

**UBUNTU MUNICIPALITY**  
**FIXED ASSET MANAGEMENT**  
**POLICY**

## INTRODUCTION

The Municipal Finance Management Act, Act 56 of 2003, provides clear guidelines for the process of asset management by a municipality. Section 63(1) of the Municipal Finance Management Act stipulates that the accounting officer of a municipality is responsible for the management of –

- (a) the assets of the municipality, including the safeguarding and the maintenance of those assets; and
- (b) the liabilities of the municipality.

Section 63(2) of the Municipal Finance Management Act stipulates that the accounting officer must take all reasonable steps to ensure –

- (a) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- (b) that the municipality's assets and liabilities are valued in accordance with standards of recognised accounting practice; and
- (c) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

This fixed asset management policy is designed to fulfil the requirements as set out in the appropriate sections to the Municipal Finance Management Act and other applicable legislation.

## DEFINITIONS

**Accounting Officer** is the head of the administration of a municipality appointed in terms of Section 57 of the Municipal Systems Act, Act 32 of 2000, as amended, and referred to as the municipal manager.

**Carrying amount** is the amount at which an asset is included in the balance sheet of a municipality after the deductions of any accumulated depreciation thereon.

**Chief Financial Officer** is the head of department in the municipality designated by the accounting officer to be administratively in charge of the budget and treasury office in terms of Section 81 of the Municipal Finance Management Act.

**Community assets** are defined as any assets acquired or developed by the municipality that contributes to the wellbeing of the local community. Examples of community assets are municipal parks, libraries and fire stations.

**Cost of an asset** is the amount of cash or cash equivalent paid or the fair value of any other consideration given to acquire an asset at the time of its acquisition or construction.

**Current Asset** is any asset held by a municipality that can be converted into cash within a short period of time. Examples of current assets are stock held in a municipal store, consumer or property rates debtors and short-term investments.

**Depreciable amount** is the systematic allocation of the depreciable amount of an asset over its useful life.

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

**Fixed asset** is defined as an asset, either movable or immovable, under the control of the municipality and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use service delivery over a period extending beyond one financial year. An asset held under a finance lease is also recognised as a fixed asset as the municipality has control over such an asset even though it does not own the asset.

**Head of Department** is a municipal official appointed in terms of Section 56 of the Municipal Systems Act, Act 32 of 2000, as amended, to manage the implementation of a particular functional area of the municipal structure.

**Heritage assets** are defined as culturally significant resources owned and maintained by the municipality. Examples are works of art, historical buildings and statues.

**Infrastructure assets** are defined as assets that form part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

**Investment assets** are defined as land or buildings (or parts of buildings) that even been acquired by the municipality for the purpose of economic and capital gain. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

**Property, plant and equipment** are fixed assets that –

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

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

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

**Useful life** of an asset is either –

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

## PROCESSES AND PROCEDURES

### Overview

- A fixed asset is defined in GAMAP 17 as a tangible item of property, plant or equipment held by a municipality for use in the production or supply of goods, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).
- As accounting officer of the municipality. The municipal manager is the principal custodian of the municipality's fixed assets, and will be responsible for ensuring that the asset management policy is scrupulously applied and adhered to.
- The chief financial officer is the fixed asset registrar of the municipality, and must ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register may be made other than by the chief financial officer or by an official acting under the written instruction of the chief financial officer.
- No item with an initial cost or fair value of less than R 5000, or such other amount as the municipal council of the municipality may from time to time determine on the recommendation of the municipal manager, will be recognised as a fixed asset. If the item has a cost of fair value lower than this capitalisation benchmark, it will be treated as an ordinary operating expense.
- Every head of department must ensure that any item with a value in excess of R 250 and with an estimated useful life of more than one year is recorded on a stock sheet. Every head of department must ensure that the existence of items recorded on these stock sheets is verified from time to time and at least once in every financial year. Any amendments made to stock sheets pursuant to the verification process described above costs, is recognised as a fixed asset.
- No intangible item is to be recognised as a fixed asset, except that the chief financial officer, acting in strict compliance with the criteria set out in IAS 38 (dealing with research and development expenses) may recommend to the council that specific development costs is recognised as a fixed asset.
- 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 the asset) or in the material extension of the useful operating life of a fixed asset may be capitalised.
- Expenses incurred in the maintenance or reinstatement of a fixed asset must be considered as operating expenses incurred in ensuring that the useful operating life of the asset is attained and may not be capitalised, irrespective of the quantum of the expenses concerned.
- Expenses that are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of the fixed asset. Such expenses may include

but need not be limited to import duties, forward over costs, transportation costs, installation, assembly and communication costs.

### **Fixed Asset Register**

- The fixed asset register must be maintained in the format determined by the chief financial officer, which format must comply with the requirements of generally recognised accounting practice (GRAP) and generally accepted municipal accounting practice (GAMAP) and any other accounting requirements which may be prescribed.
- The fixed asset register must reflect the following information –
  - a brief but meaningful description of each asset;
  - the date on which the asset was acquired or brought into use;
  - the location of the asset;
  - the department(s) or vote(s) within which the asset will be used;
  - the title deed number, in the case of fixed property;
  - the stand number, in the case of fixed property;
  - where applicable, the municipal identification number;
  - the original cost, or the revalued amount or the fair value if no costs are available;
  - the (last) revaluation date of fixed assets subject to revaluation;
  - the revalued value of such fixed assets;
  - who did the (last) revaluation;
  - accumulated depreciation to date;
  - the depreciation charge for the current financial year;
  - the carrying value of the asset;
  - the method and rate of depreciation;
  - impairment losses incurred during the financial year (and the reversal of such losses, where applicable);
  - the source of financing;
  - the current insurance arrangements;
  - whether the asset is required to perform basic municipal services;
  - whether the asset has been used to secure any debt, and –if so – the nature and duration of such security arrangements;
  - the date on which the asset is disposed of;
  - the disposal price; and
  - the date on which the asset is retired from use, if not disposed of.
- All heads of department under whose control any fixed asset falls must promptly provide the chief financial officer with any information required to compile the fixed asset register. Heads of department must equally be prompt in advising the chief financial officer in writing of any material change which may occur in respect of this information.
- A fixed asset is capitalised, that is, recorded in the fixed asset register, as soon as it is acquired. If the asset is constructed over the period of time, it must be recorded as work-in-progress until it is available for use, when it must be appropriately capitalised as a fixed asset.

- A fixed asset will remain in the fixed asset register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated is not in itself a reason for writing-off such an asset.
- Investment assets are accounted for in terms of IAS 40 and are not classified as property, plant and equipment for the purposes of preparing the municipality's statement of position. Investment assets comprise of land or buildings (or parts of buildings) or both held by the municipality as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment assets are recorded in the fixed asset register in the same manner as other fixed assets, but a separate section of the fixed asset register must be maintained for this purpose.
- Investment assets are not depreciated but must be valued annually on the balance sheet date to determine their fair (market value). Investment assets are recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value is accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned. An expert valuer must be engaged by the municipality to undertake such valuations.
- If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property must in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use. It can be reclassified as an investment asset.
- Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, must be accounted for as inventory and not included in their property, plant and equipment or investment property in the municipality's statement of position. These properties acquired or developed for inventory purposes are recorded in the fixed asset register in the same manner as other fixed assets, but a separate section of the fixed asset register is maintained for this purpose.
- If no original costs or fair values are available in the case of one or more or all heritage assets, the chief financial officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned. For balance sheet purposes, the existence of such heritage assets can be disclosed by means of an appropriate note.
- Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned is recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

- All fixed assets are carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation. The only exceptions to this rule are revalued assets and heritage assets in respect of which no value is recorded in the fixed asset register.
- An illustrative example of a fixed asset register is included as Annexure A to this policy document.

## **Depreciation**

- Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economics benefits or the delivery of services.
- Depreciation takes the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.
- Each head of department, acting in consultation with the chief financial officer, must ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges are calculated monthly.
- All fixed assets, except land and heritage assets, are depreciated or amortised in the case of intangible assets. The procedures to be followed in accounting and budgeting for the amortisation of intangible assets is identical to those applied to the depreciation of other fixed assets.
- The chief financial officer must assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. Where needed, the assigning of a useful operating life can be done in consultation with the head of department who will control or use the fixed asset in question. The useful operating life of a fixed asset can also determined with reference to the likely pattern in which the asset's economic benefits or service potential will be consumed.
- With minimal exceptions, the chief financial officer of a municipality will depreciate all depreciable assets in accordance with the straight-line method of depreciation over the assigned useful operating life of the asset in question.
- The chief financial officer may employ the sum-of units methods of depreciation in the case of fixed assets that are physically depleted in providing economic benefits or delivering services. The chief financial officer can only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the accounting officer to provide –

- estimates of statistical information required by the chief financial officer to prepare estimates of depreciation expenses for each financial year; and
- actual statistical information, for each financial year.

The head of department concerned must moreover undertake to provide the statistical information at the specific times stipulated by the chief financial officer.

- Where the chief financial officer decides to employ the sum-of-units method of depreciation and the requirements set out in the preceding paragraph have been adhered to, the chief financial officer must inform the council of the municipality of the decision.
- Only the chief financial officer may amend the useful operating life assigned to any fixed asset and when any material amendment to the useful operating life occurs, the chief financial officer is required to inform the council of the amendment.
- The chief financial officer must amend the useful operating life assigned to any fixed asset if it becomes known that such an asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained. The useful operating life of a fixed asset may also be amended by an occurrence that materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
- If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such a fixed asset must be fully depreciated in the financial year in which the diminution of value occurs. Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it must be fully depreciated in the financial year in which such an event occurs. In all the foregoing instances, the additional depreciation expenses are to be debited to the department or vote controlling or using the fixed asset in question.
- If any of the foregoing events arises in the case of a normally non-depreciable fixed asset and such fixed asset has been capitalised at a value other than a purely nominal value, the fixed asset must be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset. As in the case of an ordinary depreciable asset, the department or vote controlling or using the fixed asset in question must bear the full depreciation expense concerned.

### **Maintenance of Fixed Assets**

- Every head of department in a municipality is directly responsible for ensuring that all assets under his/her control are properly maintained in a manner that will ensure that such assets attain their useful operating lives.
- Every head of department must ensure that the maintenance plan in respect of every new infrastructure asset with a value of R 100 000 (one hundred

thousand rand) or more is promptly prepared and submitted to the council of the municipality for approval.

- If so directed by the municipal manager, the maintenance plan must be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.
- The head of department controlling or using the infrastructure asset in question, must annually report to the council, not later than in September, of the extent to which the relevant maintenance plan was complied with in the previous financial year, and of the likely effect that any non-compliance may have on the useful operating life of the asset concerned.
- If there is a material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the chief financial officer must disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. The note must also indicate any plans that the council of the municipality has approved in order to redress the deferral of the maintenance requirements concerned. If no such plans have been formulated or are likely to be implemented, chief financial officer must review the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using the asset. Once the useful operating life of the asset has been adjusted, the annual depreciation expenses applicable to the asset must be recalculated accordingly.

### **Identification and Verification of Fixed Assets**

- The accounting officer must ensure that the municipality maintains a fixed asset identification system that is operated in conjunction with its computerised fixed asset register.
- The identification system is determined by the accounting officer of the municipality, acting in consultation with the chief financial officer and other heads of department. The identification system must comply with any prescriptions, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report, and will be decided upon within the context of the municipality's budgetary and human resources.
- Every head of department must ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.
- Every head of department must at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned. An illustrative example of a fixed asset physical inspection report is attached as Annexure B.

- Every head of department must promptly and fully report in writing to the chief financial officer, in the format determined by the chief financial officer, all relevant results of such fixed asset verification. In this regard it is noted that a fixed asset verification exercise must be completed as close as possible to the end of each financial year (it may be the only one during the year). The resultant report must be submitted to the chief financial officer not later than 30 June of the financial year in question.
- Every head of department must ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer, to the internal auditor and – in cases of suspected theft or malicious damage – also to the South African Police Services.

### **Acquisition of Fixed Assets**

- The process of purchasing fixed assets is dealt with extensively in the supply chain management policy of the municipality. However, a number of issues relating to the acquisition of a fixed asset are outlined hereunder.
- The acquisition of all fixed assets is undertaken in terms of an approved capital/operating budget of the municipality. The acquisition process must conform in all respects with the chain management policy of the municipality.
- The issue of funding is an important aspect in the process of acquiring fixed assets. There are three primary categories of funding that may be applicable to the purchase of an asset – internal sources, grant funding or external sources. The internal sources of funding can be in terms of a provision on the operating budget or from a fund built up by the municipality for this purpose such as an asset replacement reserve fund. Grant funding relates to external funding where there is no repayment obligation placed on the municipality; an example is funding from the Municipal Infrastructure Grant (MIG). Other external sources of funding relate in the main to loan funding from institutions such as the Development Bank of South Africa; in these case there is a repayment obligation on the municipality and considerations such as rates of interest and repayment periods are important.
- Only once the municipality has taken physical delivery of the fixed asset will the process commence of recording the purchase of the asset in the fixed asset register. An illustrative example of the documentation concerned is included as Annexure C.
- The municipality must have a policy regarding the insurance of fixed assets; in this regard the timing of such insurance cover is important in the acquisition process to ensure the municipality is not exposed to unnecessary risk. The adequacy of the insurance cover on the fixed asset portfolio of the municipality is reviewed on an annual basis.

## **Transfer of Fixed Assets**

- One of the important aspects of any fixed asset management policy is the ability of the municipality to determine the location of each and every fixed asset on its asset register at any point in time.
- When a fixed asset is acquired, one of the important pieces of information recorded is the location of that asset. This determines the department within the municipality that is responsible for the use and/or control of the fixed asset and its maintenance.
- Relocation of an asset can take place in two ways – on either a permanent or a temporary basis. The relocation of a fixed asset, whether temporary or permanent, must be duly authorised.
- Where the relocation of the fixed asset is on a temporary basis, a fixed asset transfer register will be completed. The register reflects the details of the movement of the fixed asset concerned. Responsibility for the control and maintenance of the fixed asset continues to vest in the head of department who initially requested its acquisition.
- Where the relocation of a fixed asset is permanent, a fixed asset transfer notification is completed. Once the information recorded on the notification is captured on the financial system of the municipality, responsibility for the control and maintenance of the asset will be vested in the head of department to which the fixed asset has been transferred.
- Illustrative examples of a fixed asset transfer register and a fixed asset transfer notification are included as Annexure D.

## **Alienation of Fixed Assets**

- There are three primary ways in which a municipality disposes of or alienates a fixed asset –
  - scrapping of an asset as it has no further economic life;
  - the asset is to be used as a trade in for the purchase of a replacement asset; or
  - the asset is surplus to requirements and a decision has been made to dispose of it.
- In compliance with the principles and prescriptions of the Municipal Finance Management Act, Act 56 of 2003, the alienation of the ownership of any fixed asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.
- Section 14(1) of the Municipal Finance Management Act stipulates that a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.

- Section 14(2) of the Municipal Finance Management Act indicates that a municipality may transfer ownership or otherwise dispose of a capital asset other than contemplated in Subsection 14(1) of the Act, but only after the municipal council, in a meeting open to the public –
  - (a) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic services; and
  - (b) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- However, Section 14(3) of the Municipal Finance Management Act indicates that a decision taken by a municipal council that a specific capital asset is not needed to provide the maximum level of basic municipal services, may not be reversed by the municipality after that asset has been sold or otherwise disposed of.
- A fixed asset even though fully depreciated is written off only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the municipal council.
- Every head of department is required to report to the chief financial officer on 31 October and 30 April of each financial year on any fixed assets that such head of department wishes to have written off, stating in full the reason for such recommendation. The chief financial officer will consolidate all these reports and promptly submit a recommendation to the municipal council on the fixed assets to be written off. The only reasons for writing off fixed assets, other than the alienation of such fixed assets, are the loss, theft, destruction or material impairment of the fixed asset in question. In every instance where a not fully depreciated fixed asset is written off, the chief financial officer will immediately debit to such department or vote, the full carrying value of the asset concerned.
- The accounting officer, in consultation with the chief financial officer and other heads of department, must formulate norms and standards for the replacement of normal operational fixed assets. These norms and standards are to be submitted to the municipal council for approval and cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items.
- Every head of department is required to report in writing to the chief financial officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned that the head of department wishes to alienate by public auction or public tender. The chief financial officer consolidates the requests received from the various departments and reports the consolidated information to the municipal council, recommending the process of alienation to be adopted.
- If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, the difference will be recognised as a loss in the income statement of the department or vote concerned. On the other hand, if the proceeds of the alienation are more than the carrying value of the fixed asset

concerned, the difference is recognised as a gain in the income statement of the department or vote concerned.

- The accounting treatment of the alienation (disposal) is designed to remove the fixed asset from the financial system of the municipality (including the fixed asset register).
- Illustrative documentation related to the alienation of fixed asset is included as Annexure E.

# **ANNEXURE A**



# **ANNEXURE B**



# **ANNEXURE C**

## FIXED ASSET ACQUISITION

<b>FIXED ASSET ACQUISITION</b>							
CAPITAL EXPENDITURE							
FIXED ASSET CATEGORY			:				
DESCRIPTION OF FIXED ASSET			:				
<b>QUOTATIONS</b>							
		SUPPLIER			COST		
1			:	R			
2			:	R			
3			:	R			
(Quotation must be attached to this form)							
<b>MOTIVATION FOR ACQUISITION</b>							
<b>Source of funding</b>							
<b>AUTHORISATION</b>							
<b>Approved at Management Committee meeting held on:</b>							
.....							
<b>AUTHORISED SIGNATORY</b>							



# **ANNEXURE D**





## FIXED ASSET TRANSFER NOTIFICATION

<b>FIXED ASSET TRANSFER NOTIFICATION</b>									
Date:									
Dept. Receiving:									
Dept. Transferring:									
Date of Transfer:									
Internal Number:									
Dept. Receiving:						Amount			
Vote (Dr.)									
Vote (Cr.)									
Dept. Transferring						Amount			
Vote (Dr.)									
Vote (Cr.)									
Fixed Asset Descript.:									
Fixed Asset Location:									
How Funded:									
Notes									
.....									
Signed: <b>FINANCE OFFICIAL</b>									

# **ANNEXURE E**



## FIXED ASSET DISPOSAL

Date:

Department:

Date of Disposal:

Internal Number:

AMOUNT

Vote (Dr.)

Vote (Cr.)

Fixed Asset Description:

Fixed Asset Location:

Notes:

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Signed: **FINANCIAL OFFICIAL**