

NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY



MUNICIPAL ASSET MANAGEMENT POLICY

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ASSETS MANAGEMENT POLICY

1. PREAMBLE

Whereas Section 63 of the Local Government: Municipal Finance Management Act, 2003 (Municipal Finance Management Act No. 56 of 2003) determines that a municipal manager as the accounting officer of the municipality is responsible to introduce and maintain a system of internal control to safeguard and maintain all assets of the municipality;

And Section 55 of the Local Government Systems Act, 2000 (No 32 of 2000) determines that the Municipal Manager is responsible for the implementation and monitoring of the progress made in terms of the Integrated Development Plan,

And whereas the municipal manager as custodian of municipal revenue and assets is responsible for the implementation of assets management policy which regulate the acquisition, safeguard and maintenance of all assets;

And whereas the Local Government: Municipal Planning and Performance Management Regulation, 2001 (R796 of 14 August 2001) determines that the municipality's five year financial plan, reflected in the Integrated Development Plan, also need to address an asset management strategy on an annual basis;

And whereas Section 14(1) e of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum level of basic municipal service;

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

And whereas the municipal council of Ngaka Modiri Molema District Municipality wishes to adopt a policy to guide the Council and the municipal manager in the management of the municipality's assets;

Now therefore the municipal of the Ngaka Modiri Molema District Municipality adopts the following asset management policy:

2. DEFINITIONS

- i. *“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 55 of the Local Government: Municipal Systems Act 2000 (Act No. 32 of 2000);
- ii. *“Carrying amount”* – is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon;
- iii. *“Chief financial officer”* – means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions;
- iv. *“Community assets”* - are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations;
- v. *“Cost”* – is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction;
- vi. *“Depreciable amount”* – I the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value;

- vii. *“Depreciation”* – is the systematic allocation of the depreciable amount of an asset over its useful life;
- viii. *“Fair value”* – is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction;
- ix. *“Heritage assets”* – are defined as culturally significant resources. Examples are works of art, historical buildings, statues and proclaimed areas;
- x. *“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,
- xi. *“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;
- xii. *“Other assets”* – are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings
- xiii. *“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;
- xiv. *“Recoverable amount”* –is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal;

- xv. *“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;
- xvi. *“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’ Accounting Officer
- xvii. *The “NMMDM”* refers to the Ngaka Modiri Molema District Municipality.
- xviii. *The” WSA”* refers to Water Services Authority.
- xix. *The” WSP”* refers to Water Services Provider.

3. OBJECTIVE

The objective of this policy is to prescribe procedures for the acquisition, recognition, maintenance, transfer and insurance of assets.

4. SCOPE OF THE POLICY

The Accounting Officer
The acquisition of assets
The recognition of assets
The maintenance of assets
The transfer of assets
The Insurance of assets
The writing off of assets
The disposable of assets
The procedures

5. ACCOUNTING OFFICER

1. The Accounting Officer is responsible for the management, including safeguarding and maintenance of all assets of the municipality in an economic, efficient and effective manner.

6. ACQUISITION OF ASSETS

6.1 Acquisition of Immovable Property

- 1.1 The NMMDM may acquire the property by purchase, transfer, or lease within the municipality.
- 1.2 Prior to finally resolving whether to purchase or lease immovable property, the Accounting officer shall advertise its intentions to do so.
- 1.3 After consideration of the objections, if any, lodged in accordance with the advertisement contemplated by 6.1.2 above, the relevant municipality shall in the case of immovable property contemplated by 6.1.4 comply with the provisions of that subsection, and may in the case of any other immovable property finally resolve whether or not to purchase or lease such immovable.
- 1.4 The Chief Financial Officer shall not without the prior approval of his council proceed with the purchase or lease of any immovable property,
 - i) Which is to purchase at the price in excess of the market value thereof as assessed by an appraiser?
 - ii) Which is to be leased at a rental which, when calculated per annum in the case of:

- a) Immovable property leased for agricultural purposes, exceeds six percent, and
 - b) Immovable property leased or any other purpose, exceed twelve percent, of the market values of the property as assessed by an appraiser, or
- iii) Where objections have been lodged in accordance with the advertisement contemplated by 6.1.2 above.

(1.5) 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: The purchase price of the immovable property to be purchased; or The amount, when calculated per annum, for the immovable property to be leased does not exceed the amount determined by the M.E.C for Local Government.

(1.6) A Municipal 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, utilize and improve such property.

The trustees of any immovable property held in trust for any township village or settlement which has since become a municipality or part of a municipality, may transfer such property to that Council, subject to any special trusts in their deeds of title and upon conditions not at variance therewith.

6.2 Acquisition of Movable Property:

The Accounting officer is responsible for the implementation of the procurement policy in relation to assets.

All asset acquisitions are to occur in terms of the budgetary provisions and procurement prescriptions.

The assets register shall be updated for all acquisitions of movable and immovable property.

The assets register should be reconciled with the total asset per the general ledger and the sources of funding.

7. RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT IN THE FINANCIAL STATEMENT

(1) An item of “Property, Plant and Equipment” (PPE) should be recognized as an asset if:

- The cost thereof is R5 000 or more;
- It is probable that future economic benefits or potential services delivery associated with the asset will flow to the municipality; and
- The cost of the municipality can be measured reliably.

(2) Assets of which the purchase price do not exceed R5 000 as was financed from a source other than an external source will be recognized in the asset register as an inventory item and will not carry depreciation and be written off after twelve month of date of purchase.

(3) An item of PPE that qualifies for recognition as an asset should initially be recognized at its cost and should be recognized as revenue or expense in the income statement.

(4) The costs of PPE comprises:

- Purchase price

- Import duties
 - Non-refundable taxes, and
 - Directly attributable costs of bringing the assets to working conditions for its intended costs, installation costs, and professional fees such as architects and engineers fees.
- (5) When the payment for an item of PPE is deferred beyond normal credit terms, is the equivalent to the cash. The difference between this amount and the total payments is recognized as an interest expense over the period of credit.
- (6) Administration 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 condition.
- (7) When an item of PPE is exchanged or partly exchanged for a dissimilar item of PPE or other asset, the cost of such item is measured at the 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 transferred.
- (8) Subsequent Expenditure:

Subsequent expenditure relating to an item of PPE that has already been capitalized, 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, and all other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

7.1 Revaluations

- When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.
- When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited directly to the non-distributable reserves of the municipality, and
- When an asset's carrying amount decreased as a result of devaluation, the decrease should be recognized as expenditure in the annual financial statements.

7.2 Retirements and Disposals

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

8. MAINTAINACE OF FIXED ASSETS

- (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 property and other assets.
- (2) At least the following details must appear on the Fixed Assets Register:

Date of acquisition;

- Location of the assets;
 - Asset identification number;
 - Purchase price;
 - Funding source;
 - Revaluation;
 - Disposals;
 - Selling price; and
 - Depreciation
- (3) The Municipal Manager must annually issue a certificate indicating that all assets have been accounted for and checked against the asset register.
 - (4) All assets must be depreciated over their useful life as prescribed in GAMAP statement 113
 - (5) The total annual depreciation as obtained from the asset register must be included as a cost in the municipal operating budget.
 - (6) When fixed assets are sold, disposed of, transferred or purchased on approval by the Council
 - (7) The fixed asset register must be updated; and
 - (8) The journal entries to record the sales, disposal, transfer or purchase must be processed
 - (9) Fixed assets may also be dispose off by internal auction, public auction or tender.
 - (10) All insurance claims must be recorded in an insurance register.
 - (11) All outstanding insurance claims must be reported to Council annually.

9. TRANSFER OF ASSETS

9.1 Between departments of NMMDM

- (a)** With respect to transfer of asset between Departments a list must be produced by the transferring department indicating the relevant details as per asset register.
- (b)** The list of the approved asset must be approved by the Accounting Officer before transferring of asset takes place between the departments.
- (c)** The receiving department or Administrative unit should confirm the list of asset being transferred and inform the Accounting Officer after the assets have been received.

9.2 Between the local Municipality and NMMDM

- (a)** The NMMDM and the local Municipality will by means of Council's resolution resolve on all assets needed and used by the former water provider or authority before any assets are transferred. The value of the assets to be transferred will be determined by means of methods as mutually agreed upon as well as any condition attached to the transaction.
- (b)** All assets received will be added to the asset register of the NMMDM and thereafter transferred to the relevant department or unit. Equipment not used immediately will be treated as stock.

9.3 Between DWAF/Government and NMMDM

- (a)** Any asset in need of the NMMDM or used by any authority in the provision of the water and sanitation function will be

transferred by means of resolutions of the NMMDM AND THAT authority.

- (b) The value of the asset will be determined as mutually agreed upon by the NMMDM and that authority prior to the transfer of the asset.
- (c) All assets received will be added to the asset register of NMMDM and thereafter transferred to the relevant department or unit. Equipment not used immediately will be treated as stock.

10. INSURANCE

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

11. WRITING OFF OF ASSETS

- (1) The NMMDM Council can write off an asset after considering a report from the Municipal Manager which it is indicated that:
- The useful life of the assets has expired;
 - The asset has been destroyed;
 - The asset is outdated ;
 - The asset has been disposed of.

Acceptable reasons have been furnished leading to the circumstances set out in (a) to (d) above.

When an asset was damaged or destroyed in circumstances not within the control of the NMMDM, the Accounting Officer must ascertain whether there is a right of recourse against such third party or employee.

An asset is written off against the assets account of the Municipality and at the value reflected in the asset register

All assets identified for writing off must be disposed in terms of paragraph 12.

12. DISPOSAL OF ASSETS

- (1) All assets identified and approved by the Council for writing off must be sold by way of internal auction, public auction or tender after the following steps have been followed:
- A notice of the intention of the NMMDM Council to sell the asset has been published in an internal newsletter or internal notice boards and the local newspaper;
 - An independent appraiser has been appointed to fix a minimum selling price;

- In the case of a public auction an independent auctioneer to conduct the auction has been appointed;
 - In the case of a tender, the prescribed tender procedures of the municipality has been followed
 - An internal auction shall be the first option in all instances, and a public auction shall only be resorted to as the second option.
- (2) The Council reserves the right to donate any asset to a Government Institution or an individual after such action has been advertised and public participation action has been followed.

13. PROCEDURES

General requirements

- (1) All assets will be recorded in an asset register by an assets control section situated in the department of the chief financial officer.
- (2) All items with a purchase value exceeding R500-00 must be reported to the Asset Control Section to ensure that it is recorded in the asset register.
- (3) The Asset Control Section must be notified **within 7 days** of the following possible movements which affect the status of assets entrusted to a department:-
- New purchases;
 - Donations received;
 - Additions/improvements
 - Items manufactured departmentally
 - Auctions

- Loss or damage
 - Transfers
 - Resignations
- (4) All items to be purchased with the value exceeding R500-00 will be recorded in the asset register.
- (5) Asset with the value in excess of R500-00 but less than R5000 will be recorded in the inventory section while assets with the value exceeding R5000 will be recorded in the fixed asset section of the asset register.
- (6) For every new acquisition each department must forward a completed asset acquisition form (Annexure “B”) to the asset control section.
- (7) When a donation is received or an item is manufactured departmentally, the item will be recorded in the asset register at the market value or a value determined by the head financial services.
- (8) An asset acquisition form must be completed by the responsible department for each item created in terms of section 13(6) and submit to the asset control section. (Annexure “B”)
- (9) The disposal of goods or material by Council will take place in terms of the conditions prescribed in section 12 of this policy subject to the following additional procedures:
- Any item declared obsolete or to be written-off will be handed in at the municipal stores for safekeeping
 - No item 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 reason for writing-off the item,

- The official in charge of stores section must forward the asset form to the asset control section
- The Chief Financial Officer or his/her nominee will circulate a list of unused items to enable departments to identify and obtain items which could be utilized by them,
- The Chief Financial Officer will in conjunction with internal audit compile a list of items to be auctioned and present it to departmental heads for approval. The execution of the above mentioned requirements will be subjected to the following criteria:
 - *Vehicles and Plant* – The fleet manager must recommend the writing –off of vehicles and the plant to the Accounting Officer for approval.
 - *Computers* – The head information technology services must recommend the writing-off of computer equipments to the Accounting Officer for approval.
 - *Other Items* – The relevant departmental head must recommend for approval to the Accounting Officer – all other items that cannot be utilized and are to be written off.
 - *Unused items* – Items which are still usable but not required by a department, must be transferred to and handed in at the stores section for safekeeping.
 - Items taken in terms of Section 13(8) will still be reflected in the asset register and will only be written-off after an approval has been obtained from the Accounting Officer.

(10) All inventory asset items lost or damaged must be reported to the asset control section.

(11) The replacement of an item lost or damaged must treatment as a new purchase on receipt of a completed asset acquisition from.

- (12) At the resignation of an employee the head of the department or his duly delegated representative must certify that all assets entrusted to the employee are in good order and handed in where required.
- (13) The certificate produced in terms of Section 13(12) must be forwarded to the human resource department who in turn will issue a pay clearance certificate.

14. NAME & LOGO OF THE MUNICIPALITY

The name and logo of the municipality shall after its adoption by municipal council, be gazetted and registered with the relevant/s.

The name and logo of the municipality shall remain an asset of the municipality and shall thereof enjoy protection against any contrary use whatsoever.

15. SHORT TITLE

- 15.1 This policy shall be called Ngaka Modiri Molema Asset Management Policy. (NMMDM Asset Management Policy).

Annexure 1

3	Asset Number		No From		To		
1 4	Current Asset Number		Room No From		Room No To		
1 5	Current Asset Number		Room No From		Room No To		

AUTHORISATION OF TRANSACTION - LINE MANAGER				
Name	Signature	Title	Date	Date
INFORMATION PER TRANSACTION TYPE				

Transfers

Conditions of Asset when received	Receipt Confirmed by	Signed	Date	Date
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Obsolete/ Written-off/ Loss or Damage

All items which are authorized obsolete or to be written-off must be handed in at stores	
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THE STORES DEPARTMENT – ITEMS HANDED IN				
Conditions of Asset when received	Receipt Confirmed by	Signed	Date	Date

OFFICE USE ONLY – FINANCE				
Date Received	Date processed			

Received By	Processed By	
Remarks		

AUTHORISATION OF TRANSACION – LINE MANAGER				
Name	Signature	Title	Date	Date

OFFICE USE ONLY – FINANCE	
Date Received	Date Processed
Received By	Processed by
Remarks	