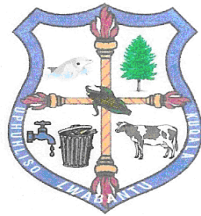


INGQUZA HILL LOCAL MUNICIPALITY



ASSET MANAGEMENT POLICY

ASSET MANAGEMENT POLICY:
INGQUZA HILL LOCAL MUNICIPALITY
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ASSET MANAGEMENT POLICY

INGQUZA HILL LOCAL MUNICIPALITY

PREAMBLE

- 1.(1) **Whereas** section 14(1) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum level of basic municipal services.

- (2) **And whereas** the municipal council of Ingquza Hill Local Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets.

- (3) **And whereas** the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets.

- (4) **And whereas** these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes

- (5) **Now therefore** the municipal council of the Ingquza Hill Local Municipality adopts the following asset management policy:

DEFINITIONS

- 2.(1) *Accounting officer* means the municipal manager appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act 2000 (Act No. 32 of 2000).

- (2) *Assets* are resources controlled by the municipality as a result of past events and from which future economic benefit or service potential are expected to flow to the municipality.
- (3) *Carrying amount* is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon.
- (4) *Chief Financial Officer* means an officer of a municipality designated by the municipal manager to be administratively in charge of the budgetary and treasury functions.
- (5) *Community assets* are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- (6) *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.
- (7) *Depreciable amount* is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
- (8) *Depreciation* is the systematic allocation of the depreciable amount of an asset over its useful life.
- (9) *Fair value* is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- (10) *Heritage assets* are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- (11) *Infrastructure assets* are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

- (12) *Investment properties* are defined as properties that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
- (13) *Municipal valuation* means the official valuation of an immovable property as reflected in the Municipality's valuation roll.
- (14) *Other assets* are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
- (15) *Property, plant and equipment* are tangible assets that:-
- are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
 - are expected to be used during more than one period.
- (16) *Recoverable amount* is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.
- (17) *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.
- (18) *Useful life* is:-
- 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.

OBJECTIVE

3. The purpose of this policy is to prescribe procedures for the management of assets.

SCOPE OF THE POLICY

4. This policy deals with:-
- the accounting officer;
 - the acquisition of assets;
 - recognition of assets;
 - the maintenance of assets;
 - the transfer of assets;
 - insurance of assets;
 - write off of assets;
 - disposal of assets;
 - work procedures.

ACCOUNTING OFFICER

- 5.(1) The municipal manager as accounting officer is responsible for the management, including safeguarding and maintenance of all assets of the municipality in an economic, efficient and effective manner.
- (2) The municipal manager may delegate the responsibilities placed on him/her to any official directly accountable to him/her.

ACQUISITION OF ASSETS

- 6.(1) The Municipality may acquire by purchase, or by hire, immovable property within or outside the municipality.
- (2) Prior to finally resolving whether to purchase or hire immovable property, the council shall advertise its intentions to do so.
- (3) After consideration of the objections, if any, lodged in accordance with the advertisement contemplated by 6(2) above, the council:-
- shall in the case of immovable property contemplated by 6(4) comply with the provisions of that subsection; and
 - may in the case of any other immovable property finally resolve whether or not to purchase or hire such immovable property.

- (4) The municipality shall not without the prior approval of the council proceed with the purchase or hire of any immovable property:-
- which is to be purchased at a price in excess of the municipal valuation thereof; and
 - which is to be hired at a rental which, when calculated per annum in the case of:-
 - immovable property hired for agricultural purposes, exceeds six per cent of the municipal valuation of the property; and
 - immovable property hired for any other purpose, exceed twelve per cent, of the municipal valuation of the property; or
 - where objections have been lodged in accordance with the advertisement contemplated by 6(2) above.

[NOTE: In case immovable property is to be acquired which forms a portion of a property which is valued as a whole, the municipal valuation of such a portion shall be determined by the municipal manager by a pro-rata apportionment of the official municipal valuation of such a property.]

- (5) Should the purchase price of immovable property be more than the official municipal valuation plus 15%, council shall be obliged to have the market value of the property assessed by a sworn appraiser before a final decision to purchase the property, is taken.
- (6) The council may accept a gift or conveyance of immovable property only if such a property is conveyed to the municipality unconditionally or to be used for any of the functions described in section 156(1) of the constitution of the RSA.
- (7) The trustees of any immovable property held in trust for any township village of settlement which has since become a municipality or part of a municipality, may transfer such property to the council, subject to any special trusts in their deeds of title and upon conditions not at variance therewith.

- (8) The municipal manager is responsible for the implementation of the procurement policy in relation to assets.
- (9) All assets acquisitions are to occur in terms of the budgetary provisions and procurement prescriptions.
- (10) The assets register shall be updated for all acquisitions of moveable and immovable property.
- (11) The assets register should be reconciled with the total assets per the general ledger and the sources of funding.

RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT IN THE FINANCIAL STATEMENTS

- 7.(1) An item of "*Property, Plant and Equipment*" (PPE) should be recognised as an asset if:-
 - the value thereof is R5 000,00 or more;
 - it is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality; and
 - the cost of the asset to the municipality can be measured reliably.
- (2) Assets of which the purchase price is greater than R100,00 but do not exceed R5 000,00 as was financed from any source other than external loans will be recognised in the asset register as an inventory item and will not carry depreciation.
- (3) An item of PPE that qualifies for recognition as an asset should initially be recognized at its cost.
- (4) The cost of PPE comprises:-
 - purchase price;
 - import duties;
 - non-refundable purchase taxes; and

- directly attributable costs of bringing the asset to working condition for its intended use, such as the cost of site preparation, initial delivery, handling costs, installation costs, and professional fees such as architects and engineers fees.
- (5) When payment for an item of PPE is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.
 - (6) When an item of PPE is acquired to be exchanged or partly exchanged for a dissimilar item of PPE or other asset, the cost of such item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents paid additional. For the purpose hereof, “fair value” shall be determined by the council with due regard to the definition ascribed to fair value in paragraph 2 hereof.
 - (7) Subsequent expenditure relating to an item of PPE that has already been capitalised, should be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.
 - (8) All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.
 - (9) When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.
 - (10) When an asset’s carrying amount is increased as a result of the revaluation, the increase should be credited directly to the non-distributable reserves of the municipality.

- (11) When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements.
- (12) An item of PPE should be eliminated from the balance sheet on disposal, or when the asset is permanently withdrawn from use and disposed; and no future economic benefit or potential service delivery is expected from it.
- (13) Gains or losses arising from the retirement or disposal of an item of PPE should be determined as the difference between the actual or estimated (as estimated by the council) net disposal proceeds and the carrying amount of the assets, and should be recognised as revenue or expense in the income statement.

MAINTENANCE OF FIXED ASSETS

- 8.(1) A fixed assets register must be maintained, by keeping a record of all classes of property, plant and equipment classified under categories of infrastructure-, community-, heritage-, investment- and other assets.
- (2) At least the following details must appear on the fixed assets register:-
- description of asset;
 - classification of assets;
 - employee entrusted with asset;
 - date of acquisition;
 - location of the asset;
 - asset identification number;(e.g bar code)
 - purchase price or original cost;
 - funding source;
 - revaluation date and revaluation value;
 - disposals;
 - selling price; and
 - depreciation.

- (3) The municipal manager must annually issue a certificate indicating that all assets have been accounted for and checked against the asset register.
- (4) All assets must be depreciated over their useful life as prescribed in annexure "A" as appendix to Gamap statement 113.
- (5) If the depreciation costs as contemplated in section 8(4) are less than the capital costs (interest and redemption) of assets linked to external loans provision must be made in the operating budget for the difference between depreciation and capital costs.
- (6) The total annual depreciation as obtained from the asset register must be included as a cost in the municipal operating budget.
- (7) When fixed assets are sold, disposed of, transferred or purchased on approval by the council:-
 - the fixed asset register must be updated; and
 - the journal entries to record the sales, disposal, transfer or purchase must be processed.

ACCOUNTING FOR INVENTORY

- (1) Inventories should be recognized at lower of cost or net realizable value.
- (2) FIFO should be used when accounting for inventories and this will help in reducing obsolescence in stocks.
- (3) Stock taking should be conducted at the close of financial year and should be costed using the FIFO method.
- (4) Stocks should be classified as current assets as their useful life do not exceed a period of 12 months.

TRANSFER OF ASSETS

9. (1) With respect to transfer of assets, a list must be produced indicating the relevant details as per asset register.

- (2) The list must be approved by the transferring head of the department.
- (3) The receiving department or administrative unit should confirm the list of assets being transferred.

INSURANCE

- 10.(1) The municipal manager must annually, after considering the risks involved, report to a committee of council, which assets must be insured.
- (2) The risk assessment must be based on a loss probability analysis. Professional assistance must be obtained if required.
- (3) Assets must be insured internally or externally and coverage must be based on the loss probability analysis.
- (4) All insurance claims must be assessed by an official, charged with the responsibility, to determine whether the damage to the assets can be recovered from possible third parties involved.
- (5) All insurance claims must be recorded in an insurance register.
- (6) All outstanding insurance claims must be reported monthly to mayoral committee and council.

WRITING OFF OF ASSETS

- 11.(1) The municipal council can write off an asset after considering a report from the municipal manager in which it is indicated that:-
 - the useful life of the assets has expired;
 - the asset has been destroyed;
 - the asset is outdated;
 - the asset has been sold;

- acceptable reasons have been furnished leading to the circumstances set out above.
- (2) When an asset was damaged or destroyed in circumstances not within the control of the municipality, the municipal manager must ascertain whether third parties or a municipal employee was involved and whether the municipality has any right of recourse against such third party or employee.
- (3) An asset is written off against the accumulated surplus account of the municipality and at the value reflected in the asset register of the municipality less any proceeds received.
- (4) All assets earmarked for writing off must be sold in terms of paragraph 12.

SELLING OF ASSETS

12.(1) All assets earmarked for writing off must be sold by public auction or tender after the following steps have been followed:-

- a notice of the intention of the municipality to sell the asset has been published in a local newspaper;
- the municipal manager, in instances where he/she may deem fit, has determined a minimum selling price at which a particular item should be sold.;
- in the case of a public auction, the municipality has appointed an independent auctioneer to conduct the auction; and
- in the case of a tender, the prescribed tender procedures of the municipality has been followed.

PROCEDURES

General requirements

13.(1) All assets will be recorded in an asset register by an assets control section situated in the department of the chief financial officer.

- (2) All items with a purchase value exceeding R100-00 must be reported to the asset control section to ensure that it is recorded in the asset register.
- (3) The asset control section must be notified **within 7 days** of any of the following possible movements which affect the status of assets entrusted to a department:-
 - new purchases;
 - donations received;
 - additions/improvements;
 - departmentally manufactured items;
 - auctions;
 - loss or damage;
 - transfers;
 - resignations.
- (4) All items to be purchased with a value exceeding R100,00 will be recorded in the asset register.
- (5) Assets with a value greater than R100,00 but smaller than R10 000,00 will be recorded in the inventory section while assets with a value exceeding R10 000,00 will be recorded in the fixed asset section of the asset register.
- (6) For every new acquisition each department must forward a completed asset acquisition form (Annexure "B") to the asset control section.
- (7) When a donation is received or an item is manufactured departmentally the item will be recorded in the asset register at market value or a value determined by the head financial services.
- (8) An asset acquisition form (Annexure "B") must be completed by the responsible department for each item created in terms of section 13(7) and submit to the asset control section.

(9) The disposal of goods or material by council will take place in terms of the conditions prescribed in section 11 of this policy subject to the following additional procedures:-

- any items declared obsolete or to be written-off will be handed in at the municipal stores for safekeeping;
- no items will be received by the stores or authorization be given for replacement, without a completed asset form (Annexure “A”) describing the status of the item and the reason for writing-off the item;
- the official in charge of the stores section must forward the asset form to the asset control section;
- the chief financial officer or his/her nominee will circulate a list of unused items to enable departments to identify and obtain items which could be utilized by them;
- the chief financial officer will in conjunction with internal audit compile a list of the items to be auctioned and present it to departmental heads for approval;.
- the execution of the above-mentioned requirements will be subject to the following criteria:-
 - *vehicles and plant* – the fleet manager must authorise the writing-off of vehicles and plant.
 - *computers* – the head information technology services must authorize the writing-off of computer equipment.
 - *other items* – all other items which cannot be utilized and are to be written-off, must be authorized by the relevant departmental head.
 - *unused items* – items which are still usable but not required by a department, must be transferred to and handed in at the stores section for safekeeping.
 - items taken in terms of section 13(9) will still be reflected in the asset register and will only be written-off after an approval has been obtained from the head of the department.

- (10) All inventory or asset items lost or damaged must be reported to the asset control section.
- (11) The replacement of an item lost or damaged must be treated as a new purchase on receipt of a completed asset acquisition form.
- (12) At the resignation of an employee the head of the department or his duly delegated representative must certify that all assets entrusted to the employee are in good order and handed in where required.
- (13) The certificate produced in terms of section 13(12) must be forwarded to the human resource department which in turn will issue a pay clearance certificate.

SHORT TITLE

- 14.** This policy shall be called the Asset Management Policy of the Ingquza Hill Local Municipality.

MUNICIPALITY ANNEXURE "A"

ASSET MOVEMENT / WRITE OFF FORM

GENERAL INFORMATION

Type of asset movement to be recorded (indicate with X)

Asset Transfer: Interdepartmental		Asset Obsolete / Damaged / Written-Off	
Asset Transfer: Unused Item to Stores		Asset to be Written-Off due to Loss (Burglary / Theft)	

Basic Asset Data

1	Current Asset Number		Room No From		Room No To		Asset Description
2	Current Asset Number		Room No From		Room No To		
3	Current Asset Number		Room No From		Room No To		
4	Current Asset Number		Room No From		Room No To		
5	Current Asset Number		Room No From		Room No To		
6	Current Asset Number		Room No From		Room No To		
7	Current Asset Number		Room No From		Room No To		
8	Current Asset Number		Room No From		Room No To		
9	Current Asset Number		Room No From		Room No To		
10	Current Asset Number		Room No From		Room No To		
11	Current Asset Number		Room No From		Room No To		
12	Current Asset Number		Room No From		Room No To		
13	Current Asset Number		Room No From		Room No To		
14	Current Asset Number		Room No From		Room No To		
15	Current Asset Number		Room No From		Room No To		

AUTHORISATION OF TRANSACTION – LINE MANAGER

Name	Signature	Title	Date	Date
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INFORMATION PER TRANSACTION TYPE

Transfers

Condition of Asset when Received	Receipt Confirmed by	Signed	Date	Date
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Obsolete /Written-Off / Loss or Damage

All items which are authorised obsolete or to be written-off must be handed in at stores	
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THE STORES DEPARTMENT – ITEMS HANDED IN

Condition of Asset when Received	Receipt Confirmed by	Signed	Date	Date
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OFFICE USE ONLY - FINANCE

Date Received	Date processed	
Received By	Processed By	
Remarks		

MUNICIPALITY

ANNEXURE "B"

NEW ASSET FORM

GENERAL INFORMATION

Type of asset movement to be recorded (indicate with X)

New Asset: Purchase		New Asset: Donation	
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INFORMATION PER TRANSACTION TYPE

Purchase / Donations			
Vote Number Used	Date of Purchase		Unit Price
Location of Asset	Description of Asset		
Vote Number Used	Date of Purchase		Unit Price
Location of Asset			
Vote Number Used	Date of Purchase		Unit Price
Location of Asset			
Vote Number Used	Date of Purchase		Unit Price
Location of Asset			
Vote Number Used	Date of Purchase		Unit Price
Location of Asset			
Vote Number Used	Date of Purchase		Unit Price
Location of Asset			
Vote Number Used	Date of Purchase		Unit Price
Location of Asset			

AUTHORISATION OF TRANSACTION – LINE MANAGER

Name	Signature	Title	Date	Date
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OFFICE USE ONLY - FINANCE

Date Received	Date processed
Received By	Processed By
Remarks	