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**MAKANA MUNICIPALITY**

**ASSET MANAGEMENT POLICY**

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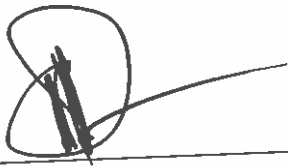
<b>POLICY NUMBER:</b>	(F) 8
<b>POLICY STATUS</b>	Amended
<b>VERSION</b>	2
<b>DATE OF APPROVAL</b>	30 May 2009
<b>DATE OF FIRST IMPLEMENTATION</b>	01 July 2009
<b>DATE OF LAST AMENDMENT</b>	15 March 2023
<b>DATE OF NEXT REVIEW</b>	01 July 2023
<b>PURPOSE</b>	See Policy
<b>AIMS AND OBJECTIVES</b>	To ensure the effective and efficient control of the Municipality's capital assets
<b>POLICY CUSTODIAN</b>	Directorate: Budget and Treasury
<b>RELATED POLICIES AND LEGISLATION</b>	<ul style="list-style-type: none"> <li>• The Constitution of the Republic of South Africa, Act 108 of 1996</li> <li>• Municipal Structures Act No117 of 1998</li> <li>• Municipal Systems Act 32 of 2000</li> </ul>

	<ul style="list-style-type: none"> <li>• Division of Revenue Act (enacted annually)</li> <li>• Municipal Finance Management Act No 56 of 2003</li> <li>• Municipal Regulations on a Standard Chart of Accounts.</li> <li>• Standards of Generally Recognised Accounting Practice</li> </ul>
<b>APPROVING AUTHORITY</b>	Council.
<b>APPLICABILITY</b>	This document describes the Asset Management Policy that will be applicable to the Makana Municipality with effect from 1 July 2023 till next Review.
<b>POLICY BENCHMARK AND REFERENCES</b>	
<b>STAKEHOLDERS CONSULTED</b>	Yes

## ASSET MANAGEMENT POLICY

The policy was adopted by Council on May 2023 and will be effective from 1 July 2023.

Signature: \_\_\_\_\_

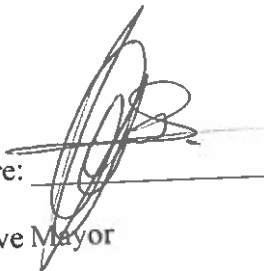


Municipal Manager (Accounting Officer)

Date: \_\_\_\_\_

07/08/23

Signature: \_\_\_\_\_



Executive Mayor

Date: \_\_\_\_\_

07/08/2023

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## ABBREVIATIONS

<b>AMU</b>	<b>Asset Management Unit</b>
<b>AMP</b>	<b>Asset Management Plan</b>
<b>ASB</b>	<b>Accounting Standards Board</b>
<b>CFO</b>	<b>Chief Financial Officer</b>
<b>CMIP</b>	<b>Comprehensive Municipal Infrastructure Plan</b>
<b>COGTA</b>	<b>Department of Co-operative Governance and Traditional Affairs</b>
<b>CRC</b>	<b>Current Replacement Cost</b>
<b>DRC</b>	<b>Depreciated Replacement Cost</b>
<b>EUL</b>	<b>Estimated Useful Life</b>
<b>GIAMA</b>	<b>Government Immoveable Asset Management Act</b>
<b>GRAP</b>	<b>Standards of Generally Recognised Accounting Practice</b>
<b>IAMP</b>	<b>Infrastructure Asset Management Plan</b>
<b>IDP</b>	<b>Integrated Development Plan</b>
<b>IIMM</b>	<b>International Infrastructure Management Manual</b>
<b>ISO</b>	<b>International Standards Organisation</b>
<b>MLM</b>	<b>Makana Local Municipality</b>
<b>MFMA</b>	<b>Municipal Finance Management Act</b>
<b>AO</b>	<b>Accounting Officer</b>
<b>MSA</b>	<b>Municipal Systems Act</b>
<b>OHSA</b>	<b>Occupational Health and Safety Act</b>
<b>PPE</b>	<b>Property, Plant and Equipment</b>
<b>RUL</b>	<b>Remaining Useful Life</b>
<b>RV</b>	<b>Residual Value</b>
<b>SDBIP</b>	<b>Service Delivery and Budget Implementation Plan</b>
<b>VAT</b>	<b>Value Added Tax</b>
<b>%</b>	<b>Percentage</b>

## **I. Introduction**

Section 63 of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that the accounting officer of a Municipality is responsible for the management of the assets of the Municipality, including the safe-guarding and the maintenance of these assets.

Section 14 of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services.

The Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) regulates the transfer and disposal of capital assets by Municipalities and the granting by Municipalities of rights to use, control or manage capital assets.

And whereas the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets.

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.

Therefore, the municipal council of the Makana Local Municipality adopts the following asset management policy.

## 2. Objectives of the Policy

The MFMA was introduced with the objective of improving accounting in the local government. Good asset management is critical to any environment whether in the private or public sector.

- a. The principal objective of asset management is to enable the Municipality to meet its service delivery objectives efficiently and effectively.
- b. Effective asset management also makes the most of the service potential of assets by ensuring they are appropriately used and maintained.
- c. To ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the Municipality. It focuses attention on results by clearly assigning responsibility, accountability, and reporting requirements.
- d. To set out the accounting treatment for assets acquired and used by the Municipality; and
- e. To prescribe the administrative guidelines and internal control procedures to be followed by persons in control of Municipal assets.
- f. Safeguarding of municipal assets and reporting process



### 3. Definition

In this policy unless the context indicates otherwise: -

<b>Accounting Officer</b>	Means the Municipal Manager appointed in terms of Section 82 of The Local Government: Municipal Structures Act, 1998 (Act no. 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).
<b>Asset</b>	<p>An “Asset” is a resource controlled by the entity because of past events and from which future economic benefits or services potential are expected to flow to the entity.</p> <p>In terms of GRAP 17, Property, plant and equipment are tangible items that:</p> <ul style="list-style-type: none"><li>a) Are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and</li><li>b) Are expected to be used during more than one reporting period</li></ul>
<b>Capital Asset</b>	Capital Assets are items of Biological Assets, Intangible Assets, and Investment Property or Property, Plant or Equipment and Heritage as defined in the individual GRAP Standards.
<b>Carrying Amount</b>	The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.
<b>Chief Financial Officer</b>	means an officer of a Municipality designated by the Accounting Officer to be administratively in charge of the budgetary and treasury functions of the Municipality
<b>Community Assets</b>	Community Assets are defined as any asset that contributes to the community’s wellbeing. Examples are parks, libraries, and fire stations.
<b>Cost</b>	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, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

<b>Depreciable amount</b>	The cost of an asset, or other amount substituted for cost, less its residual value.
<b>Depreciation</b>	Systematic allocation of the depreciable amount of an asset over its useful life. The Municipality will depreciate its property plant and equipment using the straight-line method
<b>Fair Value</b>	Amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
<b>Finance Lease</b>	As per GRAP 13, a finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
<b>Heritage Assets</b>	Are defined as culturally significant resources. Examples are works of art, historical buildings, and statues
<b>Head of Department</b>	All incumbents Section 57 employees who report to the Accounting Officer and are responsible for the management of the different directorates within the Municipality
<b>Impairment loss</b>	The amount by which the carrying amount of an asset exceeds its recoverable service amount
<b>Infrastructure Assets</b>	Infrastructure assets, these usually display some or all the following characteristics: <ul style="list-style-type: none"><li>- They are part of a system or network.</li><li>- They are specialised in nature and do not have alternative uses.</li><li>- They are immovable; and</li><li>- They may be subjected to constraints on disposal</li></ul>

<b>Intangible Assets</b>		An intangible asset is an identifiable non-monetary asset without physical substance.
<b>Inventory</b>		Inventories are assets:  (a) in the form of materials or supplies to be consumed in the production process. (b) in the form of materials or supplies to be consumed or distributed in the rendering of services. (c) Held for sale or distribution in the ordinary course of operations; or in the process of production for sale or distribution.
<b>Investment Property</b>		Investment property is property (land or a building – or part of a building – or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both or for undetermined use
<b>Non-Current Asset Held for Sale</b>		A non-current asset is an asset that does not meet the definition of a current asset. An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
<b>Recoverable amount</b>		The higher of a cash-generating asset's net selling price and its value in use
<b>Recoverable amount</b>	<b>service</b>	The higher of a non-cash-generating asset's fair value less cost to sell and its value in use.
<b>Control items</b>		Are items of a capital nature that are not significant enough for recognition as major assets but are valuable enough to warrant special safeguarding which are less than R2,000.00
<b>Residual Value</b>		Is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at

the end of its useful life

<b>Useful Life</b>	Is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity
<b>Acquisition Date.</b>	The date of acquisition of capital assets is deemed to be the time when legal title and/or control passes to the Municipality.
<b>Depreciation Start Date</b>	This date is the point of time when the capital asset has been received or when the capital asset is ready for use whichever the latest date is and will be the date when the capital asset starts to depreciate.
<b>Work in Progress</b>	Is an asset under construction not completed and brought into use.
<b>Other assets</b>	Are defined as capital assets utilised in normal operations administrative function of the municipality, Examples are plant, equipment, motor vehicles, office equipment and furniture and fittings etc.

#### **4. Guiding Principles**

- a) Planning, budgeting, and reporting on assets are to be integrated with broader planning processes, within departments.
- b) Municipal management should oversee the utilization, safeguarding and maintenance of assets and the appropriate reporting for regulatory and decision purposes.
- c) Ownership and control of all assets are to be fully defined. Accountability and reporting requirements for both ownership and control are to be determined and clearly communicated.
- d) Clear segregation of functions in asset custody and the physical security of assets should be enforced throughout the entity.

#### **5. Roles in the Asset Management Cycle**

##### **5.1. Role of the Municipal Manager**

The Municipal Manager, being the accounting officer of the Municipality, is responsible for the following in terms of section 63 of the Municipal Finance Management Act (Act No. 56 of 2003):

- a) The assets of the Municipality, including the safeguarding and the maintenance of those assets.
- b) Ensuring that the Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality.
- c) Ensuring that the Municipality 's assets are valued in accordance with the Standards of Generally Recognised Accounting Practice (GRAP); and
- d) Ensuring that the Municipality maintains a system of internal control of assets, including an asset register.
- e) That all Councillors, Heads of Department and Managers comply with this policy.

## **5.2. Role of the Chief Financial Officer (CFO)**

The Municipal Manager has duly delegated the following duties to the Chief Financial Officer in terms of section 79(1) (b) (ii) of the MFMA:

- a) Ensuring that all acquisitions of assets are in accordance with the Supply Chain Management Policy.
- b) Ensuring that council assets are accounted for in accordance with Generally Recognised Accounting Practice (GRAP).
- c) Ensuring that the general ledger is reconciled to the fixed asset register.
- d) Reviewing the reconciliation between the general ledger and the fixed asset register; and
- e) Providing the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.
- f) The financial and other resources of the municipality are utilised effectively, efficiently, economically, and transparently.
- g) Any unauthorised, irregular, or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.
- h) The Directors and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of capital assets.
- i) The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

## **5.3. Role of the Finance Directorate - Asset Management Unit**

- a) This division shall be the asset registrar of the Municipality and shall ensure that a complete, accurate and up to date asset register is maintained.
- b) No amendments to the asset register shall be made other than those authorized by the Asset Manager and the Chief Financial Officer.
- c) Implementing and maintaining a centralized asset register.
- d) Ensure that physical asset verification is performed annually in all Departments to verify the

assets on the asset register. The results of this verification must be reported to the Municipal Manager and Council.

- e) Ensuring that appropriate systems of physical management and control are established and carried out for all assets.
- f) Ensuring that the municipal resources assigned to the Departments are utilized effectively, efficiently, economically, and transparently.
- g) Ensuring that proper accounting processes and procedures are implemented in conformity with the municipal financial policies and the MFMA to produce reliable data for inclusion in the municipal asset register.
- h) Ensuring that any unauthorised, irregular, fruitless, or wasteful utilization, and losses resulting from criminal or negligent conduct are prevented.
- i) Ensuring that the asset management systems, processes, and controls can provide an accurate, reliable, and up-to-date account of assets under their control.
- j) Ensuring that the Asset Management Unit can manage the asset plans, budgets, purchasing, maintenance, depreciation, and disposal decisions and justify that they optimally achieve the Municipality 's strategic objectives.
- k) Managing the asset life-cycle transactions to ensure that the Department complies with the plans and legislative municipal requirements; and
- l) The asset Manager may delegate or otherwise assign responsibility for performing these functions but remains accountable for ensuring that these activities are performed.

#### **5.4. Role of the Finance Directorate – Budget, Compliance and Reporting**

- (a) Ensuring that a clear description is provided with each project and the appropriate funding source is identified. Releasing capital funds only after receiving written authority and a clear and concise description of the item to be purchased.
- (b) Ensuring that any changes in the capital budget, with regards to funds transferred or project description changes are communicated to the Asset Management Unit; and
- (c) Ensuring that the calculation of depreciation is performed, and details required for processing financial records to be obtained from the Asset Management Unit for budget purpose and reporting.

#### **5.5. Role of the Finance Directorate - Expenditure Division**

- (a) Ensuring that invoices authorized for payment are matched to the goods received note before processing such payment.
- (b) Ensure that invoices are captured timeously and on correct capital Vote.
- (c) Ensure that invoices for suppliers who qualify for vat are captured accordingly as vat is claimable by the Municipality.
- (d) Ensure that invoice with retention is properly captured as per the attached annexure.

#### **5.6. Role of the Supply Chain Management Division**

- (a) Ensuring that correct procedures are followed in asset acquisitions as per the Municipalities Supply Chain Management Policy.
- (b) Ensuring that delivery note is signed where necessary, and that Information Technology department is involved on all computer related assets for validation.
- (c) Ensuring that Asset management division is aware and informed of all tenders awarded that are capital in nature monthly.
- (d) Ensure that closer of complete or fully delivered projects is done and practical completion certificates are forwarded to assets division.
- (e) Inform asset division of all deliveries for assets to different office(s) for appropriate barcoding and recording in the asset register. Ensuring that speedy and accurate clearing of orders to enable expenditure to capture on time.
- (f) Ensure that the AMU receives information such as signed invoices, signed payment certificates, final BOQ's, etc regarding all projects, from inception to completion to update the Fixed Assets Register and Work in Progress Register.
- (g) Ensure that the Assets Management unit is updated monthly regarding all progress payments effected on each contract, as per costing schedules supplied as well as quotations register.
- (h) Ensure that AMU is provided with all the details of all components of any infrastructure created, including values and estimated life span, dimension,



geographical data relating to infrastructure assets etc on completion of each capital project.

- (i) Ensure that the Asset Management Unit is informed when the work in progress is completed and supply a copy of the relevant practical completion certificates and bill of quantities.

**5.7. Role of the Department Managers - Human Resources:**

- a) Ensure all municipal assets in the custody of employees or councillors are returned in good working order in the event of termination of employment and that measure to recoup the value of lost or damaged assets are in place and acted upon.
- b) Ensure that employee exit form is signed by the Chief Financial Officer and verification of assets is attached before processing the termination of service of an employee and payment of any monies due to such employee.

**5.8. Role of the Department Managers**

- a) Ensuring that all employees in their departments adhere to the approved Asset Management Policies and Procedures.
- b) Ensuring that an employee with delegated authority has been nominated to implement and maintain physical control over assets in the Department. The Asset Management Division must be notified of who the responsible official is.
- c) Although authority may be delegated, the responsibility to ensure adequate physical control over each asset remains with the custodian of that asset as per the previous verification and allocation.
- d) Ensuring that the assets are properly maintained in accordance with the asset required standards.
- e) Ensuring that the assets of the Municipality are not used for private gain.
- f) Ensuring that all movable assets as reflected on the asset register and the Department Items listing are bar coded.
- g) Ensuring that certification has been provided in writing that they have assessed and identified impairment losses on all affected assets at year-end.
- h) Ensuring that a complete asset verification of all assets is done for the Department's assets during every financial year.
- i) Ensuring that all obsolete and broken assets are accompanied by the relevant asset Scraping

form and are handed in to the Asset Management Division and Budget and Treasury Office;  
and

- j) Ensuring that the correct cost element and description are being used before authorizing any requisitions.
- k) The Municipal resources assigned to them are utilised effectively, efficiently, economically, and transparently.
- l) The asset management systems and controls can provide an accurate, reliable, and up to date record of capital assets under their control.
- m) All moveable capital assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. Any known losses should be immediately reported to the Chief Financial Officer; The Director may delegate or otherwise assign responsibility for performing these functions but will remain ultimately accountable for ensuring these activities are performed.
- n) Ensure that the asset management unit is notified in writing of all the assets (monetary or non-monetary) that have been donated to the Municipality.
- o) Ensure that the service level agreement or memorandum of understanding between the Municipality and the donor which is signed by both accounting officers is in place, proof of purchase of such asset (invoice), etc and if forwarded to the asset management unit upon the receipt of or delivery of such asset.

## 6. PROPERTY PLANT AND EQUIPMENT

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment, except:

- a. when a different accounting treatment has been adopted in accordance with another Standard of GRAP.
- b. property, plant, and equipment classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations.
- c. biological assets related to agricultural activity (see Standard of GRAP on Agriculture).
- d. heritage assets (see Standard of GRAP on Heritage Assets).
- e. the recognition and measurement of exploration and evaluation assets (see the International Financial Reporting Standard on Exploration for and Evaluation of Mineral Resources; and
- f. mineral rights, and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b) to (e).

### 6.1. Recognition

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- a) it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- b) the cost or fair value of the item can be measured reliably.

Items such as spare parts, stand-by equipment and servicing equipment are recognized when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory.

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

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

The measurement at recognition of an item of property, plant, and equipment, acquired through a non-exchange transaction, at its fair value does not constitute a revaluation.

All property, plant and equipment costs are recognized at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to or replace part of.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

## 6.2. Subsequent Costs

After initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses and add any impairment loss reversal. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it is probable that the future economic benefits or service potential associated with the item will flow to the Municipality and the cost or fair value of the item can be measured reliably.

### (a) **Maintenance costs**

These costs are recognised in surplus, or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables and may include the cost of small parts.

### (b) **Major overhauls / Frequent scheduled repairs**

Parts of some items of property, plant and equipment may require replacement at regular

intervals. For example, a road may need resurfacing every few years. The cost of replacing part of such an item of property, plant and equipment is recognised in the carrying amount. The carrying amount of those parts that are replaced is derecognized in accordance with the de-recognition provisions of GRAP 17.

(c) **Measurement after recognition - Cost model**

After recognition as an asset, the Municipality shall carry all items of property, plant, and equipment at its cost less any accumulated depreciation and any accumulated impairment losses.

(d) **Impairment Review**

Impairment is a loss in the future economic benefits or service potential of an asset, over and above depreciation. Impairment means the carrying amount of an asset exceeds its recoverable amount or recoverable service amount. Indications for impairment are assessed at each reporting date. There are cash-generating and non-cash-generating assets.

Cash-generating assets are those that are held to generate a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-orientated entity.

Non-cash-generating assets are assets other than cash-generating assets.

(e) **External Sources**

Significant long-term changes in technology, market, economic, government or legal environment have taken place or will take place soon. There is cessation, or near cessation, of the demand or need for services provided by the asset.

(f) **Internal Sources**

There is evidence of the obsolescence of or physical damage to an asset. Significant long-term changes in the operational environment will impact on the future expected use of the asset, e.g., discontinued operations, early disposal, or reassessment of useful life.

Internal reporting indicates worse than expected economic and / or service performance in respect the asset. Reviews of significantly decreased remaining useful life (includes various

types of obsolesces); significantly decreased residual value, significantly decreased replacement cost. A decision is taken to halt the construction of the asset before it is complete or in a usable condition.

### 6.3. Review of useful life, depreciation method, residual value, and Impairment.

The useful life, depreciation method and the residual value applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method, useful life, and residual value shall be changed to reflect the changed pattern.

Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors

In assessing whether there is any indication that the expected useful life of an asset has changed, the following is considered:

- a) The composition of the asset changed during the reporting period, i.e., the significant component of the asset changed.
- b) The use of the asset has changed, because of the following:
  - I. The Municipality changed the way the asset is used.
  - II. The Municipality changed the utilisation rate of the asset.
  - III. The Municipality changed its decision regarding the period over which the asset will be used and then disposed of.
  - IV. Technological, environmental, commercial or the changes occurred that will change the use of the asset.
  - V. Legal or similar limits placed on the use of the asset have changed.
  - VI. The asset was idle or retired from use during the reporting period.
- c) The asset is approaching the end of its previously expected useful life.
- d) Planned repairs and maintenance on, or refurbishment of, the asset and/ or significant components either being undertaken or delayed.
- e) Environmental factors, e.g., increased rainfall or humidity, adverse changes in temperature or

increased exposure to pollution.

- f) There is evidence that the condition of the asset improved or declined based on the assessments undertaken during the reporting period.
- g) The asset is assessed as being impaired in accordance with the Standards of GRAP on impairment. Condition assessments will be undertaken by the Municipality on selected or identified assets as part of its ongoing assets management, and any assessment undertaken during the reporting period should be used to assess whether the useful life of assets should be changed. In assessing whether the condition of an asset has improved or declined, the stage of assets life cycle needs to be considered as assets age, a certain level of deterioration is expected. It is only where a decline in the condition is above what is expected, would a thorough analysis on the useful life of the asset be required. The same applies if an asset is in a better condition than expected.

The Municipality shall assess at each reporting date whether there is any indication that an asset may be impaired” Impairment is to be considered for an asset taken as a whole, rather than its individual components.

GRAP 21 and GRAP 26 define an impairment as follows: “An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation”.

Examples below are some typical situations where impairment has occurred:

- (a) A Municipality owns a building that it rents to external parties, and there is a significant decline in market rentals.
- (b) New environmental legislation is passed that restricts the use of certain landfill sites.
- (c) New technical evidence shows that a certain type of underground pipe has a significantly shorter useful life than expected.
- (d) High rainfall has damaged certain roads and their associated infrastructure.
- (e) New wireless technology has been developed that will make certain wire-based computer



networks obsolete.

If any of the indications are present, the Municipality is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, the GRAP Standard on Impairment does not require the Municipality to make a formal estimate of recoverable service amount.

#### 6.4. Asset Classes

The Municipality shall have the following asset classes as a class of property, plant, and equipment in the Annual Financial Statements: -

- (a) Land
- (b) Buildings
- (c) Community Assets
- (d) Infrastructure Assets
- (e) Work in Progress
- (f) Other Assets

#### 6.5. Depreciation

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. The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The depreciable amount of an asset shall be allocated on a systematic basis over its useful life, using the straight-line method. The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

An asset shall remain in the asset register for as long as it physically exists. The fact that an asset has been fully depreciated shall not in itself be a reason for removing the asset from the asset register. For practical reasons the Municipality must keep fully depreciated asset in the asset register and provide a list of such assets in the notes to financial statement during year end

reporting.

#### 6.6. De-recognition

The carrying amount of an item of property, plant and equipment shall be de-recognised:

- (a) On disposal,
- (b) When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from de-recognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognized.

### 7. INVESTMENT PROPERTY

Investment property is property (land or a building – or part of a building – or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both or for undetermined use.

The following are examples of investment property:

- (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a Municipality for capital appreciation which may be sold at a beneficial time in the future.
- (b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land either as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is held for capital appreciation.)
- (c) A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a Municipality may own a building that it leases on a commercial basis to external parties.

(d) A property owned by the entity and leased out at a below market rental.

(e) Property that is being constructed or developed for future use as investment property.

The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.

The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see the Standard of GRAP on Inventories). For example, a Municipality may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal soon or for development for resale is classified as inventory. The Department of Housing may routinely sell part of its housing stock in the ordinary course of its operations because of changing demographics, in which case any housing stock held for sale is classified as inventory.
- (b) Property being constructed or developed on behalf of third parties. For example, the Department of Housing may enter construction contracts with entities external to its government (see the Standard of GRAP on Construction Contracts).
- (c) Owner-occupied property (see the Standard of GRAP on Property, Plant and Equipment), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether the employees pay rent at market rates) and owner-occupied property awaiting disposal.
- (d) Property that is leased to another entity under a finance lease.
- (e) Property held to provide goods and services and generates cash inflows. For example, an entity may hold a large housing stock used to provide housing to low-income families at below market

rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

- (f) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

### 7.1. Recognition

Investment property shall be recognised as an asset when, and only when:

- a) it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and
- b) the cost or fair value of the investment property can be measured reliably.

An investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).

### 7.2. Subsequent Costs

The Municipality after initial recognition, chooses the cost model and shall measure all of its investment property in accordance with the Standard of GRAP on Property, Plant and Equipment, i.e., at cost less any accumulated depreciation and any accumulated impairment losses, other than those that meet the criteria as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with that Standard.

### 7.3. Review of useful life, depreciation method, residual value, and Impairment

The useful life, depreciation method and the residual value applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method,

useful life, and residual value shall be changed to reflect the changed pattern.

Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors

The Municipality shall assess at each reporting date whether there is any indication that an asset may be impaired” Impairment is to be considered for an asset taken as a whole, rather than its individual components.

If any of the indications are present, the Municipality is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, the GRAP Standard on Impairment does not require the Municipality to make a formal estimate of recoverable service amount.

#### **7.4. Depreciation**

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. The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The depreciable amount of an asset shall be allocated on a systematic basis over its useful life, using the straight-line method. The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

An asset shall remain in the asset register for as long as it physically exists. The fact that an asset has been fully depreciated shall not in itself be a reason for removing the asset from the asset register. For practical reasons the Municipality must keep fully depreciated asset in the asset

register and provide a list of such assets in the notes to financial statement during year end reporting.

### 7.5. De-recognition

An investment property shall be derecognised (eliminated from the statement of financial position):

- (a) on disposal (including disposal through a non-exchange transaction) or.
- (b) when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in surplus or deficit in the period of the retirement or disposal.

## 8. INTANGIBLE ASSETS

Intangible asset is an identifiable non-monetary asset without physical substance.

The following are examples of intangible assets:

- (a) Brand names
- (b) Computer Software
- (c) Licences
- (d) Copyrights, patents, and other property rights
- (e) Intangible assets under development
- (f) Designs and rights to use naturally occurring assets.

### 8.1. Recognition

Intangible asset shall be recognised as an asset if, and only if:

- c) it is probable that the future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- d) the cost or fair value of the asset can be measured reliably.



An intangible asset shall be measured initially at cost in accordance with paragraph 28 to 39 of GRAP 31. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition shall be measure at its fair value as at that date.

#### **8.2. Subsequent Costs**

The Municipality after initial recognition, chooses the cost model and shall measure all its intangible assets in accordance with the Standard of GRAP on intangible assets, i.e., at cost less any accumulated Amortization and any accumulated impairment losses.

#### **8.3. Review of useful life, amortisation method, residual value, and Impairment**

The useful life, amortisation method and the residual value applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method, useful life, and residual value shall be changed to reflect the changed pattern.

Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors

The Municipality shall assess at each reporting date whether there is any indication that an asset may be impaired” Impairment is to be considered for an asset taken as a whole, rather than its individual components.

If any of the indications are present, the Municipality i s required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, the GRAP Standard on Impairment does not require the Municipality to make a formal estimate of recoverable service amount.

#### **8.4. Amortisation**

The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life, using the straight-line method. Amortisation of an asset shall begin when the asset is available for use and cease at the date that asset is derecognised. The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

An asset shall remain in the asset register for as long as it physically exists. The fact that an asset has been fully depreciated shall not in itself be a reason for removing the asset from the asset register. For practical reasons the Municipality must keep fully depreciated asset in the asset register and provide a list of such assets in the notes to financial statement during year end reporting.

#### 8.5. De-recognition

An intangible asset shall be derecognised (eliminated from the statement of financial position):

- (c) on disposal (including disposal through a non-exchange transaction) or.
- (d) When the intangible asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of intangible assets shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in surplus or deficit in the period of the retirement or disposal.

## 9. HERITAGE ASSETS

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological, or artistic significance and are held indefinitely for the benefits of present and future generations.

The following are examples of Heritage assets:

- (a) Works of art, antiquities, and exhibits.
- (b) Collections of inserts, butterflies, and fossils
- (c) Collections of rare books, manuscripts, records and photographic
- (d) Objects of scientific or technological interest
- (e) Historical monuments
- (f) Conservation areas (parks)
- (g) Historical Buildings
- (h) Recreational parks

### 9.1. Recognition

Heritage asset shall be recognised as an asset if, and only if:

- e) it is probable that the future economic benefits or service potential that are associated with the asset will flow to the entity; and
- f) the cost or fair value of the asset can be measured reliably.

A heritage asset shall be measured initially at its cost. If the Municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet recognition criteria of a heritage asset because it cannot be reliably measured, relevant, and useful information about it shall be disclosed in the notes to the financials. Where a heritage asset is acquired through a non-exchange transaction

## 9.2. Subsequent Costs

The Municipality after initial recognition, chooses the cost model and shall measure all its Heritage assets in accordance with the Standard of GRAP Heritage assets i.e., at cost less any accumulated impairment losses.

## 9.3. Review of Impairment

The Municipality depreciate heritage asset but shall assess at each reporting date whether there is an indication that it may be impaired.

The Municipality shall assess at each reporting date whether there is any indication that an asset may be impaired” Impairment is to be considered for an asset taken as a whole, rather than its individual components.

If any of the indications are present, the Municipality is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, the GRAP Standard on Impairment does not require the Municipality to make a formal estimate of recoverable service amount.

## 9.4. Transfers

Transfers from heritage assets shall be made when, and only when, the particular asset no longer meets the definition of a heritage asset. For example, if an item in an art collection is destroyed in a fire and the remaining paintings or part in the collection no longer meets the definition of a heritage asset, the remaining value of the collection should be transferred from heritage assets to Property Plant and Equipment provided it still meets a definition of an asset as per GRAP 17.

### **9.5. De-recognition**

An investment property shall be derecognised (eliminated from the statement of financial position):

- (a) on disposal (including disposal through a non-exchange transaction) or.
- (b) when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of Heritage asset shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in surplus or deficit in the period of the retirement or disposal.

## **10. ASSET ADMINISTRATION AND RECORDS**

### 10.1. Asset Register

An asset register is a complete and accurate database of the assets that is under the control of a Municipality and that is regularly updated and validated. An adequate asset register is integral to effective asset management. It is the basis of an asset management information system and should contain relevant data beyond that required for financial reporting.

The asset register provides important information required for effective management of the assets as well as the detail of the figures disclosed in the annual financial statements. This register enables the Municipality to maintain sufficient, appropriate audit evidence.

It stores information on each asset, which includes amongst others the cost price, date acquired, location, asset condition and expected life. It can also include information on current replacement costs. All assets owned and controlled by an entity must be recorded in an asset register, regardless of the funding source or value thereof. All disposed assets must be excluded.

In its simplest form, an asset register may be a manual document or a spreadsheet. Alternatively, it can be a computerized system that interfaces directly with the general ledger (modern computerized accounting systems have this facility).

The asset register shall be maintained in the format determined by the CFO and comply with the requirements of GRAP.

Each individual asset item should be denoted by a reference number; however immovable and infrastructure assets on the asset register will not be physically numbered with barcode labels but will have a unique asset master record number.

The following information should as a minimum, be included in the Fixed Assets Register:

- a) Description of the capital asset
- b) Capital asset identification number (Unique asset ID)
- c) Capital asset classification.
- d) Purchase price, historical cost, or fair value (if relevant)
- e) The measurement used.
- f) The depreciation methods used.
- g) The useful life of the capital asset
- h) The residual value of the capital asset
- i) Depreciation charged.
- j) The gross carrying amount.
- k) The accumulated depreciation and accumulated impairment
- l) Date of acquisition
- m) Date and value of disposal (if relevant)
- n) Location of the capital asset
- o) The department that controls or uses the capital asset.
- p) Impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- q) The title deed number, in the case of fixed property.
- r) GPS co-ordinates for all the major assets.

All managers under whose control of any capital asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the capital 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 capital asset shall be recorded in the capital assets register as soon as it is acquired. If the capital asset is constructed over a period, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a capital asset.

A capital asset shall remain in the capital asset register for as long as it is in physical existence. The fact that a capital asset has been fully depreciated shall not in itself be a reason for deleting it from the capital register, however its useful life should be reassessed if it is still being used as required by the policy.

#### **Relocation or Reassignment of Capital assets.**

A Director must advise the Chief Financial Officer, in writing, whenever a capital asset is relocated, replaced, or reassigned from one the location (or base) to another or if cost centre, as recorded in the Capital asset Register, must be changed.

### **10.2. Guidelines on Asset Identification and Description**

The following detail should be included where applicable when identifying assets:

#### **(a) Asset number**

- i. Each asset must have a unique system-generated identifier, bar code or other unique number so that the individual asset can be distinguished from others.

#### **(b) Asset specific identifiers**

- i. Where applicable the serial numbers, registration number or other unique information must be captured for individual,

#### **(c) Asset description**

- i. Asset Description must be consistent.
- ii. The description should enable the asset to be easily identified E.G., 2005 Toyota Corolla 140i, Boardroom table.
- iii. Asset dimensions/capacity if relevant should be included.
- iv. Asset construction (if relevant): e.g., brick, wood, cast iron.
- v. Location: e.g., Office 123, Store ABC, Erf. XYZ.
- vi. Zoning: residential, agricultural, industrial, etc; and
- vii. GPS: recommended for easy location (where relevant)





### 10.3. Asset Classification

<b>Asset Class</b>	<b>Description</b>	<b>Examples</b>
Land	With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life	Land Landfill Site
Buildings	Buildings consist of office buildings and facilities at various locations which is owner-occupied property	Offices Stores
Community Assets	Community assets are any assets that contribute to the community's well-being.	Parks, libraries
Infrastructure	Infrastructure assets are any assets that are part of a network of similar assets. Some assets are commonly described as infrastructure assets. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all the following characteristics: a) They are part of a system or network, b) They are specialized in nature and do not have alternative uses, c) They are immovable, and/or d) They may be subject to constraints on disposal.	Roads Electrical Assets Water network Sewer network
Other	Other assets are movable assets	Motor Vehicles, Furniture Equipment Machinery
Investment Property	Property held to earn rentals or for capital appreciation, or both or for undetermined use	Land held for undetermined use. Rented Property
Heritage Assets	Heritage assets are culturally significant resources	Works of art, historical buildings, sites, and statues
Intangible Assets	An identifiable non-monetary asset without physical substance.	Computer software Licences

### 10.4. Condition Assessment

Conditional assessments will be done using a host of techniques, including physical assessment and professional judgement. Once the conditional assessments have been completed by the appropriate professional the information must be updated into a central database or Asset Management System.

### 10.5. Acquisition of Assets

A senior staff member / Department head of the department requesting the goods will complete and sign a requisition memorandum detailing the need and the justification of the request. This is sent to the Budget and Treasury Office (Budget Manager) for approval in line with the annual approved budget.

The authorized requisition memorandum form is then routed to the Supply Chain Management (SCM) – Procurement Section. This requisition is logged in a manual record by a clerk in the Procurement Section. The Procurement Officer sources for quotations from approved suppliers or initiates a tendering process depending on the value of the asset.

#### Acquisition of constructed capital assets

Where assets have been created by contractors/ consultants on behalf of the Municipality the handover of the documentation is comply with clause 3.2.6. of the Engineering Council of South Africa Guidance Scope of Service and Tariff for persons Registered in terms of Engineering Profession Act, no 46 of 2000 as applicable from 01 January 2010

A designated official or a project manager for the receipt of the handover documentation will then be responsible for the documentation and data to the relevant Asset Manager or Asset Coordinator where it will be captured onto the Municipality's Fixed Asset Register and archived by the responsible officers, as supporting documents of these financial entries for example as built drawings and records, operation, and maintenance manuals, etc. The procedure will be followed for both new and refurbished infrastructure assets developed departmentally.

The process of acquiring an asset is detailed in the Supply Management Policy of the Municipality.

#### Receiving of moveable assets

All Moveable assets are centrally (alternatively the assets could be delivered directly to the user who then notifies the supply chain unit, and the asset manager should be notified immediately of the delivery to enable his/her unit to tag, update the asset register with the relevant information) received by the asset management department officers/and the stores function. The Supply chain management and the project manager receives the ordered goods and then signs the delivery note.

The Supply chain unit checks the received items against the items per the order for:

- a) right quantity; and
- b) right quality.

This is evidenced by stamping a clear bold stamp noting that goods have been received per the quantities and quality ordered on the invoice/delivery note. The delivery note is forwarded to expenditure to facilitate payment of supplier.

The asset clerk records the received goods in asset management system against the order details recorded during the requisition phase. Immediately the purchased assets are tagged with the sequentially pre-generated asset tags. The tag references used are recorded in the asset management system.

#### 10.6. Controls around the Asset Register

- (a) At least two people should know how the Asset management system operates, that is if the main user (Assets Accountant) is not available the second person (preferably senior asset accountant or asset Manager should be able to step in.
- (b) It should be password protected. The password must be kept by the user, but allocation of user rights should be done by Asset Manager or CFO. It will only be through the CFO that the second person should be given permission to use the spreadsheet.
- (c) All changes made should be authorized and signed-off by the independent person. Proof of such should be filed and be available for audit.

#### 10.7. Disposal of Assets

##### (a) **Disposal committee**

The Accounting officer shall establish a Disposal Committee. The Chairperson of the Disposal Committee must be a senior independent official in SCM preferable the manager.

##### (b) **Composition of the disposals committee**

The disposals committee will be appointed in accordance with the municipal SCM policy. In addition to the above members, the chairperson can co-opt members, in writing, from the following institutions:

##### (c) **Planning for disposals**

Directorates are responsible for the strategic planning for the disposal of assets that cause the Municipality not to perform service delivery efficiently and effectively. Planning for disposals must be conducted by the directorates on an annual basis and revised on quarterly basis and must be submitted to the Disposal Committee for approval. The planning should involve a detailed assessment of assets identified as surplus, redundant, or obsolete by the directorate.

Surplus, obsolete, or redundant assets include the following:

- a. Assets not required for the delivery of services, either currently, or over the longer planning period.
- b. Assets that have become uneconomical to maintain or to operate.
- c. Assets that is not suitable for service delivery.
- d. Assets that have a negative impact on the service delivery of the Municipality, the environment, or the community.
- e. Assets that no longer support a directorate's service objective due to a change in type of service being delivered or the delivery method.
- f. Assets where the use has become uneconomical to continue due to the limited availability of spares or the cost of replacement parts exceed the reasonable value of the item.
- g. Assets where the technology has been outdated.
- h. Assets which can no longer be used for the purpose originally intended.

Planning for disposals offers directorates the means of disposal of surplus assets timed to minimize disruption to their service delivery and maximize returns by selecting appropriate time in the asset's life cycle.

**(d) Assessing disposals**

The Disposal Committee is responsible for assessing the disposals proposed by the directorates of the Municipality. The Disposal Committee shall also consider the following factors:

- i. Whether there are net disposal benefits, either in financial or other forms.
- ii. Whether there are secondary service obligations associated with the asset which dictates its retention.
- iii. Whether a disposal can be carried out without adverse impacts on the physical environment.

In assessing the benefits of disposal, the advantages, and disadvantages for the whole Municipality, not just the controlling directorate, must be considered. Assets that have been identified as surplus may need to be retained due to heritage, social, environmental considerations requirements of other directorates. The symbolic importance and the cultural significance of assets should also be considered when assessing the disposal of the asset. The Disposal Committee should consider

the advantages of engaging experts if their experience in disposal activities is infrequent or not core business to assist with the activities in the disposal cycle.

Not all assets identified as surplus will be able to be sold at a value greater than it is carrying amount. In such circumstances, the advantages of disposing the asset must be weighed against the costs of continued ownership. Examples of cost of ownership include:

- i. Insurance
- ii. Maintenance
- iii. Storage costs
- iv. Operating costs
- v. Staffing costs

Retaining such assets in service when they no longer effectively support service delivery will expend resources that could otherwise be used elsewhere and could effectively constrain investment in more suitable and economic assets. Disposals need not always be for a financial gain. Other opportunities and gains should also be taken into consideration, for example:

- i. Swapping one asset for another
- ii. Construction of a facility for the Municipality in return for the asset.

**(e) Approval of disposals**

The Asset Management Unit shall prepare an item based on applications received from other directorates requesting assets to be disposed of or request for free donations from the non-profit organisations and educational institutions to the Disposal Committee for approval.

Disposal Committee shall be responsible for the approval of the disposal of any assets after:

- i. Deciding on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
- ii. Consideration of the fair market value of the asset and the economic and community value to be received in exchange for the asset.

Disposal Committee shall be responsible to meet on a quarterly basis to assess and approve disposals submitted by the Asset Management Unit on behalf of the directorates.

**(f) Method of disposal**

Disposal of an asset should be performed in a manner which satisfies the following objectives:

- i. The disposal should take place on an equitable basis. There should be an equal opportunity for all to purchase the asset.
- ii. The best possible return for the Municipality must be achieved.
- iii. Any adverse environmental impacts should be avoided.

The Municipality should document a clear stipulation of the basis on the decision taken to dispose of an asset. The following two methods of disposal could be used to achieve the objectives mentioned above:

**Auction**

The benefits of an auction are as follows:

- Process is more straightforward.
- Process is open to public scrutiny.
- In some circumstances an auction may generate a higher price.

**Tender**

This method of disposal is preferred where more control over the actual disposal of the asset is required or where the credentials of the purchaser need to be assessed in detail. This method is preferable if an objective of the disposal is to achieve black economic empowerment by the transfer of the asset.

**Procedures to be followed when disposing an asset.**

When an asset of the Municipality is no longer in use, the following procedures must be followed:

- i. Asset(s) that are uneconomical to maintain or operate must be identified.
- ii. Asset Disposal Form must be completed and signed by the Head of a directorate.

- iii. The Disposal form must clearly motivate the reasons for the disposal of such asset(s).
- iv. The application to dispose of an asset form must be completed and sent to the Asset Management Unit for assessment.
- v. If the item is of a technical nature e.g., computer equipment, a request must be forwarded to IT division to check the status of the equipment and submit a report to the Asset Management Unit.
- vi. Based on the reports and motivation submitted by the heads of directorates, a motivation will then be submitted to the Disposal Committee for approval to dispose of an asset.
- vii. The disposal committee members will authorise the disposal of an asset by signing the Authority to dispose of an asset form.
- viii. The approved forms (Authority to dispose an asset forms) shall be forwarded to Budget and Treasury office for disposal.

**(g) Disposal of Computer equipment**

In the case of PC's, only on the recommendation of the IT division will the item be disposed of, Preference shall be given to educational institutions, welfare, and charitable organisations.

Councillors and officials on termination of service with Council, may purchase the notebook computers allocated to them at the written- down value thereof (this value to be determined on a straight-line depreciation basis over five years) Plus any handling fee of R250 (or as may be determined from time to time) Plus Value Added Tax at the applicable rate. Due to the advancement in computers and inherent depreciation of the value of computers, obsolete laptops, notebooks, and desktops PC's officials shall be granted the opportunity to purchase such equipment at the depreciated value.

**(h) Free Disposal of municipal assets**

The following types of organisations shall be considered for a free disposal of the Municipality 's assets:

- i. Registered welfare or Charitable Organisations.
- ii. Schools catering for handicapped and disabled.



- iii. Schools for special learners.
- iv. Educational institutions initiating programmes for the benefit of the community of the Makana Municipality.

**(i) Other method**

Any other proposed method of disposal shall be communicated to the Asset Management Unit for submission to the disposal committee for approval. It is preferable that the method of disposal be included in the disposal plan for each directorate.

**(j) Lack of other possible purchasers**

Disposal of assets by direct negotiations with one possible interested party should be the exception rather than the rule. When sale by auction or tender has failed due to lack of demand or unacceptable offers were received and established further efforts indicate that efforts to dispose of the asset by auction or tender is unlikely to succeed, direct possible negotiations with one possible interested party shall be allowed.

**(k) Final authorization of disposal**

Before any asset is disposed of, the directorate under whose control the relevant asset will be responsible to prepare a disposal authorization document that will detail the following information:

- i. Fixed asset register information of the asset to be disposed of.
- ii. Results of the asset disposal method.
- iii. Proposed terms and conditions of the purchase agreement.
- iv. The recommended purchase price.
- v. The fair value of the asset.

The fair value of the asset must be determined by the relevant directorate. Experts can be used to determine the assets fair value. Assets may not be disposed of at a value that is less than its fair value unless the Disposal Committee determines that there is a mitigating reason to dispose the

asset at the lesser value.

If a Disposal Committee approves a disposal at a value less than its fair value, Disposal Committee must instruct Budget and Treasury Office to publish the details of the disposal as a public notice in a widely distributed media. The final approval of the disposal shall be conducted at a meeting in terms of the Municipal Finance Management Act (Act No. 56, 2003) and decisions taken shall be documented for future reference by the directorates of the Municipality.

**(l) Transfer of ownership**

The directorate shall be allowed to transfer ownership of the asset only after the following events have occurred:

- The directorate has received a notification from the Asset Management Unit that the Disposal Committee has approved the disposal of the asset in terms of Section 14 of the Municipal Finance Management Act (Act No. 56, 2003)
- The directorate has received payment in full or partial payment in terms of the terms and conditions of the purchase agreement where necessary. At transfer of ownership of the asset, the purchaser must sign an acknowledgement of receipt form as evidence that the purchaser has received the asset according to the terms and conditions of the purchase agreement and in the expected physical condition.

**(m) Calculation of the Surplus or (Deficit) on disposal**

Profits and losses on the sale of property, plant and equipment are calculated as follows, and are disclosed in total in the financial statements:

	The proceeds of the asset sold (net VAT)
Less:	The Carrying amount
Equals	Surplus / (Deficit) on Disposal of Asset

**(n) Accounting for the disposal of assets**

When an asset is disposed of the cost of the asset and the accumulated depreciation recorded in the statement of financial position need to be reversed to the statement of financial performance a profit and loss on disposal of asset account. This will result in a debit in the statement of financial performance equal to the asset's carrying value.

The total proceeds to be received from the disposal of the asset need to be credited to the profit and loss on disposal of asset account. The account will now reflect a debit or credit amount in the statement of financial performance equal to the profit and loss on disposal discussed above.

Note that depreciation will need to be calculated up to the date of disposal. If the disposal date is during a financial year, the depreciation needs to be calculated on a pro rata basis based on completed months of ownership or use. No depreciation is calculated for the asset after the disposal date. At the disposal date the asset being disposed of needs to be derecognized from the fixed asset register of the Municipality.

#### 10.8. Verification of Assets

Each Department Unit shall at least once during every financial year undertake a comprehensive verification of all assets controlled or used by the Department concerned together with the Asset Management Unit.

Each Department Unit shall promptly and fully report in writing to the Asset Management Unit all relevant results of such asset verification, provided that each asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report compiled by the Asset Management Division, incorporating the results of all Departments or the final verification as done by asset management unit by 30 June of each financial year and be made available to the Auditor-General or his/her personnel.

The asset verification report shall

- i. Include a complete list of all assets identified during the verification process.

A copy of this form is to be forwarded to the Asset Management Unit for the update of the asset register. An email should simultaneously be sent to the Asset management team to advice of the movement to allow asset Management to swiftly update the asset register and to allow follow up of the authorized asset movement forms. The asset movement form is signed by both the transferee user and the transferor.

Where a department no longer requires the use of an asset it should be transferred to the Supply chain management (Department's storage) until it is required by another department or disposed of. This should be accompanied by a similar asset movement form for storage.

#### 10.11. Termination of Employment

In the event of a termination of employment of an employee the HOD or his/her duly delegated representative must complete the relevant asset form and forward it to the Human Resources Department for their further attention. This form is a statement that the inventory and asset items entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary.

#### 10.12. Custody of Assets

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

In exercising this responsibility, HODs shall adhere to any written directives issued by the MM to the department in question, or generally to all departments, regarding the control of or safekeeping of the Municipality 's assets. It is the responsibility of all municipal staff to adhere and practice strict physical controls of the assets around their work area and must keep all assets that were verified under him/her. This culture should be practiced and disseminated from top municipal officials to all their subordinates.

#### **10.13. Alienation / Disposal of Assets**

Each department shall report in writing to the CFO each financial year on all assets controlled or used by the department concerned which such HOD wishes to alienate / dispose in accordance with this policy. The CFO shall thereafter consolidate the requests received from the various departments and shall promptly report such consolidated information to the Council or the Municipal Manager of the Municipality recommending the process of alienation to be adopted.

The Council shall delegate to the Municipal Manager the authority to approve the alienation of asset not affecting the minimum level of basic municipal services with a carrying value less than R5 000 (five thousand rand).

Once the assets are alienated, the asset management unit shall use the disposal authorization forms to update the asset register. The updates to the register are reviewed by the Asset Manager.

#### **10.14. Loss, Theft, Destruction, or Impairment**

Every HOD 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 CFO, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

The only reasons for writing off assets, other than the alienation of such 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 CFO shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned.

#### **10.15. General Maintenance**

Each HOD shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with below) are properly maintained and in a manner which will ensure that such

assets attain their useful operating lives.

#### **10.16. Maintenance Plans**

Each HOD shall ensure that a maintenance plan in respect of every new infrastructure asset is promptly prepared and submitted to the Council of the Municipality for approval. The Municipal Manager may direct that the maintenance plan be submitted to the Council prior to any approval for the acquisition or construction of infrastructure asset concerned.

Annual reports should be submitted by the HOD's (controlling or using infrastructure assets) to the Council by July each year on the progress in complying with the maintenance plan.

#### **10.17. Private Use of Municipal Assets**

Each department should ensure that the removal of assets from municipal premises is monitored. The standard Asset Removal Form should be completed and authorized by the HOD each time any asset is removed from municipal premises.

No municipal asset may be used for personal gain or profit.

**ANNEXURE 1- Asset Useful lives guideline**

\*\* Note this is a suggested MFMA-Local Government Capital Asset Management Guideline, however Municipalities must use their judgment based on operational experience, historical asset usage trends and in consultation with specialists where necessary. Should the Municipality 's management decide on a useful life outside the given parameters, the Office of the Accountant-General at National Treasury (OAG) should be approached and provided with a motivation for its agreement of the rate used.

<b>Asset Type</b>	<b>Component Type</b>	<b>EUL in Months</b>	<b>RUL Revision</b>	<b>Residual Cost</b>
OTHER ASSETS	AUDIOVISUAL EQUIPMENT	84	24	0.00%
OTHER ASSETS	BENCH	84	24	0.00%
OTHER ASSETS	BICYCLES	84	24	20.00%
OTHER ASSETS	BINDER LAMINATOR	84	24	0.00%
OTHER ASSETS	BOARD	84	24	0.00%
BOREHOLE	Borehole	600	12	0.00%
ROAD NETWORK	Bridge	960	12	0.00%
BUILDINGS	BUILDINGS	720	24	0.00%
BUILDINGS	BUILDINGS AIRCONDITIONER	120	24	0.00%
BUILDINGS	BUILDINGS BLINDS	120	24	0.00%
BUILDINGS	BUILDINGS HISTORICAL	720	24	0.00%
BUILDINGS	BUILDINGS SECURITY MEASURES	120	24	0.00%
BUILDINGS	BUILDINGS STAGE CURTAINS	120	24	0.00%
BUILDINGS	BUILDINGS WIRELESS NETWORK	120	24	0.00%
OTHER ASSETS	CABINET CUPBOARD BOOKCASE	84	24	0.00%
ELECTRICAL LINES	Cable Underground	540	12	0.00%
BUILDINGS	CABLING IT	120	24	0.00%
OTHER ASSETS	CAMERA	84	24	0.00%
OTHER ASSETS	CASH BOX	84	24	0.00%
Cemetery	Cemetery	360	12	0.00%
OTHER ASSETS	CHAINSAW	84	24	0.00%
OTHER ASSETS	CHAIR	84	24	0.00%
COMMUNITY HALL	Community Hall	360	12	0.00%
OTHER ASSETS	COMPRESSOR	84	24	0.00%
BOREHOLE	Concrete Structure	600	12	0.00%
HERITAGE ASSETS	CONSERVATION AREAS	0	0	0.00%
OTHER ASSETS	CPU	60	12	0.00%

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WATER NETWORK	Dam Wall	960	12	0.00%
OTHER ASSETS	DESK TABLE COUNTER	84	24	0.00%
OTHER ASSETS	EARTH MOVING EQUIPMENT	360	36	0.00%
SUB-STATION	Electrical Panel	120	12	0.00%
OTHER ASSETS	ELECTRONIC EQUIPMENT	84	24	0.00%
OTHER ASSETS	EMERGENCY RESCUE EQUIPMENT	84	24	0.00%
BUILDINGS	FAIR VALUE BUILDINGS	0	0	0.00%
LAND	FAIR VALUE LAND	0	0	0.00%
OTHER ASSETS	FAN	84	24	0.00%
OTHER ASSETS	FAX MACHINE	84	24	0.00%
Cemetery	Fencing	300	12	0.00%
BUILDINGS	FENCING	120	24	0.00%
RESERVOIR	Filters and Tanks	360	12	0.00%
OTHER ASSETS	FRIDGE	84	24	0.00%
Cemetery	Garden Furniture	120	12	0.00%
SEWAGE TREATMENT WORKS	Generator	120	12	0.00%
OTHER ASSETS	GENERATOR	84	24	0.00%
ROAD NETWORK	Gravel Structure	120	12	0.00%
ROAD NETWORK	Gravel Surface	120	12	0.00%
OTHER ASSETS	HARDDRIVES SMALL IT	60	12	0.00%
OTHER ASSETS	HEATER	84	24	0.00%
ELECTRICAL NETWORK	High Mast Lights	240	12	0.00%
ROAD NETWORK	Kerbing and channels	600	12	0.00%
OTHER ASSETS	KITCHEN EQUIPMENT	84	24	0.00%
OTHER ASSETS	LABORATORY EQUIPMENT	84	24	0.00%
OTHER ASSETS	LAMP	84	24	0.00%
LAND	LAND	0	0	0.00%
SOLID WASTE	Landfill	360	12	0.00%
Landfill	Landfill Site	360	24	0.00%
OTHER ASSETS	LAPTOP	60	12	0.00%
OTHER ASSETS	LAW ENFORCEMENT EQUIPMENT	84	24	0.00%
OTHER ASSETS	LDVs	120	24	20.00%
ELECTRICAL LINES	Lines Overhead	360	12	0.00%
PUMP STATION	Mechanical Equipment	360	12	0.00%
HERITAGE ASSETS	MEMORIAL HISTORICAL SITES	0	0	0.00%
OTHER ASSETS	MICROWAVE	84	24	0.00%
OTHER ASSETS	MIRROR	84	24	0.00%
OTHER ASSETS	MONITOR	60	12	0.00%



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PUMP STATION	Motor	480	12	0.00%
OTHER ASSETS	MOTORCYCLES	120	24	20.00%
OTHER ASSETS	MOWERS BUSHCUTTERS	84	24	0.00%
OTHER ASSETS	NOTE COUNTER	84	24	0.00%
PARKS	Parks	360	12	0.00%
OTHER ASSETS	PASSENGER VEHICLE	120	24	20.00%
SPORTS FIELDS	Pavilion	360	12	0.00%
ROAD NETWORK	Paving Brick	360	12	0.00%
SANITATION PIPELINES	Pipelines Bulk	600	12	0.00%
SANITATION PIPELINES	Pipelines Reticulation	600	12	0.00%
BOREHOLE	Pipework and Fittings	360	12	0.00%
OTHER ASSETS	PODIUM STAND	84	24	0.00%
OTHER ASSETS	PRINTER SCANNER COPIER	60	24	0.00%
BOREHOLE	Pump	480	12	0.00%
OTHER ASSETS	PUMP	84	24	0.00%
PARKS	Recreation Area	600	12	0.00%
RESERVOIR	Reservoir Concrete	600	12	0.00%
OTHER ASSETS	ROAD EQUIPMENT	84	24	0.00%
OTHER ASSETS	SAFE	84	24	0.00%
OTHER ASSETS	SERVER	60	12	0.00%
OTHER ASSETS	SHREDDER	84	24	0.00%
ROAD NETWORK	Sidewalks	360	12	0.00%
PARKS	Signage	180	12	0.00%
INTANGIBLE ASSETS	SOFTWARE AND SYSTEMS	60	12	0.00%
INTANGIBLE ASSETS	SPECIALISED SOFTWARE	120	12	0.00%
OTHER ASSETS	SPECIALISED VEHICLES	180	24	20.00%
OTHER ASSETS	SPECIALISED VEHICLES FIRE TRUCK	360	36	20.00%
OTHER ASSETS	SPECIALISED VEHICLES RESPONSE	120	24	20.00%
OTHER ASSETS	SPECIALISED VEHICLES RESPONSE 2	180	24	20.00%
PARKS	Sports Equipment	120	12	0.00%
OTHER ASSETS	SPORTS EQUIPMENT	84	24	0.00%
SPORTS FIELDS	Sports Field	360	12	0.00%
SPORTS FIELDS	Spotlights	240	12	0.00%
OTHER ASSETS	STOVE	84	24	0.00%
ROAD NETWORK	Street Lighting	480	12	0.00%
SEWAGE TREATMENT WORKS	Structure Admin	360	12	0.00%
BOREHOLE	Structure Borehole	360	12	0.00%
Cemetery	Structure Cemetery	360	12	0.00%

AIRFIELD	Structure Hanger	360	12	0.00%
PUMP STATION	Structure Pump Station	600	12	0.00%
SPORTS FIELDS	Structure Sport Facility	360	12	0.00%
SUB-STATION	Structure Substation	600	12	0.00%
SEWAGE TREATMENT WORKS	Structure Treatment Works	600	12	0.00%
SUB-STATION	Substation	360	12	0.00%
SUB-STATION	Switchgear	360	12	0.00%
OTHER ASSETS	SWITCH ROUTER HUB	60	12	0.00%
OTHER ASSETS	TABLET	60	12	0.00%
ROAD NETWORK	Tarred Structure	360	24	0.00%
AIRFIELD	Tarred Structure	360	12	0.00%
ROAD NETWORK	Tarred Surface	240	24	0.00%
AIRFIELD	Tarred Surface	240	12	0.00%
BOREHOLE	Telemetry	180	12	0.00%
OTHER ASSETS	TESTING EQUIPMENT	84	24	0.00%
OTHER ASSETS	TOOLS EQUIPMENT	84	24	0.00%
PUMP STATION	Track	120	12	0.00%
OTHER ASSETS	TRACTOR	240	24	20.00%
OTHER ASSETS	TRAILERS ACCESSORIES	180	24	20.00%
ELECTRICAL NETWORK	Transformer	600	12	0.00%
OTHER ASSETS	TROLLEY	84	24	0.00%
OTHER ASSETS	TRUCKS	180	24	20.00%
OTHER ASSETS	UPS	60	12	0.00%
OTHER ASSETS	VACUUM / POLISHER	84	24	0.00%
BOREHOLE	Valve	480	12	0.00%
OTHER ASSETS	WATER DISPENSER	84	24	0.00%
OTHER ASSETS	WOODERN BOX	84	24	0.00%

**ANNEXURE 2 - Asset Transfer Form (ATF)**

**Transferring Department:** .....

**Section:** .....

**Person:** .....

**Signature:** .....

**Receiving Department:** .....

**Section:** .....

**Person:** .....

**Signature:** .....

**Description of the Asset Transferred:**.....

**Serial Number / Barcode:** .....

<b>Condition of the Asset:</b>	<b>Very Good</b>	<input type="checkbox"/>
	<b>Good</b>	<input type="checkbox"/>
	<b>Fair</b>	<input type="checkbox"/>
	<b>Poor</b>	<input type="checkbox"/>
	<b>Very Poor</b>	<input type="checkbox"/>

**Date of Transfer:** ..... / ..... / .....

**Date of Receiving by Asset Section:** ..... / ..... / .....

**Signature:** .....

**NB:** In ensuring that all municipal assets are properly recorded in the **Assets Register** correctly and their movements are known, you are requested to complete this form and forward it to the **Asset Management Section** whenever you transfer assets so that we can change the custodianship.

**ANNEXURE 3- Asset Sales / Scrapping Form (ASSF)**

**Asset Sales / Scrapping Number: -**

**Asset Number: -.....**

**Asset Description: -.....**

**Service: -.....**

**Current Details.....**

**Town: -.....**

**Location: -.....**

**Reason for Scrapping Asset: - \_\_\_\_\_**

**Municipal Employee Requesting Scrapping: -**

**Name (Printed): - \_\_\_\_\_**

**Position held: - \_\_\_\_\_**

**Authorized by: - \_\_\_\_\_**

**Position held: - \_\_\_\_\_**

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#### ANNEXURE 4 - Examples of Motor Vehicles as Per VAT Act

The term “**motor car**” includes the following vehicles (that is, where input tax will generally be denied):

- (a) Double cab bakkies (LDVs).
- (b) Ordinary sedan type passenger vehicles. (c)  
Station wagons.
- (d) Minibuses.
- (e) Sport utility vehicles (SUVs).

The term “**motor car**” excludes the following vehicles (that is, input tax will generally be allowed if all the other requirements for input tax are met):

- (a) Goods transportation trucks.
- (b) Single cab light & heavy delivery vehicles.
- (c) Motorcycles.
- (d) Caravans.
- (e) Ambulances, game viewing vehicles and hearses.
- (f) Vehicles capable of accommodating more than 16 persons (for example, a bus). (g)  
Vehicles with a loaded mass of 3500 kg or more.
- (h) Special purpose vehicles constructed for purposes other than the carrying of passengers.
  - (a) Equipment such as bulldozers, graders, harvesters, and tractor

# ANNEXURE 5 Accounting for Retention

**YOUR LOGO  
HERE**

Southernwood, East London  
Phone: 043722200  
Fax: 0865482000  
someone@example.com

## INVOICE

Date 3/12/2018  
Invoice # 1111  
For PO # 123456

<b>Bill To:</b>		<b>Items over this amount qualify for an additional discount</b>	<b>100.00</b>
Accounting Officer		<b>% discount</b>	
Makana Municipality			
86 High street			
Grahamstown			
046 603 6000			

Quantity	Description	Unit price	Amount	Discount applied
1	Value of Work Done	531,200.00	531,200.00	✓ Discount applied
1	Material	-	-	
Less	Retention	10%	(53,120.00)	
<b>Subtotal</b>			<b>478,080.00</b>	

Tax 66,931.20

Thank you for your business!

Balance due **545,011.20**

### Raising a Creditor and capitalisation of asset

Item	DR	CR
Work in progress(Capital)	531,200.00	
Retention		53,120.00
Vat	66,931.20	
Creditor		545,011.20
	<b>598,131.20</b>	<b>598,131.20</b>

### Payment of Retention Amount Due

Item	DR	CR
Retention	53,120.00	
Vat Control	7,436.80	
Bank		60,556.80
	<b>60,556.80</b>	<b>60,556.80</b>

Direct payment invoice already been raised