DIHLABENG
LOCAL MUNICIPALITY

ASSET MANAGEMENT AND MAINTANANCE POLICY

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1. INTRODUCTION

The purpose of the Asset Management Policy is to ensure that assets ownedby Dihlabeng Local Municipality are managed, controlled, safeguardedandused in an efficient and effective manner.

2. OBJECTIVE OF THE ASSET MANAGEMENT POLICY

The objectives of the Asset Management Policy are:

- to ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the municipality.
- to set out the accounting treatment for assets acquired and used by the municipality.
- to prescribe the administrative guidelines and internal control procedures to be followed by persons in control of the Dihlabeng Local Municipality assets with regard tomanagement of those assets.

3. DEFINITIONS

3.1 Asset

An asset shall mean any resource controlled by the Dihlabeng Local Municipality, from which the Dihlabeng Local Municipality expects to derive economic benefits or use for service delivery to the general public over a period extending beyond one financial year.

3.2 Carrying amount

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

3.3 Depreciable amount

The depreciable amount of an asset is the cost of the asset less the residual value of the asset.

3.4 Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life to the income statement.

3.5 Finance Lease

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.

The following are indicators of a finance lease:

- Legal ownership of the asset transfers to the lessee either during or at the end of the lease term, or
- The lease has a purchase option available to the lessee, or
- The lease term is for the major part of the economic life of the leased asset, or
- The present value of the minimum lease payments equals substantially all of the fair value of the leased asset, or
- The leased asset is so specialised that only the lessee can use it without major modification.

The Chief Financial Officer must ensure that finance leases are accounted for in terms of GRAP.

3.6 Operating Lease

An operating lease is a lease other than a finance lease.

3.7 Residual value

The residual value of an asset is the estimated amount that the local authority would currently obtain from the disposal of the asset, after deducting the cost of disposal of the asset, if the asset were already of the age and in the condition expected at the end of its useful life.

3.8 Municipal Manager

A municipal manager means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act, 1998 (Act No. 117 of 1998).

4. ROLE OF THE MUNICIPAL MANAGER

The municipal manager, being the accounting officer of the Dihlabeng Local Municipality, isresponsiblefor the following in terms of s. 63 of the Municipal FinanceManagement Act (Act56 0f 2003):

- The assets of the municipality, including the safeguarding and the maintenance of those assets.
- Ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality.
- Ensure that the municipality's assets are valued in accordance with the standards of generally recognised accounting practice.

- Ensure that the municipality maintains a system of internal control of assets, including an asset register.

Therefore the municipal manager shall be the principal custodian of all the local authority's assets. In terms of s. 79(4), even though the municipal manager has delegated his duties, it does not divest the municipal manager from theresponsibility of the delegated duty. The municipal manager will still beresponsible for monitoring the activities of the person delegated to, to ensurethatthey are performing the responsibilities and duties delegated to them.

5. ROLE OF THE CHIEF FINANCIAL OFFICER

The municipal manager has duly delegated the following duties to the Chief Financial Officer in terms of s. 79(1)(b)(ii):

- Ensure that all acquisitions of assets are in accordance with the Supply Chain Management Policy.
- Ensure that council assets are accounted for in accordance with generally recognised accounting practice (GRAP).
- Ensure that the general ledger is reconciled to the fixed asset register.
- Review the reconciliation between the general ledger and the fixed asset register.
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.

6. ROLE OF THE FINANCE ADMINISTRATION BUSINESS UNIT

6.1 The Asset ManagementDivision shall be the asset registrar of the Dihlabeng Local Municipalityand shall ensure thata complete, accurate and up to date asset register ismaintained. Noamendments to the asset register shall be made otherthan thoseauthorised by theManager Assets and the Chief FinancialOfficer.

6.2 The Asset ManagementDivision shall be responsible for implementing and maintaining acentralised asset register that will include the information asprescribed in section 12 of this document.

6.3 Ensuring that physical asset verification is performed annually by all Business Units to verify the assets on the asset register. The results of this verification must be reported to the Municipal Manager and DihlabengLocal MunicipalityCouncil.

The asset verification report shall –

- Include a complete list of all assets identified during the verification process.
- Identify whether appropriate records have been maintained reflecting the items that should have been found during verification.
- Identify any discrepancies between the items found during the verification process and the business unit listing and asset register.
- Be submitted to the Business Units for comment on variances identified.

6.4 Performing reconciliation between the asset register and the general ledger on a monthly basis. The reconciliation of the asset register shall be performed per asset classification and reconcile the following:

- Cost
- Accumulated Depreciation
- Depreciation
- Carrying amount and shall reflect the following:
- Opening balance
- Movement for the year
- Closing balance

6.5 Ensuring adequate bar codes and equipment to exercise the function relating to asset control is available at all times.

6.7 Providing the Auditor-General or his personnel, on request, with the details and records relating to assets belonging to Council as recorded in the asset register.

6.8 Ensuring that all audit queries are resolved in a timely manner.

7. ROLE OF BUDGET AND FINANCIAL BUSINESS UNIT

7.1 FINANCIAL ACCOUNTING

The responsibilities of the Financial Accounting are as follows:

- Ensure that a clear description is provided with each project and the appropriate funding source is identified. Release capital funds only after receiving written authority and a clear and concise description of the item to be purchased.
- Ensure that any changes in the capital budget, with regards to funds transferred or project description changes are communicated to theAsset Management Division.
- Ensure that the calculation of depreciation is performed and details required for processing financial records to be obtained from theAsset Management Division.

7.2 ROLE OF THE BUDGET DIVISION

The responsibilities of the Budget Division are as follows:

- Ensure that invoices authorised for payment are matched to the goods received note before processing such payment.
- If any doubt exists as to whether the invoice is in accordance with the policy, query the payment with the relevant business unit and payment shall not be processed until the invoice meets the policy criteria.

7.3 ROLE OF THE SUPPLY CHAIN DIVISION

The responsibilities of the Supply Chain Division are as follows:

- Before accepting an obsolete or damaged asset from any business unit, an asset disposal form counter signed by the Asset Management Division and the business unit concerned, are presented.
- Ensure that a verifiable record of all obsolete, damaged and unused assets are received from the Asset Management Division.

8. ROLE OF THE PROCUREMENT DIVISION

The responsibilities of the Procurement Division are as follows:

- Ensure that correct procedures are followed in asset acquisitions as per the Local Municipality Dihlabeng Supply Chain Management Policy.
- The Specification Committee, Evaluation Committee and Adjudication Committee must comply with and be constituted in accordance with the Supply ChainManagement Policy.
- Compile a list of items to be auctioned or sold in accordance with the Asset Disposal Policy.
- Compile and circulate a list of unused movable assets to enable other business units to obtain items that are of use to them.

9. ROLE OF THE BUSINESS UNIT MANAGERS

The responsibilities of the Human Resources Business Unit are as follows:

- Ensure that no monies are paid out on terminations of service of an employee without receiving the relevant asset resignation form signed off by the relevant business unit manager.
- Ensure that every asset resignation form is counter signed by the Chief Financial Officer and Corporate Administration Business Unit Manager before processing the termination of service of an employee.

The responsibilities of all other Business Unit Managers are to ensure that:

- Employees in their Business Units adhere to the approved Asset Management Policies and Procedures.
- **Anemployee with delegated authority has been nominated to implement and maintain physical control over assets in the business unit.** The Asset Management Division must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the Business Unit Manager of that Unit.
- The assets are properly maintained in accordance with their respective asset maintenance policy.
- The assets of the municipality are not used for private gain.
- All movable assets as reflected on the asset register and the Business Unit Items listing are bar coded.
- Certification has been provided in writing that they have assessed and identified impairment losses on all affected assets at year end.

- A complete asset verification of all assets is done during the course of every financial year and that the results of the verification are reported to the Asset Management Division.
- All obsolete and broken assets are accompanied by the relevant asset form and attached asset disposal form and are handed in to the Asset Management Division.
- The correct cost element and description are being used before authorising any requisitions.
- Detailed projects are created and categorised and clearly identified in terms of the asset classification as set out in section 11.

10. FORMAT OF THE ASSET REGISTER

10.1 The asset register shall be maintained in the format determined by the Finance Administration Business Unit Manager, and include the information needed to perform the reconciliation referred to in section 6.4 and comply with the requirements of generally recognised accounting practice.

The asset register shall reflect at least the following information:

- Unique item identification number of the asset
- The title deed number, in the case of fixed property
- The erf number, in the case of fixed property
- Date on which the asset was acquired
- Date on which the asset was available for use
- Description of the asset
- Location of the asset
- Business unit or cost centre within which the asset shall be used
- Useful life of the asset
- Estimated residual value of the asset
- Classification of the asset
- Original cost of the asset
- Revalued amount of the asset as determined in the guidelines of this document
- Revaluation date
- The person who performed the last revaluation
- Depreciation for the year charged against the cost of the asset
- Accumulated depreciation to date for the asset
- Impairment losses recognised during the year on the asset
- Accumulated impairment losses recognised to date for the asset
- Depreciation method to be used
- Carrying value of the asset
- Date the asset is disposed of or retired from use

- Transfer, disposal and write off details
- Funding source of the asset
- Current insurance arrangements
- Whether the asset has been used to secure any debt, and if so the nature and duration of such security arrangements

10.2 Immovable assets on the asset register will not be physically numbered withbarcode labels but will have a unique asset master record number.

10.3 Incomplete construction work must be included in the asset register and stated atthe aggregate of related expenditure incurred to date. Depreciation onlycommences when the asset is available for use.

10.4 All Business Unit Managers under whose control any asset falls shall promptlyprovide the Asset Management Division, in writing with any information requiredto compile the asset register, and shall promptly advise the Asset ManagementDivision in writing of anymaterial change which may occurin respect of such information.

10.5 An asset shall remain in the asset register for as long as it physically exists. Thefact that an asset has been fully depreciated shall not in itself be a reason forremoving the asset from the asset register.

10.6 If an asset has been fully depreciated but is still being used by the local authority,itindicates that the asset's estimated useful life has been incorrectlyestimated.Therefore the local authority will have to account for achange inestimate based ontheBusiness Unit, using the asset's adjustedestimated useful life.

10.7 The asset register must be able to account for components of assets according toGRAP 17 paragraph 54 to paragraph 57. This requires the municipality toaccount separately for components of an asset that have a different estimateduseful life to the asset they form part of.

11. CLASSIFICATION OF ASSETS

In compliance with the requirements of generally recognised accounting practice,the Chief Financial Officer shall ensure that all assets are classified into thefollowing categories, and the business unit managers shall, in writing, provide theChief Financial Officer and Asset Management Division with such information orassistance as is required to compile a proper classification of assets:

11.1 Property, Plant and Equipment and Infrastructure Assets

In terms of generally recognised accounting practice property, plant and equipment is defined as tangible assets that:

- are held 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 for a period more than one financial year.

11.2 The different classifications for property, plant and equipment are as follows:

- Land
- Buildings
- Emergency equipment
- Office equipment
- Furniture and fittings
- Bins and containers
- Motor vehicles
- Aircraft
- Watercraft
- Plant and equipment

11.3 Infrastructure assets are defined as assets that usually display some or allof the following characteristics:

- They are part of a system or network,
- They are specialised in nature and do not have alternative uses,
- They are immovable, and
- They may be subject to constraints on disposal.

Examples are road networks, sewer systems, water and power supply systems and communication networks. Infrastructure assets meet the definition of property, plant and equipment and shall be accounted for as property, plant and equipment. Infrastructure assets can be considered as a single asset or more usefully as a collection of different assets. Each individual asset shall be measured at its own cost and own lifespan, which will influence the depreciation of such an asset.

The different classifications for infrastructure assets are as follows:

- Electricity
- Gas
- Sewerage
- Road
- Pedestrian malls
- Airports
- Recreational facilities
- Security measures
- Water
- Buildings

11.4 Heritage assets

In terms of this policy heritage assets are defined as any asset with a clearly definable intrinsic and remarkable heritage significance acknowledged by the South African Resources Agency in accordance with the National Heritage Resource Act, 1999 (Act No. 25 of 1999) or any other asset that has a cultural,environmental or historical significance. Examples are works of art, historicalbuildings, statues, conservation areas and nature reserves.

11.5 Investment property

In terms of generally recognised accounting practice investment property is defined as property (land or a building—or part of a building—or both) held (bythe owner or by the lessee under a finance lease) to earn rentals or for capitalappreciation or both, rather than for:

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

Some of the examples of investment properties are:

- Office parks (which have been developed by the local authority itself or jointly between the local authority and one or more other parties)
- Shopping centres (again developed along similar lines)
- Housing developments (that is, developments financed and managed by the local authority itself, with the sole purpose of selling or letting such houses for profit)

11.6 Intangible assets

An intangible asset is defined as an identifiable non-monetary asset without physical substance. This asset can be held for any purpose, but must be controlled by the local authority and expected to provide future economic benefit to the local authority or to be used for service delivery.

11.7 Inventory

Assets classified as inventory are housing rental stock or housing rental stock notheld for capital gain.

The Chief Financial Officer and the Asset Management Division shall adhere tothe classifications described above in the accounting for assets and the implementation and maintenance of the asset register. In the case of an asset notdescribed above; the classification most closely comparable to the asset inquestion should be used.

12. ACCOUNTING FOR PROPERTY, PLANT AND EQUIPMENT

12.1 Recognition Criteria

The cost of an item of property, plant and equipment shall be recognised as an asset when and only when:

- It is probable that future economic benefits will flow to the local authority or the potential service delivery associated with the asset will occur; and
- The cost of the asset to the local authority be reliably measured.

12.2 Measurement at recognition

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- 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, such as the costs of site preparation, initial delivery costs, handling costs, installation costs, and professional fees such as architects and engineers fees.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity 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.
- Where an asset is donated to Dihlabeng Local Municipality, or an asset is acquired by meansof an exchange of assets between the local authority and one or more otherparties, the asset concerned shall be recorded inthe asset register at itsfair value, as determined by the Chief Financial Officer. The asset’s fairvalue shall either be its market price or theamount the asset can be soldfor in an arm’s length transaction betweentwo knowledgeable willingparties.

12.3 Capitalisation criteria

All asset types approved by the Chief Financial Officer for capitalisation shall be treated as capital assets and recorded in the asset register.

12.4 Asset acquisitions with a value less than R10 000 other than computer equipment

All property, plant and equipment whose individual cost per unit is below R10 000 (excluding VAT) shall be the responsibility of the Business Unit and must be recorded on the Business Unit Items listing of the Business Unit and expensed in the year of acquisition.

12.5 Asset acquisitions with a value of R10 000 or more and computer equipment

All property, plant and equipment whose individual cost per unit is above R10 000 (excluding VAT) shall be recorded at cost on the date of acquisition in the asset register maintained by the Asset Management Division and depreciated on the straight line basis over its estimated useful life as per “Appendix “A” of this policy.

12.6 Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset is enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally assessed standard of performance, then it is regarded as repairs and should be expensed. The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:

Capital Expenditure Maintenance

- Acquiring a new asset
- Replacing an existing asset
- Restoring an asset

so that it can be used

The Chief Financial Officer will be responsible for implementing procedures to ensure that operating expenses are not capitalised.

12.7 Depreciation

All property, plant and equipment shall be depreciated. Depreciation shall generally take the form of an expense, both calculated and debited against the appropriate line item of the business unit or vote against which the asset is used or consumed, and should be recognised as such.
Depreciation of an item of property, plant and equipment, should be allocated on a systematic basis over its useful life. Refer to Appendix “A.”
Depreciation shall be charged from the calendar month following the month in which an asset is acquired or, in the case of construction works and plant and machinery, the month following the month in which the asset is available for use.
It should be noted that land normally has unlimited life therefore it is not depreciated, whilst buildings are.

12.8 Method of Depreciation

The Chief Financial Officer shall depreciate all depreciable assets on the straight- line method of depreciation over the assigned useful operating life of the asset in question.

- Enhancing an existing assetso that its use is expanded
- Further developing anexisting asset so that itsoriginal useful life is extendedcontinue to be usedfor its intendedpurpose
- Maintaining an assetso that it can beused for the periodfor which it wasinitially intended.

12.9 Rate of Depreciation

The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality’s asset register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives set out in Appendix “A” to this document.
In the case of an asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Business Unit Manager who shall control or use the asset in question, and shall be guided in determining such useful life either by the useful lives assigned in the annexure to the asset most closely comparable to the asset in question.

12.10 Profit or loss on disposal

Profits and losses on the sale of property, plant and equipment are calculated as follows, and are disclosed in total in the financial statements:
Proceeds Sales value, trade-in value or proceeds received from insurance if the asset was damaged or stolen.
Less:
Carrying value
Cost, or if valued, revaluation amount, less accumulated depreciation up to the date of sale or when the asset can no longer be used for its intended purpose.
Equals
PROFIT
or
If proceeds greater than carrying value, or
Equals
LOSS
If proceeds less than carrying value.

12.11 Amendment of asset useful lives

Only the Finance Administration Business Unit Manager in conjunction with the Chief Financial Officer may amend the expected useful operating life assigned to any asset, and when any material amendment occurs the Chief Financial Officer shall inform the Council of the municipality of such amendment. Any amendments to the useful operating life shall be done in accordance with GRAP 3 Accounting policies, changes in accounting estimates and errors.

12.12 Impairment

Impairment of assets is to be done in accordance with IAS 36 Impairment of Assets. It will be the responsibility of the Asset Management Division to; at each reporting dateconsider whether there is an indication of a possibility of impairment forany asset.
If there is an indication that an asset is impaired the Finance Administration Unit will be responsible to instruct the Business Unit usingthe asset to perform an impairment test that will have to be reported to theAsset Management Division forreview. If the Asset Management Division is satisfiedwith the calculation, the Unit will refer the possible impairment to the ChiefFinancial Officer for approval.

12.12.1 The following may be indicators that an item of property, plant and equipment has become impaired:

- The asset has been damaged.
- The asset has become technologically obsolete.
- The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
- Land is purchased at market value and is to be utilised for subsidised housing developments, where the subsidy is less than the purchase price.

12.12.2 To test for impairment the assets carrying amount needsto be compared to the assets recoverable amount.

12.12.3 **Recoverable amount**

The recoverable amount of an asset is the higher of its fair value less selling costs and its value in use.

12.12.4 **Fair value less selling costs**

This amount is calculated by determining the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties less the selling costs.

12.12.5 **Value in use**

This amount is obtained by calculating the present value of future cash flows expected to be derived from an asset. Cash flows are discounted using an appropriate pre-tax discount rate.

12.12.6 **Selling costs**

These costs are incremental costs directly attributable to the disposal of an asset excluding finance costs and income tax expense.

If an asset's recoverable amount is lower than the assets carrying amountthe asset will be written down to its recoverable amount. This will be recognised in the current financial statements as an impairment loss. Therecoverable amount will now become the carrying value of the asset andthe asset will continue to be depreciated over the rest of its estimateduseful life.

Revaluation of assets

All items of plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. Property shall be accounted for at revalued amount less accumulated depreciation except for investment properties which shall be dealt with asdescribed in section 14.

13. ACCOUNTING FOR HERITAGE ASSETS

If no original costs or reasonable values are available in the case of one or moreor all heritage assets, the Chief Financial Officer may, on recognition of theheritage asset, elect not to apply the measurement requirements of GRAP 17,provided the disclosure requirements of GRAP 17 are complied with.
For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.
If the cost of the heritage asset is going to be recognised, the local authority shallapplyGRAP 17. However, if a heritage asset is recognised in the asset register and itsestimated useful life is indefinite, it must be reviewed for impairment on an annualbasis.
Where an asset is donated to the Dihlabeng Local Municipality, or an asset is acquired by means ofanexchange of assets between the local authority and one or more other parties, theassetconcerned shall be recorded in the asset register at its fair value, as determinedby the Chief Financial Officer.
Heritage assets are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine theiruseful lives.

14. ACCOUNTING FOR INVESTMENT PROPERTY

Investment property shall be accounted for in terms of GRAP 16 and shall not beclassified as property, plant and equipment for balance sheet purposes.
Investment property shall comprise land or buildings (or parts of buildings) or both held by the local authority, as owner or as lessee under a finance lease, to earnrental revenues or for capital appreciation or both.
Investment property shall be recorded in the asset register in the same manneras other assets, but a separate section of the asset register shall be maintainedfor this purpose.

14.1 Recognition criteria

The cost of an item of investment property shall be recognised as an asset when and only when:

- It is possible that future economic benefits will flow
to the Dihlabeng Local Municipality or the potential service delivery associated with the asset will occur; and
- The cost of the asset to the Dihlabeng Local Municipality can be reliably measured.

14.2 Measurement at recognition

Investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.
Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition to be determined by the Chief Financial Officer.
The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Examples of directly attributable expenditure are:

- Professional fees
- Legal services
- Property transfer taxes
- Other transaction costs

The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies GRAP 17 on Property, Plant and Equipment and it will be accounted for as an ordinary asset. At that date, the property becomes investment property and GRAP 16 Investment Properties applies i.e. the asset is transferred from property, plant and equipment to investment property.
The initial cost of an investment property held under a finance lease shall be recognised at the lower of the fair value of the property and the present value of the future minimum lease payments.

14.3 Subsequent to initial recognition

After initial recognition, investment properties shall not be depreciated, but shall be valued at each balance sheet date to determine the fair value.
A gain or loss arising from a change in the fair value of investment property shall be included as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.
An expert value with the appropriate qualifications, experience and knowledge of local markets shall be engaged by the Dihlabeng Local Municipality to undertakesuch valuations.

15. ACCOUNTING FOR INTANGIBLE ASSETS

No intangible item shall be recognised in the asset register, except that the ChiefFinancial Officer and the Finance Administration Business Unit Manager, actingin strict compliance with the criteria set out in IAS 38 dealing with research anddevelopment expenses, may recommend to the Council that specificdevelopment costs be recognised as an asset. Any other matters are notincluded in the scope of this document.

16. DISCLOSURE REQUIREMENTS

According to GRAP 17 the following information relating to depreciation shouldbe disclosed in the financial statements:

16.1 Accounting policy notes

The depreciation methods used, the measurement base and the depreciation rates or useful lives.

16.2 Notes to the balance sheet

The gross carrying amount and the accumulated depreciation at the beginning and end of the period in respect of each class of property, plant and equipment.

16.3 Notes to the income statement

The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.

16.4 Annexure B and C to the financial statements

These Annexure disclose a more detailed analysis of the various classes of assets (Annexure B) as well as a detailed analysis on the allocation of assets to the various business units and functions (Annexure C). These Annexure must show a reconciliation of the carrying amount at the beginning and end of the period showing:

- Additions
- Disposals
- Acquisitions through business combinations
- Increases or decreases resulting from revaluations
- Reductions in carrying amount (impairment losses)
- Depreciation
- Other movements

16.5 Disclosure requirements for impairment losses

The local authority shall disclose the amount of impairment losses recognised inprofit or loss during the period and the line item(s) of the income statement in which those impairment losses are included.

17. SAFEKEEPING OF ASSETS

Every business unit shall be directly responsible for the physical safekeeping ofany asset controlled or used by the business in question.
In exercising this responsibility, every Business Unit Manager shall adhere to anywritten directives issued by the Asset Management UnitManager in questionpertaining to the control of orsafekeeping of themunicipality's assets.

18. IDENTIFICATION OF ASSETS

The Asset Manager Unit Manager shall ensure that theDihlabeng Local Municipalitymaintains an asset identification system whichshall be operated inconjunctionwith its computerised asset register.
The identification system shall be determined by the Asset Management Division,Chief Financial Officer and other Business Unit Managers and shall comply withany legal prescriptions, as well as any requirements of the Auditor-General, andshall be decided upon within the context of the local authority budget and humanresource.
Every Business Unit Manager shall ensure that the asset identification system approved for the Dihlabeng Local Municipality is scrupulously applied in respect of all assetscontrolledor used by the Business Unit in question.

19. MAINTENANCE

19.1 Maintenance Plans

Every Business Unit Manager shall ensure that a maintenance plan for all assets is promptly prepared and available for inspection by the internal auditors at all times. The Business Unit can develop one maintenance plan for all the assets under the control of the Business Unit.

19.2 Deferred maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.

20. BUDGET REQUIREMENTS FOR DEPRECIATION

Each business unit in consultation with the Chief Financial Officer shall ensure that reasonable budgetary provision is made annually for the depreciation of allapplicable assets controlled or used by its business unit or expected to be socontrolled or used during the ensuing financial year.
The procedures to be followed in accounting and budgeting for the amortisationof intangible assets shall be identical to those applying to the depreciation ofother assets.

21. CREATION OF A NON-DISTRIBUTABLE RESERVE FOR FUTURE DEPRECIATION

The Chief Financial Officer shall ensure that in respect of all assets financed fromthe local authority asset financing reserve, or from grants or subsidies or contributionsreceived from other spheres of government or from the public at large, as well asin respect of assets donated to the Dihlabeng Local Municipality, a non-distributablereserve for futuredepreciation is created equal in value to the capitalisedvalue of each asset inquestion.
The Chief Financial Officer shall thereafter ensure that in the case of depreciableassets an amount equal to the monthly depreciation expenses of the assetconcerned is transferred each month from such non-distributable reserve to themunicipality's appropriation account. Where there is a difference between thebudgeted monthly depreciation expenses and the actual total depreciationexpenses for each financial year, the Chief Financial Officer shall appropriatelyadjust the aggregate transfer from the non-distributable reserve for the yearconcerned.

22. CARRYING VALUE OF ASSETS

All assets shall be carried in the asset register, and appropriately recorded in theannual financial statements; at their original cost or fair market value less anyaccumulated depreciation and any impairment losses thereon as per the requirements of generally recognised accounting practice.
The only exception to this rule shall be those heritage assets in respect of whichno value is recorded in the asset register.

23. VERIFICATION OF ASSETS

Every Business Unit shall at least once during every financial year undertake acomprehensive verification of all assets controlled or used by the business unitconcerned. These assets to be verified include the assets listed on the assetregister that are located in the Business Unit and the assets included on theBusiness Unit Items listing.
Every business unit shall promptly and fully report in writing to the Asset Management Division all relevant results of such asset verification, provided thateach asset verification shall be undertaken and completed as closely as

possibleto the end of each financial year, and that the resultant report compiled by theAsset Management Division, incorporating the results of all Business Units by 30June of each financial year and be made available to the Auditor-General orhis/her personnel.

24. FUNDING SOURCES OF ASSETS

Five main sources of finance are utilised to acquire Property Plant and Equipment for the metro, namely:

- The Asset Financing Fund (AFF).
- The External Financing Fund (EFF).
- Grants, Subsidies and Public Contributions.
- Revenue Contributions.
- Donations by other countries.

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of s19 of the Municipal Finance Management Act.

24.1 The Asset Financing Fund (AFF)

Council must approve the use of the Asset Financing Fund during the budget cycle to ensure the availability of funds in line with the requirements of the capital program for that financial year.

The following pertains to the utilisation of AFF:

- A transfer from the net surplus for a specific accounting period.
- The funds transferred may be invested as prescribed by legislation.
- Funds transferred must be cash backed.
- AFF fund may not be used to maintain property, plant and equipment.
- If a profit is made on sale of assets previously funded from the AFF, the profit is reflected in the income statement and thereafter transferred via the appropriation section of the income statement to the AFF if backed by cash.
- Interest earned on the AFF investment is reflected as interest earned in the income statement and thereafter transferred via the appropriations section of the income statement to AFF.

When an amount is advanced to a borrowing service to finance the acquisition of an asset, the money must be transferred to a reserve created for the purpose of acquiring a specific asset and the accumulated funds in the AFF must be reduced by the amount of the advance.
The balance of the accumulated funds in the AFF will therefore represent the amount that is available to finance assets in future periods. This balance must be cash backed at all times.
The balance in the reserve created to acquire a specific asset is

transferred to the income statement over the estimated life of assets financed by the AFF to offset the depreciation charge included in the income statement relating to assets.

24.2 The External Financing Fund (EFF)

When loans are obtained from external sources, they must be paid into the EFF. The corresponding cash should be invested until utilised for the purpose of acquiring assets. When the external loan is utilised to finance assets in a service entity it should be recorded in an "advances" account in the EFF.

Where a loan has a fixed period the instalments should be calculated to determine the cash that should be set-aside in the EFF. This is done so that there will be sufficient money to repay the loan when it matures as well as any interest charges as they occur.

When the loan is an annuity loan, the cash required to be paid into the EFF should be based on the actual loan repayments. Once the money has been received by the EFF, the cash would be used to repay the loan.

When the EFF is consolidated with the various services, the "advances made" account in the EFF will contra with the "advances received" account in the various service entities.

24.3 Grants, Subsidies and Public Contributions (Capital Receipts)

Unutilised conditional grants are reflected on the Balance Sheet as a Creditor called Creditor (Unutilised Conditional Grants). They represent unspent government grants, subsidies and contributions from the public. This creditor always has to be backed by cash. The following provisions are set for the creation and utilisation of this creditor:

- The cash which backs up the creditor is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the city's interest it is recognised as interest earned in the income statement.
- Whenever an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the Unutilised Capital Receipts into the income statement as revenue. Thereafter an equal amount is transferred on the statement of changes in equity to a reserve called a Future Depreciation Reserve (FDR). This reserve is equal to the remaining depreciable value (book value) of assets purchased out of the Unutilised Capital Receipts. The FDR is used to offset depreciation charged on assets purchased out of the Unutilised Capital Receipts to avoid double taxation of the consumers.
- If a profit is made on the sale of assets previously purchased out of Unutilised Capital Receipts the profit on these assets

sold is reflected in the notes to the income statement and is then treated in accordance with Council policy.

24.4 Revenue Contributions

These are contributions made to finance assets from the Dihlabeng Local Municipality operatingcash flow. The asset is capitalised at cost and the payment is credited against the bank balance. Normal depreciation will apply.

25. ALIENATION OF ASSETS

All alienation of property, plant and equipment shall be done in accordance withthe following:

- Dihlabeng Local Municipality’s Asset DisposalPolicy
- Dihlabeng Local Municipality’s Immovable CapitalAsset Disposal Policy - Land
- Dihlabeng Local Municipality’s Asset Loss ControlPolicy

Refer to section 31 for requirements of the Municipal Finance Management Act.

26. OTHER WRITE-OFFS OF ASSETS

An asset even though fully depreciated shall be written off only on the recommendation of the Business Unit Manager controlling or using the asset concerned, and with the metro’s Council approval.
Every Business Unit shall report to the Asset Management Division on 31 October and 30 April of each financial year on any assets which such BusinessUnit Manager wishes to have written off, stating in full the reason for suchrecommendation. The Asset Management Division shall consolidate all suchreports and shall promptly submit a recommendation to the Council of the Local Municipalityon the assets to be written off.
The only reasons for writing off assets, other than the alienation of such assets,shall be the loss, theft, and destruction or material impairment of the asset inquestion.

27. REPLACEMENT OF ASSETS

The Municipal Manager, in consultation with the Finance Administration Business Unit Manager and other Business Unit Managers, shall formulate normsand standards for the replacement of all normal operational assets. Suchreplacement standards shall be incorporated in a formal policy, which shall besubmitted to Council for approval. This policy shall cover the replacement ofmotor vehicles, furniture and fittings, computer equipment, and any otherappropriate operational items. Such policy shall also provide for the replacementof assets which are required for service delivery but which have becomeuneconomical to maintain.

28. INSURANCE OF ASSETS

All insurance of property, plant and equipment and investment properties shall bedone in accordance with the Dihlabeng Local Municipality policy and procedures on insurance ofcouncil assets.

29. BIOLOGICAL ASSETS

Accounting for biological assets shall take place in accordance with the requirements of IAS 41.
The Chief Financial Officer, in consultation with the business unit managers concerned, shall ensure that all biological assets, such as livestock and crops, are annually valued for balance sheet purposes at their market-related prices. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to thebusiness unit's vote as an operating expense, and any increase in the valuationshall be credited to the business unit's vote as operating revenue.
If the biological asset concerned is lost, stolen or destroyed, the matter, if material shall be reported in writing by the head of the business unit manager inexactly the same manner as if the asset was an ordinary asset.
If the metro's investment in biological assets does represent a material part of itsfinancial activities, the Chief Financial Officer, in consultation with the businessunit concerned, shall ensure that expert valuations are done at such frequentintervals as the Council shall deem appropriate. Such valuations shall thenobviously account for losses, sales, acquisitions and other changes to thecomposition of the biological assets concerned.
Records of the details of biological assets shall be kept in a separate section ofthe asset register, or in a separate accounting record altogether and such detailsshall reflect the information which the Chief Financial Officer, in consultation withthe business unit concerned and the internal audit, deems necessary foraccounting and control purposes.
The Chief Financial Officer shall annually insure the Local Municipality biological assets,inconsultation with the business unit manager of the business unit concerned,provided the Council of the Local Municipality considers such insurancedesirable andaffordable.

30. PARAPHASE OF SECTION 14 OF THE MUNCIPAL FINANCE MANAGEMENT ACT

"A municipality may not transfer ownership as a result of a sale or other transaction, or otherwise permanently dispose of any capital asset needed to provide a minimum level of basic municipal services.
A municipality may transfer ownership or otherwise dispose of a capital asset, other than an asset mentioned above, only after the Council, in a meeting open tothe public:

- Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and

- Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

Such a decision made by the Council may not be reversed after the asset hasbeen sold, transferred or otherwise disposed of."

31. UPDATING THE POLICY

It will be the responsibility of the Finance Asset Management Division to consider the provisions of this policy on an annual basis. The Asset ManagementDivision must notify all Business Units to submit suggested changes to this policyfor presentation to Council on an annual basis.

APPENDIX A

ASSET ESTIMATED USEFUL LIVES IN YEARS

	Useful Life		Useful Life
INFRASTRUCTURE ASSETS			
ELECTRICITY:		**GAS:**	
Power stations	30	Meters	20
Cooling towers	30	Mains	20
Transformer Kiosks	30	Storage tanks	20
Meters	20	Supply/reticulation	20
Load control equipment	20		
Switchgear equipment	20	**SEWERAGE**	
Supply/reticulation	20	Sewers	20
Mains	20	Outfall sewers	20
		Purification works	20
ROADS:		Sewerage pumps	15
Motorways	15	Sludge machines	15
Other roads	10		
Traffic islands	10	**PEDESTRIAN MALLS:**	
Traffic lights	20	Footways	20
Street lighting	25	Kerbing	20
Overhead bridges	30	Paving	20
Storm water drains	20		
Bridges, subways & culverts	30	**AIRPORTS:**	20
Car parks	20	Aprons	20
Bus terminals	20	Runways	20
		Taxiways	20
		Airports/Radio Beacons	20
BUILDINGS:			
RECREATIONAL FACILITIES:			
Ambulance stations	30	Bowling greens	20
Aquariums	30	Tennis courts	20

	Useful Life
Beach developments	30
Care centres	30
Cemeteries	30
Civic theatres	30
Clinics/Hospitals	30
Community centres	30
Fire stations	30
Game Reserves/Rest Camps	30
Indoor sports	30
Libraries	30
Museums/Art galleries	30
Parks	30
Publicconveniences/Bathhouses	30
Recreation centres	30
Stadiums	30
Zoos	30

	Useful Life
Swimming pools	20
Golf courses	20
Jukskei pitches	20
Outdoor sports facilities	20
Organ & Case	20
Lakes and dams	20
Fountains	20
Floodlighting	20

SECURITY MEASURES:

Fencing	20
Security systems	3
Access control	5

WATER

Meters	15
Mains	20
Rights	20
Supply/reticulation	20
Reservoirs & Tanks	20

PROPERTY, PLANT AND EQUIPMENT

BUILDINGS:

Abattoirs	30
Asphalt plant	30
Cable stations	30
Caravan parks	30
Cinemas	30
Compacting stations	30
Hostels – Public/Tourist	30
Hostels – Workers	30
Housing schemes	30
Kilns	30
Laboratories	30
Markets	30
Nurseries	30
Office buildings	30
Old age homes	30
Quarries	30
Tip sites	30
Training centres	30
Transport facilities	30
Workshops/depots	30

EMERGENCY EQUIPMENT:

Fire	15
Ambulances	5-10
Fire hoses	5
Emergency lights	5

MOTOR VEHICLES:

Fire engines	20
Buses	15
Motor vehicles	5-7
Motor cycles	3
Trucks/bakkies	5-7

AIRCRAFT: 15

WATERCRAFT: 15

PLANT ANDEQUIPMENT:

Graders	10-15
Tractors	10-15
Mechanical horses	10-15
Farm equipment	5

	Useful Life		Useful Life
OFFICE EQUIPMENT:		Lawnmowers	2
Computer hardware	5	Compressors	5
Computer software	3-5	Laboratoryequipment	5
Office machines	3-5	Radio equipment	5
Air conditioners	5-7	Firearms	5
		Telecommunication Equipment	5
FURNITURE AND FITTINGS:		General	5
Chairs	7-10	Cable cars	15
Tables/desks	7-10	Irrigation systems	15
Cabinets/cupboards	7-10	Cremators	15
Miscellaneous	7-10	Lathes	15
		Milling equipment	15
BINS AND CONTAINERS:		Conveyors	15
Household refuse bins	5	Feeders	15
Bulk containers	10	Tippers	15
Pulverising mills	15		