

**ASSET CONTROL & PROCEDURES POLICY:  
2004/2005 FINANCIAL YEAR**

**APPROVED ON 06 OCTOBER 2004 VIDE MAYCO  
RESOLUTION MC 14/10/04**

# **CITY OF CAPE TOWN**

## **ASSET MANAGEMENT POLICY & PROCEDURES**

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## **Glossary**

### **Abbreviations used in Asset Management Policy and Procedures**

FAR	Fixed Asset Register
HR	Human Resources
MFMA	Municipal Finance Management Act
GRAP	General Recognized Accounting Practices
GAMAP	General Accepted Municipal Accounting Practices
DIR	Directorate Asset Inventory Records
SAP	Systems Application Product
CAR	Corporate Asset Register
PPE	Property Plant and Equipment
VAT	Value Added Tax
CIR	Corporate Asset Inventory Register
AFR	Asset Financing Reserve
WBS	Work Breakdown Structure
EFF	External Financing Fund
FDR	Future Depreciation Reserve
AUC	Asset Under Construction

### **Main GAMAP Asset Classes**

Infrastructure assets  
Roads  
Buildings  
Land  
Pedestrian Malls  
Airports  
Recreational Facilities  
Security Measures  
Asset under construction (Only an asset after completion)  
Town Development  
Investment Properties  
Office Equipment  
Furniture and Fittings  
Bins and Containers  
Emergency Equipment  
Motor Vehicles  
Aircraft  
Watercraft  
Plant and Equipment  
Vehicles  
Furniture  
Plant  
Small Plant

### Main Asset Classes Breakdown List

11100	INFRA ELECTRICITY:POWER STATIONS	30
11200	INFRA ELECTRICITY:COOLING TOWERS	30
11300	INFRA ELECTRICITY:TRANSFORMER KIOSKS	30
11400	INFRA ELECTRICITY:METERS	20
11500	INFRA ELECTRICITY:LOAD CONTROL EQUIP	20
11600	INFRA ELECTRICITY:SWITCHGEAR EQUIP	20
11700	INFRA ELECTRICITY:RETICULATION	20
11800	INFRA ELECTRICITY:MAINS	20
11900	INFRA ELECTRICITY:INFRASTRUCTURE	20
12100	INFRA ROADS:MOTORWAYS	15
12200	INFRA ROADS:OTHER ROADS	10
12300	INFRA ROADS:TRAFFIC ISLANDS	10
12400	INFRA ROADS:TRAFFIC LIGHTS	10
12500	INFRA ROADS:STREET LIGHTING	25
12600	INFRA ROADS:OVERHEAD BRIDGES	30
12700	INFRA ROADS:STORMWATER DRAINS	20
12800	INFRA ROADS:BRIDGES, SUBWAYS	30
12900	INFRA ROADS:CAR PARKS	20
12910	INFRA ROADS:BUS TERMINALS	20
13100	INFRA : SEWER:SEWERS	20
13200	INFRA : SEWER:OUTFALL SEWERS	20
13300	INFRA : SEWER:PURIFICATION WORKS	20
13400	INFRA : SEWER:SEWER PUMPS	15
13500	INFRA : SEWER:SLUDGE MACHINES	15
14100	INFRA : PEDESTRIANS:FOOTWAYS	20
14200	INFRA : PEDESTRIANS:KERBINGS	20
14300	INFRA : PEDESTRIANS:PAVING	20
15100	INFRA : SECURITY:FENCING	3
15200	INFRA : SECURITY:SECURITY SYSTEMS	5
15300	INFRA : SECURITY:ACCESS CONTROL	5
16100	INFRA : WATER:METERS	15
16200	INFRA : WATER:MAINS	20
16300	INFRA : WATER:RIGHTS	20
16400	INFRA : WATER:RETICULATION	20
16500	INFRA : WATER:RESERVOIRS/TANKS	20
16600	INFRA : WATER:PUMP STATIONS	20
16700	INFRA : WATER:NETWORKS	20
17100	INFRA : AIRPORT:APRONS	20
17200	INFRA : AIRPORT:RUNWAYS	20
17300	INFRA : AIRPORT:TAXIWAYS	20
17400	INFRA : AIRPORT: RADIO BEACONS	20
21100	COMM L/B:AMBULANCE STATIONS	30

21110	COMM L/B:NATURE RESERVES	30
21120	COMM L/B:INDOOR SPORTS	30
21130	COMM L/B:LIBRARIES	30
21140	COMM L/B:MUSEUMS/ART GALLERIES	30
21150	COMM L/B:PARKS	30
21160	COMM L/B:PUBLIC CONVENIENCES	30
21170	COMM L/B:RECREATION CENTRES	30
21180	COMM L/B:STADIUMS	30
21190	COMM L/B:ZOOS	30
21200	COMM L/B:AQUARIUMS	30
21300	COMM L/B:BEACH DEVELOPMENTS	30
21400	COMM L/B:CARE CENTRES	30
21500	COMM L/B:CEMETERIES	30
21600	COMM L/B:CIVIC THEATRES	30
21700	COMM L/B:CLINIC/HOSPITAL	30
21800	COMM L/B:COMMUNITY CENTRE	30
21810	COMM L/B:HALLS	30
21900	COMM L/B:FIRE STATIONS	30
21950	COMM L/B:IMMOVABLES UNKNOWN	20
22100	COMM REC FAC:BOWLING GREENS	20
22200	COMM REC FAC:TENNIS COURTS	20
22300	COMM REC FAC:SWIMMING POOLS	20
22400	COMM REC FAC:GOLF COURCES	20
22500	COMM REC FAC:JUJSKEI PITCHES	20
22600	COMM REC FAC:OUTDOOR FACILITIES	20
22700	COMM REC FAC:LAKES AND DAMS	20
22800	COMM REC FAC:FOUNTAINS	20
22900	COMM REC FAC:FLOOD LIGHTING	30
31100	OTHER ASSETS:L/B:ABATTOIRS	30
31110	OTHER ASSETS:L/B:LABORATORIES	30
31120	OTHER ASSETS:L/B:MARKETS	30
31130	OTHER ASSETS:L/B:NURSERIES	30
31140	OTHER ASSETS:L/B:OFFICES	30
31150	OTHER ASSETS:L/B:OLD AGE HOMES	30
31160	OTHER ASSETS:L/B:QUARRIES	30
31170	OTHER ASSETS:L/B:TIP SITES	30
31180	OTHER ASSETS:L/B:TRAINING CENTRES	30
31190	OTHER ASSETS:L/B:TRANSPORT FACILITIES	30
31200	OTHER ASSETS:L/B:ASPHALT PLANT	30
31210	OTHER ASSETS:L/B:WORKSHOPS/DEPOTS	30
31300	OTHER ASSETS:L/B:CABLE STATIONS	30
31400	OTHER ASSETS:L/B:CARAVAN PARKS	30
31500	OTHER ASSETS:L/B:CINEMAS	30
31600	OTHER ASSETS:L/B:COMPACTING STATIONS	30

31700	OTHER ASSETS:L/B:HOSTELS	30
31800	OTHER ASSETS:L/B:HOUSING SCHEMES	30
31850	OT AS:L/B:HOUSING STOCK	20
31900	OTHER ASSETS:L/B:KILNS	30
32100	OTHER ASSETS:OFF EQUIP:MACHINES	5
32200	OTHER ASSETS:OFF EQUIP:COMPUTER	5
32300	OTHER ASSETS:OFF EQUIP:EQUIPMENT	5
32400	OTHER ASSETS:OFF EQUIP:FURNITURE	7
33000	OTHER ASSETS:FURNITURE	7
33100	OTHER ASSETS:KITCHEN EQUIPMENT	7
33200	OTHER ASSETS:COMMS EQUIPMENT	7
33400	OTHER ASSETS:GYMNASIUM EQUIPMENT	7
33500	OTHER ASSETS:FIRE ARMS	5
33600	OTHER ASSETS:LABORATORY EQUIPMENT	5
33800	OTHER ASSETS:METER WATER COUPONS	5
34100	OTHER ASSETS:BINS AND CONTAINERS:INDU	5
34200	OTHER ASSETS:BINS AND CONTAINERS:INDU	5
35000	OTHER ASSETS:EMERGENCY EQUIPMENT	5
36000	EQUIPMENT < R500.00	5
37000	OTHER ASSETS:VEHICLES : ACCESSORIES	6
37001	OTHER ASSETS:VEHICLES : RESQUE	7
37002	OTHER ASSETS:VEHICLES : MINI BUSSES	5
37003	OTHER ASSETS:VEHICLES : BUSES	5
37004	OTHER ASSETS:VEHICLES : ARMoured	10
37100	OTHER ASSETS:VEHICLES:SEDANS	5
37200	OTHER ASSETS:VEHICLES:LDV	5
37300	OTHER ASSETS:VEHICLES:TRUCKS	7
37400	OTHER ASSETS:VEHICLES:CONSTRUCTION	15
37500	OTHER ASSETS:VEHICLES:AGRICULTURE	15
37600	OTHER ASSETS:VEHICLES:BOATS	7
37700	OTHER ASSETS:VEHICLES:MOTOR CYCLES	3
37800	OTHER ASSETS:VEHICLES:TRAILERS VARIOUS	3
38000	OTHER ASSETS:PLANT AND EQUIPMENT	5
39000	OTHER ASSETS:MEDICAL EQUIPMENT	5
40000	OTHER ASSETS:LAND & BUILDINGS : GENERAL IMPROVEMENTS	20
41000	OTHER ASSETS:LAND & BUILDINGS : MISCELLANIOUS	20
41100	INVES PROP:OFFICE BUILDINGS	20
41200	INVES PROP:PARKS	0
41300	INVES PROP:UNDEVELOPED LAND	0
42000	OTHER ASSETS:LAND & BUILDINGS : GENERAL	20
42001	OTHER ASSETS:PUBLIC WORKS	20
42002	OTHER ASSETS:PUBLIC WORKS	20
42003	OTHER ASSETS:PUBLIC WORKS	20
42004	OTHER ASSETS:PUBLIC WORKS	20

42005	OTHER ASSETS:PUBLIC WORKS	20
42006	OTHER ASSETS:PUBLIC WORKS	20
42007	OTHER ASSETS:PUBLIC WORKS	20
42008	OTHER ASSETS:PUBLIC WORKS	20
42009	OTHER ASSETS:PUBLIC WORKS	0
51110	HERITAGE ASSETS:VEHICLES	0
51120	HERITAGE ASSETS:SILVERWARE, GLASSWARE,	0
51130	HERITAGE ASSETS:JEWELLERY	0
51140	HERITAGE ASSETS:MISCELLANEOUS	0
51150	HERITAGE ASSETS:TREES, GARDENS	0
51160	HERITAGE ASSETS:HISTORICAL COLLECTIONS	0
51200	HERITAGE ASSETS:PHOTOGRAPHS	0
51300	HERITAGE ASSETS:PAINTINGS	0
51400	HERITAGE ASSETS:SCULPTURES	0
51500	HERITAGE ASSETS:TAPESTRIES	0
51600	HERITAGE ASSETS:REGALIA, ROBES, MACE	0
51700	HERITAGE ASSETS:ILLUMINATED ADDRESSES	0
51800	HERITAGE ASSETS:DOCUMENTS, BOOKS	0
51900	HERITAGE ASSETS:MEDALS, PLAQUES, COINS	0
61000	ASSETS UNDER CONSTRUCTION : INFRASTRUCTURE	0
62000	ASSETS UNDER CONSTRUCTION : COMMUNITY	0
63000	ASSETS UNDER CONSTRUCTION : OTHER	0
64000	ASSETS UNDER CONSTRUCTION : INVESTMENT PROPERTY	0
65000	ASSETS UNDER CONSTRUCTION : HERITAGE ASSETS	0
66000	ASSETS UNDER CONSTRUCTION : HOUSING STOCK	0

## **1. OBJECTIVE OF THE ASSET MANAGEMENT POLICY AND PROCEDURES**

The objective of the asset management policy is to prescribe the accounting and administrative policies and procedures relating to Property, Plant & Equipment (Fixed assets) of the City of Cape Town. The policies and procedures will be covered under the following headings in this document:

1. Functional responsibilities
2. GAMAP accounting policies
3. The Fixed Asset Register (FAR)
4. Funding Sources
5. Administrative requirements

## **2. FUNCTIONAL RESPONSIBILITIES**

The purpose of this section is to prescribe the responsibilities of the City regarding assets as follows:

- 2.1. The City Manager
- 2.2. The Finance Directorate: Asset Control.
- 2.3. The Budget Directorate
- 2.4. The Expenditure Directorate
- 2.5. The Procurement Directorate
- 2.6. Human Resources Directorate (HR)
- 2.7. Other Directorates

### **2.1 The City Manager**

The City Manager or his duly delegated representative is responsible to:

- a) Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA).
- b) Verify assets in possession of the Council annually, during the course of the financial year.
- c) Keep a complete and balanced record of all assets in possession of the Council.
- d) Report in writing all asset losses, where applicable, to Council.
- e) Ensure that assets are valued and accounted for in accordance with GRAP.

## **2.2 The Finance Directorate: Asset Control**

The Finance Directorate: Asset Control:

- a) Shall ensure that complete records of asset items are kept, verified and balanced regularly,
- b) Shall ensure that all directorates are doing annual asset verification. The results of this verification must be reported to the City Manager or Council.
- c) The asset verification report shall –
  - i. Reflect a complete list of all assets found during the verification;
  - ii. Reflect whether appropriate records have been maintained reflecting what articles should have been found during verification
  - iii. Reflect any discrepancies between the articles found during verification and the record referred to in paragraph (b);
  - iv. Be submitted to the directorates for comment on variances reflected
- d) Shall ensure that the Corporate Asset Register is balanced annually with the general ledger and the financial statements.
- e) Shall ensure adequate bar codes and equipment to exercise the function relating to asset control are available at all times.
- f) Shall issue bar codes to the directorates that must keep them in a safe place and exercise control over them.
- g) Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Corporate Asset Register.
- h) Ensure that all audit queries are resolved in a timely manner.

## **2.3 The Budget Directorate**

The Budget Directorate:

- a) Shall ensure that a project is created for approved budgeted capital expenditure that clearly describes the item to be acquired. A clear description of the funding source is also required.

- b) Shall release capital funds only after receiving written authority and a clear and concise description of the item to be purchased.
- c) Shall ensure that any changes in the capital budget, with regards to funds transferred or project description changes are communicated to Corporate Asset Control.
- d) Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the directorates and provided to the Directorate Finance in the prescribed format.

## **2.4 The Expenditure Directorate**

The Expenditure Directorate:

- a) Shall ensure that invoices authorized for payment are matched to the goods received note before processing such payment.
- b) Shall if any doubt exists as to whether the invoice is in accordance with policy, query the payment with the relevant directorate and shall not process a payment until the invoice meets the policy criteria

## **2.5 The Procurement Directorate**

### **2.5.1 The Procurement Department:**

- a) Shall ensure that the correct material group is allocated to asset acquisitions to enable the creation of the relevant work flow message.
- b) The tender committee must comply with and be constituted in accordance with the procurement policy.
- c) The procurement Department shall ensure that items of capital nature (acquisitions exceeding R1 000.00 [R5 000.00 with effect 1 July 2005]) shall not be acquired from the OPEX budget vote.

### **2.5.2 Inventory Management Department:**

- a) Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset form and condemnation form, counter signed by Corporate Asset Control, are presented.
- b) Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from directorates.

- c) Shall compile a list of the items to be auctioned in accordance with their guidelines and the prescriptions of the Finance Directorate: Asset Control.
- d) Shall compile and circulate a list of unused movable assets to enable other directorates to obtain items that are of use to them.
- e) Shall ensure that Finance Directorate: Asset Control is notified of any auctioning or disposing of written-off asset or asset inventory items.

## **2.6 Human Resources Directorate**

Human Resources Directorate:

- a) Shall ensure that no monies are paid out on terminations of service without receiving the relevant asset resignation form signed off by the relevant directorate.
- b) Shall ensure that every asset resignation form is counter signed by the Finance Directorate Asset Control before processing the termination of service.

## **2.7 All Directorates**

All Directorates:

- a) Shall ensure that employees in their directorates adhere to the approved Asset Management Policies and Procedures.
- b) Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in his/her directorate. Finance Directorate: Asset Control 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 Director of that directorate.
- c) Shall ensure that assets are properly maintained in accordance with their respective asset maintenance policy.
- d) Shall ensure that the assets and / or inventory items of the City are not used for private gain.
- e) Shall ensure that they budget for adequate funds for the purchase of bar coding equipment.

- f) Shall ensure that all their movable assets as reflected on the Corporate Asset Register and the Corporate Asset Inventory Register are bar coded.
- g) Shall ensure that the Finance Directorate: Asset Control is notified of any changes in the status of the assets under the directorate's control. This must be done on the prescribed form and include the following:
- Movements which relate to the writing-off of and transfer of assets (inter departmental transfers).
  - Changes in the estimated useful lives of assets for depreciation purposes.
  - The identification of impairment losses on assets by following the procedures as outlined in 3.4.2 of this policy document.
- h) Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
- i) Shall ensure that a complete asset verification of all inventory and asset items is done during the course of every financial year and that the results of the verification are reported to Finance Directorate Asset Control.
- j) Shall ensure that all obsolete and broken inventory and asset items, accompanied by the relevant asset form and attached condemnation forms, are handed in to the inventory management department without delay.
- k) Shall be responsible for maintaining and managing their own Directorate Asset Inventory Records (DIR) for items that will not be recorded in the Corporate Asset Register or Corporate Asset Inventory Register. These inventory assets are acquired via the operational budget. The information to be recorded in the DIR must include the description, quantity and location of the items.
- l) Shall ensure that the correct cost element and description are being used before authorizing any requisitions.
- m) The project structures must be categorized and clearly identified according to the GAMAP asset classes when created. (See Glossary)

### **3. GAMAP ACCOUNTING POLICIES**

#### **3.1 ASSET CAPITALISATION**

##### **3.1.1 DEFINITION OF PROPERTY, PLANT AND EQUIPMENT (PPE)**

An item is accounted for as an item of PPE and is raised on the Corporate Asset Register (CAR) as such if it meets the definition of PPE found in GAMAP 17.05. The item of PPE is capitalised according to the guidelines set out below:

- Property, plant and equipment are tangible assets that:
  - (a) Are held by the City for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
  - (b) Are expected to be used during more than one period.

An item of property, plant and equipment shall be **recognized** as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the City and the cost or fair value of the asset to the municipality can be measured reliably.

To be categorized as an asset the item should also comply with the definition of an asset according to GRAP 0. The item must be a resource which is controlled by the municipality as a result of a past event from which future economic benefits or service provision can be expected. Major spare parts and stand-by equipment qualify as an asset when the municipality expects to use them during more than one period once issued.

#### **Assets held under leases**

**Finance leases** are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the City and reflected as such in the FAR. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.

**Operating leases** are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the City.

### 3.1.2 CLASSIFICATION OF ASSETS

According to GAMAP 17 PPE should be classified according to the following definitions on the Fixed Asset Register and in the general ledger:

- 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. Infrastructure 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.
- Community assets are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- Heritage assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- 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.
- Other assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

### 3.1.3 ASSET CAPITALISATION AMOUNT.

The capitalisation limits will increase to the amounts as indicated in brackets with effect 1 July 2005. The capitalisation amounts for the City are as follows:

- (a) Acquisitions with a value of R500.00 or less (DIR) (R1 000.00 with effect 1 July 2005)

Purchases per item, with a value of R500.00 each or less, inclusive of non claimable VAT, must be purchased against the operating budget and will not be bar coded or recorded in the asset register. These items will normally include equipment such as books, calculators, letter trays, waste bins, brooms, spades, rakes, tools and electric equipment.

The control over these items will be the responsibility of the directorate that purchases and utilises these items. These items are recorded in the DIR.

(b) **Acquisitions with values of more than R500.00 but less than R1000.00 (CIR) (R1 000.00 but less than R5 000.00 with effect 1 July 2005)**

Asset purchases, with a value of more than R500.00 but less than R1000.00 each, inclusive of non claimable VAT must be purchased against the operating budget, but will be bar coded and recorded in the Corporate Asset Inventory Register.

(c) **Acquisitions exceeding R1 000.00 (CAR) (R5 000.00 with effect 1 July 2005)**

Asset purchases exceeding the amount of R1 000.00 each, inclusive of non claimable VAT, will be against the capital budget. These items will be capitalized to create asset records in the Corporate Asset Register and bar coded on receipt by the relevant asset officials in the devolved functions.

These purchases provide a lasting benefit to the City of Cape Town and will normally be financed over a period of longer than one financial year.

### **3.1.4 CALCULATION OF THE INITIAL COST PRICE OF ITEMS OF PPE**

The initial recording of an item of PPE is dealt with as follows in GAMAP 17

- An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:
  - (a) The cost of site preparation,
  - (b) Initial delivery and handling costs,
  - (c) Installation costs, and
  - (d) Professional fees such as for architects and engineers.
- The cost of performing feasibility studies is written off when incurred.

### **3.1.5 EXPENDITURE INCURRED IN RESPECT OF EXISTING PPE SUBSEQUENT TO THE INITIAL RECORDING OF THE COST PRICE.**

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. Accounting procedures need to be implemented to ensure that operating expenditure is not capitalised. The following matrix will assist in distinguishing capital expenditure from maintenance expenditure: -

Capital Expenditure	Maintenance
<ul style="list-style-type: none"> <li>▪ Acquiring a new asset</li> <li>▪ Replacing an existing asset</li>   <li>▪ Enhancing an existing asset so that its use is expanded</li> <li>▪ Further developing an existing asset so that its original useful life is extended</li> </ul>	<ul style="list-style-type: none"> <li>▪ Restoring an asset so that it can continue to be used for its intended purpose</li> <li>▪ Maintaining an asset so that it can be used for the period for which it was initially intended.</li> </ul>

## 3.2 DEPRECIATION OF PROPERTY, PLANT & EQUIPMENT.

### 3.2.1 GAMAP PRINCIPLES

The accounting treatment relating to the depreciation of Property, Plant & equipment is outlined in **GAMAP 17**. The following is a summary of the relevant aspects:

The **depreciable amount** of an item of property, plant and equipment, should be **allocated** on a systematic basis **over its useful life** in a manner which reflects the pattern of consumption. Depreciation is an expense and should be recognised as such unless it is to be included in the carrying value of another item of property, plant and equipment.

Although typically disclosed together, **land and buildings are separable assets** and because **land** normally has unlimited life it is **not depreciated** whilst **buildings are**. Heritage assets such as works of art, historical buildings and statues 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 their useful lives.

The Appendix to GAMAP 17 (See Glossary) sets out the generally accepted **useful lives** of all municipal property, plant and equipment. These useful lives must be used unless the **exemptions** set out below exist:

- The item is not properly maintained and it is unlikely that the item can be used for its originally expected useful life. The estimated remaining useful life must be used rather than that in the Appendix. **It should be noted that this exemption does not permit an extension to the useful lives set out in the Appendix.**

- The item can no longer be used for its intended purpose. In this circumstance, the asset must be written-off. There will no longer be a depreciation charge.
- If the estimated useful life of an item of property, plant and equipment changes significantly due to technological changes then the depreciation rate should be adjusted for the current and remaining future periods.

The method used for depreciation charges by the City will be the straight-line method except for extraordinary circumstances. Capitalisation of assets will be on a quarterly basis during a particular financial year, i.e. September, December, March and June whereafter depreciation will be calculated.

When **depreciation is calculated**, a corresponding **accumulated depreciation** account is created. The accumulated depreciation account is a balance sheet item (it is an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was brought into use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

Where the useful lives of assets are reviewed and need adjustment the depreciation charge for the current and future periods should be adjusted.

### **3.2.2 DISCLOSURE REQUIREMENTS RELATING TO DEPRECIATION**

According to GAMAP 17 the following information relating to depreciation should be disclosed in the financial statements:

- **In the accounting policy notes**  
The depreciation methods used and the depreciation rates or useful lives.
- **In the 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,
- **In the notes to the income statement**  
The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.
- **In Annexure B and C to the financial statements: -**  
These Annexures 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 departments and functions

(Annexure C). These Annexures 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.

### **3.3 PROFIT OR LOSS ON THE SALE OF PROPERTY, PLANT & EQUIPMENT.**

#### **3.3.1 GAMAP PRINCIPLES**

The accounting treatment relating to the profit or loss on the sale of property, plant & equipment is outlined in **GAMAP 17**. The following is a summary of the relevant aspects:

Profits and losses, which are disclosed in total in the financial statements, are calculated by use of the following formula:

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 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.

#### **3.3.2 DISCLOSURE REQUIREMENTS RELATING TO PROFIT OR LOSS ON THE SALE OF PPE**

According to GRAP 3 the nature and amount of the profit or loss on the disposal of PPE should be disclosed on the face of the Income Statement.

## 3.4 IMPAIRMENT LOSSES

### 3.4.1 GAMAP PRINCIPLES:

The accounting treatment relating to impairment losses is outlined as follows in **GAMAP 17:**

The carrying amount (Book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

**Recoverable amount is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.** When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve in accordance with GAMAP 17.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

The following may be indicators that an item of PPE 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 utilized for subsidized housing developments, where the subsidy is less than the purchase price.

#### **Example:**

An example of where the City has suffered an impairment loss is the purchase of land for an amount of R 5 000 000. The land will be utilized for new subsidized housing developments. If at year end the expectation is that the City will receive only R1 000 000 by way of subsidies an impairment loss of R4 000 000 needs to

be recognized. The recoverable amount (R1m) is calculated as being the larger of:

- **Net Selling price** of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.
- **Value in use** of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

### **3.4.2 PROCEDURES TO IDENTIFY, BUDGET AND ACCOUNT FOR IMPAIRMENT LOSSES**

The following needs to be done to ensure that impairment losses that are identified by the above indicators are budgeted for during the operating budget cycle and are accounted for in the next financial year. **The following steps will have to be performed during the operating budget cycle:**

- Finance Directorate Asset Control shall issue a memo to all directorates requesting them to identify assets that:
  - Are in a state of damage at the start of the operating budget cycle.
  - Are technologically obsolete at the start of the operating budget cycle. This can be facilitated if directorates require that Finance Directorate Asset Control supply them with a Fixed Asset Register printout pertaining to immovable assets showing the remaining useful lives of assets. The directorates can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout.
  - Have remained idle for a considerable period either prior to them being put into use at the start of the operating budget cycle or during their useful life.
  - Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is Land that is purchased at market value and is to be utilized for subsidized housing developments.
- The recoverable amounts of these assets need to be calculated by calculating the Net selling Price per asset as defined above.
- The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
- The impairment loss needs to be budgeted for.

**The following steps will have to be performed regularly during the year to account for impairment losses:**

- Directorates will identify and inform Finance Directorate Asset Control of assets that:
  - Are in a state of damage at year end.
  - Are technologically obsolete at year end. This can be facilitated if directorates require Finance Directorate Asset Control to supply them with a Fixed Asset Register printout pertaining to immovable assets showing the remaining useful lives of assets. The directorates can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout.
  - Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
  - Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is Land that is purchased at market value and is to be utilized for subsidized housing developments.
- The recoverable amounts of these assets need to be calculated by calculating the Net selling Price per asset as defined above.
- The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
- The impairment loss needs to be accounted for by identifying the relevant funding source.

### **3.4.3 DISCLOSURE REQUIREMENTS RELATING TO IMPAIRMENT LOSSES**

All material impairment losses need to be disclosed in the notes to the income statement as a separately disclosable item. They are normally disclosed as part of the note on the amounts that are included in the calculation of the Net Surplus or Deficit for the year.

### **3.5 REVALUATION OF ASSETS (LAND & BUILDINGS ONLY)**

Subsequent to initial recognition as an asset, an item of **land and buildings** may be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations shall be made with sufficient regularity such that the carrying amounts do not differ materially from those which would be determined using fair value at the balance sheet date.

The fair value of land and buildings will be based on their market value indicated in the valuation roll. This value will normally be determined by a professional valuer.

The revaluation of land and buildings cannot be limited to specific sets of land or buildings but shall include the entire class of property to which such an asset belongs.

Any increase as a result of a revaluation in the carrying amount will be credited to the NDR under the heading "Revaluation Surplus", however a revaluation increase shall be recognised as revenue to the extent that it reverses a revaluation decrease previously recognised as an expense. Depreciation on the re-valued amount will be charged to the income statement and a transfer will be made from the NDR to offset this depreciation in the statement of changes in equity.

Where a decrease arises such a decrease should be recognised as an expense but may be charged directly against any revaluation surplus to the extent of the balance of such a revaluation surplus.

#### **4. FIXED ASSET REGISTERS**

The following is an outline of the requirements relating to the various types of asset registers that the City will maintain

- Corporate Asset Control is responsible for ensuring that complete records of asset items are kept, verified and balanced regularly.
- The **Corporate Asset Register (CAR)** for the City will contain the following main types of assets categorized as immovable or movable assets by using the asset classes prescribed by GAMAP: (See Glossary for detail)

##### **Immovable Assets:**

- Infrastructure assets
- Roads
- Buildings
- Land
- Pedestrian Malls
- Airports
- Recreational Facilities
- Security Measures
- Assets under construction (Only an asset after completion)
- Town Development
- Investment Properties

### **Movable Assets:**

- Office Equipment
  - Furniture and Fittings
  - Bins and Containers
  - Emergency Equipment
  - Motor Vehicles
  - Aircraft
  - Watercraft
  - Plant and Equipment
- 
- The CAR will consist of all the asset master records with a value of more than R1 000.00 each (R5 000.00 with effect 1 July 2005) inclusive of non claimable VAT, which have been capitalized. These assets must be numbered with the approved barcode labels. This will be implemented with effect from 1 July 2004.
  - Immovable assets on the CAR will not be physically numbered with barcode labels but will have a unique asset master record number.
  - The **Corporate Asset Inventory Register (CIR)** will consist of all the asset master records with a value of more than R500.00 and less than R1 000.00 each (R1 000.00 and less than R5 000.00 with effect 1 July 2005) inclusive of non claimable VAT, which will be created by the different business areas and that, have not been capitalized. These assets must be bar coded but no financial values will be allocated in the Corporate Inventory Register. This will be implemented with effect from 1 July 2004.
  - **Directorates Asset Inventory Records (DIR)** .The devolved inventory records will consist of items acquired via the operational budget with a value less than R500.00 each (R1 000.00 with effect 1 July 2005) inclusive of non claimable VAT. These items will normally include equipment such as books, calculators, letter trays, waste bins, brooms, spades, rakes, tools and electric equipment. These items will not be bar coded for the SAP inventory register but must be controlled by the Directorates. These inventory records must be available and kept up to date at all times for inspection by the Internal or External Auditors.
  - **Leased Assets.** Assets held under finance leases will be categorized separately in the CAR and must be bar coded where they include movable assets.
  - **Asset Under Construction.** Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is commissioned into use.

- The details included in the CAR will include:
  - The measurement bases used.
  - The depreciation methods used.
  - The useful live.
  - Depreciation charged.
  - The gross carrying amount
  - The accumulated depreciation.
  - Date of acquisition
  - Date of disposal (if relevant)
  - Increases or the decreases resulting from revaluations (if relevant)
  - Location.
  - Asset Class
  - Asset Type
  - Asset Master Record Number

## **5. FUNDING SOURCES**

### **Sources of Financing**

Four main sources of finance are utilized to acquire assets, namely:

- The Asset Financing Reserve (AFR)
- The External Financing Fund (EFF)
- Grants, Subsidies and Public Contributions
- Revenue Contributions.

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of S19 of the MFMA.

### **The Asset Financing Reserve (AFR)**

Council must annually approve the basis and the amounts for which contributions should be appropriated to the AFR in conjunction with the availability of funds and the requirements of the capital program for that financial year.

The funds in the AFR are accumulated by:

- an annual contribution from revenue
- the cash backed profit on the sale/disposal of assets

When an amount is advanced to a borrowing service to finance the acquisition of an asset, the money must be transferred to an FDR created for the purpose of

acquiring a specific asset and the accumulated funds in the AFR must be reduced by the amount of the advance.

The balance of the accumulated funds in the AFR 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 FDR is transferred to the income statement over the estimated life of assets financed by the AFR to offset the depreciation charge included in the income statement relating to fixed assets.

### **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 utilized for the purpose of acquiring fixed assets. When the external loan is utilized to finance fixed 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.

### **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.

### **Revenue Contributions**

These fixed assets are financed from the municipality's operating cash flow. The fixed asset is capitalised at cost and the payment is credited against the bank balance. Normal depreciation will apply.

## **6. ADMINISTRATIVE REQUIREMENTS**

### **6.1 General Requirements**

The designated officials in the different directorates within the City must execute the functions listed below.

- Ensure that the bar code number and location number are reflected on the asset movement capture form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included.
- Complete the asset movement capture form when transfers occur and forward the completed original form to Finance Directorate Asset Control.
- Ensure that a completed asset movement form is submitted when an asset item is retired after the necessary approval has been obtained.
- Ensure that all inter business transfers are processed.
- Finance Directorate Asset Control must be notified by the business area within 14 days of any of the following possible movements:

- X Donations
- X Additions/Improvements/
- X Departmentally manufactured items
- X Loss or damage
- X Transfers
- X Terminations
- X Land Sales

## **6.2 Purchases**

All items to be purchased with a value exceeding R 5000.00 each, inclusive of non claimable VAT where applicable, will be recorded in the Corporate Asset Register. Assets acquired at no cost or for a nominal consideration are initially recognized as assets and valued at their fair value at the date of acquisition.

## **6.3 Donations/ Assets manufactured departmentally**

When a donated asset is received it is initially recorded at its fair value. If an item is manufactured departmentally the item will be recorded in the Corporate Asset Register at actual cost. The responsible official in the business area must complete the asset movement capture form and submit original to Finance Directorate Asset Control.

## **6.4 Additions/Improvements**

Depending upon the type of addition or improvement to a specific asset the responsible official in the directorate must notify Finance Directorate: Asset Control of the change in status. The asset master record will be amended on receipt of the required asset movement capture form from the responsible directorate.

When capital expenditure is incurred for any enhancement/improvement of an asset, the directorate shall complete the necessary asset movement capture form and forward it to the Finance Directorate: Asset Control.

When any changes to vacant land or land and buildings are effected such as subdivision, transfer to another directorate, extent or holders title the current owner must complete the relevant asset movement capture forms and forward it to Finance Directorate Asset Control.

## **6.5 Disposal of assets**

The disposal of assets is governed by S 14 of the MFMA. This section provides inter alia that:

- The City may not dispose of assets that are utilized to provide a minimum level of basic municipal services.
- Assets other than those utilized to provide a minimum level of basic service may be disposed of subject to Council approval.
- The City Manager may authorize the disposal of movable assets, with an estimated fair value of less than R50 000.
- Council must authorize the disposal of movable assets, with an estimated fair value of more than R50 000.

Any items declared obsolete or damaged will be handed in to the Inventory Management Department for safekeeping. No items will be received by the Inventory Management Department without a completed asset form and attached condemnation forms, counter signed by Finance Directorate Asset Control, describing the status of the item and the reason for writing-off the item.

Each directorate must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is the responsibility of each directorate to ensure that all such assets to be disposed of are delivered to and received at the inventory management department.

Approval for the disposal of assets is granted by the City Manager (Assets with a fair value of less than R 50 000) or Council (Assets with a fair value of more than R 50 000) after approval has been obtained from the following directors:

- (a) Vehicles and Plant - The Directorate's Fleet Manager in conjunction with the Director Shared Services, must authorize the writing-off of vehicles and plant.
- (b) Computers - The Chief Information Officer must authorize the writing-off of computer equipment.
- (c) Other Items - Directors within the different directorates must authorize the write-off of all other assets utilized by them in their directorates.

All asset or asset inventory items lost, stolen or damaged must be reported to the Insurance Directorate as well as Finance Directorate Asset Control by completing the asset movement capture form.

All inventory or asset items lost or stolen also need to be reported to the SAPS and Council's internal security.

## **6.6 Terminations**

At the termination of an employee's service, the nominated representative in the Directorate must complete the asset resignation form and forward the original to Finance Directorate Asset Control. This form is a statement that the inventory and assets entrusted to the employee to execute his/her daily duties are in good

order and handed in where necessary. A copy of this form is forwarded to the Administrative Support Directorate concerned or its relevant directorate for further investigation in the case of missing assets.

### **6.7 Transfer of Assets**

When a directorate transfers an asset or inventory item within the directorate, the asset movement form must be completed in duplicate and the original forwarded to Finance Directorate Asset Control. The copy of this form must be forwarded to the party receiving the asset or inventory item.

When a directorate transfers an asset or inventory item to another directorate, the transferring directorate must approve the transfer. After approval has been granted the asset movement form must be completed in duplicate and the original forwarded to Finance Directorate Asset Control.

### **6.8 Sale of Land and Buildings**

All directorates must submit the properly completed asset movement forms together with copies of all relevant approvals for the sale of land and buildings to the Finance Directorate Asset Control.