



MOGALAKWENA MUNICIPALITY

# ASSET MANAGEMENT POLICY ~~FOR~~ ASSETS

~~192 March 2019~~ ~~February 2017~~

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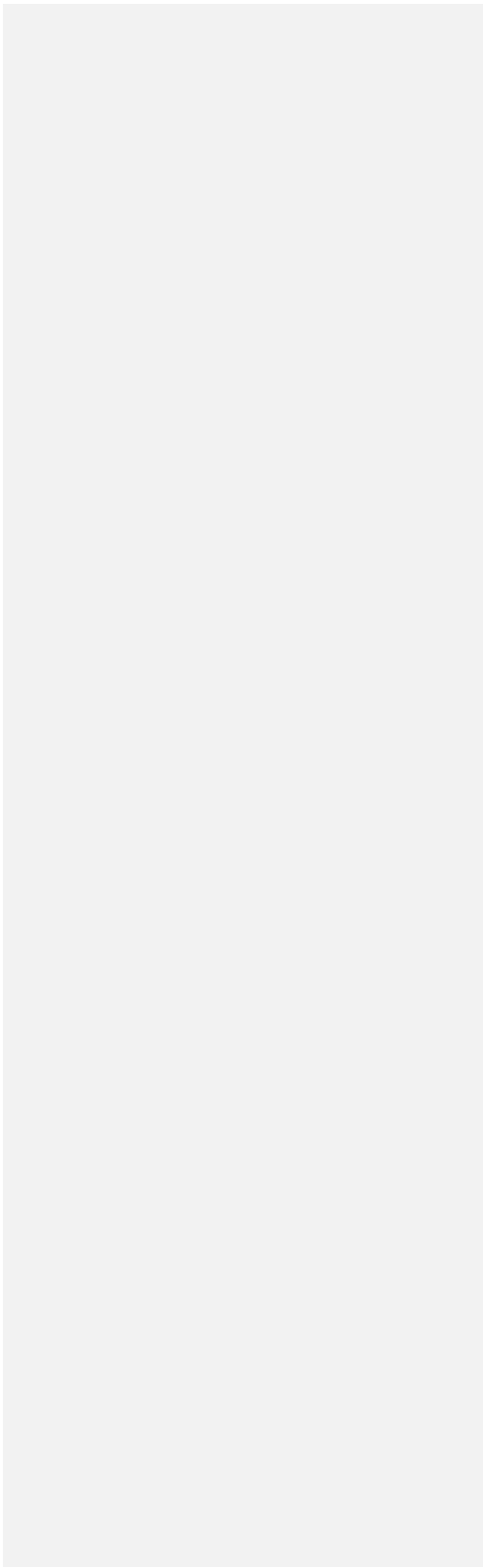
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**ABBREVIATIONS**



CFO	Chief Financial Officer
COGTA	Department of Cooperative Governance and Traditional Affairs
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Standards of Generally Recognised Accounting Practice
IAMP	Infrastructure Asset Management Plan
IAS	International Accounting Standards
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MLM	Mogalakwena Local Municipality
OHSA	Occupational Health and Safety Act
PPE	Property, plant and equipment

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## **1. PURPOSE OF THIS DOCUMENT**

- i. This document indicates the Asset Management Policy of Mogalakwena Local Municipality (MLM) to account for its property, plant and equipment (PPE), investment property, heritage assets and intangible assets. The policy commits the municipality to establish and maintain an asset register that complies with the latest accounting standards, and to account for the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.

## **2. BACKGROUND**

### **2.1 CONSTITUTIONAL AND LEGAL FRAMEWORK**

- i. Municipalities must strive, within their financial and administrative capacity, to achieve the following objects (as requires by the South African Constitution):
  - a. providing democratic and accountable government for local communities;
  - b. ensuring the provision of services to communities in a sustainable manner;
  - c. promoting social and economic development;
  - d. promoting a safe and healthy environment; and
  - e. encouraging the involvement of communities and community organisations in matters of local government.
- ii. The manner in which a municipality manages its PPE assets is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager.
- iii. This policy is intended to define and provide a framework for the Asset Management of the Mogalakwena Local Municipality within the guiding principles of sections 62(1)(a), 63(1)(a) and 63(2)(a) of the MFMA. In order to produce a comprehensive and complete asset register that is compliant to the guidelines, the CFO should ensure that the municipality maintains an Asset Identification System which shall be operated in conjunction with its computerised asset register. This policy is applicable to all offices and officials within the municipality who utilise and/or manage assets.
- iv. The OHS Act requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its assets safe.

### **2.2 REFERENCES**

- i. The following references were observed in compiling this document:
  - a. Municipal Finance Management Act, 2003
  - b. Municipal Systems Act, 2000
  - c. Asset Management Framework, National Treasury, 2004
  - d. Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
  - e. MFMA Circular 18 & 44
  - f. Local Government Capital Asset Management Guidelines, National Treasury, 2008
  - g. Government Gazettes (30013 & 31021)
  - h. Generally Recognised Accounting Practice (GRAP 1, 3, 5, 12, 13, 16, 17, 19, 21, 23, 24, 26, 31, 103).
  - i. Municipal Transfer and Disposal Regulations, Government Gazette no.31346.

## 2.3 MSCOA

### 2.3.1 Background

- i. The Minister of Finance specified national norms and standards for recording and collection of local government budget, financial and non-financial information. This was achieved through the Municipal Standard Chart of Accounts (mSCOA) regulations, which were gazetted on 22 April 2014, making the application for mSCOA in local government a legislation requirement. The mSCOA will take effect on 1 July 2017, thus impacting on the 2017/18 annual financial statements and audit of all local government auditees.

### 2.3.2 Objective

- i. The objective is to provide a national standard for the uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts, which:
  - a. are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard chart of accounts for national and provincial government; and
  - b. enable uniform information sets to be recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

### 2.3.3 Implementation requirements of mSCOA

#### 2.3.3.1 The mSCOA:

- i. must contain the segments as required by regulation 4(1) of Government Gazette, No 37577;
- ii. must accurately record all financial transactions and data in the applicable segment; and
- iii. may not contain data which otherwise does not reflect transactions recorded or measured by the municipality.

#### 2.3.3.2 The financial and business applications or systems used by the municipality must:

- i. provide the hosting of the general ledger structured in accordance with the classification framework;
- ii. be capable of accommodating and operating the mSCOA;
- iii. provide a portal allowing for free access, for information purposes, to the general ledger of the municipality, by any person authorised by the Director-General or Accounting officer of the municipality.

#### 2.3.3.3 The municipality must have access to, computer hardware with sufficient capacity to run the software which complies with the regulations as stipulated above.

#### 2.3.3.4 The mSCOA should consist of at least the following seven segments

- i. Each of which incorporates a classification within the general ledger to record transaction information:
  - a. Funding Segment: Funding source from which expenditure was financed.
  - b. Function Segment: Provides for the classification of the transactions according to the function or service delivery objective.
  - c. Municipal Standard Classification Segment: Provides for the organisational structure and functionality of an individual municipality, which is not prescribed, but must incorporate the structure and functionality as determined by that municipality.
  - d. Project Segment: Differentiate between capital- and operating projects.
  - e. Regional Indicator Segment: Identifies the lowest relevant geographical area.
  - f. Item Segment: Identify the classification of the item in preparation of the financial position and financial performance, for example revenue, expenditure, assets and liabilities.

- g. **Costing Segment:** provides for a classification structure for secondary cost elements and acts as a cost collector in determining inter alia total cost of a service or function, identification of productivity inefficiencies and tariff determination of municipal services.
- ii. According to the latest version on mSCOA regarding the project segments from National Treasury, reporting on work in progress projects will be shown at level 6 of the reporting structure. The work in progress projects will be broken down to more detail (components) in the project register, with effect from **1 July 2017**.
- iii. The project segment reporting framework will also be used for future budget reporting purposes.
- iv. The mSCOA requirements will take effect on **1 July 2017**, thus impacting on the 2017/18 annual financial statements and audit of all local government auditees.

## 2.4 MANAGEMENT OF INFRASTRUCTURE ASSETS

- i. Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important. The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians on behalf of the public of infrastructure and community assets.
  - a. Key themes of the latest generation of national legislation introduced relating to municipal infrastructure management include:
    - b. long-term sustainability and risk management;
    - c. service delivery efficiency and improvement;
    - d. performance monitoring and accountability;
    - e. community interaction and transparent processes;
    - f. priority development of minimum basic services for all; and
    - g. the provision of financial support from central government in addressing the needs of the poor.
- ii. Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation – for the above objectives to be achieved, the IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure and community assets.
- iii. There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure and community assets whilst also addressing backlogs in basic services and facing on going changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, community services, financial planning, and corporate services.
- iv. **COGTA** has prepared guidelines in line with international practice that propose that an Infrastructure Asset Management Plan (IAMP) is prepared for each sector (such as potable water, roads, energy etc.). These plans are used as inputs into a Comprehensive Infrastructure Plan (CIP) that presents an integrated plan for the municipality covering all infrastructures. The arrangements outlined in the COGTA guidelines are further strengthened by the provisions of the National Treasury's Local Government Capital Asset Management Guidelines. This is in line with the

practice adopted in national and provincial spheres of government in terms of the Government-wide Immoveable Asset Management Act (GIAMA).

- v. Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.
- vi. This document provides the framework and policy directives in terms of which MLM accounts for assets in a manner that satisfies the requirements of all relevant accounting standards.

### **3. OBJECTIVES**

- i. The objective of this policy is for the municipality to:
  - a. implement the prevailing accounting standards;
  - b. provide a data platform that will support asset management practice in accordance with legal requirements and recognised good practice;
  - c. to ensure that the municipal officials are aware of their roles and responsibilities regarding the asset management;
  - d. to foster accountability and the optimisation of the municipal assets;
  - e. to establish controls that must ensure proper management of risks associated with ownership and safeguarding of assets; and
  - f. to provide proper controls and management systems that will ensure effective, efficient, economical and transparent use of the municipal assets

### **4. APPROVAL AND EFFECTIVE DATE**

- i. This document shall only be applicable if approved in writing by the following authority and persons: Mogalakwena Local Municipality – EXCO and Council.
- ii. All appendices or annexures of this document shall only be applicable if approved in writing by the following authority and persons: Mogalakwena Local Municipality – Chief Financial Officer.

### **5. POLICY AMENDMENTS**

- i. Changes to this document shall only be applicable if approved in writing by the following authority and persons: Mogalakwena Local Municipality – EXCO and Council. The recommendations of the CFO shall be considered for adoption by Council.
- ii. The policy will be maintained by the financial division: Asset and Fleet Management.
- iii. The policy will be implemented and executed by the municipality's Head of Departments.
- iv. All approved policies will be supported by the finance division – Asset and Fleet Management.
- v. Where an employee is suspected of breaching the policy, an internal investigation will be undertaken, and depending on the outcome, the municipality will take civil and/or legal action against the employee.



- vi. Any disciplinary action arising from breaching the asset management policy will be undertaken according to the disciplinary code and grievance procedure of the municipality.

## 6. DEFINITIONS

- i. Accounting Standards Board was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
- ii. Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.
- iii. Assets are resources controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.
- iv. Asset Acquisition Plan is a plan setting out the asset needs for a particular office which is aligned to the Strategic Plan and the budget for a specific financial year.
- v. Asset Category relates to asset classes/ groups as per asset register.
- vi. Asset Clerk is the person responsible for maintaining the asset register through the input data.
- vii. Asset Controller is the person responsible for the asset management in a specific component.
- viii. Asset Disposal Committee is a committee appointed by the Municipal Manager and responsible for assessing and evaluating the reasonableness of the disposal of assets and give recommendations.
- ix. Asset Identification System is a physical labelling system placing an unique mark on a movable asset which is used by the municipality to denote ownership, identify and keep track of its assets.
- x. Asset Manager is the person responsible for asset management for the municipality.
- xi. Asset Management Information System is a combination of processes, data and software applied to provide outputs required for effective asset management.
- xii. Asset Management Policy is a formal statement adopted by Council that indicates the municipality's policy objective, the policy principles, and how these will be pursued
- xiii. Asset Management Team is a multi-disciplinary team appointed by the Municipal Manager to initiate, monitor and review the asset management practices improvement program, the development of Infrastructure Asset Management Plans and a Consolidated Municipal Infrastructure Plan consistent with the municipality's goals and objectives.
- xiv. Asset Performance is the performance of an asset that is measured in line with the applicable Level of Service.
- xv. Asset Register is a record of information on each asset that supports effective financial and technical management of the assets, and meets statutory requirements.
- xvi. Asset Threshold relates to all assets with a cost price less than R250. These assets will be classified as minor assets
- xvii. Asset Utilisation is the extent to which an asset is being productively used – typically measured as a percentage of its capacity.
- xviii. Basic Municipal Service is a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger health and safety or the environment.
- xix. Bid Adjudication Committee is a committee appointed by the Municipal Manager responsible for the procurement of goods and services.
- xx. Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds, for example interest on a bank overdraft.
- xxi. Capitalisation is the recognition of expenditure as an asset in the asset register.
- xxii. Capital Asset is an asset that can be used continuously and repetitively in production for more than twelve months and of which future economic benefits or service potential is expected to flow to the municipality.
- xxiii. Carrying Amount of heritage assets is the amount at which an asset is recognised after deducting any accumulated impairments losses.
- xxiv. Carrying Amount of Investment Property is the amount at which an asset is recognised in the statement of Financial Position; which could be the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairments losses or the fair value at that point in time.
- xxv. Carrying Amount of PPE is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairments losses.
- xxvi. Cash comprises cash on hand and demand deposits.

- xxvii. Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- xxviii. Cash Flows are inflows and outflows of cash and cash equivalents.
- xxix. Cash-generating assets are assets held with the primary objective of generating a commercial return.
- xxx. A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflow from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
- xxxi. Class of Property, Plant and Equipment means a grouping of assets of a similar nature or function in the municipality's operations, which is shown as a single item for the purpose of disclosure in the financial statements.
- xxxii. Capital Spares are considered to be spares that constitute an entire or significant portion of a component type, or a specific component, defined in the immovable asset hierarchy, for example emergency equipment.
- xxxiii. The commencement of the lease term (municipality as the lessee) is the date from which the municipality is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.
- xxxiv. Community Facilities are discrete assets that provide a service directly to the community (such as parks, sports facilities, cemeteries, landfill sites etc).
- xxxv. Components are the significant portions of an asset with different useful lives.
- xxxvi. Control Items are items of assets that are not significant enough for financial recognition but are valuable enough to warrant special safe-guarding.
- xxxvii. Consolidated Municipal Infrastructure Plan is a plan that provides a holistic overview of existing service performance, a vision of future performance scenarios, the risks, priorities, funding and tariff implications, as a strategic input to the Integrated Development Planning process.
- xxxviii. 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.
- xxxix. Cost of Disposal is incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses. Examples of costs of disposal are stamp duty, legal costs, costs of removing the asset and incremental costs to bring the asset into a condition for its sale.
- xl. An entity is deemed to have control of an asset if it:
  - a. has the capacity to benefit from the asset;
  - b. is able to deny or regulate access of others to that benefit; and
  - c. has the ability to secure the future economic benefit of that asset.
- xli. Critical Assets are assets for which the consequences of failure are sufficiently severe to justify pro-active inspection, maintenance and renewal. ("Important" Assets also justify pro-active inspection, maintenance and renewal, but not to the same level as "Critical" Assets).
- xlii. Current Replacement Cost is a measure of replacement value – the cost of replacing an existing asset with a modern asset of equivalent capacity.
- xliii. Demand Management is an active intervention to change the pattern of demand for a service eg to minimise or eliminate the need to upgrade assets, to address a limitation on bulk supply capacity, or minimise losses.
- xliv. Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.
- xlv. Depreciable Amount is the cost of an asset, or other amount substituted for cost, less its residual value.
- xlvi. Depreciated Replacement Cost (DRC) is established by subtracting the residual value from the current replacement cost (CRC) and proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life. The DRC approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC) and remaining useful life (RUL) of each of the asset components.

Accordingly the following formula is used:

$$DRC = ((CRC - RV) \times RUL / EUL) + RV$$

- a. Replacement costs are "green fields", unless there is evidence of definite cost variance due to "brown-field" modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors e.g. topography. Capital unit costs are also influenced by macro-economic driving forces such as "supply and demand", financial markets and availability of contractors.

b. *Green field – Development of a new asset on undeveloped land.*

c. *Brown field – Development of an asset on a previously developed site where rehabilitation is necessary although certain networks are already established.*

- xlvi. Disposal is the action required to effectively dispose, decommission, or transfer assets in terms of legal or organisational requirements.
- xlviii. End User Asset Holder is the person utilising the asset.
- xlix. Entity-specific value is the present value or service potential of the benefits the municipality expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.
- i. Exchange Transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- ii. Exempted capital assets are municipal capital assets to be disposed where National Treasury approved the disposal; therefore Council approval is not necessary.
- iii. Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumptions of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.
- liii. Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- liv. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
- lv. Future Economic Benefit is the potential to contribute directly or indirectly to the flow of cash or cash equivalents to the municipality, or in providing a service to another party.
- lvi. Heritage Assets are assets with cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.
- lvii. High Value in relation to a capital asset of a municipality or municipal entity means that the fair market value of the capital asset exceeds any of the following amounts:
- a. R50 million;
  - b. one per cent of the total value of the capital assets of the municipality or municipal entity, as determined from the latest available audited annual financial statements of the municipality or entity; or
  - c. an amount determined by resolution of the council of the municipality or of the controlling municipality of the municipal entity which is less than R50 mil or one per cent of the total value.
- lviii. The inception of a lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:
- a. a lease is classified as either a finance lease or an operating lease, and
  - b. in the case of a finance lease, the amounts to be recognised at the commencement of the lease term as determined.
- lix. Infrastructure Assets usually have the following characteristics:
- a. they are part of a system or network;
  - b. they are specialised in nature and do not have alternative uses,
  - c. they are immovable; and
  - d. they may be subject to constraints on disposals.
- lx. Infrastructure Asset Management Plan is a plan developed for the management of Infrastructure Assets with the aim of providing specified levels of service in a cost-effective manner, now and in the future. Multi-disciplinary management techniques (including technical and financial) are combined to determine the aggregated asset life-cycle needs. A significant component of the plan is a long-term cash-flow.
- lxi. Immovable Assets are fixed structures such as buildings and roads. A plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).
- lxii. An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

- lxiii. An impairment loss of non-cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
- lxiv. Impracticable is when the municipality cannot apply a requirement after making every reasonable effort to do so. For example; it is impracticable to apply a change in accounting policy for a prior period retrospectively if the effects of the retrospective application are not determinable.
- lxv. An intangible asset is an identifiable non-monetary asset without physical substance.
- lxvi. An intangible asset is identifiable if it either:
- a. Is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licenced or exchanged, either individually or together with a related contract, identifiable asset or liability; or
  - b. Arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.
- lxvii. Investment Property is 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.
- lxviii. Classifications of Investment Property:
- a. Local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property will also meet the definition of investment property.
  - b. Investment property generates cash flows largely independently of the other assets held by the municipality. This distinguishes investment property from other land and buildings controlled by the municipality, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows.
- lxix. Investment Property: when the municipality provides ancillary services to the occupants of a property it holds and the services are insignificant to the arrangement as a whole, the property will still be treated as investment property. Investment property includes the following:
- a. land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
  - b. land held for a currently undetermined future use;
  - c. a building owned by the municipality and leased out under one or more operating leases on a commercial basis to external parties;
  - d. a property owned by the entity and leased out at below market rental; or
  - e. property that is being constructed or developed for future use as investment property.
- lxx. A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
- lxxi. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset with or without any further payments, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.
- lxxii. Level of Service is the defined parameters that characterise essential service delivery requirements for a particular service, against which performance may be measured. Criteria can relate to availability of the service, quality, quantity, reliability, responsiveness, environmental acceptability and cost. Measures are identified for each criteria and used for performance monitoring and reporting and as a departure point for risk management.
- lxxiii. Life-cycle is the cycle of activities that an asset goes through – including planning and design, initial acquisition and construction, cycles of operation and maintenance and capital renewal, and finally disposal.
- lxxiv. Maintenance is the action required for an asset to achieve its expected useful life. Maintenance can be planned or unplanned. Repairs are a form of unplanned maintenance after failure or damage.
- lxxv. Material omissions or misstatements of items are material if it could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor.

- lxxvi. Minor Asset is an asset with a cost price of less than R250 which must be recorded in the asset register, ~~but will be fully expensed in the year of acquisition, and not depreciated over its useful life.~~
- lxxvii. Monetary Assets are money held or assets to be received in fixed or determinable amounts of money.
- lxxviii. Movable Assets are not fixed structures and can be moved from one location to another location, for example computers and vehicles.
- lxxix. Non-cash-generating assets are assets other than cash-generating assets.
- lxxx. Non-exempted capital assets are municipal assets for which Council must approve disposals.
- lxxxi. Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- lxxxii. Non-monetary assets are assets other than monetary assets.
- lxxxiii. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.
- lxxxiv. A constructive obligation is an obligation that derives from an entity's actions where:
- a. by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
  - b. as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
- lxxxv. A legal obligation is an obligation that derives from:
- a. a contract (through its explicit or implicit terms);
  - b. legislation; or
  - c. other operation of law.
- lxxxvi. Operations are the use of manpower and consumables (such as energy, chemicals and materials) required for an asset to operate to the required performance.
- lxxxvii. An operating lease is a lease other than a finance lease.
- lxxxviii. Organ of State means –
- a. a national department or national public entity;
  - b. a provincial department or provincial public entity;
  - c. a municipality or municipal entity;
  - d. any other organ of state within the meaning assigned to "organ of state" in section 239 of the Constitution.
- lxxxix. Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or administrative purposes.
- xc. A PPE Asset Hierarchy is adopted for PPE which enables separate accounting for components of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of the replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.
- xc. Practices Improvement Plan is an action plan to improve the way infrastructure management is practiced in the municipality, based on an assessment of existing and target practice, and focussing on management processes, systems, data, and organisational arrangements. The initial Practices Improvement Plan may be prepared in the form of a Business Plan to be driven on a program basis.
- xcii. Prior Period Errors are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from the failure to use, or misuse of, reliable information that:
- a. was available when financial statements for those periods were authorised for issue; and
  - b. could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
- xciii. Property, Plant and Equipment are tangible items that:
- a. are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

- b. are expected to be used during more than one reporting period.
- xciv. A provision is a liability of uncertain timing or amount.
- xcv. Qualifying Asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale. Examples of qualifying assets are office buildings, infrastructure such as roads, bridges and power distribution facilities and property that will become self-constructed items of property, plant and equipment once construction is complete.
- xcvi. Recoverable Amount is the higher of a cash-generating asset's fair value less cost to sell and its value in use.
- xcvii. Recoverable Service Amount is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.
- xcviii. Rehabilitation is the works to rebuild or replace parts of an asset to enable it to the original capacity and performance, and materially extend its useful life (which may be a full or partial extension of life – ie less than its expected useful life).
- xcix. Remaining Useful Life of an asset is the time remaining until an asset ceases to provide the required standard of performance or usefulness.
  - c. Replacement/ Renewal/ Refurbishment is the complete replacement or reconstruction of an asset with one that performs to a similar standard of performance.
  - ci. Reporting Date means the date of the last day of the reporting period to which the financial statements relate.
  - cii. Residual Value is the estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated cost of disposal, if the asset was already of the age and in a condition expected at the end of its useful life.
  - ciii. Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.
  - civ. Risk Management is the application of a formal process that identifies the exposure of a municipality to service performance risk and determines appropriate responses.
  - cv. Upgrading is the replacement, augmentation, or alteration of an asset that results in a material improvement to capacity or performance.
  - cvi. Useful Life is:
    - a. the period over which an asset is expected to be available for use by the municipality, or
    - b. the number of production or similar units expected to be obtained from the asset by the municipality.
- cvii. Service Potential is the capacity of an asset, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality.

## **7. RESPONSIBILITIES AND ACCOUNTABILITIES**

### **7.1 MUNICIPAL MANAGER**

- i. The Municipal Manager as the Accounting Officer of the municipality is responsible for the management of the assets of the municipality in terms of section 63 of the MFMA which prescribes the following:
  - a. Safeguarding and maintenance of assets.
  - b. Implementation of an accounting and information system that accounts for the assets.
  - c. Ensuring that assets are valued in terms of GRAP.
  - d. Maintaining a system of internal control of assets (e.g. an asset register).
  - e. The Municipal Manager may delegate this function to members of top management or any other official of the municipality in terms of section 79(1)(b) of the MFMA.

### **7.2 CHIEF FINANCIAL OFFICER**

- i. The CFO should take all reasonable steps to ensure that:
  - a. Appropriate systems of financial management and internal controls are established and carried out diligently.
  - b. The financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently.

- c. Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.
- d. The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained to standards sufficient to satisfy the requirements of all statutes.
- e. Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilised through appropriate asset plans, budgeting, purchasing, and maintenance and disposal decisions.
- f. The Municipal Manager is appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.
- g. The Managers are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

### 7.3 MANAGERS (HEAD of DEPARTMENTS)

- i. The Head of Departments (HoDs) must take all reasonable steps to ensure that:
  - a. Appropriate systems of physical management and controls are established and carried out for assets in their areas of responsibility.
  - b. The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently.
  - c. The assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied.
  - d. Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.
  - e. Their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
  - f. They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
  - g. The purchase of assets complies with all municipal policies and procedures.
  - h. All moveable property, plant and equipment is duly processed and identified when it is received into his/ her stewardship.
  - i. All movable assets received into his/ her stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these assets and regular asset counts to ensure any losses have not occurred. Any known losses should be immediately reported to the CFO.
  - j. Assets are appropriately utilised for the purpose for which the municipality acquired them.
  - k. In addition, the HoDs are responsible to ensure that all employees within their respective department adhere to the approved Asset Management Policy and Procedures. The HoDs should nominate an employee to implement and maintain asset control (i.e. Departmental Asset Controller) in his/ her department.

### 7.4 DEPARTMENTAL ASSET CONTROLLER

- i. The Departmental Asset Controller under the supervision and authority of the HoDs should ensure that:
  - a. All information needed by the [Asset and Fleet Management division](#)~~Budget and Treasury Office~~ to compile and update the asset register, is submitted to the CFO.
  - b. The HoD and CFO (after approval of the HoD) is notified of any changes in the status of the assets under the department's control (e.g. new asset purchases, asset transfers, asset impairments and asset disposals).
  - c. The inventory and/ or assets of the Mogalakwena Municipality are not used for private enterprise and gain by any employee/ councillor.
  - d. Control is exercised over the respective department's assets and shall report any enhancement/ improvement, transfer or disposal of the respective department's assets to the [Asset and Fleet Management division](#)~~Budget and Treasury Office~~.
  - e. Relevant reports on the writing off scrap (in case of vehicles) and theft/ loss (in the case of other assets) are submitted to the CFO.
  - f. Any discrepancies in the asset stock take report are followed up.

- g. All assets within the department are recorded on the asset register and are bar coded.
- h. Administer cyclical counts on assets within the respective department and follow up on any discrepancies.

## **7.5 ALL COUNCIL EMPLOYEES**

- ii. Every employees of the council must take all reasonable steps to ensure that:
  - a. Assets assigned to them are safeguarded and utilised effectively, efficiently, economically and transparently.
  - b. Assets of the council are not used for private gain.
  - c. They notify the asset management division of all obsolete, damaged and stolen assets, without delay.
  - d. Assets under their possession are properly bar-coded.
  - e. Any discrepancies in the asset stock take report are followed up.
  - f. They comply with the operational procedure manual.

## **9-8. ACCOUNTING POLICY FOR PPE, INTANGIBLE ASSETS, HERITAGE ASSETS AND INVESTMENT PROPERTY**

### **9-18.1 ACCOUNTING STANDARDS**

- i. The MFMA Act of 56 of 2003 requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice.
  - a. Section 62(1)(a): The accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.
  - b. Section 63(1)(a): The accounting officer of the municipality is responsible for management of the assets of the municipality, including the safeguarding and the maintenance of those assets.
  - c. Section 63(2)(a): The accounting officer for the purpose of section 63(1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for assets and liabilities of the municipality.
  - d. Section 65(1) and (2)(a) to (i) requires that the accounting officer keep full and proper records of the financial affairs of the entity and places the responsibility for producing annual financial statements, that will fairly reflect the financial position of the entity as well as its financial performance, on the accounting officer.
  - e. Sections 15(a), read with 16(1) and (3) and 28(1), (2), (5) and (6) and 69(1) and (2) requires further that the annual budget must reflect the estimates of current and capital expenditure per vote and per main division, and in relation to capital expenditure reflects the impact thereof on future financial years.
- ii. Immovable assets are unbundled and each significant component is individually recognised and accounted for. Initial measurement of assets is at cost, though in cases where it is impracticable to establish the cost (eg where there are no reliable records, or records cannot be linked to specific assets), the cost is deemed to be the fair value of the PPE. Specialised buildings (such as community facilities) and infrastructure (such as a water supply network) are valued using a depreciated replacement cost. Major inspections and major capital spares also forms part of PPE.
- iii. As a low capacity municipality, MLM had to convert to GRAP on 1 July 2009. GRAP 17 replaced GAMAP 17 through the publication of Government Gazette 31021.
- iv. This policy does not overrule the requirements to comply with other policies such as Supply Chain Management or Budget related policies.

### **9-28.2 GRAP PRINCIPLES IN THE ASSET MANAGEMENT STRUCTURE**

- i. Asset Management is the process of guiding all the key asset management activities undertaken to make the most of asset service delivery potential and the management of the related risks and costs over the entire asset life cycle.



- ii. The asset life cycle embraces the following inter-related processes or phases:
  - a. Planning deals with the definition of an asset and budgeting.
  - b. Acquisition deals with the recognition, classification, and measurement at recognition and valuation of assets.
  - c. Operation and maintenance deals with general maintenance, refurbishment, enhancement, reclassification, borrowing costs, exchange of physical assets, deferred payments, measurement after recognition, annual reviews and depreciation of assets, safeguarding, reconciliations and verifications of assets and impairments, leases and assets held for sale.
  - d. Derecognitions deals with disposals and asset write-offs.

### **9.2.18.2.1 Planning**

#### **9.2.1-18.2.1.1 Policy statement**

- i. The municipal policy states the following:
  - a. MLM shall develop asset registers covering the acquisition, safeguarding, maintenance, refurbishment, redeployment and disposal together with the capital and operating cost.
  - b. Asset planning shall be the process through which the asset requirements of a municipality are matched to service delivery requirements.
  - c. Asset planning shall be informed by the principle that a public institution shall not hold assets unless it is reasonably necessary for the economical, effective and efficient delivery of services.
  - d. Managers should align activities in the Strategic Plan and the budgetary allocations with the asset requirements of the office and develop an Asset Acquisition Plan.
  - e. The Asset Acquisition Plan should be informed by the future service or economic benefits to be derived directly or indirectly from the asset in support of service delivery.
  - f. A cost-benefit analysis should determine whether a major asset should be leased, purchased, transferred from another entity or obtained through a Public Private Partnership.
  - g. The Asset Acquisition Plan should provide detail on all assets that will be purchased and/or leased in a particular financial year with expenditure projections for each month of that year.
  - h. The Managers are required to approve the Asset Acquisition Plan prior to the commencement of any purchases of assets.
  - i. Asset Budgeting should be conducted to include the asset life cycle stages, i.e. Acquisitions, Operations, Transfers, Maintenance and Disposals.
  - j. Asset Budgeting should be the process through which the Asset Planning Strategy is financially quantified and shall entail allocating financial resources to the Asset Planning Strategy.
  - k. The HoDs should report the Asset Budgeting Strategies to the CFO.
  - l. Budget and actual amounts for the entire municipality should be disclosed as part of the financial statements.
- ii. The Municipal Manager, in consultation with the CFO and HoDs, shall formulate norms and standards for the replacement of all normal operational assets. These norms and standards cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items as well as assets required for service delivery but which have become uneconomical to maintain.
- iii. Effective **1 July 2017**, the reporting structure of the Segment: Projects from National Treasury should be used for budgeting purposes. To align actual and budgeted information in the future; the mSCOA reporting structure relating to the project segment should be used.

#### **9.2.1-28.2.1.2 Recognition criteria according to the Accounting standards**

- i. According to GRAP 1. Par 11(e) a comparison of budget and actual amounts should be disclosed as part of the financial statements. The general purpose financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.
- ii. Entities are typically subject to budgetary limits in the form of appropriations or budget authorisations, which is given effect through legislation, appropriation or similar authorisation.

- iii. Entities that make publicly available their approved budgets are required to comply with the requirements of the Standards of GRAP on Presentation of Budget Information in Financial Statements, GRAP 24.
- iv. According to GRAP 24 entities that make their budgets publicly available are thus required to present a comparison between:
  - a. The budget and actual amounts;
  - b. between the last budget approved by Parliament, the legislatures or municipal councils, and the final budget (which includes those changes made by management with the prescribed limits); and
  - c. include an explanation of the material differences between the budget and actual amounts in the notes to the financial statements (unless these explanations are included in another document published at the same time as the financial statements).
- v. Entities must disclose on what basis the budget is prepared, including information about the accounting and classification basis, the period of the approved budget, and the entities it covers according to GRAP 24.

**9-2-28.2.2 Acquisition**

- i. The decision to acquire an asset should be informed by both the Asset Planning Strategy and the Asset Budgeting Strategy.
- ii. The descriptions utilised for the asset that is being acquired should be consistent with the Standardised Asset Description Lists of MLM.
- iii. Asset descriptions can only be created after obtaining the approval of the CFO.

**9-2-2-18.2.2.1 Asset Registers**

**9-2-2-1-18.2.2.1.1 Policy statement**

- i. MLM shall maintain an asset register in a format determined by the CFO. The format should comply with GRAP and any other applicable standards. The asset register should contain the following data relating to the movable assets:

Acquisition	Identity	Accountability	Performance	Disposal	Accounting
<ul style="list-style-type: none"> <li>• Date</li> <li>• Supplier</li> <li>• References</li> <li>• Amount</li> </ul>	<ul style="list-style-type: none"> <li>• Description</li> <li>• Model</li> <li>• Manufacturer</li> <li>• Serial number</li> <li>• Unique asset number</li> </ul>	<ul style="list-style-type: none"> <li>• Location</li> <li>• Program</li> <li>• Custodian</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity</li> <li>• Condition</li> <li>• Useful life</li> <li>• Residual value</li> <li>• Warranties or guaranties</li> <li>• Measure</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity</li> <li>• Condition</li> <li>• Useful life</li> <li>• Residual value</li> </ul>	<ul style="list-style-type: none"> <li>• Historical cost</li> <li>• Replacement Value</li> <li>• Depreciation rate</li> <li>• Accumulated depreciation</li> </ul>

- ii. The asset register should provide the basis for the amounts in the financial statements.

**9-2-2-28.2.2.2 Recognition**

**9-2-2-2-18.2.2.2.1 Policy statement**

- i. MLM shall recognise all PPE, intangible assets, heritage assets and investment property existing at the time of the adoption of the policy and any upgrades, new assets and renewals if the assets comply with the recognition criteria according to the accounting standards. Such assets shall be capitalised in compliance with prevailing accounting standards.
- ii. All risks and rewards relating to an asset have been passed to the municipality and therefore Council controls the asset.
- iii. An original tax invoice or other documentation relating to a transfer should be submitted to Council.
- iv. Heritage assets will be recognised and measured according to the Standard on Heritage assets, GRAP 103 from 1 July 2014.

9-2-2-28.2.2.2.2 Recognition criteria according to the Accounting standards

- i. The cost of an item of PPE, intangible assets, heritage assets and investment property shall be recognised as an asset if, and only if:
  - a. it is probable that economic benefits or service potential associated with the item will flow to the municipality, and
  - b. the cost or fair value of the item can be measured reliably.
- ii. When heritage assets cannot be measured reliably: If a heritage asset does not meet the recognition criteria on initial recognition because it cannot be measured reliably, relevant and useful information about the heritage asset shall be disclosed in the notes to the financial statements. If the heritage asset is not recognised because the asset cannot be measured reliably, any initial cost to assess the state of the heritage asset and any costs incurred subsequently shall be recognised in the surplus or deficit as incurred.
- iii. Scenario in which heritage assets are controlled: Heritage assets will still be controlled by the municipality when it is able to generate future economic benefits or service potential from the assets, even though the municipality may be restricted from disposing these assets based on a stipulation imposed by, for example, the transferor.

9-2-2-38.2.2.3 Classification

9-2-2-3-18.2.2.3.1 Policy statement

- i. This hierarchy shall be used as the classification structure for the assets. The assets shall be disclosed in the financial statements at the category level.
- ii. Asset hierarchies shall be adopted for each of the asset groups, separately identifying items of PPE at component level that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant. [Table 1 Table 1 shows](#) the asset hierarchy.

**Table 1 – Asset Hierarchy**

Accounting Group	Asset Category	Asset Sub-category	Asset Group
Property, plant and equipment	Infrastructure Assets	Electricity Network	Power Plants
			HV Substations
			HV Switching Station
			HV Transmission Conductors
			MV Substations
			MV Switching Stations
			MV Networks
			LV Networks
			Capital Spares
		Road Network	Roads
			Road Structures
			Road Furniture
			Capital Spares
		Stormwater network	Drainage Collection
			Storm water Conveyance
		Water network	Dams and Weirs
			Boreholes

			Reservoirs	
			Pump Stations	
			Water Treatment Works	
			Bulk Mains	
			Distribution	
			Distribution Points	
			PRV Stations	
			Capital Spares	
		Sanitation Network		Pump Station
				Reticulation
				Waste Water Treatment Works
				Outfall Sewers
				Toilet Facilities
				Capital Spares
		Solid Waste Infrastructure		Landfill Sites
			Waste Transfer Stations	
			Waste Processing Facilities	
			Waste Drop-off Points	
			Waste Separation Facilities	
			Electricity Generation Facilities	
			Capital Spares	
	Land	Community assets land	Community facilities land	
		Infrastructure assets land	Electricity network land	
			Roads and stormwater network land	
			Sanitation network land	
			Water supply network land	
		Other assets land	Operational buildings land	
Social housing land				
Staff housing land				
Community assets		Community facilities	Abattoirs	
	Airports			
	Cemeteries / crematoria			
	Clinics			
	Crèches / care centers			
	Halls / centers			
	Landfill sites			
	Libraries			
	Markets / stalls / shops			
	Mini refuse sites			
	Museums / galleries / theatres			
	Parks			
	Public ablution facilities			
	Public open spaces			
Taxi ranks / parking / bus terminals				

	BuildingsOther assets	Sport and recreation Facilities	Indoor facilities
			Outdoor facilities
		Operational buildings	Fire / Ambulance stations
			Laboratories
			Municipal offices
			Pay / Enquiry points
			Stores
			Testing stations
			Workshops / depots / yards
		Housing	Staff housing
			Social housing
		Property, plant and equipment (movables)	Other assets
Building Air Conditioning System			
Cellular Phones			
Cellular Routers			
Domestic Equipment (Non-kitchen appliances)			
Electric Wire and Power Distribution Equipment (Compressors/ Generator)			
Emergency/ Rescue Equipment			
Elevator Systems			
Farm/ Agricultural Equipment			
Fire Fighting Equipment			
Gardening Equipment			
Irrigation Equipment			
Kitchen Appliances			
Laboratory Equipment Agricultural			
Laboratory Equipment Medical Testing			
Laboratory Equipment Roads and Transport			
Laundry Equipment and Industrial Sewing Machines			
Learning, Training Support and Library Material			
Machines for Metallurgy			
Rail			
Machines for Textile Production			
Medical and Allied Equipment			
Music Instruments			
Photographic Equipment			
Pumps, Plumbing, Purification and Sanitation Equipment			
Radio Equipment			
Road Construction and Maintenance Equipment			
Saddles and othrer tack			
Security Equipment/ Systems/ Material Fixed			
Security Equipment/ Systems/ Material Movable			
Ship and Marine Equipment			
Skips			
Sport and Recreational Equipment			

			Survey Equipment	
			Telecommunication Equipment	
			Tents, Flags, and Accessories	
			Woodworking Machinery and Equipment	
			Workshop Equipment and Loose Tools Fixed	
			Workshop Equipment and Loose Tools Movable	
			Computer Equipment	Computer Hardware including Operating Systems
			Computer Networks	
			Furniture and Office Equipment	Advertising Boards
				Air Conditioners (Individual Fixed or Movable)
		Cutlery and Crockery		
		Domestic and Hostel Furniture		
		Linen and Soft Furnishing		
		Office Furniture including fax machines		
		Office Furniture		
		Paintings, Sculptures and Ornaments		
		Transport Assets	Aircraft	
			Aircraft engines	
			Airport Transport Equipment	
			Busses	
Cycles				
Emergency Vehicles				
Mobile Clinics				
Motor Vehicles				
Railway Rolling Stock				
Trailers and accessories				
Trucks				
Heritage assets	Heritage assets	Conservation areas	National parks	
			Recreational parks	
			Wetlands	
	Historical buildings	All		
		Mining industry		
	Historical monuments	Museums		
		Monuments		
	Historical sites	Graves and burial grounds		
Archaeological & palaeontology				
Other heritage	All			
Heritage assets land	Heritage assets land			
Heritage assets (movables)	Heritage assets	Heritage assets	Paintings	
			Sculptures/ Statues	
			Municipal Jewellery	
			Works of Art	
			Other Antiques and collections	
Intangible assets	Intangible Assets	Servitudes	Electricity network servitudes	
			Road access servitudes	
			Stormwater network servitudes	

			Water network servitudes
			Sanitation network servitudes
		Licenses and rights	Licenses and rights
Intangible assets (movables)	Computer Software	Computer Software	Computer Software
Investment property	Investment Property	Investment property	Improved property
			Unimproved property (land)

#### 9.2.2.48.2.2.4 Measurement at recognition

##### 9.2.2.4.18.2.2.4.1 Policy statement

- i. An item of PPE and heritage assets which qualifies for recognition as an asset shall be measured at its cost.
- ii. Investment property will be measured at ~~costeest~~ and transaction costs will be included in the initial measurement.
- iii. In the case of intangible assets, expenditure shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.
- iv. In cases where complete cost data is not available or reliable for use, the fair value of PPE, intangible asset ~~and~~, heritage assets ~~and investment property~~ shall be used to recognise the asset. The fair value will be the depreciated replacement cost for immovable PPE and immovable intangible assets at that point in time for which the fair value is required. In the case where a market value exists for an asset the fair value will equal the market value.

##### 9.2.2.4.28.2.2.4.2 Measurement at recognition according to the Accounting standards

- i. Circumstances where fair value will be used at initial measurement: Where an item of PPE, intangible asset, heritage asset or an investment property is acquired at no cost or a nominal cost, its cost is the fair value as at the date of acquisition. Events that might lead to this accounting treatment are when an asset is contributed or gifted to the municipality, a power of sequestration was exercised, there are no records on the asset's cost price, or the records cannot be linked to specific assets.
- ii. According to Directive 7, if the fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using:
  - a. depreciated replacement cost at the measurement date for an item of property, plant and equipment;
  - b. depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialised nature that there is no market-based evidence of fair value; and
  - c. replacement cost at the measurement date for heritage assets.
- iii. Directive 7 can only be used to determine the cost of an asset that was acquired prior to the measurement date, **30 June 2010**. For assets which cost data is not available and acquired after the measurement date, the use of deemed cost will result in a change of policy from the cost model to the revaluation model.
- iv. The measurement at recognition of an item of PPE, acquired at no or nominal cost, at its fair value does not constitute a revaluation.
- v. Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

##### 8.2.2.4.2.1 Elements of cost

- i. The cost price of PPE, intangible assets ~~and~~, heritage assets ~~and investment property~~ comprises of:
  - a. the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
  - b. any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
    - i. Examples of directly attributable costs are:

1. cost of employee benefits arising directly from the construction or acquisition of the item of PPE and intangibles;
  2. cost for site preparation (in the case of PPE assets);
  3. initial delivery and handling costs (in the case of PPE infrastructure, PPE community assets and PPE heritage assets);
  4. installation and assembly costs,
  5. cost of testing whether the PPE or associated intangible asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to that location and condition;
  6. professional fees (in the case of all asset classes); and
  7. property transfer taxes (in the case of PPE heritage assets and investment property).
- c. the initial estimate of cost dismantling and removing a PPE infrastructure asset and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- i. Changes in the estimated decommissioning costs:
    1. Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.
  - ii. The following events can change the measurement of the provision:
    1. a change in the estimated outflow of resources embodying economic benefits or service potential required to settle the obligation;
    2. a change in the current market-based discount rate (this includes changes in time value of money and the risks specific to the liability); and
    3. an increase that reflects the passage of time.
  - iii. Changes to provisions shall be applied as follows:
    1. changes in the provision shall be added to or deducted from the asset's cost;
    2. the amount deducted from the asset's cost price shall not exceed the carrying amount of the asset, the excess shall be recognised in the surplus or deficit; and
    3. if the adjustment results in an addition to the cost price of the asset, the municipality shall consider whether this is an indication if the new carrying amount of the asset may not be fully recoverable. This may be an indication of an impairment.
- ii. Elements of costs that are not part of the cost price are:
- a. Cost of opening a new facility in the case of PPE infrastructure and PPE community assets and heritage assets;
  - b. costs of introducing a new product or service, including advertising costs, in the case of intangible assets and PPE infrastructure;
  - c. costs of conducting business in a new location or with a new class of customers, including training costs, in the case of PPE infrastructure, PPE community assets, PPE heritage assets and intangible assets;
  - d. administration and other general overhead costs in the case of PPE infrastructure, PPE community assets, PPE heritage assets and intangible assets;
  - e. cost incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity, in the case of PPE infrastructures and intangible assets;
  - f. operating losses incurred before the investment property achieved the planned level of occupancy;
  - g. initial operating losses, such as those incurred while demand for the item's outputs build up in the case of PPE infrastructure and intangible assets;
  - h. costs of relocating or reorganising part or all of the municipality's operations, in the case of PPE infrastructure;



- i. start-up costs in the case of investment property;
- j. abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the investment property; and
- k. costs of opening the new exhibition regarding heritage assets, for example a new section at the museum.

#### 8.2.2.4.2.2 Assets which assist other PPE to operate effectively

- i. Costs may be required for safety or environmental reasons. Such costs, although not directly increasing the future economic benefits or service potential of any particular existing item of PPE, may be necessary for that PPE to obtain future economic benefits or service potential. Such costs qualify for recognition as PPE because they enable PPE to derive future economic benefits and/or service potential in excess of what could be derived had those costs not been acquired. For example, a certain PPE might only operate within six months' time if a specific licence/ permit is obtained.

#### 8.2.2.4.2.3 Spare parts and servicing equipment

- i. Spare parts and equipment are usually carried as inventory in terms of the Standard on Inventories, GRAP 12, and recognised in surplus and deficit as consumed; this will apply to maintenance material and electricity stock. However, major spare parts and stand-by equipment qualify as PPE when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of PPE, it is accounted for as property, plant and equipment. In some cases judgement should be applied to the recognition criteria.
- ii. The municipality shall evaluate under this recognition principle all its PPE cost at the time it incurs. These costs include costs incurred initially to acquire or construct an item of PPE and cost incurred subsequently to upgrade the asset, replace part of the asset, or service it.
- iii. The cost of day-to-day servicing of an asset shall not be recognised as an item of PPE. These costs shall rather be recognised in the surplus or deficit as incurred. The cost of day-to-day servicing is primarily the costs of labour and consumables, and may include costs of small parts and maintenance material.

#### 8.2.2.4.2.4 Replacement of components

- i. Components of some items of PPE may require replacement at regular intervals, for example a pump. Items of PPE may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. The municipality recognises in the carrying value of an item of PPE the cost of the replacing part of such an item when that cost is incurred and if the recognition criteria are met. The carrying values of those parts that are replaced are derecognised in accordance with the Standard on Plant, Property and Equipment, GRAP 17, which are discussed later in this document.

#### 8.2.2.4.2.5 Major inspections

- i. A condition of continuing to operate an item of PPE may be performing regular major inspections for faults regardless of whether parts of the item are replaced, for example dam-safety inspections which happens every five years. When major inspections are performed, the inspection cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied.
- ii. Any remaining carrying value of the cost of the previous inspection is de-recognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

#### 8.2.2.4.2.6 Self-constructed assets

- i. The cost of a self-constructed PPE community asset, PPE infrastructure asset, and Investment Property is determined using the same principles as for an acquired asset. If the municipality makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale. Therefore,

any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of waste material, labour or other resources incurred in self-constructing an asset is not included in the cost of an asset.

#### 8.2.2.4.2.7 Internally generated intangible assets

- i. Research phase
  - a. No intangible asset must be recognised during the research phase. Expenditure on research must be expensed when it occurs.
- ii. Development phase
  - a. An intangible asset arising from development shall be recognised if, and only if, an entity can demonstrate the following:
    - i. The technical feasibility of completing the intangible asset so that it will be available for use or sale.
    - ii. Its intention to complete the intangible asset and use or sell it.
    - iii. Its ability to use or sell the intangible asset.
    - iv. How the intangible asset will generate probable future economic benefits or service potential.
    - v. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
    - vi. Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

#### 8.2.2.4.2.8 Intangible assets acquired through non-exchange transactions

- i. In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, intangible assets such as airport landing rights. The cost of the item will be its fair value at the date it is acquired.

### [9.2.2.58.2.2.5](#) Exchange of physical assets

#### [9.2.2.5.18.2.2.5.1](#) Policy statement

- i. If MLM is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

#### [9.2.2.5.28.2.2.5.2](#) Exchange of physical asset criteria according to the Accounting standards

- i. One or more assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- ii. The cost of such an item of property, plant and equipment or investment property is measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measured. If the acquired item is not measured at fair value, its cost is measured at the carrying value of the asset given up.
- iii. An exchange transaction has *commercial substance* if:
  - a. the risks, timing and amount of the cash flows or service potential are expected to change as a result of the transaction, or
  - b. the entity-specific value of the portion of the municipality's operations affected by the transaction changes as result of the exchange, and
  - c. the difference in the two statements above is significant relative to the fair value of the assets exchanged.

#### 9.2.2.68.2.2.6 Borrowing cost

##### 9.2.2.6.18.2.2.6.1 Policy statement

- i. MLM shall capitalise borrowing costs to be part of the qualifying asset's cost price only when the borrowing cost is directly attributable to the production, construction or acquisition of the qualifying asset. The benchmark treatment will be to expense all borrowing costs in the period in which it occur.

##### 9.2.2.6.28.2.2.6.2 Borrowing cost criteria according to the Accounting standard

- i. Borrowing costs may include:
  - a. Interest expenses calculated using the effective interest method as described in the Standard of GRAP on Financial Instruments;
  - b. finance charges in respect of finance leases; and
  - c. exchange differences arising from foreign currency borrowings to the extent that it's regarded as adjustments to interest costs.
- ii. Recognition of borrowing costs: The municipality shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. In all other circumstances borrowing cost will be expensed to surpluses and deficits according to the benchmark treatment.
- iii. When borrowing costs is capitalised: Borrowing cost is capitalised as part of the cost of an asset when:
  - a. It is probable that they will result in future economic benefits or service potential to the entity, and
  - b. The cost can be measured reliably.
- iv. Borrowing costs eligible for capitalisation:
  - a. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that will have been avoided if the expenditures on the qualifying asset had not been made.
  - b. To the extent that the municipality borrows *funds specifically* for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.
  - c. To the extent that the municipality borrows funds generally and uses it for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing cost eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the municipality that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period
- v. Carrying value exceeds recoverable amount or recoverable service amount: When the carrying value or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written-off in accordance with the requirements on Impairments. *Refer to the section on impairments.*
- vi. Commencement of capitalisation: The municipality shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the municipality first meets all of the following conditions:
  - a. it incurs expenditures for the asset. It includes technical and administrative work prior to the commencement of physical construction, such as the activities of obtaining permits;
  - b. it incurs borrowing costs.
- vii. Suspension of capitalisation: The municipality shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. However, the municipality does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. The municipality also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the

process of getting the asset ready for its intended use, such as when high water levels delay the construction of a bridge.

viii. Cessation of capitalisation:

- a. The municipality shall cease capitalising borrowing cost when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- b. When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs associated with a part of the asset when substantially all the activities necessary to prepare that part for its intended use or sale is completed.
- c. An office development comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues on other parts. An example of a qualifying asset that need to be completed before any part can be used includes the pump and motor set within a water pump station, without which the pump station cannot fulfil its key function.

[9.2.2.78.2.2.7](#) Deferred payments

[9.2.2.7.18.2.2.7.1](#) Policy statement

- i. If MLM negotiates to pay the cost price of an asset over a period, the total cost price shall be discounted to the asset's present value as at the transaction date. The present value is regarded the cost price of the asset and the difference between the total cost price and the present value will be regarded an interest expense.
- ii. If MLM negotiates to receive the net selling price from a disposal of an asset over a period in time, the total proceed amount shall be discounted to the present value as at the transaction date. The present value is regarded the net selling price of the asset and the difference between the total net selling price and the present value will be regarded interest income.

[9.2.2.7.28.2.2.7.2](#) Deferred payments according to the Accounting standards

- i. The cost of an item of PPE, intangible assets and investment property, heritage assets is the cash equivalent at the recognition date. If the payment of the cost price is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying value of the asset in accordance with the allowed alternative treatment in the Standard on Borrowing Costs, GRAP 5.
- ii. The consideration receivable on disposal of an item of PPE, investment property or intangible asset is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue.

[9.2.38.2.3](#) **Operations and Maintenance**

[9.2.3.18.2.3.1](#) Measurement after recognition

[9.2.3.1.18.2.3.1.1](#) Policy statement

- i. Subsequent expenditure relating to an item of PPE that meets the definition of an asset should be added to the carrying amount of the asset when such expenditure will increase the useful life of the asset or increase the efficiency of the asset or reduce the cost of operating the asset, resulting in financial or service delivery benefits.
- ii. All other costs should be expensed in the period in which it occurred.
- iii. Before allowing the capitalisation of subsequent expenditure, the CFO should be satisfied that the expenditure will significantly:
  - a. Increase the life of the asset beyond the existing life of the asset; or
  - b. increase the quality of service provided by that asset beyond the existing level of service; or

- c. increase the quantity of services that the asset can provide; or
  - d. reduce the future cost of maintaining that asset.
- iv. Subsequent expenditure should also be included in the approved capital budget.
- v. PPE (includes infrastructure assets, community assets, housing and operational buildings):
- a. All property, plant and equipment is recognised at cost less accumulated depreciation and accumulated impairments.
  - b. Subsequent expenditure is capitalised when the recognition and measurement criteria are met.
- vi. Investment property
- a. MLM subscribes to the ~~cost~~ cost-model approach ~~and, therefore~~ investment property will be accounted for in ~~the same manner as property, plant and equipment in~~ accordance with GRAP 16~~7~~, the Accounting Standard on ~~Property, Plant and Equipment~~Investment Property.
  - ~~b. Buildings will be componentised to significant components and depreciated accordingly on an annual basis; therefore investment property should be recognised at cost less accumulated depreciation and accumulated impairments.~~
  - ~~c. b.~~ Transfers from investment property to PPE shall only be made when there is a change in use of the property.
- vii. Intangible assets: MLM subsequently recognises intangible assets at cost less accumulated amortisation and accumulated impairment. Servitudes are rights in perpetuity; therefore there will be no depreciation.
- viii. Heritage assets
- a. Heritage assets are recognised at cost less accumulated impairments (if the value can be measured reliably); otherwise if the value cannot be determined reliably, the heritage asset's information will only be disclosed in the financial statements.
  - b. The depreciation requirements in GRAP 17 and GRAP 103 differs (GRAP 17 requires assets to be depreciated, whereas GRAP 103 does not). The different subsequent measurement principles in GRAP 17 vs. GRAP 103 represent a change in accounting policy that should be accounted for retrospectively in terms of GRAP 3. Therefore, any accumulated depreciation provided for on heritage assets under GRAP 17 should be reversed retrospectively on adoption of GRAP 103 in the 2013/14 financial year. In essence, on adoption of GRAP 103 the municipality will continue with the cost/deemed cost and any impairment implications resulting from the application of GRAP 17, but should reverse any GRAP 17 accumulated depreciation (if any heritage assets were classified as PPE before).

#### 9.2.3.1-28.2.3.1.2 Measurement after recognition according to the Accounting standards

- i. Accounting standards allow measurement after recognition as follows:
  - a. PPE: Either cost model or the revaluation model.
  - b. Intangible assets: Either cost model or revaluation model.
  - c. Investment property: Either cost model or the fair value model.
  - d. Heritage assets: Either cost model or revaluation model.
- ii. Different models can be applied, providing the treatment is consistent per asset class. The different models are clarified below:
- iii. Cost model: When the cost model is adopted, the PPE (except land and heritage assets), associated intangible assets and investment property are carried at its cost less any accumulated depreciation and any accumulated impairment losses. Heritage assets (if reliably measured) and land shall be carried at cost less accumulated impairment losses.
- iv. Revaluation model
  - a. After recognition as an asset, an item of PPE (except land and heritage assets) whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations shall be

made with sufficient regularity to ensure that the carrying value does not differ materially from that which will be determined using fair value at the reporting date.

- b. After recognition as an asset, *heritage assets and land*, for which fair value can be measured reliably, shall be carried at a fair value amount, being its fair value at the date of revaluation less any subsequent impairment losses. Where no evidence is available to determine the market value in an active market of a heritage asset, a suitable valuation technique may be used to determine the fair value of the heritage asset.
  - c. The fair value of items of land and buildings is usually determined from market-based evidence by appraisal. The fair value of items of plant and equipment is usually their market value determined by appraisal. An appraisal of the value of the asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.
  - d. If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. In the case of specialised buildings and other man-made structures, MLM may need to estimate fair value using a depreciated replacement cost approach. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market.
  - e. In the case of specialised buildings and other man-made structures (including heritage assets), the fair value will be estimated by using the depreciated replacement cost approach. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. The restoration cost or the reproduction cost approach may be the best indicator of the replacement cost in the case of heritage assets. If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, the municipality may need to estimate fair value using either reproduction cost or depreciated replacement cost.
  - f. The frequency of revaluations depends upon the changes in the fair values of the items of PPE being revalued. When the fair value of a revalued asset differs materially from its carrying value, a further revaluation is necessary. Some items of PPE experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of PPE with only insignificant changes in fair value. Instead, it may be necessary to revalue the item of PPE only every three to five years. If an item of PPE is revalued, the entire class of PPE to which the asset belongs shall be revalued.
  - g. If the heritage assets were accounted for using the revaluation approach and the market-determined prices and values are no longer available and alternative estimates of fair value are determined unreliable, the heritage assets shall be accounted for using the cost model approach from that date. The carrying value of the heritage asset shall be its revalued amount at the date of the last revaluation less any subsequent accumulated impairment losses.
  - h. The municipality shall continue to account for each of the remaining heritage assets using the revaluation model.
- v. Fair value model: The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value shall reflect the market conditions at the reporting date.

#### [9.2.3.28.2.3.2](#) Reclassification of heritage assets

#### [9.2.3.2.18.2.3.2.1](#) Policy statement

- i. If heritage assets meet the definition of, and recognition criteria for, plant, property and equipment, MLM should recognise the assets as PPE and not heritage assets.

#### [9.2.3.2.28.2.3.2.2](#) Re-classification criteria according to the Accounting standards

- i. Assets are reclassified if the nature or function of the asset changes.

#### [9.2.3.38.2.3.3](#) Residual Value

##### [9.2.3.3.18.2.3.3.1](#) Policy statement

- i. The residual values applicable to PPE shall be reviewed at each reporting date.
- ii. Most assets have no residual values.

#### [9.2.3.3.28.2.3.3.2](#) Residual value criteria according to the Accounting standards

- i. The residual value of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.
- ii. The residual value of a PPE asset, investment property or intangible assets may increase to an amount equal or greater than the asset's carrying value. If it does, the asset's depreciation charges will be zero unless and until its residual value subsequently decreases to an amount below the asset's carrying value.
- iii. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
  - a. there is a commitment by a third party to purchase the asset at the end of its useful life; or
  - b. there is an active market for the asset and:
    - i. residual value can be determined by reference to that market; and
    - ii. it is probable that such a market will exist at the end of the asset's useful life.
- iv. The residual values of assets are expressed as percentages of values. In the case of assets measured after recognition on the cost model, the residual value is calculated by multiplying the residual value percentage with the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the residual value is calculated by multiplying the residual value percentage with the modern equivalent replacement value.

#### [9.2.3.48.2.3.4](#) Useful lives of assets

##### [9.2.3.4.18.2.3.4.1](#) Policy statement

- i. Heads of departments need to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:
  - a. The program that will optimise the expected long term cost of owning the asset.
  - b. Economic obsolescence because it is too expensive to maintain.
  - c. Functional obsolescence due to changing demographics.
  - d. Legal obsolescence due to statutory constraints.
- ii. The estimated useful lives and remaining useful lives of all assets shall be reviewed by the relevant director at each reporting date, taking into account any changes in asset lifecycle strategies as described in the municipality's Asset Management Plans, the availability of funding to implement lifecycle strategies, changes in operating conditions and other relevant factors such as the availability of comparative asset data.
- iii. If the revised expectations are significantly different from the previous estimates, then the depreciation charge for the current and future periods should be adjusted by the CFO and any additional depreciation shall be debited to the directorate or vote controlling or using the asset in question.
- iv. Only the CFO may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs, the CFO shall inform the Council of such an amendment.

- v. The CFO should amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
- vi. Any item with a value in excess of R1 (One rand), and with an estimated useful life of more than one year, shall be recorded on a fixed asset register.
- vii. Where maintenance is deferred and results in a change in the useful life of the asset, the change shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3.

#### 9.2.3.4.28.2.3.4.2 Criteria according to the Accounting standards

- i. The useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.
- ii. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and landfill sites, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of a building.
- iii. The municipality shall assess whether the useful life or service potential of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, will be the elements used to estimate the useful life. An intangible asset shall be regarded by the municipality as having an indefinite life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the municipality.
- iv. The useful life of an intangible asset that arises from contractual rights or other legal rights shall not exceed the period of the contractual or other legal right, but may be shorter depending on the period over which the municipality expects to use the asset. If the contractual rights or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period only if there is evidence to support renewal by the municipality without significant cost.
- v. The useful life of an intangible asset that is not amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If it does not, the change in the useful life from indefinite to finite shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3.
- vi. The remaining useful life of all depreciable immovable assets at initial recognition is the same as the expected useful life. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate and operational conditions), life-cycle strategies of the municipality, potential technical obsolescence and any legal limits on the use of the immovable asset.

#### 9.2.3.58.2.3.5 Depreciation Charge

##### 9.2.3.5.18.2.3.5.1 Policy statement

- i. All PPE ~~and investment property~~, except ~~investment property~~, heritage assets and land, shall be depreciated over their remaining useful lives. There is no depreciation on heritage assets because the estimated useful life cannot be estimated. Land is not depreciated because it is deemed to have an infinite life, except for sites used for landfill. An intangible asset with a finite useful life is amortised and the intangible asset with an indefinite life is not amortised, for example servitudes are not amortised.
- ii. Depreciation and amortisation shall begin when the asset is available for use and in the condition and location intended by management for its use. Depreciation and amortisation shall cease at the earlier of the date that the asset is



classified as held for sale, de-recognised or has come to the end of its estimated useful life. All depreciation and amortisation charges shall be recognised in surplus or deficit.

#### [9.2.3.5.28.2.3.5.2](#) Depreciation criteria according the Accounting standards

- iii. Depreciation of components
  - a. Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The municipality allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates separately each such part.
  - b. A significant part of an item of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method as other significant parts of that same item. Such parts may be grouped together in determining the depreciation charge.
  - c. If some parts of an item of PPE are depreciated separately, it also depreciates separately the remainder of the item. The remainder consists of all the parts of the item that are individually not significant. If the municipality has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern or useful lives of the parts. Investment property will not be depreciated since the fair value adjustment forms part of the surplus/ (deficit) on an annual basis.
- iv. Depreciation on capital spares: The production unit cost depreciation method is used for capital spares. This means that the depreciation charge will be zero while the capital spares remain in the stores and once capital spares are implemented at a location the depreciation method change from production unit method to the straight-line method. The change in estimate will affect the current and future periods because of the prospective treatment performed.
- v. Where to account for depreciation and amortisation: Depreciation and amortisation charges for each period shall be recognised in the surplus or deficit unless it is included in the carrying value of another asset.
- vi. When does depreciation and amortisation begin:
  - a. Depreciation and amortisation of an asset begins when it is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
  - b. Depreciation will be calculated on a monthly basis except for the month in which the asset was purchased or an asset was completed and ready for use, then depreciation will start from the day the asset is available for use; therefore depreciation charged at a pro-rate basis.
- vii. When does depreciation or amortisation cease
  - a. Depreciation and amortisation of an asset will cease at the earlier date that the asset is classified as held for sale in accordance with the Standard on Inventory, GRAP 12, and the date the asset is de-recognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.
  - b. Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale in accordance with the Standard on Inventory, GRAP 12.

#### [9.2.3.68.2.3.6](#) Depreciation ~~method amount~~ and depreciation period

#### [9.2.3.6.18.2.3.6.1](#) Policy statement

- i. The depreciation method and amortisation method shall be reviewed in each reporting period. The [diminishing balance straight-line](#) method shall be used in all cases unless the CFO determines otherwise in writing, and except for capital spares in stores for which the production-unit method is used.
- ii. 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 for the current and future periods should be adjusted.
- iii. Depreciation and amortisation shall be calculated as follows:
  - a. *Asset existed for whole financial year:* [(Carrying amount{begin of year} – residual value)/RUL]

- b. *Asset was purchased during the year:*  $[(\text{Cost price or fair value} - \text{residual value})/\text{EUL}] \times \text{Remaining days in the financial year from day after purchase}/\text{Total days in the financial year}$
- iv. Heads of department, acting in consultation with the CFO, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the directorate in question or expected to be so controlled or used during the ensuing financial year.
- v. The depreciation charge for each period will be recognised as an expense against the budget of the Head of Departments unless it is included in the carrying amount of another asset.

#### 9.2.3.6.28.2.3.6.2 Criteria according to the Accounting standards

- i. Determining the depreciable amount and depreciation
  - a. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.
  - b. The depreciable amount of any PPE (except heritage assets and land) shall be allocated on a systematic basis over its useful life. The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.
  - c. The depreciation method or amortisation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. If that pattern cannot be determined reliably, the straight-line method shall be used.
- ii. Change in pattern of consumption
  - a. The depreciation method of PPE and the amortisation method and amortisation period of an intangible asset with a finite life shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.
- iii. Different depreciation methods include:
  - a. The straight-line method results in a consistent charge over the useful life if the asset's residual value does not change.
  - b. The diminishing method results in a decreasing charge over the useful life.
  - c. The unit of production approach method results in a charge based on the expected use or output.
  - d. The method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset shall be used. The method shall be applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

#### 9.2.3.78.2.3.7 Impairment

##### 9.2.3.7.18.2.3.7.1 Policy statement

- i. Impairment of PPE, intangible assets, heritage assets and investment property shall be recognised as an expense in the Statement of Financial Performance when it occurs. Assets shall be reviewed for impairment on an annual basis. Ad-hoc impairments shall be identified as part of normal operational management as well as scheduled annual inspections of assets.
- ii. If an impaired asset's primary purpose is to generate income, the impairment shall be calculated using the cash generating method. If an impaired asset's primary purpose is not to generate income, the non-cash generating method shall be used to calculate the impairment.
- iii. Departments will identify and inform Finance – Asset Control of assets that:
  - a. Are in a state of damage at year end.

- b. Are technologically obsolete at year end.
- c. Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
- d. 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 utilised for subsidised housing developments

9.2.3.7.28.2.3.7.2 Impairment criteria according to the Accounting standards

8.2.3.7.2.1 Indicators of impairment

- i. The municipality must assess at each reporting period or when one of the indicators below occurs, whether there is any indication that an asset has been impaired. In assessing whether there is an indication that an asset must be impaired, the municipality shall consider as a minimum the following indicators (for all assets except heritage assets):
  - a. External sources of information
    - i. Cessations, or near cessations, of the demand or need for services provided by the asset.
    - ii. Significant long-term changes with an adverse effect on the municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.
    - iii. During the period, an asset's market value has declined significantly more than would be expected as a result of normal passage of time.
    - iv. Market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
  - b. Internal sources of information
    - i. Evidence is available of physical damage of an asset.
    - ii. Significant long-term changes with an adverse effect on the municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
    - iii. A decision to halt the construction of the asset before it is completed or in an usable condition.
    - iv. Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.
    - v. Significant higher costs of operating or maintaining the asset, compared with those originally budgeted; and
    - vi. Significantly lower service or output levels provided by the asset compared with those originally expected due to poor operating performances.
    - vii. Direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.
- ii. The municipality should consider the following indicators as a minimum when assessing for impairments on heritage assets:
  - a. External sources of information
    - i. During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
    - ii. The absence of an active market for a revalued heritage asset.
  - b. Internal sources of information
    - i. Evidence is available for physical damage or deterioration of a heritage asset.
    - ii. A decision to halt the construction of the heritage asset before it is completed or in a usable form.

- iii. The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets are used in providing those services, but negative fluctuations in demand are not necessarily indicators of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired.
- iv. In assessing whether impairment has occurred, the municipality needs to assess changes in service potential over the long term.

#### 8.2.3.7.2.2 Impairment on Work in process

- i. In assessing whether a halt in construction will trigger an impairment test, it shall be considered whether construction has simply been delayed or postponed, whether there is an intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted.

#### 8.2.3.7.2.3 Impairment of intangible assets

- i. Irrespective of whether there is any indication of impairment, the municipality shall also test:
  - a. an intangible asset with an indefinite useful life;
  - b. an intangible asset not yet available for use;
- ii. for impairment annually by comparing its carrying value with its recoverable service amount or recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an asset was initially recognised during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.
- iii. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying value is usually subject to greater uncertainty before the asset is available for use than after it is available for use; therefore the carrying value of intangible assets not yet available for use shall be tested each year.

#### 8.2.3.7.2.4 Materiality and enduring nature

- i. A change in parameter such as demand for the service, extent or manner of use, legal environment or government policy environment would indicate impairment only if such a change was significant and had or was anticipated to have a long term adverse effect (significant and enduring). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must estimate the recoverable service amount of the asset when using the non-cash generating method or the recoverable amount of the asset when using the cash generating method and also consider adjustment of the remaining useful life, residual value and the depreciation method.

#### 8.2.3.7.2.5 Overview of cash-generating assets/ units

- i. Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a commercial return indicates that the municipality intends to generate positive cash flows from the asset (or from a cash-generating unit of which the asset is a part) and earns a commercial return that reflects the risks involved in holding the asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be non-cash generating even though it may be breaking even or generating a commercial return during a particular reporting period.

#### 8.2.3.7.2.6 Use of judgement to determine whether an asset/ unit are cash – or non-cash generating

- i. The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the municipality shall apply the provisions of an impairment of Cash-generating assets. If the non-cash-generating component is an insignificant component of the arrangement as a whole, the municipality shall apply the provisions of an impairment for Cash-generating assets.

- ii. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such a case it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows, in this case judgement shall be used. The municipality shall develop criteria so that it can exercise judgement consistently.

8.2.3.7.2.7 Annual review of impairment

- i. The municipality shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality shall estimate the recoverable service amount in the case of a non-cash-generating asset/ unit or the recoverable amount in the case of a cash-generating asset/ unit.

8.2.3.7.2.8 Measuring recoverable service amount

- i. The recoverable service amount is the higher of an asset's:
  - a. fair value less cost to sell; and
  - b. its value in use.
- ii. It is not always necessary to determine both an asset's fair value less cost to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
- iii. It may not be possible to determine the fair value less cost to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the municipality may use the asset's value in use as its recoverable service amount.
- iv. If the asset's value in use does not exceed the fair value less cost to sell materially, the asset's fair value less cost to sell can be used as its recoverable service amount. In the case of non-cash-generating assets which are held on an on-going basis to provide specialised services or public goods to the community, the value in use of the asset is likely to be greater than its fair value less cost to sell.

8.2.3.7.2.9 Measuring the recoverable service amount of an intangible asset with an indefinite useful life:

- i. The most recent detailed calculation of such an asset's recoverable service amount in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:
  - a. the most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
  - b. based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination will be less than the asset's carrying amount is remote.

8.2.3.7.2.10 Fair value less cost to sell

- i. The best evidence of an asset's fair value less cost to sell is a price in a binding sales agreement in an arm's length transaction. If there is no binding sales agreement but an active market, fair value less cost to sell is the asset's market price less the disposal costs. The appropriate market price is the current bid price. If there is no sales agreement or an active market for an asset, the fair value less cost to sell is based on the best information available to reflect the amount the municipality could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties. The outcome of recent transactions for similar assets in the same industry will be considered. In the case of specialised buildings and man-made structures, the municipality may need to estimate the fair value using the depreciated replacement cost approach.

8.2.3.7.2.11 Value in use (Non-cash-generating asset)

- i. Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The remaining service potential of the asset is determined using one of the following approaches:

- a. The depreciable replacement cost approach – The present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of the asset is the cost to replace the asset's gross service potential. The cost is depreciated to reflect the asset in its used condition. An asset may be replaced through replacement of its gross service potential (this method is used in the case of production assets rendering a service) or reproduction (this method is used in the case of a historical, cultural asset). The depreciated replacement cost is measured as the reproduction or replacement cost of the asset less accumulated depreciation calculated on a basis of such cost, to reflect the already consumed or expired service potential of the asset.
- b. The optimised depreciable replacement cost approach – The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. The determination of the replacement cost in the case of production assets or reproduction cost in the case of historical and cultural assets, on an optimised basis, reflects the service potential required of the asset.
- c. Restoration cost approach – The present value of the remaining service potential of an asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing in the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciable replacement cost in the case of production assets or the reproduction cost in the case of historical and cultural assets. (Used when impairments are identified from physical damage).
- d. Service units approach– The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. The current replacement cost of the remaining service potential of the asset before impairment is usually determined as the depreciated replacement cost of the asset before impairment.

#### 8.2.3.7.2.12 Value in use (Cash-generating assets)

- i. The following elements shall reflect in the calculation of the value in use amount:
  - a. an estimate of future cash flows the entity expects to derive from the asset;
  - b. expectations about possible variations in the amount or timing of those future cash flows;
  - c. the time value of money, represented by the current market risk-free rate of interest;
  - d. the price of bearing the uncertainty inherent in the asset; and
  - e. other factors, such as liquidity, that market participants would reflect in pricing the future cash flows the municipality expects to derive from the assets

#### 8.2.3.7.2.13 Basis for estimates of future cash flows

- i. Cash flow projections shall be based on reasonable and supportable assumptions that represent management's best estimate of a range of economic conditions that will exist over the remaining useful life of the asset. (External information will weigh greater)
- ii. Cash flows shall be based on the most recent financial budgets/ forecasts approved by management, but shall exclude any estimated future cash inflows and cash outflows expected to arise from future restructuring or from improving or enhancing the asset's performance. (These cash flows will actually cover a maximum of five years unless a longer period can be justified).
- iii. Cash flow projections beyond the periods covered by the recent budgets/ forecasts shall be estimated by extrapolating the projections based on the budgets/ forecasts using a growth rate which can be justified.

#### 8.2.3.7.2.14 Cash flow elements

- i. Composition of estimates shall include:
  - a. projections on cash inflows from the continuing use of the asset;
  - b. projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset and can be directly attributed, or allocated on a reasonable and consistent basis to the asset; and
  - c. net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

- ii. Future cash flows shall be estimated for an asset in its current condition.
- iii. The future cash flows shall not include:
  - a. cash inflows or outflows from financing activities; or
  - b. income tax receipts or payments.
- iv. **Discount Rate:** The discount rate is a pre-tax rate that reflects current market assessments of:
  - a. the time value of money, represented by the current risk-free rate of interest; and
  - b. the risk specific to the asset for which the future cash flow estimates have not been adjusted.

8.2.3.7.2.15 **Impairment of an individual asset**

- i. If the carrying amount is higher than the recoverable amount or the recoverable service amount, impairment is incurred. The impairment amount will be the difference between the carrying amount and the recoverable amount or recoverable service amount. This impairment loss shall be recognised in surplus or deficit in the Statement of Financial Performance in the financial year it is incurred and the asset's value shall be decreased with the impairment amount. An impairment loss of a revalued asset shall be treated as a revaluation decrease.

8.2.3.7.2.16 **Impairment of a cash-generating unit**

- i. If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality shall determine the recoverable amount of the cash-generating unit to which the asset belongs.
- ii. If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit even if some of the units are used internally.
- iii. For an **impairment loss for a cash-generating unit** the carrying amount shall be reduced to the highest of:
  - a. its fair value less cost to sell (if determinable);
  - b. its value in use (if determinable); and
  - c. Zero.
- iv. The amount of the impairment loss that will otherwise have been allocated to the asset shall be allocated pro rata to the other cash-generating assets of the unit. Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset shall be allocated to the carrying amount of that cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit. The carrying amount of the non-cash-generating asset shall reflect any impairment losses at the reporting date which have been determined under the requirements of impairments of Non-cash-generating assets.

8.2.3.7.2.17 **Reversal of impairment**

- i. The municipality shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the municipality shall estimate the recoverable service amount in the case of non-cash-generating assets/ units and recoverable amount in the case of cash-generating assets/ units.
- ii. In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, the municipality shall consider, as a minimum, the following indications:
  - a. External sources of information
    - i. Resurgence of the demand or need for services provided by the asset.
    - ii. Significant long-term changes with a favourable effect on the municipality have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which MLM operates.
    - iii. The market value has increased significantly.
    - iv. Market interest or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.
  - b. Internal sources of information

- i. significant long-term changes with a favourable effect on the municipality have taken place during the period, or are expected to take place in the near future, to the extent that, or manner in which, the asset is used or is expected to be used. (These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs).
  - ii. a decision to resume construction of the asset that was previously halted before it was completed or in an usable condition.
  - iii. evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.
- iii. An impairment loss recognised in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount or recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall be increased to the recoverable service amount or the recoverable amount. That increase shall decrease the impairment loss.
- iv. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that will have been determined had no impairment loss been recognised for the asset in prior periods.
- v. A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit unless the asset is carried at revalued amounts in accordance with GRAP 17. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with GRAP 17.
- vi. After a reversal of an impairment loss is recognised, the depreciation charge/ amortisation of the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- vii. A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit on the pro-rata basis according to the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.
- viii. In allocating a reversal of impairment for a cash-generating unit, the carrying amount of an asset shall not be increased above the lower of:
  - a. its recoverable amount (if determined); and
  - b. the carrying amount that will have been determined (net of the amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.
- ix. The amount of the reversal of the impairment loss that will otherwise have been allocated to the asset shall be allocated pro-rata to the other assets of the unit.

#### 8.2.3.7.2.18 Compensation from third parties

- i. Compensation from third parties, for example insurance claims, for items of PPE and investment property and heritage assets that were impaired, lost or given up shall be included in surplus or deficit when the compensation is receivable and if any other actions occur it shall be treated in accordance with the accounting standard described below:
  - a. impairment of any asset shall be accounted for in accordance with the Standard on Impairment, GRAP 26 (Cash generating unit) or GRAP 21 (Non- cash generating unit).
  - b. de-recognition of items, whether retired or disposed of is determined in accordance with the appropriate accounting standard;
  - c. compensation from third parties for items of PPE that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable.
  - d. the cost of the item restored, purchased or constructed as a replacement is determined in accordance with the appropriate accounting standard.



- ii. The municipality is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount and recoverable service amount with its carrying amount annually and whenever there is an indication that the carrying amount exceeds the recoverable amount or the recoverable service amount; the intangible asset may be impaired.
- iii. Reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the municipality tests the asset for impairment by comparing its recoverable amount and its recoverable service amount to the carrying amount, and recognising any excess of the carrying value over the recoverable amount or recoverable service amount as an impairment loss.

#### [9.2.3.88.2.3.8](#) Leases

- i. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### [9.2.3.98.2.3.9](#) Finance lease – As lessee

- i. Initial recognition: At the commencement of the lease term, MLM should recognise finance leases as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate should be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.
- ii. Subsequent measurement: The depreciable assets financed through the finance lease will give rise to a depreciation expense and finance cost which will occur for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with the policy of depreciable owned assets, and the depreciation recognised shall be calculated in accordance with the Standard on Property, Plant and Equipment, GRAP 17. If there is no reasonable certainty that MLM will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. If there is certainty that MLM will obtain ownership by the end of the lease term, the asset will be fully depreciated over the asset's useful life.

#### [9.2.3.108.2.3.10](#) Operating lease – As lessee

- i. Lease payments under an operating lease shall be recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of MLM's benefit.

#### [9.2.3.118.2.3.11](#) Finance lease – As lessor

- i. Initial recognition: MLM should recognise lease payments receivable under a finance lease as assets in the statement of financial position. MLM should present such assets as a receivable at an amount equal to the net investment in the lease.
- ii. Subsequent measurement: The recognition of finance revenue shall be based on a pattern reflecting a constant periodic rate of return on MLM's net investment in the finance lease.

#### [9.2.3.128.2.3.12](#) Operating lease – As lessor

- i. MLM presents assets subject to operating leases in the Statement of Financial Position according to the nature of the asset.

- ii. Lease revenue from operating leases shall be recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished.
- iii. Initial direct costs incurred by MLM in negotiating and arranging an operating lease should be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.
- iv. The depreciation policy for depreciable leased assets shall be consistent with MLM's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with the Standard on Property, Plant and Equipment, GRAP 17.

#### 9.2.3.138.2.3.13 Sale and leaseback transactions

- i. A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset.
- ii. If a sale and leaseback transaction results in a finance lease, any excess of sales over the carrying amount shall not be immediately recognised as revenue. It shall be deferred and amortised over the lease term.
- iii. If the sale and leaseback transaction results in an operating lease, it is clear that the transaction is established at fair value, and gain or loss shall be recognised immediately. If the sale price is below fair value, the gain or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

#### 9.2.3.148.2.3.14 Non-current assets held for sale

- i. Classification of non-current assets as held for sale
- ii. MLM should classify a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
- iii. Criteria for classifying a non-current asset as held for sale
  - a. The asset must be available for immediate sale; and
  - b. the asset must immediately be available for sale in its present condition; and
  - c. the sale must be highly probable.
- iv. For a sale to be highly probable, management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and completion of the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale will be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted in the paragraph below. Actions required to complete the plan will indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- v. Events or circumstances may extend the period to be completed within one year. An extension of the period required to complete the sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond MLM's control and there is sufficient evidence that MLM remains committed to its plan to sell the asset (or disposal group).
- vi. Sale transactions include exchanges of non-current assets for other non-current asset when the exchange has commercial substance. If MLM acquires a non-current asset exclusively for the purpose of selling it, it shall be classified as a non-current asset (or disposal group) held for sale at its acquisition date only if all requirements are met.
- vii. If the criteria are only met after the reporting date, the municipality should not classify the non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after

the reporting date but before the authorisation date for the financial statements to be issued, the municipality should disclose the following:

- a. a description of the non-current asset;
  - b. a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of disposal; and
  - c. if applicable, the segment in which the non-current asset (or disposal group) is presented.
- viii. Non-current assets held for sale should be shown as a current asset on the face of the statement of financial position.
- ix. Non-current assets that are to be abandoned
- a. MLM should not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because the carrying amount will be recovered principally through continuing use.
  - b. If a disposal group to be abandoned is a separate major line of activity or geographical area of operations, part of a single co-ordinated plan to dispose of a separate major line of activity or geographical areas of operations or is a controlled entity exclusively acquired for the purpose of resale, MLM should present the results and cash flows of the disposal group as discontinued operations at the date on which it ceases to be closed rather than sold. MLM should not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.
- x. Measurement of non-current assets classified as held for sale
- a. MLM should measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell.
  - b. If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale, it should be measured at fair value less cost to sell. When the sale is expected to occur beyond one year, MLM should measure the cost to sell at their present value. Any increase in the present value of the selling cost that arises from the passage of time shall be presented in surplus or deficit as a financing cost.
  - c. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amount to the asset (or all the assets and liabilities in the group) shall be measured in accordance with the applicable Standard of GRAP.
  - d. On subsequent re-measurement of a disposal group, the carrying amount of any assets and liabilities that are not within the scope of the measurement requirements, but are included in the disposal group classified as held for sale, shall be remeasured in accordance with the Standard of GRAP before the fair value less cost to sell of the disposal group is remeasured.
- xi. Recognitions of impairment losses and reversals
- a. MLM should recognise an impairment for any initial or subsequent write-down of the asset (or disposal group) to fair value less cost to sell to the extent that it has not been recognised during remeasurement. MLM should recognise a gain for any subsequent increase in fair value less cost to sell of an asset (or disposal group), but not in excess of the cumulative impairment loss that has been recognised.
  - b. The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group. Any gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of de-recognition.
- xii. Depreciation
- a. MLM should not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest or other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.
- xiii. Changes to the plan of sale

- a. If MLM has classified an asset (or disposed group) as held for sale, but the criteria for assets (or disposed groups) to be held for sale, are no longer met, MLM should cease to classify the asset (or disposed group) as held for sale.
- b. MLM should measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:
  - i. its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, or
  - ii. its recoverable amount or recoverable service amount at date of the subsequent decision not to sell.
- c. MLM should include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in revenue of the continuing operations in the period in which the criteria to be held for sale are no longer met. MLM should present that adjustment in the same statement of financial performance caption used to present a gain or loss.
- d. If MLM removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the group meets the criteria to be held for sale. Otherwise, the remaining non-current assets of the group that individually meets the criteria to be classified as held for sale shall be measured individually at the lower of their carrying amount and fair values less cost to sell at that date. Any non-current asset that does not meet the criteria to be held for sale shall cease to be classified as held for sale.

#### 9.2.3-158.2.3.15 Reconciliation

- i. Where the financial statements and the budget are not prepared on a comparable basis (e.g. where the financial statements are on the accrual basis and the budget on the cash basis), the actual amounts presented on a comparable basis to the budget should be reconciled to the following actual amounts presented in the financial statements identifying separately any basis, timing and entity differences:
  - a. If an accrual basis is adopted for the budget, the total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities to the actual amounts on the financial statements; or
  - b. If a basis other than the accrual basis is adopted for the budget, the net cash flows from operating activities, investing activities and financing activities.
- ii. The reconciliation of the asset register against the Procurement and Financial Systems should be done on a monthly basis.
- iii. The detailed disclosure requirements in the Annual Financial Statements should be in line with GRAP and National Treasury guidelines.

#### 9.2.3-168.2.3.16 Safeguarding

##### 9.2.3-16-18.2.3.16.1 Policy statement

- i. An asset safeguarding plan should be prepared for all PPE, heritage assets and investment properties indicating measures that are considered effective to ensure that all PPE, heritage assets and investment properties under control of the municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets. The impact of budgetary constraints on such measures shall be reported to Council.
- ii. The municipality applies controls and safeguards to ensure that PPE, heritage assets and investment properties are protected against improper use, loss, theft, malicious damage or accidental damage.
- iii. The responsibility of the safeguarding of assets vests with each official to whom the assets have been allocated. Every asset custodian will be directly responsible for ensuring that all assets are properly maintained in a manner which will

ensure that such assets attain their useful operating lives. All assets used by employees should be returned upon termination of employment. Any visitors to the department should be accompanied by an employee of the department.

[9-2-3-178.2.3.17 Insurance](#)

- i. All municipal assets should be insured. The HoD is responsible for ensuring that all assets in the department have been insured.

[9-2-3-188.2.3.18 Verification](#)

[9-2-3-18-18.2.3.18.1 Policy statement](#)

- i. Movable assets :
  - a. All movable assets must be physically verified and confirmed at least once in a financial year.
  - b. The physical verification should be performed by either the physical scanning of the barcode attached to the asset or manually verified.
  - c. The verified information should be reconciled to the asset register.
  - d. The CFO should approve all adjustments that will correct the identified variances.
- ii. Immovable assets
  - a. Immovable assets will be verified once every 5 years.
- iii. All movement of assets should be duly authorised by the Asset Manager and together with the relevant authorisation must be recorded in the asset register.
- iv. The Budget and Treasury Office (Asset and Fleet Management) will facilitate the verification of assets.

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[9-2-3-198.2.3.19 General maintenance](#)

[9-2-3-19-18.2.3.19.1 Policy statement](#)

- i. Every HoD should 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.
- ii. 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 an asset should be capitalised.
- iii. Expenses incurred in the maintenance or reinstatement of an asset should be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and should not be capitalised, irrespective of the quantum of the expenses concerned.
- iv. Expenses which are reasonably ancillary to the bringing into operations of an asset may be capitalised as part of such fixed asset. Such expenses may include but need not be limited to import duties, forward costs, transportation costs, and installation, assembly and communication costs.
- v. Each HoD is responsible for ensuring that an approved maintenance plan exist for each infrastructure asset under his/ her control.

**Table 112 – Distinguishing between capital and operational expenditure**

Capital Expenditure	Operating Expenditure
Acquiring a new asset	Restoring an asset so that it can continue to be used for its intended purpose.
Replacing an existing asset	Maintaining an asset so that it can be used for the period for which it was initially intended.
Enhancing an existing asset so that its use is expanded.	

Further developing an existing asset so that its original useful life is extended.	
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#### **9-2-48.2.4 Derecognition of Assets**

##### **9-2-4-18.2.4.1 Policy statement**

- i. The municipal policy will contain:
  - a. PPE, investment property, heritage assets and intangible assets for which no future economic benefits or service potential are expected shall be identified.
  - b. The municipality should have an Annual Disposal Plan for assets to minimise redundant assets.
  - c. The disposal plan should establish the rationale for the anticipated time and method of disposal, and the expected proceeds.
  - d. Assets disposal decisions shall be made within an integrated service and financial planning framework.
  - e. No asset should be sold at a value which is below its carrying amount in the asset register without the approval of Council.
  - f. The appropriate method of disposal shall be Public Auction or Public Tender.
  - g. There should be an elected Asset Disposal Committee (ADC) whose responsibility shall be to assess assets ring-fenced for disposal, obtain approval as per Municipal Delegations.
  - h. All assets disposed should be removed from the asset register.
  - i. Gains or losses arising from de-recognitions shall be recognised in surplus or deficit.
  - j. All officials are responsible for reporting losses and damages of an asset to the Asset Management division within two working day of such loss or damaged.
  - k. All losses of assets or damages should be recorded in the asset register.
- ii. The only reason 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.
- iii. In every instance where a not fully depreciated fixed asset is written off, the CFO should immediately debit to such directorate or vote, as additional depreciation expenses, the full carrying amount of the asset concerned.
- iv. \* Legal disposing of firearms in terms of the Firearms Control Act of 2000 are not included in this policy.

##### **9-2-4-28.2.4.2 De-recognition criteria according to the Accounting standards**

- i. The carrying value of an item of PPE, investment property, heritage assets and intangible assets shall be de-recognised:
  - a. on disposal (including disposal through a non-exchange transaction);
  - b. when no future economic benefits or service potential are expected from its use or disposal.
- ii. The gain or (loss) arising from de-recognitions shall be included in surplus or (deficit) when it is de-recognised.
- iii. The gain or (loss) arising from the de-recognition of an item of PPE, investment property or intangible assets shall be determined as the difference between the net disposal proceeds, if any, and the carrying value of the item. Exempted and non-exempted capital assets can be de-recognised.
- iv. PPE that are associated with the provision of basic services cannot be disposed without the approval of Council.

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MOGALAKWENA MUNICIPALITY

## Asset Disposal Form

**DATE REQUESTED:** \_\_\_\_\_

**DEPARTMENT** \_\_\_\_\_

**ASSET BARCODE** \_\_\_\_\_

**ASSET DESCRIPTION** \_\_\_\_\_

**ASSET NO (VENUS)** \_\_\_\_\_

**ASSET LOCATION** \_\_\_\_\_

**CLASSIFICATION OF ASSET** \_\_\_\_\_

**SUGGESTED METHOD OF DISPOSAL** \_\_\_\_\_

**CONDITION OF ASSET:** \_\_\_\_\_

**REASON FOR REQUEST FOR DISPOSAL:** \_\_\_\_\_

**REQUESTING OFFICIAL:**

**NAME & SURNAME:** \_\_\_\_\_

**SIGNATURE** \_\_\_\_\_

**HOD RECOMMENDATION:**

**NAME & SURNAME** \_\_\_\_\_

**SIGNATURE** \_\_\_\_\_

**CFO RECOMMENDATION:**

**NAME & SURNAME:** \_\_\_\_\_

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**SIGNATURE**

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**MM APPROVAL:**

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**NAME & SURNAME:**

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**SIGNATURE:**

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# ASSET TRANSFER FORM

DATE REQUESTED:

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ASSET BARCODE:

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ASSET DESCRIPTION:

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CLASSIFICATION OF ASSET:

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CONDITION OF ASSET:

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REASON FOR TRANSFER:

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**CURRENT LOCATION**

*{Approval for the transfer of the asset}*

**NEW LOCATION**

*{Asset is received and the above details are verified}*

**DEPARTMENT/LOCATION**

**DEPARTMENT /LOCATION**

**NAME OF BUILDING**

**NAME OF BUILDING**

**ROOM NUMBER**

**ROOM NUMBER**

**TRANSFERRING OFFICIAL**

**RECEIVING OFFICIAL**

**TRANSFERRING OFFICIAL SIGNATURE**

**RECEIVING OFFICIAL SIGNATURE**

**HOD NAME AND SURNAME**

**HOD NAME AND SURNAME**

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<del>DATE-TRANSFERRED</del>	<del>DATE-RECEIVED</del>
<del>CHIEF-FINANCIAL-OFFICER-NAME-AND-SURNAME</del>	
<del>CHIEF-FINANCIAL-OFFICER-SIGNATURE-AND-DATE</del>	
<del>CAPTURED-BY-NAME-AND-SURNAME</del>	
<del>ASSET-NO(VENUS)</del>	
<del>DATE-CAPTURED</del>	

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## ASSET-CLEARANCE-FORM

### INVENTORY-ITEMS:

(See attached list)

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### MOVEABLE-ASSETS:

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### RESIGNING OFFICIAL:

NAME AND SURNAME:

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SIGNATURE:

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DATE:

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HOD:

NAME AND SURNAME:

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**SIGNATURE:**

\_\_\_\_\_

**DATE:**

\_\_\_\_\_

**ASSET OFFICER:**

**NAME AND  
SURNAME:**

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**SIGNATURE:**

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**DATE:**

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# ASSET WRITE-OFF FORM

DATE REQUESTED: \_\_\_\_\_

DEPARTMENT: \_\_\_\_\_

ASSET BARGOODE: \_\_\_\_\_

ASSET NO (VENUS) \_\_\_\_\_

ASSET DESCRIPTION: \_\_\_\_\_

ASSET LOCATION: \_\_\_\_\_

CLASSIFICATION OF ASSET: \_\_\_\_\_

SUGGESTED METHOD OF DISPOSAL: \_\_\_\_\_

CONDITION OF ASSET: \_\_\_\_\_

REASON FOR WRITE-OFF: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

REQUESTING OFFICIAL:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

HEAD OF DEPARTMENT RECOMMENDATION:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

CHIEF FINANCIAL OFFICER RECOMMENDATION:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

MUNICIPAL MANAGER APPROVAL:

NAME & SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

ITEM TO COUNCIL FOR APPROVAL: \_\_\_\_\_

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# ASSET REMOVAL FORM

DATE REQUESTED:

DATE REMOVED:

DEPARTMENT:

ASSET BARCODE:

FLOOR NUMBER/ ROOM NUMBER:

ASSET DESCRIPTION:

CLASSIFICATION OF ASSET:

REASON FOR REMOVAL:

RETURN DATE:

DATE RETURNED:

REQUESTED BY:

NAME AND SURNAME:

POSITION:

SIGNATURE:

DATE:

AUTHORISED BY:

NAME AND SURNAME:

POSITION:

SIGNATURE:

DATE:



MOGALAKWENA MUNICIPALITY

# PERSONAL ASSET DECLARATION FORM

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**SERIAL NUMBER:** \_\_\_\_\_

**ASSET DESCRIPTION:** \_\_\_\_\_

**NAME OF USER:** \_\_\_\_\_

**ASSET LOCATION:** \_\_\_\_\_

**REASON FOR BRINGING THE ASSET ONTO THE PREMISES:**  
\_\_\_\_\_

**ESTIMATED REMOVAL DATE:** \_\_\_\_\_

**OWNER DETAILS:** \_\_\_\_\_

**NAME AND SURNAME:** \_\_\_\_\_

**SIGNATURE:** \_\_\_\_\_

**DATE:** \_\_\_\_\_

**DECLARATION:** I \_\_\_\_\_, the owner agree not hold Mogalakwena Local Municipality liable for any theft or damage incurred relating to the use of the abovementioned asset.

**DEPARTMENTAL ASSET CONTROLLER**

**NAME AND SURNAME:** \_\_\_\_\_

**SIGNATURE:** \_\_\_\_\_

**DATE:** \_\_\_\_\_

**DECLARATION:** I \_\_\_\_\_, the Department Asset Controller, agree that Mogalakwena Local Municipality is not the owner of the abovementioned asset.

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