



Molemole Municipality

# **ASSETS MANAGEMENT POLICY**

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### 3. Asset Management Accounting Policies

#### Definitions

Consistent definitions are essential for good asset management and reporting. These definitions were taken from the General Accepted Municipal Accounting Practise guidelines regarding assets:

#### 3.1 Fixed Assets

A fixed asset is an asset with a useful life of more than one year and is used in the business of Molemole Municipality.

Characteristics of a depreciable fixed asset are the following:

- It is estimated that the asset will be used for more than one financial period;
- Has a limited useful life;
- Is used in a process of delivering services.

“An Asset” is a resource controlled by the Municipality as a result of past events and from which future economic benefits or potential service provision is expected to flow to the municipality

**Property, Plant and equipment** are tangible assets that:

Are held by the Municipality for use in production or supply of goods or services, for rental to others, or administrative purposes, and Are expected to be used during more than one period.

**Infrastructure Assets** are assets that are part of a network of similar assets. Examples are roads, water reticulation schemes sewerage purification works.

**Community Assets** are assets that contribute to the community's well-being. Examples are parks, libraries and fire stations.

**Heritage Assets** are cultural significant resources. Examples are works of art, historical buildings and statues.

**Investment Properties** are properties acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for resale in future years.

**Other Assets** are assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings

#### 3.2 Cost

Cost of a fixed asset includes the cost of activities necessarily incurred to bring the fixed asset to the condition and location essential for its intended use (e.g. purchase price plus transport and installation).

### **3.12 Depreciable Amount**

Is the cost of an asset, or any other amount that substitutes the cost of an asset e.g. fair value of the asset that is reflected in the Financial Statements.

## **4. Transfer of Fixed Assets from State Departments or other Municipalities**

4.1 The entire individual fixed asset items that are transferred from State Departments or other Municipalities to Molemole Municipality have to be valued, as these assets will represent the take on values for Molemole Municipality. All the relevant assets are acquired by Molemole Municipality based on the going concern concept at values as per paragraphs 3.1 to 3.10

4.2 After all the assets have been valued, their useful lives will be determined as the transferred assets will be depreciated over their useful lives as per paragraph 6.9 of these accounting policies.

4.3 The transferred assets will be valued on the following bases;

Motor vehicles will be valued at the trade value of each vehicle per the latest Auto Dealers Guide.

Furniture and fittings and office equipment must be included as estimations.

Building and grounds will be valued as per valuation roll.

4.4 Desktop and laptop computers and printers will be valued by:-

extracting a schedule of each type and model of personal computer, comprising CPU, monitor, keyboard and mouse;

requesting our IT personnel to place a value on each of the types of personal computer and printer;

Applying the above values to the quantity of each type of personal computer and printer in use at each office.

## **5. Capitalisation of Fixed Assets**

5.1 Fixed assets with a satisfaction of definition will be capitalised and therefore recorded in the Fixed Asset Register and depreciated over its useful life.

5.2 Fixed assets with a dissatisfaction of asset definition will be written off to the Income Statement as Inventory Assets on purchase and will not be recorded in the Fixed Asset Register.

5.3 All changes to computers, i.e. software, motherboards and cards within a personal computer will be written off on purchase to computer repairs and replacements.

5.4 Recoverable works e.g. water-, sewerage- and electricity connections will not be capitalised as an asset. These expenses will be debited directly to the Income Statement. (refer to 12.1 for more detail)

**Development costs are only capitalised when the following criteria are met:**

- the project is clearly defined and the costs attributable to the project can be separately identified and measured reliably;
- the technical feasibility of the project can be demonstrated;
- the usefulness of the project to Molemole Municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project.
- The cost of the research and development can directly be linked to an asset or category of assets.

## **6.7 Recognition of Assets**

Assets will only be capitalised as an asset in the balance sheet when the following criteria are met.

- Future economic benefits or potential service delivery associated with the asset will flow to Molemole Municipality.
- The cost of the asset can be measured reliably, and
- The life time of the asset is more than a year
- All risks and rewards relating to an asset item have been passed to Molemole Municipality and therefore Council controls the asset item.
- A valid invoice to Council or other transfer document that transfers ownership to Council exists.
- The cost price of the asset exceeds a R1000.00 (One thousand Rand Only) threshold predetermined by Molemole Local Municipality.

### **Self-constructed assets**

Cost of self-constructed assets will be determined from requisitions of inventory used, timesheets of labour cost as well as from invoices of creditors and suppliers.

A self-constructed asset with a satisfaction of asset definition will be capitalised as an asset when all criteria for an asset as stated above are met and will be capitalised as follows:

The total value of the inventory or spare parts used to build the asset will be capitalised as an asset.

## **6.8 Repairs and improvements to fixed assets**

Where repairs and maintenance are incurred to improve a specific asset (i.e. the improvement will increase capacity or extend the useful life of the asset), the cost of the improvement must be capitalised against the fixed asset affected, and written off **over the remaining life of the asset.**

Where repairs and maintenance expenses are incurred to repair or service a specific asset and it does not extend the lifespan of the asset, the cost thereof must be written off to repairs and maintenance in the income statement.

## **6.9 Depreciation**

Depreciation can only be written off if the useful life of an asset is established.

**Useful lives - Estimated useful lives per category of asset are as follows:**

<b>CATEGORY</b>	<b>ASSET LIFE</b>
<b><u>Infrastructure Assets:</u></b>	
<b>Electricity</b>	
Power stations	30-40 Years
Cooling Towers	30-40 Years
Transformer Kiosks	10-44 Years
Meters	15-30 Years
Load Control Equipment	20-25 Years
Switchgear Equipment	20-25 Years
Supply/reticulation	20-25 Years
Mains	20-30 Years
Street Lights	10-40 Years
High mast Lights	10-40 Years
<b>Roads</b>	
Motorways	09 -100 Years
Other Roads	10 Years
Traffic Islands	10 Years
Traffic Lights	20 Years
Road furniture/ Signs	05-20 Years
Street Lighting	10-40 Years
Overhead Bridges	30 Years
Storm Water Drains	10-20 Years
Bridges and Subway	30 Years
Car Parks	20 Years
Bus Terminals	20 Years
Pipes	10-25 Years
Catch Pit	20-25 Years
Signboards	05-20 Years
Concrete Drift	10-15 Years
Guardrails	15-50 Years
Kerbing	10-30 Years
Speed Hump	05-20 Years
Culverts	05-25 Years
Stone Pitching	05-15 Years
Roads Studs	05-15 Years
<b>Water</b>	
Meters	15 Years
Mains	20 Years
Rights	20 Years
Supply/Reticulation	20 Years
Reservoirs and Tanks	20 Years
Rights (that is the right to draw water from a particular source belonging to another party)	20 Years

<b><u>Recreational Assets:</u></b>	
<b>Facilities:</b>	
Bowling Greens	20-30 Years
Tennis Courts	20-30 Years
Swimming Pool	20-30 Years
Golf Course	20-30 Years
Stadiums (Ground field and Grand stand)	20-30 Years
Jukskei Pitches	20-30 Years
Outdoor Sport Facilities	20-30 Years
Lakes and Dams	20-30 Years
Fountains	15-30 Years
Floodlighting	20-30 Years
Cricket Field	20-30 Years
<b>Security Measures:</b>	
Fencing (Mash and Palisade Fence)	05-30 Years
Security Systems	05-10 Years
Access Control	5-30 Years
<b><u>Other Assets:</u></b>	
<b>Buildings:</b>	
Caravan parks	30-40 Years
Compacting Stations	30-40 Years
Housing Schemes	30-40 Years
Laboratories	30-40 Years
Nurseries	30-40 Years
Office Buildings	30-40 Years
Quarries	30-40 Years
Stores	30-40 Years
Tip Sites	30-40 Years
Training Centers	30-40 Years
Transport Facilities	30-40 Years
Workshops and depots	30-40 Years
Guard room Wooden	02-20 Years
Mobile Offices	30-40 Years
Pavement	20-40 Years
Gazebo Shades	03-20 Years
Market Stalls	30-40 Years
<b>Office Equipment</b>	

<b>Plant and Equipment:</b>	
Graders	03-20 Years
Tractors	03-20 Years
Mechanical Horses	07 Years
Farm Equipment & Pesticide Sprayers	05 Years
Lawnmowers	02-10 Years
Brush Cutters	04-10 Years
Compressors	10-12 Years
Laboratory Equipment	05 Years
Radio Equipment	05 Years
Fire Arms	25-30 Years
Telecommunication Equipment	05 Years
Irrigation Systems	07 Years
Conveyors	07 Years
Feeders	08-12 Years
Tippers	05-10 Years
Slashers	05-15 Years
Ladder	

The useful life schedule must be used for all new and existing assets unless:

A more appropriate useful life can be motivated by the Department that acquires the asset, and

The change in the useful life of the Asset as motivated by the Department is approved by the Manager Financial Services.

If the useful life of an asset cannot be determined from the useful life schedule and it is impossible to estimate the useful life of the asset the accounting procedures will be as follows:

An annual assessment of the asset will be done by Heads of Departments to determine the deterioration of the asset and the potential service delivery for future benefits to the Municipality.

On this assessment the Municipality will account for a depreciation charge where major deterioration has occurred, through the Income Statement as expenditure.

The above will adjust the carrying value of the asset on the Financial Statements accordingly.

#### **6.11 Review of the useful life of an asset.**

All Assets will be investigated annually to ensure that the useful life of the asset is still in line with the original estimated useful life of the asset.



Any other direct attributable costs used to bring an asset to a working condition. (E.g. Delivery and handling cost, installation cost, professional fees etc.)

The cost of an asset will not include the following:

Trade discount received  
Rebates received  
Interest paid

## **7.2 Capitalisation of Assets Exchanged for dissimilar assets**

When an asset is acquired by way of an exchange for a dissimilar asset capitalisation will be as follows:

The cost of the asset received as a replacement that must be capitalized will be calculated as the fair value of the replaced asset and adjusted by the amount of cash or cash equivalents that was transferred or received.

The profit or loss of the replaced asset will be calculated as the difference between the cost of the asset received as replacement and the book value of the replaced asset.

## **7.3 Capitalization of Assets exchanged for similar assets.**

When an asset is acquired by exchanging it for a similar asset that is used for a similar activity and that has a similar fair value the following accounting practise will be followed:

The cost of the asset received as replacement asset will be carried at the same amount as the replaced asset.

There will be no recognition of profit/loss of fixed assets for an exchange of similar assets.

## **7.4 Subsequent Measurement for Fixed Property**

Land will be re-valued on a four (4) yearly basis.

Other Property Plant and Equipment (Community Buildings, Buildings Infrastructure, Lease and Other property plant and equipment will be held at historic cost as a subsequent measurement.

Heritage Assets will be kept at historic cost less accumulated depreciation as a subsequent measurement.

Investment Property will be kept at historic cost less accumulated depreciation as a subsequent measurement.

Intangible Assets will be kept at historic cost less accumulated depreciation as a subsequent measurement.

Assets other than fixed property will be carried at cost or initial valued price less accumulated depreciation in the Financial Statements for its useful life, provided that the carrying amount exceeds the recoverable amount of the asset.

## **7.6 Asset Revaluation Reserve**

Any surplus arising on the revaluation of assets is credited to the asset revaluation reserve, which is regarded as non-distributable. On disposal of the asset the applicable portion of the surplus is transferred to the retained surplus account.

## **8 Inventory Assets**

- 8.1 Assets that meet the definition of the assets but not satisfying the recognition criteria will be classified as Inventory Assets and will be recorded in loose asset register and written off in the Income Statement when it is purchased.
- 8.2 An Inventory List will be maintained by the Asset Control Officer for all Inventory Assets. These Inventory Assets will be numbered by barcode for easy reconciliation and verification where possible and cost effective.
- 8.3 Where it is not possible or cost effective it will be numbered with a permanent marker to ensure that it is accounted for with the yearly asset verification.
- 8.4 Inventory Assets will be budgeted for under the General Expenditure section of the operational budget and will therefore have an effect on the surplus or deficit of Molemole Municipality.

## **9 Asset Management Policy**

### **9.1 Fixed Asset Register and work procedures**

- 9.1.1 All fixed assets that satisfy the definition of asset will be recorded on the Fixed Asset Register, and the asset will remain on the register until such time it is disposed of.
- 9.1.2 All the fixed assets will individually be bar coded when physically possible and cost effective.
- 9.1.3 All the fixed assets will be captured on the Asset Management System and will be balanced back to the Asset Control Votes on the current used Financial System (Venus system).
- 9.1.4 Where it is not physically possible to mark an asset with a bar-coded strip, the asset will be marked and numbered by way of a permanent marking pen or paint.

- 9.1.14 The Asset Control Officer will balance the asset register to the assets as stated on the general ledger on a monthly basis and follow up any discrepancies.
- 9.1.15 Discrepancies will be communicated to the Financial Manager on a monthly basis.
- 9.1.16 The Asset Control Officer will report on all additions, scrapings, disposals and loss due to theft or other uncontrollable circumstances on a monthly basis.
- 9.1.17 No private assets (*e.g. equipment or any other personal property- discretion should be with the security personnel and asset control officer*) except vehicles are allowed on the premises of Molemole Municipality.  
The Financial Manager or his/her delegate (asset control officer) must give written approval to an Official or any other person that requires bringing Private Assets onto the premises of the Molemole Municipality. (a Private Asset Request form is available from the Asset control officer).  
This approval form must be in the possession of the Official or any other person at all times, and must be produced as and when it is required.

## **9.2 Fixed Asset Register (Base Units)**

Fixed assets will be recorded as follows to ensure that all assets are treated uniformly.

- 9.2.1 The central processing unit, (including the original software, motherboard and cards), keyboard and mouse of a personal computer;
- 9.2.2 The monitor of a personal computer;
- 9.2.3 A printer;
- 9.2.4 The monitor, keyboard and mouse (if applicable) of a computer terminal;
- 9.2.5 Each individual item of furniture;
- 9.2.6 Each individual item of office equipment.
- 9.2.7 Each component of an Infrastructure Structure Asset where possible. Example for a reservoir the reservoir, pumps and standby power separately.
- 9.2.8 Each stand and or building

## **10 Purchase of an Asset**

The acquisition of Assets must be done in line with the Supply Chain Management process (Demand, Acquisition and Logistics), for asset Management officer to go with the Asset recording processes and procedure.

Molemole Municipal Council must approve any asset that did not form part of the original annual capital budget.

- 12.4 Managers have to ensure that proper documentation is maintained for all their physical verification procedures performed.
- 12.5 The Asset Control Officer will from time to time do spot checks to ensure that the assets in a specific location agree to the assets listed on the asset inventory sheet of the location. (Both capitalised and Inventory Assets will be checked.)
- 12.6 The Head of the Department must be informed of damaged or obsolete assets when it is identified by means of the asset verification process. The Head of the Department must follow the procedures as prescribed in point 14.2 below to have the asset scrapped.

## **13 OTHER MATTERS ARISING FROM ASSETS**

### **13.1 Recoverable Work**

Recoverable work like water connections, electricity connections and sewerage connections were previously capitalized.

This expenditure is recovered from the consumer and therefore does not constitute a capital expense.

All recoverable work will in future be debited against the debtor account and will be recovered from the debtor.

### **13.2 Assets held under Finance Leases**

Assets held under finance leases will be accounted for as follows:

The leased asset will be capitalised in the General Ledger of the Lessee at the amount stated in the lease agreement, and

The asset will be depreciated over the expected useful life of the asset, unless

There is no certainty that the lessee will obtain ownership of the asset by the end of the lease term, whereby the depreciation period will be calculated over the shorter of the lease term or the expected useful life of the asset. Officials must however ensure that Molemole Municipality obtain ownership for all assets that are purchased under a finance lease.

### **13.3 Other Leases**

All other leases will be accounted for as expenditure in the Income Statement of the Municipality and will be budgeted for accordingly.

### **13.4 Assets in Halls**

Due to the difficulty of marking movable assets in the halls with barcodes, the following procedures must be put in place to ensure the safekeeping and control over these assets.

## **14. Asset Custodians**

The Assets Division shall ensure that adequate procedures for regular independent checks of fixed assets are in place to monitor changes in the status of the Assets. Each employee shall implement and maintain asset control in each office, location or area. For each office, location or area, the Asset Division must be notified and record at least one as the "Assets Custodian" for that particular office, location or area.

It is the responsibility of the Asset Custodians to ensure that all changes in the status of the fixed assets under their custodianship are promptly communicated to the Assets Division at the earliest possible opportunity to do so.

**The Asset Custodian shall ensure that:**

- 3.2.6.1. All information needed by the Assets Division to compile and update the Asset Register, is communicated to the Asset Management Division.
- 3.2.6.2. The Assets Division is notified of any changes in the status of the assets under the control of the Custodian at the earliest possible opportunity to do so (e.g. asset transfers, asset impairments, losses and asset disposals, etc.).
- 3.2.6.3. All transfers/movement of assets are signed off by the Assets Division before such a transfer or movement takes place.
- 3.2.6.4. Any change in the status of a fixed asset under their custodianship is updated on the inventory control sheet and signed off by an Asset Management Division official.
- 3.2.6.5. The inventory and/or assets of the Municipality are not used for private purposes and gain by any employee/Councilor.
- 3.2.6.6. Control is exercised over the assets under his/her custodianship and shall report any enhancement/improvement, damage, loss, transfer or disposal of the assets to the Assets Division.
- 3.2.6.7. Relevant reports on damage/breakage and the theft/loss of any asset under his/her custodianship are submitted to the Assets Division within two (2) working days of the incident.
- 3.2.6.8. Any discrepancies in the asset stock take report are followed up.
- 3.2.6.9. All assets within under his/her custodianship are recorded on the inventory list and are bar coded.

## **14 Policy for the disposal of redundant, obsolete or Unserviceable furniture and equipment**

Assets that become redundant, obsolete or unserviceable must be treated in the following way to ensure that all financial regulation are met with effective procedures for the proper treatment of these assets.

All assets in a department are the responsibility of the Manager of that department, and are only controlled by the Finance Department for accounting and insurance purposes.

### **14.1 Notification / Recommendation to scrap an asset**

The Departmental head is responsible and accountable for the asset in his/her department.

The Financial Manager will consider all aspects of the asset(s) that must be written off and disposed off.

He/She will then submit the following information to the Municipal Manager.

The asset number

The asset description

The purchase date of the asset

The book value of the asset

The reason of the scrapping.

The Municipal Manager will recommend the disposal or scrapping of the asset(s).

This recommendation of disposal and or scrapping of assets will be submitted to the Management Committee as well as to the Molemole Municipality Council for write off approval.

### **14.3 Scrapping of Inventory Assets**

Inventory Assets (assets with a life time of less than a year) will be controlled on an inventory list, and the Departmental Head will be responsible for these inventory assets.

It is therefore essential that Inventory Assets be scrapped in the same way as capitalised assets, with the necessary documentation for approval.

### **14.4 Disposal of Assets**

Assets that are disposed of can be sold in one of the following ways, after the reserve price was established for each asset sold:

By way of Public Auction which notice has been advertised for at least two weeks on the local newspaper or radio stations.

Through the invitation of tenders with a lead time of at least two weeks.

Sold to the public at a price fixed by law or by resolution of the Municipality.

The Molemole Municipality can at any time refuse the disposal of an asset if the reserve price is not met, or it is apparent that it will not benefit the Municipality to sell the asset.

#### **14.4.1 Disposal of Fixed Property**

The Municipality may only sell fixed property as regulated by the Municipal Finance Management Act (section 90).

The surplus will be credited to the Asset Financing Fund for future use.

### 15 Other Regulations and controls not provided for in this document.


Individual Asset management regulations and controls not covered in this document will be covered by prior regulations or Council Resolutions.

Any changes to this document relating to the omissions will be approved by Council before implementation. The Municipal Finance Management Act is to be honoured in all instances pertaining to Assets Management.

### 16 COMMENCEMENT

Council resolves in terms of Sec 111 of the Local Government Municipal Finance Management Act (Act No. 56 of 2003), to adopt the following proposal as the Asset Management Policy of Molemole Local Municipality as per council resolution number \_\_\_\_\_

This Policy takes effect on the 01<sup>st</sup> July 2021

<b>Signature:</b>	
<b>Initials and Surname:</b>	<b>M E Paya</b>
<b>Designation:</b>	<b>Mayor</b>
<b>Council Number:</b>	<b>Resolution</b>
	OC / 5.15 / 28.65 / 2021
<b>Council Date:</b>	<b>28 May 2021</b>