

# **JOE MOROLONG LOCAL MUNICIPALITY**

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## **FIXED ASSETS POLICY 2022/23**

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# **JOE MOROLONG LOCAL MUNICIPALITY**



## **FIXED ASSETS POLICY Updated August 2022**

**MUNICIPAL FIXED ASSETS POLICY  
LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003**

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**PART 1 - DEFINITION OF A FIXED ASSET**

A fixed asset is an asset, either movable or immovable, tangible or intangible, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

Further, the asset shall comply with the recognition criteria stipulated in one of the following accounting standards:

1. Property, Plant and Equipment (GRAP 17)
  - See part 5 below for additional information on sub-categories
  - Leased assets (GRAP 13) (Assets which are held under a finance lease)
2. Investment Property (GRAP 16)
  - Investment Assets (resources held for capital or operational gain)
4. Agriculture (GRAP 27)
  - Biological Assets (livestock and plants held as part of an agricultural process)
3. Intangible Assets (GRAP 31)
  - Intangible Assets (assets without physical substance held for ordinary operational resources)
5. Heritage Asset (GRAP 103)
  - Heritage Assets (assets of a cultural, environmental, historical, natural, scientific, technological or artistic significance)
6. Living and non-living assets (GRAP 110)
  - Living and non-living resources are living or naturally occurring non-living assets (which are not governed by GRAP 12, 13, 16, 17, 27, 31, or 103)

Note: The municipality currently holds Property, plant and equipment and Intangible assets only, and the policy shall be tailored to these asset types.

To be recognised as a fixed asset, an asset must also meet the criteria referred to in part 13 below.

An asset held under a finance lease, shall be recognised as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

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### **PART 2 - ROLE OF MUNICIPAL MANAGER**

As accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality's fixed assets and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

### **PART 3 - ROLE OF CHIEF FINANCIAL OFFICER**

The chief financial officer shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained

No amendments, deletions or additions to the fixed asset register shall be made other than by the chief financial officer or by an official acting under the written instruction of the chief financial officer.

### **PART 4 - FORMAT OF FIXED ASSET REGISTER**

The fixed asset register shall be maintained in the format determined by the chief financial officer, which format shall be sufficiently detailed to provide information needed to comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- the department(s) or vote(s) within which the assets will be used
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in
- compliance with part 9 below
- the original cost and the revalued amount (if applicable) determined in compliance with statements of GRAP, or the fair value if no costs are available
- accumulated depreciation to date
- the depreciation charge for the current financial year the carrying value of the asset
- the method of depreciation if this is other than the straight-line method

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- the expected useful life and remaining useful life of each asset
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing the current insurance arrangements (this may be kept in a separate register or schedule)
- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements (this may be kept in a separate register or schedule)
- the date on which the asset is disposed of
- the disposal prices
- the date on which the asset is retired from use, if not disposed of.

All heads of department under whose control any fixed asset falls shall promptly provide the chief financial officer in writing with any information required to compile the fixed asset register, and shall promptly advise the chief financial officer in writing of any material change which may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a completed fixed asset.

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence, and represents future economic benefits to the municipality. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset, but may indicate an error in the application of GRAP.

### **PART 5 - CLASSIFICATION OF FIXED ASSETS**

In compliance with the requirements of the National Treasury, the chief financial officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments shall in writing provide the chief financial officer with such information or assistance as is required to compile a proper classification:

#### **PROPERTY, PLANT AND EQUIPMENT**

- land (not held as investment assets)
- buildings (which are occupied by municipal officials)
- community assets (resources contributing to the general well-being of the community)
- computer equipment,

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- furniture and office equipment
- infrastructure assets (assets which are part of a network of similar assets)
- machinery and equipment
- motor vehicles
- other assets (should the above classes not be appropriate and the asset or assets are not material; where the asset or assets are material, the chief financial officer shall propose a more appropriate category name)

### INVENTORY

- housing (rental stock or housing stock not held for capital gain)

### INTANGIBLE ASSETS

Intangible assets are identifiable non-monetary assets without physical substance.

Intangible assets will be treated in accordance with GRAP 31 and will separately be classified in the Statement of Financial Position. Intangible assets shall be valued at cost less any accumulated amortization and any impairment losses.

### INVESTMENT PROPERTY

Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.

Investment property shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment property shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate register shall be maintained for this purpose.

After initial recognition, investment property shall be measured in accordance with GRAP 17, i.e., at cost less any accumulated depreciation and any accumulated impairment losses. If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

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### Procedures and Rules

- The Finance department shall ensure that investment assets are recorded in an Investment Property register.
- The Finance department shall ensure the recognition and measurement of Investment Property in terms of GRAP 16.

### **LEASED ASSETS**

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorized into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, asset shall be recognized as an asset of the municipality and a liability recognized in accordance with GRAP 13 Leases.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are recognised as an expense in the Statement of Financial Position on a systematic basis.

### Procedures and Rules

- Senior Managers shall ensure that all leased assets under their control are correctly accounted for and recognized as assets and safeguarded.
- The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.
- All leased assets are transferred to correct category upon expiry of the finance lease term if and only if the leased assets will be fully owned by the municipality after expiry of the agreement.

### **HERITAGE ASSETS**

Heritage Assets will be treated in accordance with GRAP 103 and will be classified separately in the Statement of Financial Position, and shall be valued at its cost less any accumulated impairment losses.

Heritage assets shall not be depreciated as they are intended to be preserved indefinitely for future generations.

### **AGRICULTURAL ASSETS**

A biological asset or agricultural produce shall be accounted for in terms of GRAP 27 and shall be classified separately in the Statement of Financial Position; except where it a bearer plant as defined in the standard in which case it is accounted for under GRAP 17.

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### LIVING AND NON-LIVING ASSETS

Living or naturally occurring non-living assets (which are not governed by GRAP 16, 17, 27, 31, or 103)

Living and non-living resources will be treated in accordance with GRAP 110 and will be classified separately in the Statement of Financial Position.

The Chief Financial Officer shall adhere to the classifications indicated in the annexure

on fixed asset lives (see Annexure A below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question or provide evidence of a more suitable classification or useful life and ensure that this policy is updated accordingly.

#### Procedures and Rules

- The finance department shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to
- The finance department shall inform Senior Managers of the classification requirements.
- Senior Managers shall ensure that all fixed assets under their control are classified correctly.

### PART 6 - CAPITALISATION CRITERIA AND CONSIDERATIONS

#### PPE and Intangible Assets

All PPE and intangible assets shall be carried in the asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation or amortisation in the case of intangible assets.

The original cost of an item of PPE or intangible assets may include:

- Cost price;
- Financing costs (MFMA section 46(4));
- Import tax;
- Non-claimable purchase tax; and
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

When payment for an item of PPE or intangible assets is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as an interest expense over the period of credit.

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



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given up adjusted by the amount of any cash or cash equivalents paid additional. Subsequent expenditure relating to an asset that has already been capitalized, should only 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.

### **Investment Property**

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of purchased investment property includes all directly attributable expenditure (professional fees for legal services, property transfer taxes and other transaction costs).

When payment for an investment property is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as an interest expense over the period of credit.

When investment property is acquired to be exchanged or partly exchanged for a dissimilar investment property 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. For the purpose hereof, "fair value" shall be

determined by the Council with due regard to the definition ascribed to fair value in paragraph 2 hereof.

After initial recognition investment property will be measured at fair value. A gain or loss arising from a change in fair value shall be recognized as a profit or loss in the Statement of Financial Performance in the period in which it arises. The fair value of investment property shall reflect market conditions at reporting date. In terms of GRAP 16 transfers to and from investment property shall be made when there is a change in use:

- (a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) Commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) End of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) Commencement of an operating lease to another party, for a transfer from inventories to investment property.

When an investment property is transferred to inventory or owner-occupied property, the property's deemed cost is the fair value of the property at the date of the change in use.

For a transfer from inventories to investment property, which will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in the Statement of Financial Performance.

### **Intangible Assets**

Assets that meet the criteria of GRAP 102 (Intangible Assets) shall be recognized at cost. An Intangible item shall be recognised as a fixed asset, acting in strict compliance with the criteria set out in GRAP 31 and the Chief Financial Officer may decide that specific items be recognised as Property, Plant and Equipment where such intangible item forms an integral part of an item of Property, Plant and Equipment.

### **Leased Assets**

These assets shall be recognised at the lower of the fair value of the leased asset or, the net present value of the minimum lease payments, each determined at the inception of the lease.

Where the municipality is the lessor, the related assets shall be recognised as PPE or investment property, and recognised and capitalized in terms of those asset categories.

### **Heritage Assets**

A heritage asset that qualifies for recognition as an asset shall be measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the asset register without an indication of the costs or fair value concerned.

For Statement of Financial Position purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

### **Agriculture assets**

A biological asset or agricultural produce is recognised when and only when:

- the Municipality controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the Municipality;
- and the fair value or cost of the asset can be measured reliably.

Biological assets measured initially and at each reporting date at their fair value less cost to sell. The fair value of game is determined based on market prices of livestock of similar age, breed, and genetic merit in the local industry. Game is considered to be consumable/bearer biological assets.

A gain or loss arising on initial recognition of biological assets at fair value less cost to sell is included in profit or loss for the period in which it arises.

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### **Living and Non-Living Resources**

Living and non-living resources are living or naturally occurring non-living assets (which are not governed by GRAP 16, 17, 27, 31, or 103).

Non-living resources, other than land, shall not be recognised as assets. Instead, information as required in paragraphs .114 to .116 of GRAP 110 shall be disclosed in the notes to the financial statements.

A living resource shall be recognised as an asset if, and only if: (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and (b) the cost or fair value of the asset can be measured reliably.

The definition of an asset is met if the living resource is controlled by the entity, as a result of past events, and from which future economic benefits or service potential is expected to flow to the entity. Criteria to determine whether control exists are set out in paragraphs .17-.28 of GRAP 110.

Where the municipality holds living resources but does not recognize them as the requirements for control are not met it shall disclose the information required by paragraphs .114, .115 and .126 of GRAP 110.

### **PART 7 - FIXED ASSETS TREATED AS INVENTORY**

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory (GRAP 12), and not included in either property, plant and equipment or investment property in the municipality's statement of position.

Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

Where spare parts, standby equipment and servicing equipment do not meet the recognition criteria in terms of GRAP 17, they shall be recognized as inventory in terms of GRAP 12.

### **PART 8 - RECOGNITION OF DONATED ASSETS**

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

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### **PART 9 - SAFEKEEPING OF ASSETS**

Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.

In exercising this responsibility, every head of department shall adhere to any written directives issued by the municipal manager to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's fixed assets.

Section 78(e) of the Municipal Financial Management Act (Act no. 56 of 2003) determines each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary. A senior manager or such official must perform the functions subject to the directions of the accounting officer of the municipality.

Care shall be taken to record the issuing of moveable assets such as laptops to officials or councillors, to record their acknowledgement of receipt, and to recover the assets or value of the assets (in part or in full) as appropriate in the event of theft, damage or termination of the official's employment/councillor's term.

### **PART 10 - IDENTIFICATION OF FIXED ASSETS**

The municipal manager shall ensure that the municipality maintains a fixed asset identification system, which shall be operated in conjunction with its computerised fixed asset register.

The identification system shall be determined by the municipal manager, acting in consultation with the chief financial officer and other heads of departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report(s), and shall be decided upon within the context of the municipality's budgetary and human resources.

Every head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

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- The Finance department shall develop and implement an asset identification system, while acting in consultation with Senior Managers.
- Senior Managers shall ensure that all the assets under their control are correctly identified.
- As far as practicable, all movable assets must be bar-coded or uniquely marked.
- Any serial numbers shall be recorded to the fixed asset register.
- Immovable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.

### **PART 11 - PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS**

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

### **PART 12 - CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses, which are reasonably ancillary to the bringing into operation of a fixed asset, may be capitalised as part of such fixed asset. Such expense may include but need not be limited to import duties, forward cover costs, transportation costs, and installation, assembly and communication costs.

### **PART 13 - MAINTENANCE PLANS**

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the council of the municipality for approval.

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If so, directed by the municipal manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

### **PART 14 - DEFERRED MAINTENANCE**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 16 above), the chief financial officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.

Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the chief financial officer shall re-determine the useful operating life of the fixed asset in question, if necessary, in consultation with the head of department controlling or using such asset and shall recalculate the annual depreciation expenses accordingly.

### **PART 15 - GENERAL MAINTENANCE OF FIXED ASSETS**

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets) are properly maintained and in a manner, which will ensure that such assets attain their useful operating lives.

- Senior Managers responsible for the control and utilization of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.
- Senior Managers shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- Senior Managers shall report to the Council annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.

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- Senior Managers shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes;
- Senior Managers shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

### **PART 16 - DEPRECIATION OF FIXED ASSETS**

All PPE, except land, and assets under construction., shall be depreciated. Investment property is not depreciated; All intangible assets, other than intangibles with an indefinite useful life, shall be amortised over their remaining useful lives. Heritage assets are not depreciated; Leased assets are depreciated or amortised depending on their nature. Agricultural assets are not depreciated unless fair value cannot be determined. Living assets are depreciated.

Depreciation and amortisation reflect the monetary quantification of the extent to which assets are used or consumed in the provision of economic benefits or the delivery of services.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed assets brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly.

Each head of department, acting in consultation with the chief financial officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

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### **PART 17 - RATE OF DEPRECIATION**

The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. In determining such a useful life, the chief financial officer shall adhere to the useful lives set out in annexure A to this document as a guideline.

In the case of a fixed asset which is not listed in this annexure, the chief financial officer shall determine a useful operating life, if necessary, in consultation with the head of department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

The Chief Financial Officer shall determine the depreciable amount of all depreciable asset on a systematic basis over its useful life. The straight-line method of depreciation shall be used unless there is indication that another method is preferable.

### **PART 18 – ASSESSMENT OF DEPRECIATION METHODS AND ASSUMPTIONS**

The depreciation/amortisation method, residual value and useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimate in accordance with GRAP 3.

### **PART 19 - AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS**

Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the Chief Financial Officer shall inform the Council of the municipality of such amendment.

The depreciation method applicable to a class of asset must be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method must be changed to reflect the changed pattern. Amortisation methods should be reviewed annually in this manner as well.

If the value of an assets has been diminished to such an extent that it has no or a negligible further useful life or value such item shall be fully depreciated or impaired in the financial year in which such diminution in value occurs, and subject to the considerations under the sections on Impairment and Other Write-offs of assets in this policy. Similarly, if an item of PPE has been lost, or stolen it shall be written off in the asset register in terms of this policy.



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In all of the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the asset in question.

The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset has been lost or stolen it shall be written off the fixed asset register.

In the all the foregoing instances, the additional depreciation or impairment expenses shall be debited to the department or vote controlling or using the fixed asset in question.

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully impaired, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full expense concerned.

### **PART 20 - ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES**

The chief financial officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The chief financial officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the municipal manager to provide:

- estimates of statistical information required by the chief financial officer to prepare estimates of depreciation expenses for each financial year; and
- actual statistical information, for each financial year.

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The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the chief financial officer.

Where the chief financial officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the chief financial officer shall inform the council of the municipality of the decision in question.

### **PART 21 - IMPAIRMENT OF ASSETS**

The accounting treatment relating to impairment losses is outlined in GRAP 21 and 26. For the purposes of the section the considerations of these standards are combined, however the individual standards should be consulted to ensure strict adherence to the requirements. For the purposes of this section, recoverable amount and recoverable service amount are referred to as recoverable amount.

The carrying amount of an item or a group of identical assets should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount. Investment properties or Agricultural assets are not subject to impairment, however this may be reflected as a lower fair value.

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 the Revaluation Reserve.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to the 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 works 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 the recoverable amount.

The following may be indicators that an asset is impaired:

External sources of information:

- (a) Cessation, or near cessation, of the demand or need for services provided by the asset.
- (b) Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

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(c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially. Internal sources of information

Internal sources of information

(a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(c) Evidence is available of obsolescence or physical damage of an asset.

(d) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite.

(e) A decision to halt the construction of the asset before it is complete or in a usable condition.

(f) Evidence is available from internal reporting that indicates that the service or economic performance of an asset is, or will be, significantly worse than expected.

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

- Departments will identify and inform the Chief Financial Officer of assets that have indicators of impairment.
- The recoverable amounts of these assets need to be determined.
- The impairment loss per asset is the difference between the recoverable amount and the carrying value of the asset.
- The impairment loss needs to be accounted for by identifying the relevant funding source.

### **PART 22 - VERIFICATION OF FIXED ASSETS**

Every head of department shall at least once during every financial year, and in compliance with the relevant written directives issued by the Chief Financial Officer, undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

The directives issued by the Chief Financial Officer shall stipulate the date(s) when such verification shall be undertaken and completed, one such verification exercise shall be as close as possible to the end of each financial year.

Every head of department shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification, and the resultant report shall be

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submitted to the Chief Financial Officer not later than 30 June of the year in question.

### **PART 23 - DISPOSAL OF FIXED ASSETS**

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Every head of department shall report in writing to the Chief Financial Officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments and shall promptly report such consolidated information to the Municipal Manager, indicating the process of disposal to be adopted in accordance with municipality's supply chain management policy.

The Chief Financial Officer shall ensure that the disposal of any fixed asset with a carrying value equal to or in excess of R50 000 (fifty thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004, (see annexure B below).

Once the fixed assets are alienated, the Chief Financial Officer shall update the relevant records to remove the item from the fixed asset register.

If the proceeds of the disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the statement of financial performance of the department or vote concerned. If the proceeds of the disposal, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the statement of financial performance of the department or vote concerned.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of disposal shall be by private treaty in accordance with Section 20 of the municipality's supply chain management policy.

The Chief Financial Officer shall in July of every year report to the Council of the municipality details of all fixed assets disposed of during the immediately

preceding financial year.

#### **PART 24 OTHER WRITE-OFFS OF FIXED ASSETS**

A fixed asset even though fully depreciated shall be written off only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the council of the municipality.

The chief financial officer shall consolidate the report for asset write-offs and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question.

In every instance where a not fully depreciated fixed asset is written off, the chief financial officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned.

#### **PART 25 - REPLACEMENT NORMS**

The municipal manager, in consultation with the chief financial officer and other heads of departments, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which are required for service delivery, but which have become uneconomical to maintain, subject to the requirements of the MFMA set out in Annexure B.

#### **PART 26 - INSURANCE OF FIXED ASSETS**

The municipal manager shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

The municipal manager shall recommend to the council of the municipality, after consulting with the chief financial officer, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

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### ANNEXURE A: FIXED ASSET USEFUL LIVES

The following are the useful lives that are applicable for the various categories for depreciation purposes on a straight-line basis:

	<b>Category</b>	<b>Method</b>	<b>Useful life</b>
1	Land	Not depreciated	Indefinite
2	Buildings	Straight Line	8-50 years
3	Community assets	Straight line	8- 50 years
4	Computer equipment	Straight line	5-7 years
5	Infrastructure assets	Straight line	10- 80 years
6	Intangible assets	Straight line	5years
7	Furniture and Fittings	Straight line	2-7 years
8	Leased assets	Straight line	3-5 years
9	Motor vehicles	Straight line	5-15 years
10	Machinery and equipment	Straight line	5-12 years

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### **ANNEXURE B: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003**

A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.

A municipality may alienate any other capital asset, but provided

- the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- The council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.