the Finance Department.
- Identify obsolete and redundant assets and attractive items once per financial year, compile a report and obtain the necessary approval from council for the writing off, disposal of obsolete or redundant assets thereof.
- If no asset champion is appointed, all responsibilities fall within the responsibility of the asset manager.

### Safeguarding of Assets

- Executive Managers shall be directly responsible for the physical safeguarding of any asset controlled or used by the directorate in question.
- In exercising this responsibility, Executive Managers shall adhere to the stipulations of this policy as well as any other written directives issued by the Municipal Manager to the Department in question, or generally to all departments, in regard to the control of or safeguarding of the municipality's assets.

## **6. FINANCIAL MANAGEMENT**

### **6.1 Pre-Acquisition Planning**

Before a capital project is included in the draft municipal budget for approval, the relevant sector department must prove to the asset manager that they have considered the following:

- 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 life including revenue generation and subsidization requirements;
- The physical and financial stewardship of the asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation; and
- The identification and inclusion of the capital project in the integrated development plan, as well as the subsequent linking thereof to the approved strategies and objectives.
- The chief financial officer is responsible to provide assistance, guidance and advice to the relevant sector departments to enable them to achieve their planning requirements.
- The technical specifications and cost as part of demand management and value for money procurement.

### **6.2 Approval to Acquire Assets**

Funds can only be spent on a capital project if:

- The funds have been appropriated in the capital budget, and the future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The project, including the total cost and funding sources, has been approved by Council;
- Any contract that will impose financial obligations more than two years after the budget year is appropriately disclosed.
- The Chief Financial Officer confirms that funding is available for that specific project, and
- The Supply Chain Management prescripts/procedures have been adhered to.

Every department procuring any items on capital votes or projects should ensure that evidence thereof is kept at hand.

Evidence of procurement is necessary for the recording of details in the fixed asset register to ensure completeness of the audit trail and is required.

On receiving procured assets, departments must ensure that they inform the directorate financial services accordingly, to aid the updating of inventory lists on an ongoing basis as well as ensure the relevant insurance schedules are updated accordingly.

### 6.3 Funding of Capital Projects

Within the municipality's ongoing financial, legislative or administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that will optimize the municipality's ability to achieve its strategic objectives as stated in the Integrated Development Plan.

The acquisition of assets will not be funded over a period longer than the useful life of that asset.

### 6.4 Disposal of Property, Plant and Equipment

- The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide the minimum level of basic municipal services, subject to stipulations in the municipal asset transfer regulations.
- The municipality may transfer ownership or otherwise dispose of an asset other than one contemplated above, but only after the 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 services; and
  - Has considered the fair market value of the asset and the economic and community value to be received in exchange or disposal for the asset.
- The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset had been sold, transferred or otherwise disposed of.
- A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in subsection, but only 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 services; and has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with municipal supply chain management regulation and policy.
- The transfer of assets to another municipality, municipal entity, national departments or provincial departments is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.
- Departments shall report in writing to the Chief Financial Officer on all assets controlled or used by the department concerned, which such Executive Manager wishes to alienate by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments and shall promptly report such consolidated information to the Council or the Municipal Manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

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- Disposal and alienation of assets must be done in accordance with the municipal supply chain management policy and municipal asset transfer regulations.
- The criteria for the disposal or letting of assets, including unserviceable, redundant or obsolete assets, subject to section 14 of the act, are as follow:
  - a) Movable assets:
    - the asset is uneconomical to repair;
    - the asset is irreparable;
    - the relevant department has no further use for the assets; and
    - no other department requires the asset.
  - b) Immovable assets:
    - The relevant department has no further use for the asset;
    - no other department requires the asset;
    - a member of the public wishing to acquire the asset can utilize the asset to the advantage of the community; and
    - where created specifically for sale or rental to public.
    - A technical report from an expert in an event of a immovable asset is considered as obsolete.
- The disposal of assets must:
  - a) be one of the following methods:
    - transferring the asset to another organ of state in terms of a provision of the act enabling the transfer of assets;
    - transferring the asset to another organ of state at market related value or, when appropriate for a lesser amount or free of charge;
    - selling the asset; or
    - destroying the asset.
  - b) provided that –
    - immovable assets may be sold at not less than market related prices except when the public interest or the plight of the poor demands otherwise, by means of public tenders, public auction or over the counter on a first come first serve basis;
    - movable assets may be sold either by way of written price quotations, public tenders, public auction whichever is the most advantageous;
    - in the case of the free disposal of computer equipment, the provincial Department of Education must first be approached to indicate within thirty (30) days whether any of the local schools are interested in the equipment; and
    - in the case of the disposal of firearms, the National Conventional Arms Control Committee has to approve any sale or donation of firearms to any person or institution within or outside the Republic.

- c) furthermore, ensure that –
  - immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise; and
  - all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting immovable property are annually reviewed.
- d) ensure that where assets are traded in other assets, the highest possible trade-in price is negotiated.

The disposal of immovable assets is further subject to the following principles:

- a) payment of the full purchase price and all estimated costs pertaining to the transaction upon signature of the deed of sale, in cash; and
  - b) all costs (advertising, rezoning, obtaining of a valuation, etc.) pertaining to the transaction shall be borne by the purchaser.
- Once the assets are alienated or disposed of, the Chief Financial Officer shall de-recognise the asset from the asset register.
  - All gains and losses realized on the alienation of assets shall be accounted for according to GRAP requirement.

## 6.5 Loss, Theft, Destruction and Impairment of Fixed Assets

Asset managers must ensure that all incident of loss, theft, destruction, or material, impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer and in cases of suspected theft or malicious damage to the South African Police Service.

Upon confirmation and after an internal investigation, all cases of loss, theft, destruction must be reported to council.

The internal investigation will also determine who is liable for the loss.



## 7.INTERNAL CONTROLS

### 7.1 Fixed Asset Register

#### 7.1.1 Establishment and Management of the Fixed Asset Register

- The Chief Financial Officer will establish and maintain the Asset Register containing key financial data on each item of Property, Plant or Equipment that satisfies the criterion for recognition.
- The Executive Managers are responsible for establishing and maintaining of additional registers or databases required to demonstrate the physical management of their assets and/or attractive items.
- The Executive Managers are responsible to implement and maintain additional registers or databases to substantiate the quantity, value and location of their inventory items not contained in the Fixed Asset Register.
- The Asset Manager is responsible for ensuring that sufficient controls exist to substantiate the quantity, value, and location and condition of all assets in the Fixed Asset Register as well as other additional registers.

#### 7.1.2 Contents of the Fixed Asset Register

The asset register shall be maintained in the format determined by the Chief Financial Officer, which shall comply with the requirements of GRAP.

The Asset Register will include, inter alia, the following information pertaining to individual assets:

- The measurement based used.
- The depreciation methods used.
- The estimated useful life
- The remaining useful life
- Depreciation charges (current year)
- The carrying amount.
- The accumulated depreciation
- Date of acquisition
- Date and price of disposal (if relevant)
- Increase or the decrease resulting from re-valuations (if relevant)
- Physical location (GPS coordinates)
- The responsible Asset user or department
- Cost Centre of user department
- Unique ID code
- Brief but meaningful description
- Identification number where applicable

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- Valuation
- Impairment losses
- Source of finance if relating to a project or donation
- Latest condition assessment

### 7.1.3 Internal Controls over the Fixed Asset Registers

- Controls around the asset register should be sufficient to provide an accurate, reliable and up to date account of assets under control to the standards specified by the Chief Financial Officer and required by the auditor general.
- These controls will include physical management and recording of all acquisitions, assignments, transfers, losses and disposals of assigned assets as well as regular stock-takes and system audits to confirm the adequacy of controls.

### 7.1.4 General management of assets

- 7.1.4.1 The Chief Financial Officer will undertake annual asset verification.
- 7.1.4.2 Each Department must advise the Chief Financial Officer, in writing, of capital work-in progress (WIP) at the end of the financial year.
- 7.1.4.3 Sector Departments must advise the Chief Financial Officer, promptly in writing whenever capital work-in-progress is completed, for inclusion in the asset register.
- 7.1.4.4 Sector Departments must notify the Chief Financial Officer about any new acquisition of assets in writing for inclusion in the asset register.
- 7.1.4.5 Sector Departments must keep a maintenance record for any repairs and maintenance as well as refurbishments as large improvements will have a direct impact on the condition of assets.

### 7.1.5 Transfers of assets

- Asset transfers must be done in writing.

### 7.1.6 Verification of assets

- The Municipality shall perform full asset verification at the end of each financial year.

### 7.1.7 Insurance of assets

- The Municipality shall ensure that insurable assets are comprehensively insured.

## 7.2 Physical Receipting and Management

- The supply chain manager must ensure, in co-operation with the asset manager, that the purchase of property, plant and equipment is procured and complies with the municipality's supply chain management policy.
- The accountant asset management will reconcile monthly all assets procured.
- The supply chain unit will manage the receipting of property, plant and equipment.
- The process of receipting by the supply chain unit will include:
  - review of the authority to purchase including compliance with all procurement policies and budgetary limits.
  - assignment of the asset to the appropriate sector department

### Date of Acquisition

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

The date of acquisition may vary for different categories of assets but will usually be on the date of the invoice, when the risk and reward has been transferred for that item of property, plant and equipment is made.

Date of the completion certificate will be used as a date of acquisition for Capital Projects

### Work in Progress

The Asset Manager will, in conjunction with Sector Departments, maintain a work in progress register.

## 7.3 Transfer of Assets between Sector Departments

### 7.3.1 Permanent transfers to another Department

The Executive Manager retains managerial accountability and control for a particular asset unless:

- Another Executive Manager agrees in writing to accept responsibility for that asset in accordance with financial limits as laid down in the Delegation of Authority
- The new Executive Manager accepts all accountabilities of the previous Executive manager for the transferred asset.
- The Manager Finance appropriately amends the Fixed Asset register for all approved transfers, where after such physical transfers are permitted to take place.
- The new Executive manager has made the necessary budget provisions to cater for the accompanying costs of the asset.

7.3.2 Reallocation or Reassignment of Property, Plant or Equipment

- The Executive Manager must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management is implemented.
- The Executive Manager must advise the Chief Financial Officer whenever an asset is permanently relocated or reassigned from one location (or base), or cost center recorded in the Fixed Asset Register.
- The Executive Manager must advise the Chief Financial Officer whenever an asset is temporarily relocated or reassigned from the location (or base), or cost center recorded in the Fixed Asset Register. In this case, the Asset Manager must also advise the Chief Financial Officer when this asset is returned.

7.3.3 Verification of fixed assets

The Executive Manager must ensure that all movable property, plant and equipment is duly checked, processed and identified (marked with a unique label number) before it is received into their stewardship.

The Asset manager will perform an annual stocktake of property, plant and equipment as part of the annual reporting process in coordination with the chief financial officer. The condition of the assets should be assessed during the verification process and be reported to the chief financial officer.

The results of the annual stock take, in hard copy format, must be signed by the Asset manager and the Executive Manager of each relevant Department and be displayed in relevant locations.

Executive managers must, on an ongoing basis, keep record of assets which are redundant and/or obsolete to be written off, and must advise the Chief Financial Officer in writing of these prior to the submission of the annual financial statements, to ensure accounting treatment thereof is accounted for correctly in the said financial year.

## **8. MANAGEMENT OF ASSETS**

### **8.1 Management of Attractive and Individual Inventory Items**

Assets costing less than R 2 500.00 and with an expected lifespan of less than twelve (12) months are deemed to be attractive items unless that type of asset is specifically excluded by the Chief Financial Officer.

The requirements to manage attractive items include:

- a) Receipting these items through specified control points and lists
- b) Maintaining and updating a control register with these receipts.
- c) Delivery and assignment of an attractive items to a specified position.
- d) Regular stock takes by the Asset Champion to ensure these attractive items are being appropriately safeguarded.
- e) Regular audits by the finance department to ensure attractive items are being appropriately managed by the assigned persons.
- f) Recording and reporting of any disposal or loss of these attractive items to the CFO and adjustment of the attractive items register.

Attractive items:

- a) Will not be depreciated.
- b) Will not be revalued.
- c) Will not be impaired.
- d) Will not be recorded in the fixed asset register.
- e) Will not be treated as an asset.
- f) Will be budgeted for under a specified line item in the operating budget as per the control list.

Water and Electricity Meters will also meet the definition of inventory considering the following in classification:

Inventories are assets that are held for sale, distribution, or consumption in the provision of services. When sold, these meters will be owned by the residential owners. Water and electrical meters will thus meet the definition of inventory until control of the meters is transferred (issued and installed) to the residential owner.

Meters installed to indigenous areas will not be sold and will be accounted for as donations with the ownership also ultimately transferred to the indigenous owner.

For reasons above, all meters will be placed on a control list that will be accompany the fixed asset register but not be accounted for within the fixed asset register.

Bulk meters are accounted for in the fixed asset register as these assets are procured and installed on the network for internal control purposes. Bulk meters remain the property of the municipality and are used to control losses and the consumption of various areas within the municipal electrical and water network. The municipality subsequently have full control of these bulk water meters.

## 8.2 Accountability to Manage Property, Plant and Equipment

Each Executive Manager is accountable to ensure that municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This would include:

- Developing appropriate asset management systems, procedures, processes and controls for managing assets.
- Providing accurate, reliable and up to date account of assets under their control.
- The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the municipality's strategic objectives.

## 8.3 Contents of A Strategic Asset Management Plan

Executive Managers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Executive Manager will need to develop strategic asset management plans that cover:

- Alignment with the Integrated Development Plan
- Operation guidelines;
- Performance monitoring;
- Maintenance programs;
- Renewal, refurbishment and replacement plans;
- Disposal and Rehabilitation plans;
- Operational, financial and capital support requirements; and
- Risk mitigation plans including insurance strategies
- The operational budgets are the short to medium term plan for implementing this strategic asset management plan.

## 8.4 Reporting on Emerging Issues

Each Executive Manager should report to the Municipal Manager on issues that will significantly impede the assets capability to provide the required level of service or economic benefit.

## **9. CLASSIFICATION, AGGREGATION & COMPONENTS**

### **9.1 Classification of Property, Plant and Equipment**

Any asset recognized as an asset under this policy will be classified according to categories as per the relevant accounting standards.

These categories have been specified by the Accounting Standards Board and currently are included in GAMAP 17 and GRAP 17.

All fixed assets will be classified under the following headings in the asset register:

- a) Property, plant and equipment
- b) Land
- c) Buildings (not held as investment assets)
- d) Community assets (resources contributing to the general well-being of the community)
- e) Infrastructure assets (assets which are part of a network of similar assets such as water, wastewater, electricity, roads and stormwater)
- f) Moveable assets (Computer equipment, Furniture and office equipment, machinery, and equipment)
- g) Transport assets
- h) Heritage assets
- i) Intangible assets

The Chief Financial Officer may agree to subdivide these classifications further.

### **9.2 Investment Property**

Investment Property is defined as:

Property (land or a building — or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of operations.
- Investment Property generates cash flows largely independently of the other assets of the municipality.

Investment property is held to earn rentals or for capital appreciation or both.

The following are examples of investment property:

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations.
- Land held for currently undetermined future use. (If the municipality has not determined that it will use the land for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation).
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis; and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following are examples of items that are not investment property:

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Own-occupied property, including (among other things) property held for future use as own-occupied property, property held for future development and subsequent use as own-occupied property, property occupied by employees such as housing (whether or not the employees pay rent at market rates) and own-occupied property awaiting disposal.
- Property that is being constructed or developed for future use as an investment property. GRAP 17 applies to such property until construction or development is complete, at which time the property becomes an investment property. However, existing investment property that is being redeveloped for continued future use as investment property remains investment property.
- Property that is leased to another entity under a finance lease.
- Property held to provide social service, and which also generates cash inflows, for example, a housing department may hold a large housing stock used to provide housing to low-income families at below-market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for
- which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with GRAP 17; and
- Property held for strategic purposes would be accounted for in accordance with GRAP 17.
- Where a property is utilized partly in the ordinary course of operations and partly to generate rentals or for capital appreciation it will only be classified as investment property if a significant portion is utilized to generate investment income.



### 9.3 Investment Property Accounting and Measurement

- Investment assets shall be accounted for separately and shall not be classified as property, plant and equipment.
- Investment assets shall comprise land or buildings (or parts thereof) both held by the municipality, as owner or as lessee under a finance lease to earn rental income or for capital appreciation or both.
- Investment assets shall not depreciate but shall be annually valued balance sheet date to determine their fair (market) value.
- Adjustments to the previous year's recorded fair value shall be accounted for either gains or losses in the accounting records of the department or service controlling the asset.
- Annual fair value adjustment will be applied by means of application of the prevailing municipal valuation roll, an accepted expert, or any available financial information compiled by an expert.
- Any land or building owned or occupied/controlled by the municipality with the intention of selling such property in the ordinary course of business, or any land or building owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as investment property.

#### 9.3.1 Measurement of Investment Property Subsequent to initial measurement

- 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 municipality. All other subsequent expenditures should be recognized as an expense in the period in which it is incurred.

For example: If a municipality purchases a building as an investment property and will incur renovation costs, the renovation cost may be capitalised if it improves the condition of the asset over its most recently assessed standard of performance. Assume that before the renovation the building can earn R5, 000 per month in rental income, but after the renovation, it will earn R7, 000 per month in rental income. In this case, the renovation cost will be added to the carrying amount of the investment property.

- 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, a municipality 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 the net surplus/deficit for the period in which it arises. No depreciation will be calculated on this property.

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- 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 impairment losses.
- Fair value for investment property will be obtained from the prevailing municipal valuation roll. The date of valuation and date implementation (As per Section 31 of the Municipal Property Rates Act) will be considered, and a fair market adjustment will be applied based on generally recognised market indicators as accepted/promoted by the Professional Valuer FAQ 7/7/2021.
- If/when a value was not obtained from the valuation roll, similar comparable properties will be identified from the valuation roll and a similar rate will be applied to ensure consistency.
- Size discrepancies between the valuation roll and the GIS data will be flagged. This might happen due to subdivisions that have occurred. The valuer will then identify similar comparable properties in the valuation and apply such rates to the subject property, to ensure consistency. General accepted size differences between roll/deeds data and GIS data account for 5% any difference more than 5% will be treated as indicated. Any discrepancies smaller and equal to 5% rounded will be valued based on the valuation roll. However, smaller extent properties with a size smaller than 100m<sup>2</sup> will not be treated in the same manner and professional knowledge and value assessment will be applied based on the discrepancy.

For example, a 50% size difference of 2 m<sup>2</sup> is 1 m<sup>2</sup> and the value will not be implicated and the difference will be considered negligible. However, it will not be the same in 100 m<sup>2</sup> vs 50 m<sup>2</sup> where an adjustment is required.

### 9.3.2 Transfers and disposals of investment properties

Transfers:

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 during 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 on PPE (GRAP 17) 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, a municipality should apply GRAP 17 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 GRAP 17 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 recognized 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 recognized in net surplus/deficit for the period.

Disposals:

On the disposal or permanent withdrawal from the use of investment property:

- An investment property should be removed 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 statements, the gain or loss should be included in the Statement of Financial Performance as an item of revenue or expense.

### 9.3 Inventory Asset

Any land or building owned or occupied by the municipality which is earmarked for National housing projects with the Department of Human settlements and with the intention of selling such property as part of the project, or any land or building owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory assets.

### 9.4 Optional Treatment for Major Component

An Executive Manager may, with the agreement of the Chief Financial Officer, treat specified major components of an item of property, plant and equipment as a separate asset for the purposes of this policy.

These major components may be defined by their physical parameters (e.g., reservoir roof) of its financial parameters (e.g., road surface).

In agreeing to these treatments, the CFO must be satisfied that these components:

- Have a significantly different useful life or usage pattern to the main asset;
- Align with the asset management plans;
- The benefits justify the costs of separate identification;
- It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality.
- The cost of the asset to the municipality can be measured reliably;
- The municipality has gained control over the asset;
- The cost is above the recognition threshold; and
- The asset is expected to be used during more than one financial year.

Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.

All other replacements, renewals or refurbishments of components will be expensed.

## 9.5 Recognition of Network Asset

A network asset is a collection of assets that work together as a whole to deliver specified service or economic benefit. e.g., electrical network, roads network, IT system network, etc.

A network asset should be recognized as an asset on the asset register.

The Asset Manager is accountable for the management of the registers required to financially verify the value of a network asset.

## 9.6 Unbundling of Assets

Assets will be componentized or unbundled in line with the requirement of GRAP standard.

## 9.7 Land

Land, identified as PPE and inventory, is initially measured at its cost and where the land was obtained at no cost for a nominal value the cost is the fair value of the land at the acquisition date. The difference between the fair value and the nominal cost or no cost is recognised in surplus and deficit. The preferred method of application will be cost.

### 9.7.1 Land accounting and measurement

Any land identified after 1 July 2007, which had to be on the Municipality's register however was not, for which the actual cost cannot be obtained will be taken onto the register at deemed cost and measurement date as per directive 7 deemed cost on initial adoption of Standards of GRAP.

If/when a value was not obtained from the land register, similar comparable properties will be identified from the land register roll and a comparable rate will be applied to ensure consistency. An item of property, plant and equipment may be acquired through a non-exchange transaction. For example, land may be contributed to a municipality by a developer at nil or nominal consideration, to enable the municipality to develop parks, roads and paths. An asset may also be acquired through a non-exchange transaction by the exercise of powers of expropriation. Under these circumstances, the cost of the item is its fair value as of the date it is acquired. In determining the fair value of an item of property, plant and equipment acquired through a non-exchange transaction, the entity applies the principles in paragraphs .35 to .38. Any transaction costs incurred are recognised in accordance with the requirements of paragraphs .21 to .27A.

For the purposes of this, the measurement at recognition of an item of property, plant and equipment or land, acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph .18 does not constitute a revaluation.

#### 9.7.2 Transfers and disposals of land

Transfers:

The municipality subsequently measures PPE and land using the cost model. Any transfers between PPE, land and inventory do not change the carrying amount of the land, therefore no gain or loss is recognised in surplus and deficit.

Depreciation:

Land has an unlimited useful life; therefore, the land is not depreciated.

#### 9.7.3 Basis of conclusion for land and investment property

Loss of control – Control loss is considered when the owner cannot exercise the rights as an owner due to illegal occupancy of the subject property. Occupancy is defined as a use of a property by someone, either by means of a building erected, or a enclosure erected such as a fence. A fence as per the definition refers to an upright structure that prevents control or access. We then consider the loss of control over a property when improved by a structure that hinders the owner to conduct normal day-to-day use or sale of the property. Illegally occupied properties will be accounted for, however, the loss of control will only allow for an R0 value, due to the non-existing market of willing buyers and sellers.

RDP – Our understanding stems from the explanation by the South African Government, (2023) that the Reconstruction and Development Programme (RDP) was the primary socio-economic program following the elections in 1994. The broader aim of this socio-economic policy was to establish a more equal society through reconstruction and development as well as strengthening democracy for all South Africans. People who are granted an RDP house aren't renting the property from the government; in fact, they are owners. To make this official in the eyes of the law, a Title Deed is issued and must be registered at the deeds office for it to be valid. Again, this can be quite the process, and beneficiaries of the RDP housing system sometimes stay on the

property for years before receiving Title Deeds. This means that upon receipt of the house, the RDP beneficiaries do not immediately become the full owners of such properties. Furthermore, it must be considered that the general maintenance of the house is the responsibility of the owner(s). Of course, maintenance after receiving of RDP house is the responsibility of the family. While maintaining the infrastructure is the duty of the municipality, the onus is on you to look after the house and ensure that it stays in good condition (LIPCO Group, 2023). The actual ownership of the property does not seem to the owner of the house immediately, however, control over the asset has been lost and a fair value of R0 would be considered.

As per the investment property definition investment property should be property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of operations.

RDP properties do not adhere to the definition of investment property. Due to the non-saleability of RDP properties, such property does not adhere to the Inventory definition. RDP properties will not be accounted for in the statements.

Size discrepancies - When valuing real estate, the size of land or improvements plays an enormous role. Contemplating the statement, the value should always be consistent and rely on the most accurate data. How you promote consistency and accuracy, is to rely on the highest registers considering property registration. The size of a property is obtained from the Surveyor-General and is stipulated in the Land Survey Act, Act no 8 of 1997. The powers and duties of the as per section 6(1)(c)(i) is to define the geometrical figure representing any portion of land and deduct the numerical extent of that portion for the original property. In essence, the Deeds office relies on the Surveyor-General for accurate data.

A study conducted by the Surveyor-General in 2010 which was also stipulated in the Cadastral Conference Resolutions in 2009, indicates that a discrepancy between 22% and 27% exists between Deeds data and SG data. This includes not only property but also size discrepancies. In our professional capacity, we have found numerous errors where the Deeds office does not adjust the sizes of land on the deeds document. Numerous reasons might exist for this and in these cases, we rely on the GIS data obtained from the Surveyor General to obtain the correct size of the property as per section 6(1)(c)(i).

If these findings are not addressed the risk of over and undervaluation will exist and pose miraculous incorrect valuations. For the valuer, we have noted that the Deeds office implements rounded sizes and not as decimal accurate sizes. From our professional valuers' perspective, the value will not be implicated if the rounded sizes or decimal accurate sizes are applied. The differences are lost in rounding and are considered negligible. We have to ensure consistency throughout our application and because some of the Deeds information is incorrect, we rely on the most accurate data, which is considered the GIS data obtained from the Surveyor General. This will ensure that all subdivisions and consolidations are accounted for and that the value allocated to the land is based on the actual sizes confirmed by the Surveyor-General. This approach allows for an accurate valuation of the SG-confirmed land sizes.

FNB Barometer – Why do we apply the FNB Barometer on a National Level to the subject of Local Municipality? If you would have considered an area where numerous amounts of sales take place such as the larger Gauteng area, it would be easy to determine market trends and market movement in the property sector. However, considering the subject area limited market transactions could be obtained to develop accurate, reliable, and defendable economic trends from the information.

When we considered statistics, we should consider that Statistics is a branch of applied mathematics that involves the collection, description, analysis, and inference of conclusions from quantitative data. The mathematical theories behind statistics rely heavily on differential and integral calculus, linear algebra, and probability theory. With this in mind, the more data, the more accurate the statistics will be and vice versa.

Since the data is limited, we have to rely on other reputable sources to help with the identification of market trends in the larger property sector. Property trends are influenced by national economic trends as well as national governmental decisions and the rest of the economic factors that play a part in the larger economy.

When you would consider the FNB Property Barometer, you rely on a reputable financial institution that has access to one of the largest databases of property information in the country. The data is obtained from ample professionals in the property industry, including property valuers, property houses, and property investors. The data is analysed by a highly qualified team of professionals including, economists, actuaries, valuers, and statisticians. The project leader differs; however, it should be considered that being a financial institution the best qualified and well-versed professional will have been appointed. The information is also used by the FNB Economical department, that project the risk to the SARB on the credit of property to determine the exposure.

With this in mind, the information portrayed by the FNB Property Barometer is considered highly accurate and is considered a reputable source of market trends and indicators of the movement of property. In an area where limited information is available, valuers will fall back on this document and apply such rates as a market movement. This has been presented at various Appeal boards and arbitrations by valuers and was accepted by the court as relevant information.

Deeds information – Section 3(a) of the Deeds Registries Act 1937 stipulates the duties of the registrar must take charge to preserve all records before the commencement of this Act or may become, after such commencement, records of any deeds registry regarding which he has been appointed. Section 3(b) reveals that the registrar may reject the registration and that the registrar must examine the documents before rejecting them; “3(c) register grants and leases of land lawfully issued by the government, and 3(d) attest or execute and register deeds of transfer of land and execute certificates of title to land.” Other sections include registration and cancellation of mortgage bonds, notarial ties, servitudes, leases, and anything that may affect the property. This section indicates the duties of keeping a register of all properties in the country, specifying all owners and any legal endorsements to such properties. The Chief Registrar of Deeds, therefore, may only demonstrate historic and active properties whereas the Chief Surveyor-General may demonstrate historic, active properties, including future planned properties. This can cause a mismatch in the linking process, displaying property not currently registered or registered historically. It would be beneficial to analyse the data, understand the shortcomings, know the data source origin, clean, and amend the data to develop an accurate valuation roll from the property master. As per the Surveyor-General in 2010 we have to make note that the deeds

information may indicate historic information and should only be considered on a one-to-one base. We rely on the Deeds information where available and Municipal Valuation Roll or on the Valuation Roll as our base information where deeds are not available as the roll was developed based on a property register and is governed by the Municipal Property Rates Act.

Surveyor General Data - Section 3 of the Land Survey Act, Act no 8 of 1997 identifies functions related to all property boundaries. The Chief Surveyor-General is the higher-ranking body for property location and mapping. This governmental body is as crucial as the Chief Registrar of Deeds regarding properties and registers. The focus is on Sections 3(b) and 3(d), where the Chief Surveyor-General could discern cadastral surveys. The Chief Surveyor-General should, therefore, survey any land as requested if registered with the Deeds Office (or not). The duties of a Surveyor-General are similar to the functions deeds registrar; however, Section 3(c) is crucial in this Act. All properties in the deeds register must be surveyed and kept up to date regarding sizes after subdivisions and consolidations. With this in mind, the Surveyor General data is used as a backdrop for the property location and the size of the erf as the data that is used are obtained from the Surveyor General. Considering these sizes and location the properties are highly ranked and is considered correct.

Accounting for properties, not in the deeds – Considering the abovementioned acts some of the properties that are accounted for in the Surveyor General data might not be in the Deeds register. We account for the properties as the application for subdivision was submitted by the owner and approved by the Surveyor General. These applications usually come into existence when the need arises to utilise/sell the property due to the cost of the registration that is expensive. It was noted that some property owners request subdivisions for future planning and have at the time of subdivision submitted ample subdivisions. Our view is that we need to account for this as the request for subdivision was made by the owner and will realise in the near future.

1Map vs SG Office Data – We utilise the 1Map platform due to the ease of reference in the software, which is maintained regularly to ensure data accuracy and consistency. The data that is used by the custodian refers directly to the Surveyor General Data as supplied by the Surveyor General Office. Thus, the reasoning behind the utilisation of such an application is merely ease of reference and obtainment of Surveyor General diagrams and other property information on an ad-hoc basis. It should be noted that the referral to SG data above being used corresponds with the Surveyor General Map view, as it is the same data obtained from the Surveyor General.

Movable or Immovable Assets – Our interpretation of movable or immovable stems from a court case regularly applied in the asset sector. *Caltex (Africa) v Director of Valuations (Cape) 1961 1 SA 525* stipulates that Immovable property depends on: 1 Nature of the Article; 2) the Degree and the manner of attachment, and 3) the Intention of the person attaching it. The court case is clear that three sections should be considered to define an immovable property. With this in mind, we consider the actual use of the assets and the likely hood of the asset being utilised for something else. For example, if a JoJo tank or a generator is crucial for the operation of a special assist it will be considered immovable. However, this is not the only criterion of consideration, considering an Aircon that might not be critical for operation, however, it was fitted not to be moved in the and will be considered immovable.

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## 10. ACCOUNTING FOR PROPERTY, PLANT AND EQUIPMENT

### 10.1 Recognition of Property, Plant and Equipment

An item of property, plant and equipment will be recognized as an asset when:

- a) It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality.
- b) The cost of the asset to the municipality can be measured reliably;
- c) The municipality has gained control over the asset;
- d) The cost is above the recognition threshold; and
- e) The asset is expected to be used during more than one financial year.

All other acquisitions of property, plant and equipment will be expensed.

If property, plant and equipment is constructed over more than one financial period it shall be recognized as work-in-progress until available for use.

## 10.2 Initial Measurement

An item of property, plant and equipment that qualifies for recognition as a non-current asset should be initially measured at its "cost of acquisition".

This "cost of acquisition" will include all costs required to bring the asset to the proper working condition and position for its intended use. These costs usually include the following:

- a) Purchase costs (less any discount given)
- b) Cost of site preparation
- c) Delivery costs
- d) Installation costs
- e) Professional fees for architects and engineers
- f) Import duties.
- g) Non-refundable taxes
- h) Site development costs
- i) Contractor fees

Capitalization of cost stops/seizes when the asset is in the condition and location necessary for it to be capable of operating in the manner intended by management.

## 10.3 Donations or Exchanges

Where a fixed asset is donated to the Municipality, or a fixed asset is acquired by means of an exchange of assets between the Municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value or deemed cost, as determined by the chief financial officer.

The relevant head of the department will be tasked with the duty to obtain the supporting documents from the applicable transferring entity that is donating the assets to ensure that the donated assets are substantiated with sufficient and appropriate audit evidence. Furthermore, the section manager will ensure that a transferring letter is signed by the donating entity which will include a detailed description of the assets that are being transferred, as well as the cost related to the donated assets that agree to the supporting evidence.

If no donation documents are available, but the Municipality is in control of the asset as well as its wellbeing, the said asset will be accounted for at a deemed cost on the date of which in use is confirmed by management, with sufficient audit evidence.

## 10.4 Recognition Threshold

Judgment is exercised in determining the unit of measure for recognition, which may involve aggregating individually insignificant items. This is done in accordance with GRAP 17.09: This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances.

It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value.

Moreover, Lekwa Local Municipality has determined that assets with a useful life of less than 12 months or a cost below R 2 500.00 will not be accounted for in the financial statements. This decision is based on the immateriality of these assets, as recognized by GRAP 17, acknowledging that the administrative burden and cost associated with accounting for such assets may outweigh the benefits.

This approach enables a streamlined asset management system that focuses resources on significant assets, aligning with the practicality and cost-effectiveness considerations of the municipality's operations, as permitted by the MFMA Local Government Capital Asset Management Guideline.

These assets can be found on a control list or small asset list that is in place for record-keeping purposes for all assets that fall within the above-mentioned criteria. All expenditure on items that meet the criteria above in the current financial year is to be expensed according to the statement of financial performance.

For major repairs and refurbishments done to fixed assets the discretion of the CFO will be considered, if the amount is significant and if it will be capitalized as subsequent expenditure or expensed in the operating budget.

## 10.5 Carrying Amount on Property, Plant and Equipment

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation, and applied impairment subject to the requirement to write an asset down to its recoverable amount or any subsequent revaluation.

## 10.6 Depreciation

- All fixed assets, except land and heritage assets shall be depreciated or amortised in the case of intangible assets.
- The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life.
- The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed by the municipality.
- The depreciation charge for each period will be recognized as an expense against the budget of the relevant Executive manager where the asset is used or consumed unless it is included in the carrying amount of another asset.
- The depreciation method will be straight line unless the chief financial officer is convinced that another method is more appropriate.
- Depreciation will be calculated monthly to all the depreciating assets of the municipality.
- Depreciation of an asset will commence once the asset is available for use through:
  - being in the location for it to be capable of operating in the manner intended; and
  - being in the condition for it to be capable of operating in the manner intended.
- The procedures to be followed in accounting and budgeting for the amortization of the intangible assets shall be identical to those applying for the depreciation of other fixed assets.

## 10.7 Initial Determination Useful Life

In accordance with the MFMA — Local Government Capital Asset Management Guideline, Lekwa Local Municipality acknowledges that the determination of the useful life of a particular class of assets requires judgment based on operational experience and consultation with specialists, such as engineers. The municipality's management is empowered to exercise discretion in determining the estimated useful life of assets, taking into consideration factors specific to the municipality.

Factors such as the following should be considered:

- The operational, maintenance, renewal and disposal program that will optimize the expected long-term costs of owning that asset;
- Economic obsolescence because it is too expensive to maintain.
- Functional obsolescence because it no longer meets the municipalities needs;
- Technological obsolescence;
- Social obsolescence due to changing demographics; and
- Legal obsolescence due to statutory constraints.

Lekwa Local Municipality recognizes the importance of aligning the estimated useful life of assets with operational realities and will adhere to the prescribed consultation process and approval mechanisms outlined by the MFMA guidelines. This ensures that the municipality maintains transparency and accountability in its capital asset management practices while making informed decisions regarding the useful life of its assets.

GAMAP 17 provides a schedule of useful lives (included as ANNEXURE Av1: ESTIMATED USEFUL LIFE GUIDELINE). These should be used as a guide to the minimum useful lives only because actual asset lives experienced greatly exceed those recommended lives.

Spares purchased specifically for a particular asset, or class of asset, and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

### 10.8 Review of Useful Life (Impairment)

The remaining useful life of an item property, plant and equipment should be reviewed annually and or when management has been made aware of a significant change in its condition, and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

### 10.9 Review of Depreciation Method

The depreciation method applied to property, plant and equipment should be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method should be changed to reflect the changed pattern.

When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

### 10.10 Review of Residual Value

The residual value of an item of property, plant and equipment should be reviewed annually, and this amount may increase to an amount equal to or greater than the asset(s) carrying amount.

If expectations differ from previous estimates, the change shall be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

### 10.11 Subsequent Expenditure on Property, Plant and Equipment

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.

All other expenditure should be recognized as an expense in the period in which it occurred.

Before allowing the capitalization of the subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure significantly:

- Increase the life of that asset beyond that stated in the asset register; or
- Increase the quality of service of that asset beyond the existing level of service; or
- Increase the quantity of services that asset can provide; or
- Reduces the future assessed costs of maintaining that asset.

The expenditure that is proposed to be capitalized must also conform to the recognition criteria for non-current assets and should also be appropriately included in the approved capital budget.

Where it is desired to capitalize future component replacements, refurbishments or renewals, refer to the section of major components in this policy.

## 10.12 Reduction of The Carrying Amount

The carrying amount of a non-current asset should be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount. Recoverable amount is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognized as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve.

For assets providing economic benefits, the recoverable amount is the net present value of future ownership. For assets providing future service delivery, the recoverable amount is the remaining proportion of its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance program.

## 10.13 Subsequent Increase in Recoverable Amount

A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

## 10.14 Impairment of Assets

The accounting treatment relating to impairment losses is outlined as follows in GRAP 21 & 26:

The carrying amount (Book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically to assess whether or not the recoverable amount has declined below the carrying amount.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose.

In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

The asset management policy of Lekwa Local Municipality recognizes that impairment of assets occurs when an asset is no longer in a condition to serve its intended purpose. It is emphasized that the condition of an asset alone will not have a financial impact on the carrying value unless the asset is impaired to the extent that it can no longer fulfill its purpose.

For instance, minor damage or dents in an asset, such as a truck, will not result in impairment. Impairment will only be considered when the asset is rendered nonfunctional or incapable of performing its designated tasks, such as being undrivable or unable to carry out its intended functions.

The municipality will assess and recognize impairment losses in accordance with the requirements of GRAP 17 when assets have significantly deteriorated and can no longer fulfill their intended purpose, ensuring accurate financial reporting and sound asset management practices.

Assets not found or verified will be impaired. If an asset remains unverified for a continuous period of three years, it will be earmarked for disposal. Should such an asset be located or verified within this three-year period, a new condition assessment will be conducted, and the impairment reversal will be applied. Additionally, impairment reversals will be applied to assets where there has been a change in the condition assessment.

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

- The asset has been damaged.
- The asset has become technologically obsolete.
- The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
- excessive maintenance is required on the asset;
- asset not completed before it is in a usable condition; and/or
- decline in land market value.

## LEKWA LOCAL MUNICIPALITY ASSET MANAGEMENT POLICY

- Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.
- Land or investment property is illegally occupied by a party other than the municipality.

The following steps will have to be performed to account for impairment losses:

Executive Managers will identify and inform the Chief Financial Officer of assets that:

- Are in a state of damage at year end.
- Are technologically obsolete at year end. This can be facilitated if Executive Managers require Budget and Treasury Office, to supply them with a Fixed Asset Register print-out pertaining to major assets showing the remaining useful lives of assets. The Executive Managers 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.
- Have been destroyed or damaged due to acts of God;
- Require excessive maintenance.
- Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is Land that is purchased at market value and is to be utilized for subsidized housing developments.

Net Selling price: is the amount obtainable from the sale of an item on the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.

Value in use: is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

- The recoverable amounts of these assets need to be calculated by calculating the Net Selling Price per asset as defined above.
- The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
- The impairment loss needs to be accounted for by identifying the relevant funding source.
- The carrying amount of an asset should be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.
- When such a decline has occurred, the carrying amount should be reduced to the recoverable amount.
- The amount of the reduction should be recognized as an Impairment expense immediately, unless it reverses a previous revaluation in which case it should be charged to the Revaluation Reserve.
- For assets providing economic benefits, the recoverable amount is the net present value of future ownership.



- For assets providing future service delivery, the recoverable amount is the remaining proportional to its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance programs.

### 10.15 Accounting Treatment on Disposal

- An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its disposal.
- Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset and should be recognized as revenue or expense in the statement of Financial Performance.
- The fact that a fixed asset might be fully depreciated is in itself not a reason for disposal of the asset.

### 10.16 Reinstatement, Maintenance and Other Expenses

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalized.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalized, irrespective of the quantum of the expenses concerned.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalized as part of such fixed asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, installation, assembly and communication costs.

The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:

| Capital Expenditure  | Maintenance   |
|--|---|
| <ul style="list-style-type: none"> <li>• acquiring a new asset</li> <li>• replacing an existing asset</li> <li>• enhancing an existing asset to that its use is expanded.</li> <li>• further developing an existing asset so that its remaining useful life is extended</li> </ul> | <ul style="list-style-type: none"> <li>• restoring an asset so that it can continue to be used for its intended purpose.</li> <li>• maintaining an asset so that it can be used for the period for which it was initially intended</li> </ul> |

### 10.17 Assets Held Under Leases

Finance leases are leases which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the FAR. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the municipality.

Mobile devices such as cell phones are not considered as an asset as it is used by a Municipal Employee that takes control over the asset after the expiry date of the contract. No mobile telephone will be capitalised within the FAR. All cell phones, under term contracts remain the property of the service provider.

### 10.18 (All Investment Property Was Mentioned in Section 9)

### 10.19 (Mentioned in Section Above)

### 10.20 Recognition of Heritage Assets in The Fixed Asset Register

If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned. For statement of financial performance purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

### 10.21 Other Write-Offs of Fixed Assets

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

In every instance where a non-fully depreciated fixed asset is written off, the Chief Financial Officer shall immediately debit to such directorate or vote, as additional depreciation expenses, the full carrying value of the asset concerned.

## 10.22 General Maintenance of Fixed Assets

Every Director shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

## 11.FINANCIAL DISCLOSURE

The financial statements should disclose, in respect of each class of property, plant and equipment classified under the categories of land and buildings, infrastructure, community, heritage and other assets:

- a) The measurement base is used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.
- b) The depreciation methods used.
- c) The useful lives or the depreciation rates used.
- d) Depreciation charged in arriving at net surplus or deficit for the period.
- e) The gross carrying amount and the accumulated depreciation at the beginning and the end of the period.
- f) A reconciliation of the carrying amount at the beginning and end of the period showing:
  - i. Additions
  - ii. Disposals
  - iii. Acquisition through business combinations
  - iv. Increases or the decreases resulting from revaluations
  - v. Deductions in carrying amount
  - vi. Amounts written back
  - vii. Depreciation
  - viii. Other movements

The financial statements should also disclose:

- Whether or not, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values.
- The existence and amounts of restriction on title and property, plant and equipment pledged as security for liabilities.
- The accounting policy for restoration costs relating to items of property, plant and equipment.
- The amount of expenditures on account of property, plant and equipment in the course of construction; and
- The amount of commitments for the acquisition of property, plant and equipment.

When items of property are stated at revalued amounts, the financial statements should disclose:

- The basis used to revalue the assets.
- The effective date of revaluation.
- Whether an independent value was involved.
- The nature of any indices used to determine replacement cost.
- The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation.
- The revaluation surplus, detailing the movement for the period.
- The portion of the depreciation charge relating to the revaluation.

## **12.REVIEW**

This policy will be reviewed at least annually or when required by way of a council resolution.

## **13.SHORT TITLE**

This policy shall be called the Asset Management Policy of the Lekwa Local Municipality.

## **Asset Categories**

### **1. Immovable Assets**

- a) Infrastructure assets
  - electricity network assets
  - water networks and related assets
  - wastewater networks and related assets
  - roads, bridges, and storm water
  - waste management: landfill sites and transfer stations
- b) Investment property
- c) Building assets
  - Municipal occupied service buildings
- d) Community assets
  - parks & gardens
  - sport fields and stadium

- swimming pools
  - community halls
  - libraries
  - recreational facilities
  - fire, safety and emergency
  - security and policy
  - clinics
  - museums and art galleries
  - cemeteries
  - social rental housing
- e) Heritage assets
- Buildings
- f) Intangible assets
- Servitudes
- g) Agricultural assets
- Biological assets
- h) Other assets
- abattoirs
  - markets
  - civic land and buildings
  - other land
  - other buildings
- i) Work-in-progress

## 2. Movable Assets

- a) Other Assets
- office equipment
  - furniture and fittings
  - bins and containers
  - emergency equipment
  - motor vehicles
  - aircraft
  - watercraft
  - plant and equipment

- specialized vehicles
- b) Intangible Assets
  - computer software & programming
- c) Heritage Assets

## **14. CORRECTION IMPLEMENTATION**

In alignment with the principles of GRAP and our commitment to enhancing asset management practices, the Lekwa Local Municipality has adopted the Asset Management Policy prospectively. This approach ensures compliance with GRAP 3 regarding changes in accounting estimates and provides a structured framework for assessing the accuracy and completeness of asset information. Through this application, we aim to:

- Improve the accuracy of asset recognition, valuation, and disclosure in accordance with GRAP 17.
- Assess the performance, condition, and useful lives of assets using consistent and transparent criteria.
- Identify discrepancies and opportunities for improved asset management practices in line with GRAP principles.
- Enhance the reliability of financial reporting and support informed decision-making regarding municipal assets.

## **15. USEFUL LIFE OF ASSETS AS PER ANNEXURE AV1: ESTIMATED USEFUL LIFE GUIDELINE**