

KZN 436 - DR NKOSAZANA DLAMINI ZUMA MUNICIPALITY

# Asset Management and Disposal Policy

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## 1.Key definitions and interpretation

In this policy, unless the context indicates otherwise:

**Accounting Officer** means the Municipal Manager.

**Asset** - resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. (GRAP 1)

**Basic Municipal Service** means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.

**Carrying Amount** is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

**Chief Financial Officer** means a person designated in terms of section 80(2) (a) of the MFMA.

**Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP. (GRAP 17)

**Current year** means the financial year, which has already commenced, but not yet ended. (MFMA)

**Depreciable amount** is the cost of an asset, or other amount substituted for cost, less its residual value. (GRAP 17)

**Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life. (GRAP 17)

**Fair value** is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. (GRAP 17)

**Financial year** means a twelve months period commencing on 1 July and ending on 30 June each year. (MFMA)

**Generally Recognised Accounting Practice** (GRAP) means an accounting practice complying in material respects with standards issued by the Accounting Standard Board.

**Municipal Structures Act** means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998).

**Municipal Systems Act** means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

**Municipal council** or **Council** means the council of a municipality referred to in section 18 of the Municipal Structures Act; (refer to the MSA for definition)

### **Municipality**

(a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or

(b) When referred to as a geographic area, means a municipal area determined terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

**MFMA** means The Local Government: Municipal Finance Management Act (No. 56 of 2003)

### **Municipal Manager “MM”**

Means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

**Municipal service** has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

**National Treasury “NT”** means the National Treasury established by section 5 of the Public Finance Management Act;

**Official**

Means-

- (a) An employee of a municipality or municipal entity;
- (b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee

**“PT”, “Provincial Treasury”**

Means the Provincial Treasury branch established by section 5 of the Public Finance Management Act;

**Quarter**

Means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

**Recoverable amount** is the higher of a cash-generating asset's net selling price and its value in use.

**Residual value** 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 were already of the age and in the condition expected at the end of its useful life. (GRAP 17)

**“Useful life”**

- (a) The period over which an asset is expected to be available for use by an entity,  
or
- (b) The number of production or similar units expected to be obtained from the asset by an entity. (GRAP 17)

**"Vote"**

Means-

- (a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned. (MFMA)

## **2.Introduction**

### **2.1 Purpose**

The purpose of the asset management and disposal is:

- to ensure the effective and efficient control, utilization, safeguarding and management of Dr Nkosazana Dlamini Zuma Local Municipality's movable and immovable assets.
- to ensure proper recording of assets from authorisation to acquisition and subsequent disposal
- to ensure senior managers, managers, and staff members are aware of their responsibilities in regards of movable and immovable assets.
- to set out the standards of physical management, recording and internal controls to ensure movable and immovable assets are safeguarded against inappropriate loss or utilisation.
- to specify the process required before expenditure on movable and immovable assets occurs in relation to asset management.
- to prescribe the accounting treatment for movable and immovable assets in Dr Nkosazana Dlamini Zuma Local Municipality including:
  - The criteria to be met before expenditure can be capitalised,
  - The criteria for determining the initial cost,
  - The method of calculating depreciation,
  - The criteria for capitalising subsequent expenditure,
  - The criteria for scrapping and disposal, and
  - The classification of movable and immovable assets.

### **2.2 Scope**

The scope of this policy includes the asset management and disposal of the following asset groups:

- Property, plant and equipment assets,
- Investment property assets,
- Intangible assets,
- Heritage assets, and
- Inventory assets.

## **2.3 Statutory framework**

This policy complies with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996,
- The Municipal Structures Act, 1998,
- The Municipal Systems Act, 2000 as amended, and
- The Municipal Finance Management Act, 2003

This policy complies with the standard specified by the Accounting Standards Board. The current relevant recognized accounting standards includes;

- GRAP 01 – Presentation of financial statements
- GRAP 11 – Construction contracts
- GRAP 12 – Inventories
- GRAP 16 – Investment Property
- GRAP 17 – Property, Plant and Equipment
- GRAP 21 – Impairment of non-cash generating
- GRAP 26 – Impairment of cash generating
- GRAP 102 – Intangible
- GRAP 103 – Heritage

This policy will be updated whenever legislative or accounting standard amendments significantly change the Requirements pertaining to asset management in general and the administration of council's Assets.

This policy does not overrule the requirement to comply with other policies such as Supply Chain Management etc. but where a conflict may arise the senior manager of Budget and treasury will provide guidance to resolve the conflict.

## **3.Co-ordination asset management implementation**

### **3.1 Asset management steering committee (AMSC)**

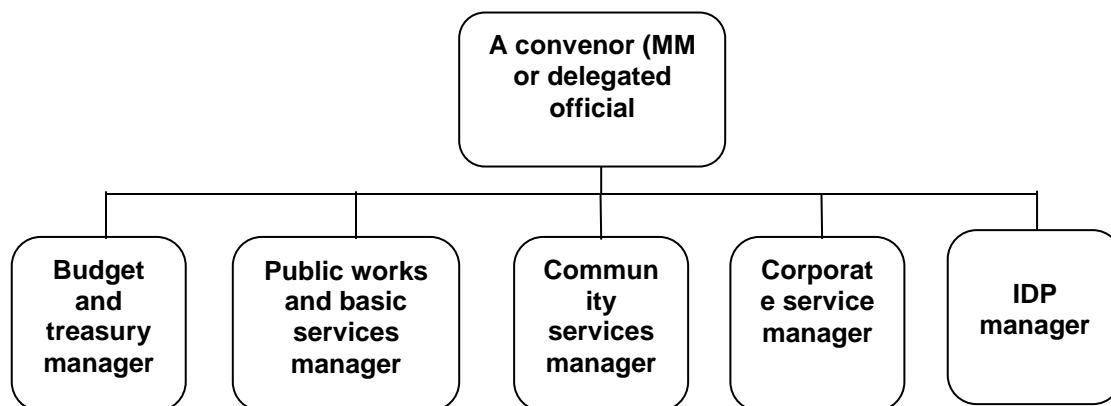
#### **3.1.1 Purpose and Objective**

The Asset management Committee of the Dr Nkosazana Dlamini Zuma Municipality should be established by the Accounting Officer to assist management by assessing the adequacy and monitoring the implementation, of the Municipality's asset management and disposal policy.

#### **3.1.2 Composition**

A strong, high-level steering committee with top management leadership is required to drive the changes and provide oversight of implementation. The AMSC should consist of:

- A convenor (MM or delegated official) and
- Other senior managers (Budget and Treasury manager, Public works and basic services manager, the Corporate service manager, Community services manager and Planning and development manager or Delegated officials).



## 3.2 Asset Management Task Team

### 3.2.1 Purpose and Objective

The asset management task team of the Dr Nkosazana Dlamini Zuma Municipality should be established by the Asset Management Steering Committee to assist Asset management Committee by:

- Coordinate and Implement asset management tasks
- Asset Management plan preparation
- Data collection and data base management

## 3.3 Roles and responsibilities

### 3.3.1 The Municipal Manager

- Is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.
- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- That the municipality has and maintains a system of internal control of assets, including an asset register; and
- That senior managers and their teams comply with this policy

### 3.3.2 The Chief Financial Officer

- The CFO shall be the custodian of the fixed asset register of the Municipality;
- Appropriate systems of financial management and internal control are established and carried out diligently;
- The municipality's assets are valued in accordance with standards of generally recognized accounting practice
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Fixed Asset Register.
- That the financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- The municipal manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;

- The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;

### 3.3.3 Senior Managers

- Shall ensure that employees in their departments adhere to the approved Asset Management and Disposal Policy.
- Shall ensure that an assets coordinator with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset management Section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the senior manager.
- Shall ensure that employees who contravenes the operational procedure or who use the council assets negligence and for their personal gain are disciplined accordingly.

### 3.3.4 All Council employees

- Shall ensure that assets assigned to them are utilized effectively, efficiently, economically and transparently
- Shall ensure that the assets of the council are not used for private gain
- Shall notify the assets coordinators and assets management section of all obsolete, damaged and stolen assets, without delay.
- Shall physical verify all assets under their possession and report to the result of the verification to the assets management unit at year end.
- Shall ensure that all assets under their possession are properly bar-coded.
- Shall ensure that on termination of service they returned the assets to their supervisors and complete a termination assets clearance form.
- Shall notify the asset coordinators and assets management unit of the movement and transfer of assets assigned to them by completing an assets transfer form.
- Shall ensure that they comply with the operational procedures

## 4. Asset life cycle

For the purpose of efficient asset management, the municipality's asset life-cycle shall include the following phases:

- **Planning phase** - *deals with the planning for service delivery that drives the need for assets. This phase will include input into the IDP, budget and asset management plans. Various acquisition options should be considered during this phase;*
- **Acquisition phase** - *deals with the purchase, construction or manufacture of new assets*
- **Operation and Maintenance phase** - *deals with the operation of the assets, maintenance/ refurbishment, enhancement/rehabilitation, depreciation and impairment. This phase includes activities of a capital and current nature; and*
- **Disposal phase** - *deals with the timing of and disposal of the assets including the disposal costs and specific requirements for the assets.*



## **4.1 Planning**

Planning for assets shall be linked to the broader strategic planning, capital budgets, operating budgets and asset management and disposal plans of the municipality, all of which shall in turn inform and be informed by the Integrated Development Plan (IDP) processes.

Where appropriate, the municipality shall consult with various sector departments to provide guidance in planning for certain types assets so as to ensure well informed asset management plans, budgets and Integrated Development Plan.

The chief financial officer is responsible to ensure that the senior managers (heads of department) receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

## **4.2 Acquisition**

The time frame for the acquisition process/project start date, the timing and amount of required capital outlays shall be considered and included in the IDP and annual medium-term budgets. Expenditure on a capital project will be approved through the budgeting process.

Closer to the actual acquisition date, the initial estimates and the preferred options shall be re-assessed, and, once the acquisition has been approved, the actual purchase will be done through the Supply-Chain unit.

### **4.2.1 Decision to lease or buy**

The decision to lease or buy an asset is where the market can provide generic assets to meet a municipality's service needs. Since leases have a built-in interest cost, this shall be considered when evaluating whether to lease or buy (cash) an asset.

Where an asset is leased, the details thereof shall be recorded in the Lease Register, additional details, which shall also be recorded, include:

- lease start and completion dates;
- first-instalment date;
- asset-fair value;
- implicit interest rate; and
- lease payments.

Information in the register shall be reviewed annually to confirm that the decision remains the most economical one.

### **4.2.2 Funding of the acquisition**

Within the municipality's on-going financial, legislative or administrative capacity, the Municipal Manager and the Chief Financial Officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan. The funding strategy shall consider available sources of finance such as operating surpluses, cash-backed reserves, loans, grants, and cash donations.

Before a decision is made to acquire an asset, the acquisition plans that have been prepared shall be checked to ensure that budget planning has been done.

Furthermore, money shall only be spent on a capital project if:

- The money has been appropriated in the capital budget,
- The project, including the total cost, has been approved by the council,
- The CFO confirms that funding is available for that specific project, and
- Any contract that will impose financial obligations beyond three years after the budget year is appropriately disclosed.

In cases of funding acquisition of assets by means of loan, the term of the loan shall not be longer than the life of the assets they are used to acquire.

### 4.3 Operation and maintenance

Accountability for the operation and maintenance of movable and immovable assets shall be delegated by the municipal manager, to the senior managers. The senior manager is responsible for ensuring that municipal resources assigned to him/her are utilised effectively, efficiently, economically and transparently.

Every senior manager shall be directly responsible for ensuring that all assets under their responsibility are properly maintained and in a manner, which will ensure that such assets attain their useful lives.

### 4.4 Disposals

In terms of MFMA sec 14(1), "A municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services."

In terms of MFMA sec 14(2), "A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in subsection (1), but only after the municipal council, in a meeting open to the public has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset."

Where assets have been identified as under-performing, or no longer functionally suited for basic service-delivery needs, consideration shall be given to the possible alternatives to disposal.

Reasonable grounds for determining that a capital asset is not required for the provision of the minimum level of basic municipal services shall include the following:

- The asset was acquired specifically for resale or distribution, e.g. investment property
- The asset is impaired (in respect of which the asset custodian can provide evidence).
- The municipality no longer performs the function for which the asset was purchased,
- It is an immovable asset no longer located close to where the service is required,
- The asset has been replaced.
- The asset no longer performs the required level of service.

The following standing requirements shall apply regarding disposal of capital assets:

- The municipality shall not permanently dispose of a capital asset needed to provide the minimum level of basic municipal services;
- Where the council has resolved that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy. The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset been sold, transferred or otherwise disposed of.

To ensure that a disposal is fair, equitable, transparent and competitive, the following shall happen:

- The fair market value for different types of assets identified for disposal shall be determined;
- The disposal process shall be open to the public and public scrutiny and consistent with the municipality's supply chain management policy;
- Consideration shall be given to the fair market value of the asset and to the economic and community value to be received in exchange for the asset.
- Reasonable efforts shall be made to ensure that an appropriately competitive process for disposal is adopted;
- All assets identified for disposal shall be efficiently and properly secured to avoid the risk of theft or misappropriation while waiting for disposal processes to be initiated.

The municipal manager may approve the disposal of an item of property, plant and equipment as delegated by the municipal council. The delegations to approve contracts for the disposal of an item of property, plant and equipment are stated in the Supply Chain Management Policy.

#### **4.4.1 Asset disposal methods**

Assets can be disposed of in the following methods;

- Transfer
- Auctions and Biddings;
- Donations;
- Destruction/Deconstruction; and
- Scrapping

#### **4.4.2 Accounting treatment on Disposal**

An item of movable and immovable asset shall be eliminated from the fixed asset register on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected.

Proceeds arising from the retirement or disposal of an item shall be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset and shall be recognized as revenue or expense in the statement of financial performance.

### **5. Internal controls**

#### **5.1 Asset register**

A fixed asset register is a data source, which reflects the recorded information of each individual asset of the Municipality. Third party assets under the custody of the municipality shall not be regarded as forming part of the municipality assets and shall be kept in a separate Fixed Asset Register labelled 'Third part assets'. A register for assets with third parties for repairs, service shall be maintained with such details as service provider, date asset taken for service, and its expected date of return.

##### **Format of fixed asset register**

The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.

The information required in an asset register should include information on the following aspects:

- Identification & Location - What and where is this asset, and who does it serve?
- Accountability - Who is accountable and how it is being safeguarded?
- Performance – What is its intended and actual level of service?
- Accounting – How is it accounted for? This should include:
  - Valuation basis;
  - Depreciation parameters.
- Management & Risk – How is it managed? How critical is it? This should include some maintenance, engineering and operational data and may be summarised from sub-systems.
- Acquisition and disposal – Transactional source (Audit Trail). The above is only applicable to a capital asset register. For a minor asset register the following should be included as a minimum:
- Identification & Location - What and where is this asset and who does it serve?
- Accounting – How is it accounted for? (historical cost, depreciation etc)

##### **Acquisition**

- Transaction Date
- Amount
- Supplier / Contractor
- Reference (invoice/contract/payment/order number).

## Identification

- Asset class: should facilitate GRAP financial reporting requirements, e.g. PPE, investment property, intangible asset, etc.
  - Asset sub-class: should facilitate management and reporting, e.g. motor vehicle, furniture, road infrastructure, etc.
  - Asset functional group (if relevant): e.g. clinic, warehouse, hall.
- Parent asset or standalone asset: if parent then must have links to separately depreciable parts. For separately depreciable parts: link to parent asset.
- Asset number: a unique system-generated identifier, bar code or other unique number so that the individual asset can be distinguished from others.
- Asset specific identifiers (where applicable): e.g. serial numbers, registration number, erf. number.
- Asset description: e.g. 2005 Toyota Corolla 140i, brown wooden six-seater boardroom table, etc.
  - Asset dimensions/capacity (if relevant): e.g. 200 litre (tank), 4000 sq metre (building/land)
  - Asset construction (if relevant): e.g. brick, wood, cast iron
- Location: e.g. Office 123, Store Abc, Erf. Xyz
  - Zoning: residential, agricultural, industrial, etc.
  - GPS: recommended for easy location (where relevant).

## Accountability

- Department / division: (depends upon organisation)
  - Section / unit (depends upon organisation)
  - Sub-section (depends upon organisation)
  - Cost centre
- Custodian: e.g. user of the asset or person responsible for safeguarding the asset in his/her possession: for laptop, custodian is Mr Jones (Financial Manager).
- Restrictions (if any) in use or changing of an asset
- Ownership (if legal title is not with the municipality)
- Licence or permits
- Transfers: (to record date and transferor).

## Performance

- Capacity (where relevant), e.g. 2 tonne, 2000 sq. metres, 200 ml/day
- Performance measures (where relevant)
- Condition Assessment (date, rating, person doing assessment, file no – for details)
- Warranties, guaranties or certification
- Useful life: e.g. years/hours/units/mileage, etc. of expected use
- Residual value: to be evaluated annually.

## Disposal

- Date
- Amount: proceeds received
- Capacity: at date of disposal
- Condition: e.g. good, fair, bad, etc.
- Remaining useful: if sold earlier than originally planned
- Residual value: to compare with proceeds
- Reason for disposal.

## Accounting

- Historical cost (or fair value where cost not available for initial recognition)
- Funding source
- Useful life: (original)
- Remaining useful life: (assessed, date of assessment)
- Residual value: (original, assessed and date of assessment)
- Depreciation method: (straight line, sum of units, diminishing balance, etc.)
- Revaluation: (amount, date, method, by whom): if revaluation model adopted by entity, should continue revaluing for subsequent measurement.
- Impairment. (amount, date assessed)
- Depreciation: value and rate: current year
- Accumulated depreciation: life to date

- Carrying amount
- Disposal (where relevant): (date, realised amount, details on disposal, Council resolution).

### Management and risk information

- Criticality rating: prioritisation in terms of service delivery within a programme
  - Service type: e.g. Administration, Water, Electricity
- Maintenance history: (summarised from maintenance systems)
- Operational history: (summarised from maintenance systems)
- Risk assessment: (may reference other documentation).

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, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset.

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset

## 5.2 Conditional assessment and useful lives

The regular assessment of the condition and performance of all the movable or immovable assets will be performed annually to determine the ability of movable or immovable assets to continue to perform and provide services into the future. The following rating scale is used:

Condition Rating Table			
Grade	Description	Detailed description	Estimated
1	Very Good	New, sound structure or appearance, well maintained. Continue with planned maintenance.	As estimated
2	Good	Performance acceptable with minor deterioration. Normal Planned maintenance continues.	As estimated
3	Fair	Clear deterioration. Significant maintenance required, consider impairment.	Less than estimated
4	Poor	Significant deterioration in structure or appearance. Significant impairment of performance. Significant maintenance required.	Significantly less than estimated
5	Very Poor	Unsound, does not perform. Reconstruction or replacement required needs replacement).	None or nominal

### Initial determination of useful life

Senior managers need to determine the useful life of an item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:

- The program that will optimise the expected long-term costs of owning that asset, Economic obsolescence because it is too expensive to maintain,
- Functional obsolescence because it no longer meets the municipality's needs, Technological obsolescence, Social obsolescence due to changing demographics, and Legal obsolescence due to statutory constraints.

## **Review of useful life**

Only the Chief Financial Officer may amend the useful operating life assigned to any movable or immovable assets, and when any material amendment occurs.

The Chief Financial Officer shall amend the useful operating life assigned to any movable or immovable 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.

The useful life of an item of movable or immovable assets should be reviewed annually and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods should be adjusted and the additional depreciation expenses shall be debited to the directorate or vote controlling or using the fixed asset in question

## **6. Accounting for movables and immovable assets**

### **6.1 GRAP 16 – Investment Property**

#### **Recognition of Investment property**

- GRAP 16.05 defines Investment property as property (land or a building) – or part of a building or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:
  - Use in the production or supply of goods or services or for administrative purposes; or
  - Sale in the ordinary course of operations.
- GRAP 16.26 Investment property shall be recognised as an asset when and only when:
  - It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and
  - The cost

#### **Measurement at recognition**

- GRAP 16.32 An investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).
- GRAP 16.33 Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

#### **Measurement after recognition**

- GRAP 16.46 After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value.
- GRAP 16.48 A gain or loss arising from a change in the fair value of investment property shall be included in surplus or deficit for the period in which it arises.
- GRAP 16.51 The fair value of investment property shall reflect market conditions at the reporting date.
- GRAP 16.70 If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal even if comparable market transactions become less frequent or market prices become less readily available.

## Transfers

- GRAP 16.72 Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
  - commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
  - commencement of development with a view to sale, for a transfer from investment property to inventories;
  - end of owner-occupation, for a transfer from owner-occupied property to investment property; or
  - commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.
- GRAP 16.77 For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with GRAP 17 or GRAP 12 shall be its fair value at the date of change in use.
- GRAP 16.78 If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply GRAP 17 up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with GRAP 17 and its fair value in the same way as a revaluation in accordance with GRAP 17.
- GRAP 16.80 For a transfer from inventories to investment property that 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 recognised in surplus or deficit.

## Disposals

- GRAP 16.83 An investment property shall be derecognised (eliminated from the statement of financial position):
  - on disposal (including disposal through a non-exchange transaction) or;
  - when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.
- GRAP 16.86 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 (unless GRAP 13 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

## 6.2 GRAP 17 – Property, Plant and Equipment

### Recognition of Property, plant and equipment

- GRAP 17 .06 Property, plant and equipment are tangible items that:
  - (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
  - (b) are expected to be used during more than one reporting period.
- GRAP 17.07 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



- A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:
  - Infrastructure
  - Community
  - Library Building
  - Machinery and equipment
  - Transport
  - Furniture and office equipment
  - Leased
  - Computer equipment
  - Other assets

#### **Measurement at recognition**

- GRAP 17.17 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.
- GRAP 17.18 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.<sup>3</sup>
- GRAP 17.21 The cost of an item of property, plant and equipment comprises:
  - its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
  - 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; and
  - the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

#### **Measurement after recognition**

- GRAP 17.33 After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
- GRAP 17.48 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.
- GRAP 17.53 The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.
- GRAP 17.55 The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
- GRAP 17.56 An entity shall assess at each reporting date whether there is any indication that the entity's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly. 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 (GRAP 3).
- GRAP 17.71 The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity.



- GRAP 17.72 The depreciation method 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 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 GRAP 3.

## **Disposals**

- GRAP 17.78 T The carrying amount of an item of property, plant and equipment shall be derecognised:
  - (a) on disposal (including disposal through a non-exchange transaction); or
  - (b) when no future economic benefits or service potential are expected from its use or disposal.
- GRAP 17.79 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognised (unless GRAP 13 requires otherwise on a sale and leaseback).
- GRAP 17.83 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## **6.3 GRAP 102 – Intangible Assets**

### **Recognition of Intangible assets**

- GRAP 31.11 An intangible asset is an identifiable non-monetary asset without physical substance.
- GRAP 31.23 An intangible asset shall be recognised if, and only if:
  - it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
  - The cost or fair value of the asset can be measured reliably.
- GRAP 31.42 Internally generated goodwill shall not be recognised as an asset.
- GRAP 31.59 Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets

### **Measurement at recognition**

- GRAP 31.27 An intangible asset shall be measured initially at cost in accordance with paragraphs .28 to .39. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.

### **Measurement after recognition**

- GRAP 31.73 after initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.
- GRAP 31.88 an entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provide service potential to, the entity.
- GRAP 31.107 An intangible asset with an indefinite useful life shall not be amortised.

- GRAP 31.100 The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
  - there is a commitment by a third party to acquire the asset at the end of its useful life; or
  - there is an active market for the asset and:
    - residual value can be determined by reference to that market; and
    - it is probable

#### **Disposals**

- GRAP 31.112 An intangible asset shall be derecognised:
  - on disposal (including disposal through a non-exchange transaction); or
  - When no future economic benefits or service potential are expected from its use or disposal.
- GRAP 31.113 The gain or loss arising from the derecognition of an intangible asset shall be included in surplus or deficit when the asset is derecognised (unless GRAP 13 requires otherwise on a sale and leaseback).

## **6.4 GRAP 103 - Heritage assets**

#### **Recognition of Heritage assets**

- GRAP 103.04 Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.
- Illustrations of the range of assets that can be regarded as classes of heritage assets include the following:
  - works of art, antiquities and exhibits such as biological and mineral specimens or technological artefacts;
  - collections of insects, butterflies and fossils;
  - collections of rare books, manuscripts, records, photographic positives and negatives and other reference material held by libraries to be preserved for their historical and cultural value;
  - objects of scientific or technological interest;
  - historical monuments, such as graves and burial grounds;
  - archaeological and palaeontology sites;
  - conservation areas, such as national parks;
  - historical buildings that have a significant historical association;
  - movable objects, such as military insignia, medals, coins, stamp collections or objects of decorative or fine art; and
  - recreational parks used for leisure to be preserved for the benefit of present and future generations
- GRAP103.13 A heritage asset shall be recognised as an asset if, and only if:
  - it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
  - the cost or fair value of the asset can be measured reliably.

#### **Measurement at recognition**

- GRAP103.24 A heritage asset that qualifies for recognition as an asset shall be measured at its cost.
- GRAP103.25 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.

#### **Measurement after recognition**

- GRAP 103.36 After recognition as an asset, a class of heritage assets shall be carried at its cost less any accumulated impairment losses.

- GRAP 103.62 A heritage asset shall not be depreciated but an entity shall assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity shall estimate the recoverable amount or the recoverable service amount of the heritage asset.

#### **Disposals**

- GRAP 103.71 Transfers from heritage assets shall be made when, and only when, the particular asset no longer meets the definition of a heritage asset.
- GRAP 103.73 Transfers to heritage assets shall be made when, and only when, the asset meets the definition of a heritage asset
- GRAP 103.82 The carrying amount of a heritage asset shall be derecognised:
  - (a) on disposal (including disposal through a non-exchange transaction), or
  - (b) when no future economic benefits or service potential are expected from its use or disposal.

## **6.5 GRAP 12 – Inventory assets**

#### **Recognition of Heritage assets**

- GRAP 12.14 Inventories shall be recognised as an asset if, and only if,
  - it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
  - the cost of the inventories can be measured reliably.

#### **Measurement at recognition**

- GRAP 12.15 Inventories that qualify for recognition as assets shall initially be measured at cost.
- GRAP 12.16 Where inventories are acquired at through a non-exchange transaction, their cost shall be measured at their fair value as at the date of acquisition.
- GRAP 12.19 The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

#### **Measurement after recognition**

- GRAP 12.17 Inventories shall be measured at the lower of cost and net realisable value, except where paragraph .18 applies.
- GRAP 12.18 Inventories shall be measured at the lower of cost and current replacement cost where they are held for:
  - distribution through a non-exchange transaction; or
  - consumption in the production process of goods to be distributed at no charge or for a nominal charge.
- GRAP 12.33 The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.
- GRAP 12.35 The cost of inventories, other than those dealt with in paragraph .33, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula.

## **Recognition is expenditure**

- GRAP 12.45 When inventories are sold; exchanged or distributed the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expense is recognised when the goods are distributed, or related service is rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## 7. Annexure:

### **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.

#### **7.1 Adoption and approval of policy by council**

This policy is adopted and approved by the full Council of KZN 436 – Dr Nkosazana Dlamini Zuma Municipality for implementation.

ADOPTED BY COUNCIL ON THIS \_\_\_\_\_ DAY OF \_\_\_\_\_ 2023

\_\_\_\_\_  
MUNICIPAL MANAGER

\_\_\_\_\_  
DATE