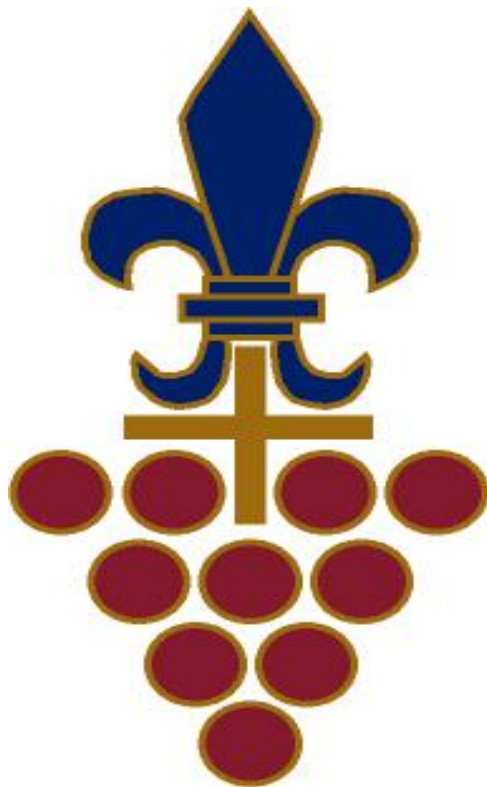


# STELLENBOSCH MUNICIPALITY



## ASSET MANAGEMENT POLICY

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## **PREAMBLE**

1. **Whereas** Section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) determines that a municipal council may not dispose of assets required to provide the minimum level of basic municipal services.
2. **The municipal** council of Stellenbosch Municipality is obliged to regulate asset control hence the adoption of a policy to guide the municipal manager in the management of the municipality's assets.
3. **And whereas** the municipal manager as accounting officer of municipal funds and assets is responsible for the implementation of the asset management policy which regulates the acquisition, safeguarding and maintenance of all assets.
4. **And whereas** these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes in meeting the municipality's operational requirements.
5. **Now therefore** the municipal council of the Stellenbosch Municipality adopts this asset management policy:

## 1. DEFINITIONS

- 1.1 **Accounting officer** means the municipal manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act 2000 (Act No. 32 of 2000).
- 1.2 **Carrying amount** is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon.
- 1.3 **Chief Financial Officer** means an officer of a municipality designated by the municipal manager to be administratively responsible for budgetary and treasury functions.
- 1.4 **Assets** are defined as any asset that contributes or assists the municipality in meeting its mandate to develop community well-being. Examples are buildings, vehicles, infrastructure, et cetera.
- 1.5 **Cost** is the amount of cash or cash equivalents tendered or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
- 1.6 **Depreciable amount** is the cost of an asset, or other value substituted for cost in the financial statements, less its residual value.
- 1.7 **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.
- 1.8 **Fair value** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- 1.9 **Heritage assets** are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- 1.10 **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.
- 1.11 **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.
- 1.12 **Other assets** are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

- 1.13 **Property, plant and equipment** are tangible assets that:-
- are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
  - are expected to be used during more than one period.
- 1.14 **Recoverable amount** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.
- 1.15 **Residual value** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
- 1.16 **Useful life** is:-
- the period of time over which an asset is expected to be used by the municipality; or
  - the number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

## 2. OBJECTIVE

The purpose of this policy is to prescribe procedures for the management of assets and make it mandatory on all custodians at the Municipality.

## 3. SCOPE OF THE POLICY

This policy deals with:-

- a) the accounting officer;
- b) the acquisition of assets;
- c) recognition of assets;
- d) the maintenance of assets;
- e) the transfer of assets;
- f) insurance of assets;
- g) write off of assets;
- h) disposal of assets;
- i) work procedures;

## 4. ACCOUNTING OFFICER

- 4.1 The municipal manager as accounting officer is responsible for the management, safeguarding and maintenance of all assets of the municipality in the most, effective and efficient manner.

- 4.2 The municipal manager may delegate the responsibilities placed on him/her to any official directly accountable to him/her.

## **5. ACQUISITION OF ASSETS**

- 5.1 The municipality may acquire by means of purchase, or hire, immovable property within or outside the municipal boundaries of Stellenbosch. All assets acquired by means of purchase or hire, will be done in accordance with the supply chain regulations and systems
- 5.2 Prior to finally resolving whether to purchase or hire immovable property, the council shall advertise its intentions to do so in the local and national print media, for public comment/objections
- 5.3 After consideration of the comments/objections if any, lodged in accordance with the advertisement contemplated by (5.2) above, the council:-
- a) shall in the case of immovable property contemplated by 6(4) comply with the provisions of that subsection; and
  - b) may in the case of any other immovable property finally resolve whether or not to purchase or hire such immovable property.
- 5.4 The municipality shall not without the prior approval of the council proceed with the purchase or hire of any immovable property:-
- a) which is to be purchased at a price in excess of the market value thereof as assessed by a sworn valuer;
  - b) which is to be hired
  - c) at a rental which, when calculated per annum in the case of:-
    - o immovable property hired for agricultural purposes, exceeds six per cent of the market value of the property; and
    - o immovable property hired for any other purpose, exceed twelve per cent, of the market value of the property as assessed by a valuer, or
    - o where objections have been lodged in accordance with the advertisement contemplated by (5.2) above.
- 5.5 The provisions of the preceding paragraphs shall not apply in respect of the acquisition of immovable property from the state or any organ of state:-  
provided that:-
- a) the purchase price of the immovable property to be purchased; or
  - b) the rental when calculated per annum, of the immovable property to be hired:-

does not exceed such amount as shall from time to time be determined by the Provincial Minister of Local Government, who may determine different amounts for different councils.

- 5.6 The council may accept a gift or conveyance of immovable property either absolutely for the municipality or in trust for charitable or other public purposes not connected with public worship, and hold the same, in such trust or for such purpose as may be declared by the donors and may administer, utilise and improve such property.
- 5.7 The trustees of any immovable property held in trust for any township village of settlement which has since become a municipality or part of a municipality, may transfer such property to the council, subject to any special trusts in their deeds of title and upon conditions not at variance therewith.
- 5.8 All asset acquisitions are to occur in terms of the budgetary provisions
- 5.9 All assets acquired, must be appropriately recorded as per asset register with accompanied documentation
- 5.10 The assets register shall be regularly updated for all acquisitions of moveable and immovable property.
- 5.11 The assets register should be reconciled with the total assets per the general ledger and the sources of funding.

## **6. RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT IN THE FINANCIAL STATEMENTS**

- 6.1 An item of "*Property, Plant and Equipment*" (PPE) should be recognised as an asset if:-
  - a) the value thereof is R10 000-00 or more;
  - b) it is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality; and
  - c) the cost of the asset to the municipality can be measured reliably.
- 6.2 Assets of which the purchase price do not exceed R10 000-00 will be recognised in the asset register as an inventory item and will not carry depreciation.
- 6.3 An item of PPE that qualifies for recognition as an asset should initially be recognized at its cost.

- 6.4 The cost of PPE comprises:-
- a) purchase price;
  - b) import duties;
  - c) non-refundable purchase taxes; and
  - d) directly attributable costs of bringing the asset to working condition for its intended use, such as the cost of site preparation, initial delivery, handling costs, installation costs, and professional fees such as architects and engineers fees.
- 6.5 When payment for an item of PPE is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.
- 6.6 Administration inclusive of consulting on implementation and general overhead costs are not a component of the asset's cost unless they can be directly attributable to the acquisition of the asset or bringing the asset to its working conditionally.
- 6.7 When an item of PPE is acquired to be exchanged or partly exchanged for a dissimilar item of PPE or other asset, the cost of such item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents paid additional.
- 6.8 Subsequent expenditure relating to an item of PPE that has already been capitalised, should be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.
- 6.9 All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.
- 6.10 When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.
- 6.11 When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited directly to the accumulative surplus of the municipality.
- 6.12 When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements.



- 6.13 An item of PPE should be eliminated from the balance sheet on disposal, or when the asset is permanently withdrawn from use and disposed; and no future economic benefit or potential service delivery is expected from it.
- 6.14 Gains or losses arising from the retirement or disposal of an item of PPE should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the assets, and should be recognised as revenue or expense in the income statement.

## **7. MAINTENANCE OF FIXED ASSETS**

- 7.1 A fixed assets register must be maintained, by keeping a record of all classes of property, plant and equipment classified under categories of infrastructure-, community-, heritage-, investment- and other assets.
- 7.2 At least the following details must appear on the fixed assets register:-
- a) description of asset;
  - b) classification of assets;
  - c) date of acquisition;
  - d) location of the asset;
  - e) asset identification number;
  - f) purchase price;
  - g) funding source;
  - h) revaluation;
  - i) depreciation
- 7.3 Each directorate must annually issue a certificate indicating that all assets have been accounted for and checked against the asset register and a report any deviations to the accounting officer.
- 7.4 All assets must be depreciated over their useful life as prescribed in annexure "A" as appendix to GAMAP statement 113.
- 7.5 The total annual depreciation as obtained from the asset register must be included as a cost in the municipal operating budget.
- 7.6 When fixed assets are sold, disposed of, transferred or purchased after approval by the council:-
- a) the fixed asset register must be updated; and
  - b) the journal entries to record the sales, disposal, transfer or purchase must be processed.
- 7.7 Fixed assets must be disposed off by public auction or tender.

## **8. TRANSFER OF ASSETS**

- 8.1 With respect to transfer of assets, a list must be produced indicating the relevant details as per asset register.
- 8.2 The list must be approved by the transferring director of the department.
- 8.3 The receiving department or administrative unit should confirm the list of assets being transferred.

## **9. INSURANCE**

- 9.1 The risk assessment must be based on a loss probability analysis. Professional assistance must be obtained if required.
- 9.2 Assets must be insured internally or externally and coverage must be based on the loss probability analysis. Contracting with regard to insurance cover must be in accordance with the Supply Chain Management Policy and the stipulations of the Municipal Finance Management Act.
- 9.3 All insurance claims must be assessed by a committee of council or an official, charged with the responsibility, to determine whether the damage to the assets can be recovered from possible third parties involved.
- 9.4 All insurance claims must be recorded in an insurance register.
- 9.5 All outstanding insurance claims older than 90 days must be reported to Mayoral Committee monthly.

## **10. WRITING OFF OF ASSETS**

- 10.1 The municipal council can write off an asset after considering a report from the municipal manager in which it is indicated that:-
  - a) the useful life of the assets has expired;
  - b) the asset has been destroyed;
  - c) the asset is outdated;
  - d) the asset has been sold;
  - e) acceptable reasons have been furnished leading to the circumstances set out above.
- 10.2 When an asset was damaged or destroyed in circumstances beyond the control of the municipality, the municipal manager must ascertain whether third parties or a municipal employee was involved and whether the

municipality has any right of recourse against such third party or employee.

10.3 An asset is written off against the accumulated surplus account of the Municipality and at the value reflected in the asset register of the municipality less any proceeds received.

10.4 All assets earmarked for writing off must be sold in terms of paragraph 12.

## **11. SELLING OF MOVABLE ASSETS**

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

- a) a notice of the intention of the municipality to sell the asset has been published in a local newspaper;
- b) the municipality has appointed an independent appraiser to fix a minimum selling price;
- c) in the case of a public auction, the municipality has appointed an independent auctioneer to conduct the auction; and
- d) in the case of a tender, the prescribed tender procedures of the municipality has been followed.

## **12. PROCEDURES**

### **12.1 General requirements**

The process of the alteration, disposal and letting of unmovable assets for the purposes of the process to be followed is covered in chapter 5 of Council's Supply Chain Policy and must be adhered to as part of the management of Council's assets.

12.1.1 All assets will be recorded in an asset register by an assets control section situated in the department of the head financial services.

12.1.2 All items with a purchase value exceeding R300-00 must be reported to the Asset Control Section to ensure that it is recorded in the asset register.

12.1.3 The Asset Control Section must be notified **within 7 days** of any of the following possible movements which affect the status of assets entrusted to a department:-

- a) new purchases;
- b) donations received;
- c) additions/improvements;

- d) departmentally manufactured items;
- e) auctions;
- f) loss or damage;
- g) transfers;
- h) resignations.

12.1.4 All items to be purchased with a value exceeding R300-00 will be recorded in the asset register.

12.1.5 Assets with a value greater than R300-00 but smaller than R10 000 will be recorded in the inventory section while assets with a value exceeding R10 000 will be recorded in the fixed asset section of the asset register.

12.1.6 For every new acquisition each department must forward a completed asset acquisition form (Annexure "B") to the asset control section.

12.1.7 When a donation is received or an item is manufactured departmentally the item will be recorded in the asset register at market value or a value determined by the head financial services.

12.1.8 An asset acquisition form (Annexure "B") must be completed by the responsible department for each item created in terms of section 13(6) and submit to the asset control section.

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

- a) any items declared obsolete or to be written-off must be handed in at the municipal stores for safekeeping;
- b) no items will be received by the stores or authorization be given for replacement, without a completed asset form (Annexure "A") describing the status of the item and the reason for writing-off the item duly signed off by the applicable director;
- c) the official in charge of the stores section must forward the asset form to the asset control section;
- d) the Chief Financial Officer or his/her nominee will circulate a list of unused items to enable departments to identify and obtain items which could be utilised by them;
- e) the Chief Financial Officer will in conjunction with internal audit compile a list of the items to be auctioned and present it to the respective directorates;
- f) the execution of the above-mentioned requirements will be subject to the following criteria:-
  - o *Vehicles and Plant* – The fleet manager upon technical advice may authorize the writing-off of vehicles and plant.

- *Computers* – The head information technology services may authorise the writing-off of computer equipment.
- *Other items* – All other items which cannot be utilised and are to be written-off, must be approved by the respective directors.
- *Unused items* – Items which are still usable but not required by a department, must be transferred to and handed in at the municipality stores section for safekeeping.
- Items reflected in the asset register will only be written-off after an approval has been obtained from the head of the department.

12.1.10 All inventory or asset items lost or damaged must be reported to the asset control section, accompanied by a report explaining the nature/circumstances of lost and/or damage. A list with all inventory items and furniture per office must be attached behind the door of the office for reconciliation and verification purposes during stock taking and as a management tool

12.1.11 The replacement of an item lost or damaged must be treated as a new purchase on receipt of a completed asset acquisition form.

12.1.12 Upon the termination of the services of an employee the director or his duly delegated authority must certify that all assets entrusted to the employee are in good order and handed in where required.

Any loss of, or damage to assets allocated to an employee must be reported to the Chief Financial Officer within 48 hours after the loss or damage was detected. Damage to or loss of assets which can be ascribed to negligence must be recovered from such an employee.

12.1.13 The certificate produced in terms of Section 12.1.12 must be forwarded to the human resource department which in turn will issue a pay clearance certificate to the salary section.

This policy will be referred to as the Asset Management Policy of the Stellenbosch Municipality.