

VENTERSDORP LOCAL MUNICIPALITY



ASSET MANAGEMENT POLICY

2011/2012MTEF

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1. POLICY OBJECTIVE

The objective of this policy is to ensure the effective and efficient control, utilization, safeguarding and management of property, plant and equipment of the Municipality.

The further objective is to ensure that the asset manager is aware of his responsibilities and duties in regards of property, plant and equipment.

2. STATEMENT

The municipality believes that an asset management policy is essential to ensure effective and efficient acquisition and utilization of public monies and accountability thereof is heavily dependent upon accurate recording and accounting.

3. AIM

This policy lay down broad guidelines for consistent, effective and efficient asset management principles for the municipality.

4. PRINCIPLES

Specifying Council's practice regarding accounting for assets and inventory

Ensure consistency in accounting treatment.

Ensure safeguarding all assets and inventory of the Council and the effective use of existing resources.

Emphasize a culture of accountability over assets and inventory.

Ensure that effective controls are in place.

Ensure that an updated register is kept of all the Council's assets and inventories.

Ensure compliance with all legal prescriptions and requirement.

5. Definitions

Consistent definitions are essential for good asset management and reporting. For the purpose of this policy, the following words will have the meanings as set out

AFF (Asset Financing Fund) - This is an internal statutory fund which is cash based and which is specifically used to purchase assets.

An **asset** is a resource controlled by the municipality as a result of past events from which economic benefit or potential service provisions are expected to flow to the municipality.

Asset categories:

Infrastructure Asset are any asset that is part of a network of similar assets, i.e. roads, sewerage purification plants water reticulation schemes

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Community Assets are any asset that contributes to the community's well being, i.e. parks, libraries.

Heritage Assets are culturally significant resources, i.e. works of art, historical buildings and statues.

Investment Properties are properties that are acquired for economical and capital gains, i.e. offices, parks and underdeveloped land acquired for the purpose of resale in future years.

Other assets are assets utilized in normal operations, i.e. plant and equipment, motor vehicles and furniture and fittings.

Asset Manager:

The manager referred to above, is someone reporting directly to the Chief Finance Officer and has the functional accountabilities for the physical management of a particular set of assets in order to achieve the municipal strategic objectives relevant to the directorate. The execution of this responsibility will require the asset manager to control the acquisition, utilization, management and disposal of this set of assets to optimize the achievement of these objectives.

Asset Register:

An asset register is an accounting record which contains relevant physical and financial details relating to assets.

Capitalization:

Recognition of expenditure as an asset in the asset register.

Carrying Value:

This is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereof.

Cost:

The cost of an asset is the amount of cash or equivalents paid or the fair value of the assets given as consideration plus costs incidental to the acquisition including transport costs, installation costs and applicable overheads.

EFF (External Financing Fund)

This is a collective fund of all external loans taken up and which is used to finance assets.

Depreciation:

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

Historical Value:

This refers to the original cost of acquisition or construction.

Property, Plant and Equipment

Are tangible assets held by the 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 for more than one period.

Residual Value

This is the net amount that the Municipality expects to obtain for an asset at the end of its useful life after deducting the expected cost of disposal.

Useful Life

Useful life of an asset is either:

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.

6. RESPONSIBILITY AND ACCOUNTABILITY

The Municipal Manager is responsible for management of assets of the municipality, including the Safeguard and the maintenance of those assets and must ensure that:

- The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality, and
- The assets are valued in accordance with standards of generally recognized accounting practice (GRAP);
- The Municipality has and maintains a system of internal control of assets, including an assets register;

- The senior managers and their teams comply with this policy.
- The Chief Financial Officer is responsible to the Municipal Manager to ensure that the financial Investment in assets are safeguarded and is responsible that:
 - An appropriate system of financial management and internal control are established and operated diligently.
 - The financial and other resources of the municipality are utilized effectively, effectively, economically and transparently;
 - Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
 - The systems, processes and registers required to substantiate the financial values of the municipalities' assets are maintained at standards sufficient to satisfy the requirements of the Auditor-general.
 - Financial processes are established and maintained to ensure that the municipality's financial resources are optimally utilized through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.

- The Directors and assets Managers are appropriately advised on their powers and duties pertaining to the financial administration of assets;
- The policy and supporting procedures or guidelines are established, maintained and effectively communicated.
- The CFO may delegate or otherwise assign responsibilities for performing these related functions to remain accountable for ensuring these activities are performed.
- To approve the temporary or permanent transfer of a movable assets between departments as determined in the written “Delegation of Authority to officials” of the municipality”

The Asset Manager must ensure that:

- An appropriate physical management and control system are established and maintained for all assets in their area of responsibility;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless expenditure or wasteful utilization and losses of assets resulting from criminal or negligent conduct, are prevented.

- The asset management and control system can provide an accurate, reliable and up to date account of assets under their control.
- Be able to justify that his/her asset plan, budgets and purchasing, maintenance and disposal decision to optimally reach the municipality's strategic control.
- When assets under the control of Directors have been sold, demolished, destroyed or damaged or any other event materially affecting its value a report explaining in detail must be writing and presented to the Chief Financial Officer.
- The asset manager may delegate or otherwise assign responsibility to an assets champion for performing these functions but the asset manager will remain accountable for ensuring that these activities are performed.
- The Municipal Manager shall approve the temporary or permanent transfer of a movable asset between departments as determined in the "Delegation of Authority to officials of the municipality"

7. FINANCIAL MANAGEMENT

7.1 Pre-Acquisition Planning

Before a capital project is included in the draft municipal budget for approval, the Asset Manager must prove that he/she has considered:

- The projected acquisition and implementation cost cover all the financial years until the project is operational;
- The future operational costs and revenue on the project, includes tax and tariff implications;
- The financial sustainability of the project over its economic life span including revenue generation and subsidization requirements;
- The physical sustainability and financial stewardship of the asset through all stages in its economical life span including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- The inclusion of the capital project in the Integrated Development Plans and future budgets; and
- The Chief Finance Officer is accountable to ensure that the Assets Manager receive all reasonable assistance, guidance and explanation to enable him to achieve his planning requirements.

7.2 Approval to Acquire Property, Plant and Equipment

Funds can only be invested with a capital project if:

- They have been appropriated in the capital budget;
- The project, together with the total project cost, has been approved by the Council;

- The Chief Finance Officer confirms that funding is available for that specific project; and
- Any contract that will impose financial obligation more than two years beyond the budget year is appropriately disclosed.

7.3 Funding of Capital Projects

Within the Municipality's ongoing financial, legislative or administrative capacity, the Chief Finance Officer will establish and maintain the funding strategies that optimize the Municipality's ability to achieve its strategic objectives as stated in the Integrated Development Plan.

7.4 Capitalization of Assets

- Assets will only be capitalized in the assets register on completion or finalization of the project.
- Projects to be completed over more than one financial year will be initially disclosed in the asset register and financial statements as work in progress where after only on completion the asset will be capitalized and depreciated.
- Assets will be recorded in the asset register bi-annually on completion thereof and bar coded with an aluminium label where appropriate as identification.
- The cost of acquisition will include all expenditure needed to bring the asset at the condition and position for its intended use which usually include the following:

- Purchase costs (Less any discounts given)
- Delivery cost
- Installation cost
- Professional Fees for architects and Engineers
- Import duties
- Non-refundable taxes
- Site development cost
- Contract fees

7.5 Assets Grouped by Value

- Assets with a value below R 5000-00
 - Assets acquired in this range will be considered inventory and must provide for in the operating budget.
 - These items will not be capitalized as an asset but an Inventory List must be kept to exercise the necessary control over it.
- Asset with a value exceeding R 5000-00
 - Assets acquired in this range will be considered Capital Assets and will be financed from the AFF or EFF.
 - These Assets will be capitalized and depreciated over their useful lives and be recorded in the Asset Register.

7.6 Depreciation of Assets

- An item of Property, Plant and Equipment depreciates over its useful life.
- The depreciation for each period should be recognized as an expense against the relevant services.
- All Property, Plant and Equipment will carry a residual value of R 1 for record purposes.
- The straight line method of depreciation will be used for all assets of Council.
- Where the useful life of a fixed asset gets increased or the capacity thereof extended and such improvements gets capitalized against the fixed asset concerned, the cost of the improvements will be depreciated over the remaining life of the asset.
- Depreciation on the asset will annually be written off once at the end of the financial year.
- Only assets with a value exceeding R 5000-00 will be depreciated over their useful lives.
- The prescribed table must be used to determine the useful lives of assets:

7.7 Disposal of Assets

An item of Property, Plant and Equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery are expected from when it is disposed of.

Gains and losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the income statement.

Should there be gain from the sale of assets a corresponding transfer will be made to the Asset Financing Fund from the income statement.

Asset Manager should identify obsolete and redundant assets once per financial year and obtain the necessary approval from Council prior to the disposal thereof.

Obsolete assets are disposed of via a public auction or public tender once per financial year to ensure the disposal is fair, equitable, transparent and competitive and in line with the promulgated Regulations regarding the calling of tenders and the Dispensing of Tender Regulations.

All vehicles will be sold as registered vehicles in their present condition.

In the case of an asset being identified as obsolete or redundant, but the asset has not yet been fully depreciated; the outstanding depreciation will be expensed in the financial year when the item is disposed of.

8. Control and utilization of assets

8.1 Establishment of Management of the Financial Asset Register

- The chief Financial Officer will establish and maintain the Asset Register containing key financial data on each item of Property, Plant and Equipment that satisfies the criterion for recognition as per accounting standards.
- Asset Manager is responsible to ensure that sufficient controls exist to substantiate the quality, value, location and condition of all assets in the asset register.
- Asset Manager is appointed as an Asset Champion in each Department and will be responsible to ensure that the inventory lists are verified and kept up to date in collaboration with the Chief Finance Officer.

8.2 Contents of the Financial Assets Register

The details included in the Asset Register will include:

- ✓ The depreciation methods used
- ✓ The useful life
- ✓ Depreciation charge
- ✓ The carrying amount
- ✓ The accumulated depreciation
- ✓ Additions, disposals and transfers
- ✓ Date of acquisition
- ✓ Date of disposal (if relevant)
- ✓ Increase or decrease resulting from revaluation (if relevant)
- ✓ Source of finance
- ✓ Asset description
- ✓ Location
- ✓ The responsible person
- ✓ Historical cost of the asset
- ✓ Asset classification

8.3 Internal controls over the Financial Asset Register

Controls around the asset register should be sufficient to provide an accurate, reliable and up to date account of assets under their control to the standards specified by the Chief Financial Officer and required by the auditor-general.

8.3.1 Transfers, Reallocation or Reassignment of Property, Plant and Equipment.

- An Asset Manager retains management accountability and control for a particular asset.

- The Asset Manager must advise the Chief Finance Officer on the prescribed form whenever an asset is permanently or temporarily reallocated or reassigned from one location to another.
 - The Chief Finance Office will appropriately amend the Asset Register with all approved transfers.
 - Assets must solely and exclusively be used for the purpose of the Council's business.

8.4 Inventories

- An asset manager must ensure that all departments keep inventories of all Property, plant and Equipment which are not recorded in the asset register and which sort under assets with a value of less than R 5000-00 as referred to under point 7.5.
- Within the first three months of each financial year these inventories must be verified and copies of them be submitted to the Chief Finance Officer.
- If any asset in the aforesaid inventories is found not in a department's possession, the head of that department shall include a statement of facts relevant to such a shortage in a report to the Chief Finance Officer.

9. Statutory and regulatory framework

This policy must comply with all relevant legislative requirements including:

- The constitution of the Republic of South Africa, 1996
- Municipal Structures Act 117 of 1998
- Municipal Systems Act 32 of 2000
- Municipal Finance Management Act 56 of 2003

The policy must further comply with the Accounting Standards prescribed by the Accounting Standards Board. The latest recognized accounting standards on Asset Management is

- GRAP 17- Property, Plant and Equipment

10. Annual Review of the policy

This policy will be updated annually or whenever legislative or accounting standards amendments significantly change the requirements pertaining to asset management in general and the administration of property, plant and equipment at a sooner event.