



**Asset Management Policy
and Procedure Manual**

VERSION 1

Contents

1	GENERAL INFORMATION	4
1.1	GLOSSARY OF TERMS	4
1.2	INTRODUCTION	5
1.3	REGULATORY REQUIREMENTS	6
1.4	RELATED POLICIES, PROCESSES AND PROCEDURES	7
1.5	OBJECTIVES.....	8
1.6	UPDATING THE POLICY	9
2	ASSET MANAGEMENT POLICY.....	10
2.1	DEFINITIONS	10
2.2	ROLES AND RESPONSIBILITIES	13
2.2.1	OVERVIEW	13
2.2.2	MUNICIPAL MANAGER.....	13
2.2.3	CHIEF FINANCIAL OFFICER	14
2.2.4	HEADS OF DEPARTMENT	15
2.2.5	DEPARTMENT ASSET CONTROLLER	16
2.2.6	DELEGATIONS	16
3	ACCOUNTING POLICIES.....	17
3.1	FORMAT OF THE ASSET REGISTER	17
3.2	CLASSIFICATION OF ASSETS	19
3.2.1	PROPERTY, PLANT AND EQUIPMENT	19
3.2.2	INVESTMENT PROPERTY.....	20
3.2.3	INVENTORY.....	20
3.2.4	INTANGIBLE ASSETS	20
3.3	PROPERTY, PLANT AND EQUIPMENT.....	21
3.3.1	COMPONENTS OF COST/VALUATION OF ASSETS	21
3.3.2	SUBSEQUENT EXPENDITURE	21
3.3.3	REVALUATIONS OF LAND AND BUILDINGS	23
3.3.4	DEPRECIATION.....	25
3.3.5	IMPAIRMENT LOSSES.....	26
3.4	HERITAGE ASSETS.....	27
4	ASSET MANAGEMENT PROCEDURES	29
4.1	BUDGET PROCESS	29
4.2	ACQUISITION OF ASSETS.....	29
4.3	DISPOSAL OF ASSETS	31

4.4	DEPARTMENTAL TRANSFERS OF ASSETS	34
4.5	RESIGNATIONS.....	34
4.6	IDENTIFICATION OF ASSETS.....	34
4.7	VERIFICATION OF ASSETS.....	35
4.8	SAFEKEEPING OF ASSETS.....	36
4.9	ALIENATION OF ASSETS.....	36
4.10	REPORTING WRITE-OFFS OF ASSETS	37
4.11	MAINTENANCE.....	38
4.12	PRIVATE USE OF MUNICIPAL ASSETS.....	39
4.13	REPLACEMENT NORMS.....	39
4.14	INSURANCE OF ASSETS.....	39
4.15	FLEET MANAGEMENT	40
4.16	DISPOSAL OF FIREARMS.....	40
4.17	BIOLOGICAL ASSETS	40
5	APPENDICES	41
5.1	ASSET USEFUL LIVES.....	42
5.2	SPECIMEN ASSET DISPOSAL FORM.....	43
5.3	SPECIMEN ASSET TRANSFER FORM.....	44
5.4	SPECIMEN ASSET CLEARANCE FORM	45
5.5	SPECIMEN ASSET WRITE OFF FORM	46
5.6	SPECIMEN ASSET REMOVAL FORM	47
5.7	SPECIMEN PERSONAL ASSET DECLARATION FORM	48

1 GENERAL INFORMATION

1.1 GLOSSARY OF TERMS

AC:	Standard reference for South African Generally Recognised Accounting Statement
AMP:	Asset Management Policy
AO:	Accounting Officer (i.e. Municipal Manager)
CFO:	Chief Financial Officer
GAMAP:	Generally Accepted Municipal Accounting Practice
GRAP:	Generally Recognised Accounting Practice
HOD:	Head of Department
IAS	International Accounting Practice
MFMA:	Municipal Finance Management Act (No. 56 of 2003)
MM:	Municipal Manager (i.e. Accounting Officer)
MSA:	Municipal Systems Act (No. 32 of 2000)
PPE:	Property, Plant and Equipment
SAPS:	South African Police Service
UTDM:	Uthukela District Municipality

1.2 INTRODUCTION

Asset Management encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets. UTDM should use assets to affect efficient and effective service delivery to the community within the Uthukela District.

The purpose of the Asset Management Policy and Procedure Manual is to govern the management of assets owned by UTDM (both operationally and financially) to ensure that they are managed, controlled, safeguarded and used in an efficient and effective manner.

In other words, the purpose of the Asset Asset Management Policy and Procedure Manual is to facilitate the management of assets both operationally and financially (accounting treatment).

1.3 REGULATORY REQUIREMENTS

UTDM is required to comply with the MFMA, MSA, and circulars, memorandum and guidelines (practice notes) issued by National Treasury.

GRAP 1, GRAP 3, GRAP 17, GAMAP 12, GAMAP 17 and GAMAP 19 relate directly to the Asset Management Policy.

1.4 RELATED POLICIES, PROCESSES AND PROCEDURES

The following policies, processes and procedures should be in place to ensure an effective and efficient asset management system:

- Supply Chain Management Policy
- Delegations of authority
- Payment Policy
- Fleet Management Policy
- Insurance Policy
- Security Policy
- Property portfolio management

1.5 OBJECTIVES

The objectives of the Asset Management Policy and Procedure Manual are:

- To ensure accurate recording of asset information.
- To ensure the accurate recording of asset movements.
- To ensure compliance with Council's Insurance Policy, Supply Chain Management Policy and Payment Procedure.
- To ensure the effective and efficient control, utilisation, optimisation of usage, safeguarding and management of UTDM's assets.
- To ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the municipality.
- To prescribe the accounting treatment of assets acquired and used in accordance with the applicable accounting standards approved by National Treasury.
- To prescribe the administrative guidelines and internal control procedures to be followed by persons in control of assets with regard to management of those assets.
- To comply with current legislation.
- To emphasise a culture of accountability over fixed assets.
- To ensure that fixed assets are not written off and disposed of without proper authorization.
- To ensure that preventative measures are in place to eliminate theft, loss and misuse.
- To ensure accuracy of the depreciation charge.
- To ensure a formal set of procedures that can be implemented to ensure that fixed assets and financial policies are achieved and are in compliance with the MFMA.

1.6 UPDATING THE POLICY

The Finance Department is responsible for updating the policy on an annual basis. All departments are responsible for submitting requests to change enhance or improve the existing policy. Requests should be submitted to the Asset Management Committee throughout the year. The requests should be evaluated by the Asset Management Committee on an annual basis and any changes agreed upon should be effected by the Finance Department and presented to the Executive Committee on an annual basis. Advice on recommended internal control procedures and interpretation of this document may be obtained from the Asset Controller (referred to in Section 2.2.5). It is critical that all changes made to the policy and procedures are properly and timeously communicated.

The version number on the front of the policy should be updated each time the policy is updated and approved. The “Document review and approval” section at the beginning of this policy must also be updated with each approved change to the policy.

2 ASSET MANAGEMENT POLICY

2.1 DEFINITIONS

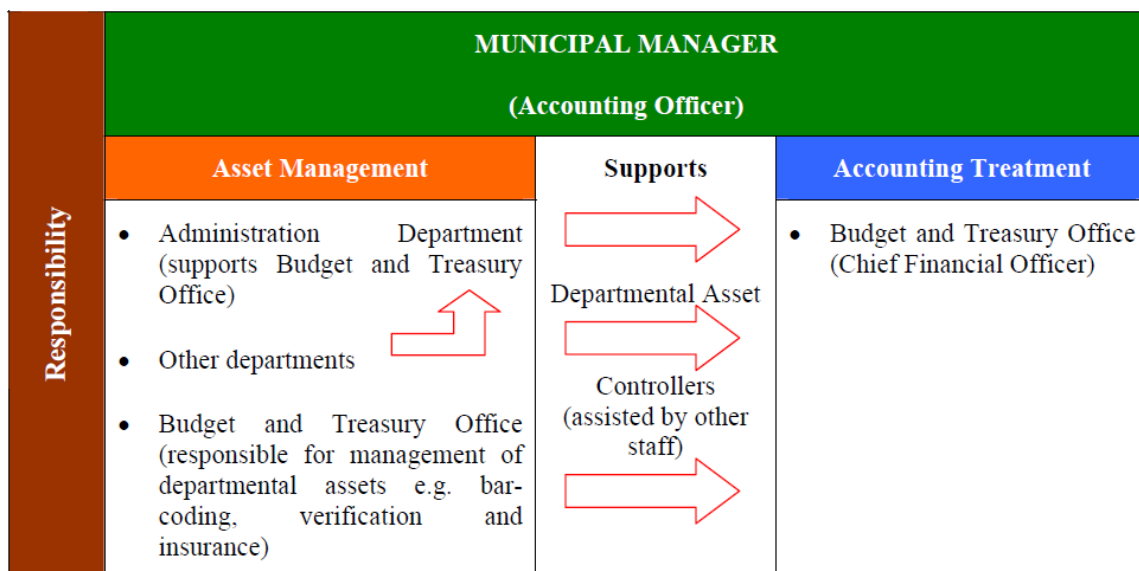
TERM	STANDARD	DETAILS
Asset	GRAP 1 & 3	<p>Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.</p> <ul style="list-style-type: none"> ✓ Future economic benefits: The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents of the operating activities. ✓ Control: The ability to control the benefits which are expected to flow. It's not limited to legal title.
Asset Management	n/a	Asset Management encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets.
Biological assets	IAS 41	A biological asset is defined as a living asset or plant.
Carrying amount		Carrying amount is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation and any impairment losses thereon.
Community assets		Fixed assets which contribute to the community's wellbeing.
Cost		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
Depreciable amount		Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
Depreciation		Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life
Fair value	GAMAP 17 & IAS 40	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

TERM	STANDARD	DETAILS
		transaction
Head of Department		All incumbents of post level 1 in the different directorates
Heritage assets		Fixed assets which have a cultural, environmental or heritage significance, and which have no service potential or economic use.
Inventory	GAMAP 12	GAMAP 12 (Inventories) defines the following as inventory in the public sector: <ul style="list-style-type: none"> • ammunition, • consumable stores, • maintenance materials, • spare parts for plant and equipment other than those dealt with under the Standard of Generally Accepted Municipal Accounting Practice on Property, Plant and Equipment, • strategic stockpiles, • work in progress, and • land/property held for sale
Investment property	IAS 40	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, rather than for: <ol style="list-style-type: none"> a) use in the production or supply of goods or services or for administrative purposes; or b) sale in the ordinary course of business.
Owner-occupied property	IAS 40	Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes
Property, Plant and Equipment	GAMAP 17	PPE are tangible assets that are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

TERM	STANDARD	DETAILS
		<p>A fixed asset is thus an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year</p>
<p>Recoverable amount</p>	<p>IAS 36</p>	<p>Cash generating asset The recoverable amount is the higher of its fair value less costs to sell and its value in use.</p> <p>Non-cash generating asset Recoverable amount is the amount that the entity expects to recover from the future use of an asset, including residual value on disposal.</p>
<p>Useful life</p>	<p>GAMAP 17</p>	<p>Useful life is either: the period of time over which an asset is expected to be used by the entity, the number of production or similar units expected to be obtained from the asset by the entity.</p>
<p>Residual value</p>	<p>GAMAP 17</p>	<p>Residual value is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.</p>

2.2 ROLES AND RESPONSIBILITIES

2.2.1 OVERVIEW



The diagram above depicts an overview of the key role players involved in asset management. Each department is supported by a Departmental Asset Controller.

2.2.2 MUNICIPAL MANAGER

Responsibilities

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

The AO of a municipality is responsible for the management of the assets of that municipality in terms of section 63 of the MFMA which prescribes the following:

- Safeguarding and maintenance of assets.
- Implementation of an information system that accounts for the assets.
- Ensuring that assets are valued in terms of generally recognised accounting practice.
- Maintaining a system of internal control of assets (e.g. an asset register).

Delegations

The AO may delegate to a member of the municipality's top management (chief financial officer; senior managers responsible for managing votes; other senior officials) or any other official of the municipality in terms of section 79 (1) (b) of the MFMA:

- Any powers or duties assigned to an AO in terms of the Act, or
- Any powers or duties reasonably necessary to assist the AO in complying with a duty which requires the AO to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of this Act.

The AO must regularly review the delegations issued above.

The delegations:

- Must be in writing.
- May be subject to limitations and conditions as the AO may impose in a specific case.
- May be to a specific individual or to the holder of a specific post in the municipality.
- May authorise the delegated member to sub-delegate the delegated power or duty to an official or the holder of a specific post in that member's area of responsibility.
- Do not divest the AO of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.

The AO is therefore accountable for all transactions entered into by his/her delegates.

2.2.3 CHIEF FINANCIAL OFFICER

The CFO shall be the asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised asset register is maintained.

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

The following duties have been delegated to the CFO:

- To ensure that Council assets are accounted for in accordance with generally recognised accounting practice.
- To ensure that the general ledger is reconciled to the asset register.

- To review the reconciliation between the general ledger and the asset register
- To provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.

2.2.4 HEADS OF DEPARTMENT

Section 78(1) of the MFMA prescribes the following areas of responsibility for senior managers (also referred to as HOD's) relating to asset management.

“Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure –

- That the system of financial management and internal control established for the municipality is carried out diligently;
- That the financial and other resources of the municipality are utilised effectively, efficiently economically and transparently;
- That any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;
- That the assets of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;
- That all information required by the AO for compliance with the provisions of this Act is timeously submitted to the AO; and
- That the provision of this Act, to the extent applicable to that senior manager or official including any delegations in terms of section 79, are complied with.”

The provision of section 78(1) must be performed subject to the directions of the AO. In addition to the above, the HOD's are responsible to ensure that all employees within their respective department adhere to the approved Asset Policy and Procedures. **The HOD must nominate an employee to implement and maintain asset control (i.e. Departmental Asset Controller) in his/her directorate / department. The Finance Department must be notified of such person.**

Where limited resources are available, it is incumbent upon the HOD's, to ensure that adequate procedures for regular independent checks of fixed assets are in place.

It is the responsibility of the HOD to ensure that all asset related changes that take place within their divisions/directorates have been properly authorised and communicated to the Department Asset Controller.

2.2.5 DEPARTMENT ASSET CONTROLLER

The “Departmental Asset Controller”, under the supervision and authority of the HOD, must ensure that:

- All information needed by the Budget and Treasury Office to compile and update the Asset Register, is circulated to the said Department.
- The HOD and Finance Department (after approval of the HOD) is notified of any changes in the status of the assets under the directorates/departments control (e.g. new asset purchases, asset transfers, asset impairments and asset disposals).
- The inventory and/or assets of the UTDM are not used for private enterprise and gain by any employee/Councillor.
- Control is exercised over the respective department’s assets and shall report any enhancement/improvement, transfer or disposal of the respective department’s assets to the Finance Department.
- Relevant reports on the writing off of scrap (in case of vehicles) and the theft/loss (in the case of other assets) are submitted to the Finance Department.
- Any discrepancies in the asset stock take report are followed up.
- All assets within the department are recorded on the asset register and are bar coded.
- Administer cyclical counts on assets within the respective department and follow up on any discrepancies.

2.2.6 DELEGATIONS

All delegated authority must comply with the Delegations of Authority Policy.

3 ACCOUNTING POLICIES

3.1 FORMAT OF THE 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 generally accepted municipal accounting practice (GAMAP) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- the department(s) or vote(s) within which the assets will be used
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with part 11 below
- the original cost, or the revalued amount determined in compliance with part 26 below, or the fair value if no costs are available
- where applicable, the (last) revaluation date of the fixed assets subject to revaluation
- where applicable, the revalued value of such fixed assets
- where applicable, who did the (last) revaluation
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- the current insurance arrangements (where applicable, replacement values)
- whether the asset is required to perform basic municipal services
- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- the date on which the asset is disposed of

- the disposal price
- the date on which the asset is retired from use, if not disposed of.

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

A fixed asset shall be capitalised, that is, recorded in the fixed assets register at its original cost (including capitalised borrowing costs, where applicable), or if no such cost is available, at a fair value determined by the chief financial officer.

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

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.

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

PPE treated as inventories shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

Major spare parts and stand-by equipment should be bar-coded and recorded in the asset register.

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

An asset shall remain in the asset register for as long as it is in physical existence.

3.2 CLASSIFICATION OF ASSETS

The CFO must ensure that all assets are, as prescribed by the current standards, classified under the following headings in the asset register.

3.2.1 PROPERTY, PLANT AND EQUIPMENT

PPE are classified as follows in terms of GAMAP 17.17-23:

Classification	Description	Example
Infrastructure assets	<p>Infrastructure assets are any assets that are part of a network of similar assets.</p> <p>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 of the following characteristics:</p> <p>a) They are part of a system or network, b) They are specialised in nature and do not have alternative uses, c) They are immovable, and/or d) They may be subject to constraints on disposal.</p>	<ul style="list-style-type: none"> • Roads • Water and reticulation schemes • Sewerage purification • Electricity asset
Community	Community assets are any assets that contribute to the community's well-being.	<ul style="list-style-type: none"> • Parks • Libraries • Fire stations.
Heritage assets	Heritage assets are culturally significant	<ul style="list-style-type: none"> • Works of art, • Historical buildings

Classification	Description	Example
	resources.	<ul style="list-style-type: none"> • Statues.
Other assets	Other assets are assets utilised in operations except for assets referred to in section 2.3.3.	<ul style="list-style-type: none"> • Plant and equipment • Motor vehicles • Furniture and fittings • Property classified as investment property

The cost of the land for **landfill sites** will be capitalised. However, any future costs required to decommission, restore or rehabilitate will be accounted for in terms of IFRIC 5 (AC 438) Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation funds.

3.2.2 INVESTMENT PROPERTY

Investment property shall be accounted for in terms of IAS 40 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position.

3.2.3 INVENTORY

Major spare parts and stand-by equipment qualify as PPE when the entity expects to use them during more than one period or when their use is expected to be irregular in terms of GAMAP 17.14.

3.2.4 INTANGIBLE ASSETS

No intangible asset should be recognised as an asset, except where the CFO, acting in compliance with the requirements of IAS 38 (specifically research and development expenditure) recommends to the Council that specific development costs be recognised as an asset.

3.3 PROPERTY, PLANT AND EQUIPMENT

3.3.1 COMPONENTS OF COST/VALUATION OF ASSETS

Deferred payments

Example

UTDM purchases an asset costing R100 000 on 1.7.0x which is to be repaid in equal instalments over a 36 month period from 1.8.0x. Assume the following:

- The market related interest rate is 15% per annum, compounded monthly.
- There is no residual value

Answer

Cost of the asset and corresponding liability on 1.7.0x is R80 131

[Using a financial calculator: PMT=100 000/36; i=15/12; n=36; PV=??]

Interest will accrue monthly and the monthly payment will be split between the liability and interest expense e.g. for 31.8.0x

Dr Lease Liability (balancing figure)	1 776
Dr Interest expense (80 131 x 1.25%)	1 002
Cr Bank (100 000/36)	2 778

3.3.2 SUBSEQUENT EXPENDITURE

In accordance with GAMAP 17.36-38 the requirements relating to subsequent expenditure are as follows:

Recognising subsequent expenditure as an asset

- Subsequent expenditure on PPE is only recognised as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance.

- Examples of improvements that result in increased future economic benefits or service potential include the following:
 - a) Modification of an item of plant to extend its useful life, including an increase in its capacity,
 - b) Upgrading machine parts to achieve a substantial improvement in the quality of output, and
 - c) Rehabilitation of a road enabling a substantial reduction in previously assessed maintenance costs.

Recognising subsequent expenditure as an expense

- Expenditure related to repairs or maintenance of PPE are made to restore or maintain the future economic benefits or service potential that an entity can expect from the most recently assessed standard of performance of the asset.
- Therefore, they are usually recognised as an expense when incurred.
- The cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the most recently assessed standard of performance.

Other considerations

GAMAP 17.38 states that:

The appropriate accounting treatment for expenditure incurred subsequent to the acquisition of an item of property, plant and equipment depends on the circumstances, which were taken into account on the initial measurement and recognition of the related item of property, plant and equipment and whether the subsequent expenditure is recoverable. For instance, when the carrying amount of the item of property, plant and equipment already takes into account a loss in economic benefits or service potential, the subsequent expenditure to restore the future economic benefits or service potential expected from the asset is capitalised, provided that the carrying amount does not exceed the total economic benefits or service potential that the entity expects to recover from the continued use and ultimate disposal of the item. This is also the case when the purchase price of an asset already reflects the entity's obligation to incur expenditure in the future, which is necessary to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount of the asset to the extent that it can be recovered from future use of the asset.

3.3.3 REVALUATIONS OF LAND AND BUILDINGS

Determination of the fair value

For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land and non- specialised buildings.

Frequency of revaluations

The decision to revalue assets shall be determined by the chief financial officer, which revaluation shall comply with the requirements of generally recognised accounting practice (GRAP) and generally accepted municipal accounting practice (GAMAP) and any other accounting requirements which may be prescribed.

The frequency of revaluations, once a decision has been taken to revalue assets, depends upon the movements in the fair values of land and buildings being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some land and buildings may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for land and buildings with only insignificant movements in fair value. Instead, revaluation every three or five years may be sufficient.

Treatment of accumulated depreciation on revaluation

Example

UTDM purchases an asset costing R100 000 on 1.7.06. The asset is:

- Depreciated on a straight line basis over 10 years
- Revalued every 4 years

The gross replacement cost on the first date of revaluation (1.7.10) is R250 000.

Answer

1.7.10

Dr	Asset – revaluation	150 000	
	Accumulated depreciation	40 000	
Cr	Accumulated depreciation– revaluation		100 000
	Revaluation surplus		90 000

Calculations

Carrying amount prior to revaluation

Cost	100 000
Accumulated depreciation (100 000 x 10% x 4 years)	<u>(40 000)</u>
Carrying amount	60 000

Carrying amount after revaluation

Replacement cost	250 000
Accumulated depreciation (250 000 x 10% x 4 years)	<u>(100 000)</u>
Carrying amount	150 000

Therefore, the revaluation surplus is 90 000 (150 000 – 60 000)

Classes of property

A class is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

- a) Land,
- b) Operational buildings,
- c) Office buildings,
- d) Roads,
- e) Machinery,
- f) Electricity transmission networks,
- g) Motor vehicles,
- h) Furniture and fixtures, and
- i) Office equipment

3.3.4 DEPRECIATION

In addition to the definition of depreciation explained in **section 2.1**, depreciation is also understood to be the monetary quantification of the extent to which PPE is used or consumed in the provision of economic benefits or the delivery of services.

Useful life

In accordance with GAMAP17.53-54 the following guidance should be referred to when considering the useful life of an asset.

- .53 The economic benefits or service potential embodied in an item of property, plant and equipment is consumed by the entity principally through the use of the asset. However, other factors such as technical obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been expected to be available from the asset. Consequently, all the following factors need to be considered in determining the useful life of an asset:
- a) The expected usage of the asset by the entity. Usage is assessed by reference to the asset's expected capacity or physical output,
 - b) The expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program of the entity, and the care and maintenance of the asset while idle,
 - c) Technical obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, and
 - d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- .54 The useful life of an asset is defined in terms of the assets expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a certain proportion of the economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the entity with similar assets.

3.3.5 IMPAIRMENT LOSSES

Indicators of impairment for cash-generating assets

Internal indicators	External indicators
<ul style="list-style-type: none"> • Evidence of obsolescence or physical damage • Discontinuance, disposal or restructuring plans • Declining asset performance 	<ul style="list-style-type: none"> • Significant decline in the market value • Changes in technological, market, economic or legal environment • Changes in interest rates • Low market capitalisation

Indicators of a reversal of the impairment for cash-generating assets

The reversal of impairment may occur due to the following:

Internal indicators	External indicators
<ul style="list-style-type: none"> • Changes in the way the asset is used or expected to be used • Evidence from internal reporting indicates that economic performance of the asset will be better than expected 	<ul style="list-style-type: none"> • Significant increase in market value • Changes in technological, market, economic or legal environment • Changes in interest rates • Market interest rates have decreased

3.4 HERITAGE ASSETS

Examples of heritage assets

Include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

- a. Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price,
- b. Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale,
- c. They are often irreplaceable and their value may increase over time even if their physical condition deteriorates, and
- d. It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Heritage assets with service potential

GAMAP 17.07 states that some heritage assets have service potential other than their heritage value (e.g. a historic building being used for office accommodation). In such instances, they may be recognised and measured on the same basis as other items of PPE. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

GAMAP 17.08 states that the disclosure requirements in paragraphs .75 to .81 require entities to make disclosures about recognised assets. Therefore, entities that recognise heritage assets are required to disclose in respect of those assets such matters as:

- a) the measurement basis used,
- b) the gross carrying amount,
- c) the accumulated depreciation at the end of the period, if any, and
- d) a reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Heritage assets without service potential

Entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

4 ASSET MANAGEMENT PROCEDURES

4.1 BUDGET PROCESS

Each HOD, acting in consultation with the CFO, shall:

- Prepare an annual budget for the acquisition of assets and the maintenance of assets.
- Ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

4.2 ACQUISITION OF ASSETS

The process to be followed when assets are acquired shall be in accordance with the Council's Supply Chain Management Policy and Manual, Delegation of Authority Policies and Payment Procedures. This shall apply to all the types of Council's assets as contained in this Policy.

All assets to be purchased should be in terms of the approved budget.

Depending on the amount of the asset to be purchased and after the necessary authorisation has been obtained the following procedure for purchasing an asset must be followed:

- Requisition to be completed and signed by person requesting the asset.
- Quotations must be obtained in terms of the Supply Chain Management Policy.
- Authority in terms of Delegated Powers to Officials must be reflected on the requisition.
 - The bidding process procedures will apply in terms of the MFMA Municipal SCM Regulations and the UTDM SCM Policy.
 - The HOD/MM should sign the requisition as authorisation where the asset is acquired within their delegated authority.
- Quotations must be attached to the relevant requisition as per the supply chain policy.
- Procurement section must generate and issue the order.
- For all assets acquired, the HOD should notify the Insurance Claims Clerk on delivery to provide immediate cover. It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes.
- On receipt of the purchased asset, the recipient should inspect the asset and once satisfied endorse the delivery note or invoice and forward it to procurement section.
- The recipient should immediately inform the Accountant: Budget and Treasury Office that

the asset has been delivered for the purpose of bar coding.

- The recipient's inventory list should be updated and a signed copy be kept by Budget and Treasury Office.
- The invoice should be endorsed and bar code should be arranged for the asset procured.

The Budget and Treasury Office will provided with a monthly report on asset movements by relevant HOD.

The reporting must also apply to the following:

- Donations.
- Additions / Improvements (refers to immovable assets).
- Auctions.
- Loss or damage.
- Transfers.
- Write-offs
- Land sales.

Heads of Departments

HOD's shall ensure:

- At all times that there are enough funds in the budget before approval of any requisitions.
- That the correct vote and descriptions are being used before authorising any requisitions.
- Any item within a value of R1000 (one thousand hundred rand), and with an estimated useful life of more than one year, shall be recorded on an inventory register. The inventory register should record all inventory purchases and movements.

4.3 DISPOSAL OF ASSETS

All assets are to be disposed of in 4 ways, for example:

Asset Management Policy	Link to Supply Chain Management Policy (Disposal Management)
By dumping at a tip site after approval by HOD concerned if the item is damaged beyond repair	Destroying the asset
Public tender for the disposal of property or letting of assets (including unserviceable, redundant or obsolete assets subject to section 14 and 90 of the MFMA)	selling the asset
Auctioning	selling the asset
Donation	<ul style="list-style-type: none"> • transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets • transferring the asset to another organ of state at market related value or, when appropriate, free of charge

The Supply Chain Manager should direct the disposal process.

Municipal Finance Management Act requirements for the disposal of capital assets

The **disposal of capital assets**, in terms of section 14 of Municipal Finance Management Act (No. 56 of 2003), specify the following requirements:

- 1) Capital assets needed to provide the minimum level of basic municipal services may not be disposed of.
- 2) Capital assets (other than those mentioned in 1) may only be disposed of after the municipal council in a meeting open to the public:
 - a. Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, and
 - b. Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 3) Any decision made by the municipal council that the specific capital asset is not needed to provide the minimum level of basic municipal service may not be reversed by the municipality after the asset has been disposed of.
- 4) The municipal council may delegate its power to make the decision in 2(a) and (b) for

movable capital assets to the MM subject to limits (e.g. R5 000) prescribed by the municipal council.

- 5) Any transfer of ownership (disposal) must be fair, equitable, transparent, competitive and consistent with the supply chain management policy.
- 6) The above does not apply to transfers of capital assets to another municipality, municipal entity, national or provincial organ of state provided that the transfers are in accordance with the prescribed framework.

Disposal procedures

After the necessary authorisation has been obtained, the following procedure for disposing of an asset must be followed:

Disposal procedure	Type of disposal
<ul style="list-style-type: none"> • A staff member identifies the asset(s) to be disposed of (obsolete, redundant, transferred, and other). 	<ul style="list-style-type: none"> • All
<ul style="list-style-type: none"> • HOD concerned approves the status of the item. 	<ul style="list-style-type: none"> • All
<ul style="list-style-type: none"> • A request to dispose of the asset and the proposed method of disposal must be sent to the Disposal Committee. • The Disposal Committee should inspect all redundant items and provide recommendations to Council to approve the disposal. 	<ul style="list-style-type: none"> • All • Disposal of unserviceable, redundant, obsolete and damaged assets
<ul style="list-style-type: none"> • The Finance Department will table the item as per the recommendations of the Disposal Committee at the HOD/Working Group meeting for consideration. 	<ul style="list-style-type: none"> • All
<ul style="list-style-type: none"> • A memorandum must be written by the HOD/Working Group meeting to the MM indicating the status of the item and the proposed method for disposal 	<ul style="list-style-type: none"> • All
<ul style="list-style-type: none"> • An asset disposal form must be filled in and properly signed by the requesting official, HOD, Disposal Committee Chairperson and the MM. 	<ul style="list-style-type: none"> • All
<ul style="list-style-type: none"> • The asset disposal form must be attached to the memorandum and forwarded to Budget and Treasury for processing. 	<ul style="list-style-type: none"> • All
<ul style="list-style-type: none"> • The asset (s) should be taken to the Finance Department's safe house for storage. 	<ul style="list-style-type: none"> • All

Disposal procedure	Type of disposal
<ul style="list-style-type: none"> When the items to be disposed of have been identified, a public notice in the local newspaper is made inviting applications from charity organisations and schools. 	<ul style="list-style-type: none"> Disposal of redundant and obsolete assets. Disposal by auction or Donation
<ul style="list-style-type: none"> Once the approval has been received, the asset register will be adjusted accordingly. 	<ul style="list-style-type: none"> All

Each department / directorate must take the necessary steps to ensure that all its assets to be disposed of are brought to the attention of the The Supply Chain Manager.

The useful life of assets will be guided by the asset life as suggested by GAMAP standardised set of statements. Refer to **section 5.1**.

Land and Buildings shall be auctioned at the reserved prevailing market prices as indicated by the valuers at the time of disposal.

All computer equipment to be disposed of will be subject to scrutiny by the IT Manager.

Council

The Council shall give fourteen (14) days notice in the newspaper circulating within its area. Notice shall be both in English and isiZulu. Such notice shall also be affixed to all Notice Boards at the Council's office and website.

Council may resolve to donate any of its assets to organisations / individuals and persons within its area of jurisdiction.

Disposal Committee

The Disposal Committee will be responsible for the following:

- To be a central point for all requests to dispose of assets.
- To evaluate all requests to dispose of assets.
- To prepare a memorandum to the MM indicating the status of the item and the proposed method for disposal.
- To ensure that the asset disposal forms are signed by relevant parties (requesting official, HOD, Chairperson of the Disposal Committee, and the MM)

4.4 DEPARTMENTAL TRANSFERS OF ASSETS

The HOD's shall approve all asset movements, which relate to the transfer of assets from one department to the other.

When a directorate or department transfers an asset or an inventory item interdepartmentally or within its department, the Asset Transfer Form (**section 5.3**) must be forwarded to the department/location receiving the asset or inventory item. A copy of this form is to be forwarded to the Budget and Treasury Office for the update of the asset register.

Where a department no longer requires the use of an asset it should be transferred to the Finance Department for storage until it is required by another department.

4.5 RESIGNATIONS

At the resignation of an employee the applicable Director or his/her duly delegated representative must complete the relevant asset form and forward it to the Finance 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 (refer to **section 5.4** Asset Clearance Form).

4.6 IDENTIFICATION OF ASSETS

The following applies relating to the identification of assets:

- The MM is responsible for ensuring that the municipality maintains an asset identification system.
- The fixed asset identification system should operate in conjunction with the asset register.
- The MM in consultation with the Director: Administration and HOD's should prescribe the identification system.
- The identification system should comply with any legal prescriptions and recommendations of the Auditor-General.
- The CFO should ensure that the asset identification system is applied.

4.7 VERIFICATION OF ASSETS

Departmental asset register/listing of assets

The Budget and Treasury Office must distribute to each Department Asset Controller an asset register/listing of all assets for the respective department on a quarterly basis.

Departments

The departments should:

- Perform cyclical counts on assets within their department during the year.
- Perform the annual asset verification of all assets as at 30 June each year within the last two months of the financial year. The asset verification will be facilitated by the Budget and Treasury Office.
- Ensure that the existence of items recorded on the inventory register is verified from time to time, and at least once in every financial year. Any amendments which are made to the inventory register must be retained for audit purposes.

These counts should be coordinated by Department Asset Controller.

Administration and Budget and Treasury Office

The procurement section and where necessary his/her duly designated official shall:

- Receive from the Budget and Treasury Office a detailed "outcome report" on the assets verification exercise.
- In consultation with the CFO, ensure that the asset register of the Council is balanced at least annually.

Budget and Treasury Office will facilitate the annual verification of assets.

4.8 SAFEKEEPING OF ASSETS

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

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

4.9 ALIENATION OF ASSETS (ASSETS HELD-FOR-SALE)

Every HOD shall report in writing to the CFO at least 60 days before assets controlled or used by the department concerned which such HOD wishes to alienate by public auction or public tender. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council of the municipality recommending the process of alienation to be adopted.

The Council may delegate to the municipal manager the authority to approve the alienation of any asset with a carrying value less than R5 000 (five thousand rand).

The Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the MFMA.

Once the assets are alienated, the CFO shall delete the relevant records from the asset register. Should the assets not be alienated at year end, then the assets shall be re-classified as assets held for sale, in terms of the relevant accounting reporting standards.

If the proceeds of the alienation are less than the carrying value recorded in the asset register, such difference shall be recognised as a loss in the Statement of Financial Performance of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain in the Statement of Financial Performance of the department or vote concerned.

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

4.10 REPORTING WRITE-OFFS OF ASSETS

All losses should be recorded on a standard Asset Write off Form (refer to **section 5.5**) which shall be used for reporting purposes.

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 (refer to **section 5.5**) to the Director of Administration, and – in cases of suspected theft or malicious damage – also to the South African Police Service. The Director of Administration shall promptly report to the CFO in writing the above events.

Other write-offs

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

Each Department / Directorate must keep an accurate record of all asset losses and report (refer to **section 5.5**) such losses to the Director of Administration.

The Supply Chain Manager shall report to the CFO on 30 April of each financial year on any assets which such HOD wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Council of the municipality on the assets to be written off.

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.

4.11 MAINTENANCE

General maintenance

Every 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.

Maintenance plans

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

The MM 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. The effect of any non-compliance on the useful operating life of the asset should also be reported.

Deferred maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan, the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.

If no such plans have been formulated or are likely to be implemented, the CFO shall re-determine the useful operating life of the fixed asset in question (as guided by reporting standards), if necessary in consultation with the HOD controlling or using the asset, and shall recalculate the annual depreciation expense accordingly.

Where maintenance is deferred and results in a change in the useful operating life of the asset, then the statement on Accounting policies, changes in accounting estimates and errors (GRAP 3) should be applied.

4.12 PRIVATE USE OF MUNICIPAL ASSETS

Each department should ensure that the removal of assets from municipal premises is monitored. The standard Asset Removal Form (refer to **section 5.6** for the form to complete) should be completed and authorised by the HOD each time any asset is removed from municipal premises.

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

4.13 REPLACEMENT NORMS

The MM, in consultation with the CFO and other HOD's, shall formulate norms and standards for the replacement of all normal operational assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the Council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain

4.14 INSURANCE OF ASSETS

All insured assets shall be handled in terms of the Municipality's Insurance Policy as agreed with the Insurance Brokers. The MM or designee should ensure that all assets are insured. The CFO should recommend the basis of insurance to be applied to each type of fixed asset (e.g. carrying value or replacement value).

For all assets acquired, the HOD should notify the Insurance Claims clerk (expenditure section) on delivery to provide immediate cover. It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes before it is used by the respective department.

The CFO shall annually insure the municipality's assets, in consultation with the head(s) of department concerned, provided the Council of the municipality considers such insurance desirable and affordable.

4.15 FLEET MANAGEMENT

The management of Fleet Assets (Council's vehicles, plant and earth moving equipment as defined by the Fleet Management Policy) shall be in terms of the "Fleet Management Policy."

4.16 DISPOSAL OF FIREARMS

The procedures for the legal disposing of firearms in terms of the Firearms Control Act of 2000 are not included in this policy.

4.17 BIOLOGICAL ASSETS

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the HOD concerned in exactly the same manner as though the asset were an ordinary asset.

Records of the details of biological assets shall be kept in a separate section of the asset register or in a separate accounting record altogether and such details shall reflect the information which the CFO, in consultation with the HOD concerned and the internal auditor, deems necessary for accounting and control purposes.

5 APPENDICES

5.1 ASSET USEFUL LIVES

	Asset Life Yrs		Asset Life Yrs
<u>INFRASTRUCTURE ASSETS</u>		<u>OTHER ASSETS</u>	
Buildings :		Office buildings	30
Dams	80	Motor vehicles	5
		Trucks/Bakkies	5
Water:		Office equipment:	
Meters	10	Computer equipment	5
Supply/reticulation	20	Office machines	3-5
Reservoirs and tanks	30	Air conditioners	7
Water pumps	5	Furniture and fittings	7
Mains	30	Emergency equipment	5-15
Rights	30		
Purification Works	30		
Boreholes	15		
Sewerage:		Plant and equipment:	
Sewers	30	Graders	15
Outfall sewers	40	Tractors	15
Purification Works	30	Mechanical horses	15
Sewerage pumps	5	Lawnmowers	2
Sludge machines	15	Compressors	5
		Laboratory equipment	5
		Radio equipment	5
		Telecommunication equipment	5
		Irrigation systems	15
		Lathes & Milling equipment	15
		Tippers	15
		Tools	5
		General	5

INTANGIBLE ASSETS

Computer software	3
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5.2 SPECIMEN ASSET DISPOSAL FORM



UTHUKELA DISTRICT MUNICIPALITY ASSET DISPOSAL FORM

DATE REQUESTED: _____

DEPARTMENT: _____

ASSET BARCODE: _____

ASSET DESCRIPTION: _____

ASSET LOCATION: _____

CLASSIFICATION OF ASSET: _____

SUGGESTED METHOD OF DISPOSAL: _____

CONDITION OF ASSET: _____

REASON FOR REQUEST FOR DISPOSAL: _____

REQUESTING OFFICIAL:

NAME AND SURNAME: _____

SIGNATURE: _____

HOD RECOMMENDATION:

NAME AND SURNAME: _____

SIGNATURE: _____

DISPOSAL COMMITTEE APPROVAL (CHAIRPERSON):

NAME AND SURNAME: _____

SIGNATURE: _____

MM APPROVAL:

NAME AND SURNAME: _____

SIGNATURE: _____

CHANGE UPDATED ON SYSTEM BY BUDGET AND TREASURY OFFICE: _____

5.3 SPECIMEN ASSET TRANSFER FORM



UTHUKELA DISTRICT MUNICIPALITY ASSET TRANSFER FORM

DATE REQUESTED:	
ASSET BARCODE:	
ASSET DESCRIPTION:	
CLASSIFICATION OF ASSET:	
REASON FOR TRANSFER:	
CONDITION OF ASSET:	

<u>CURRENT LOCATION</u> (Approval for the transfer of the asset)	<u>NEW LOCATION</u> (Asset is received and the above details are verified)
DEPARTMENT/ LOCATION	DEPARTMENT/ LOCATION
NAME OF BUILDING	NAME OF BUILDING
FLOOR NUMBER	FLOOR NUMBER
ROOM NUMBER	ROOM NUMBER
ROOM BARCODE	ROOM BARCODE
USER	USER
TRANSFERRING OFFICIAL	RECEIVING OFFICIAL
TRANSFERRING OFFICIAL SIGNATURE	RECEIVING OFFICIAL SIGNATURE
HOD NAME AND SURNAME	HOD NAME AND SURNAME
HOD SIGNATURE	HOD SIGNATURE
DATE TRANSFERRED	DATE RECEIVED

5.4 SPECIMEN ASSET CLEARANCE FORM



UTHUKELA DISTRICT MUNICIPALITY ASSET CLEARANCE FORM

INVENTORY ASSETS:

MOVEABLE ASSETS:

RESIGNING OFFICIAL:

NAME AND SURNAME:

SIGNATURE:

DATE:

HOD:

NAME AND SURNAME:

SIGNATURE:

DATE:

5.5 SPECIMEN ASSET WRITE OFF FORM



UTHUKELA DISTRICT MUNICIPALITY ASSET WRITE OFF FORM

DATE REQUESTED:	_____
DEPARTMENT:	_____
ASSET BARCODE:	_____
ASSET DESCRIPTION:	_____
ROOM NUMBER:	_____
ASSET LOCATION:	_____
CLASSIFICATION OF ASSET:	_____
SUGGESTED METHOD OF DISPOSAL:	_____
REASON FOR WRITE OFF:	_____

<u>REQUESTED BY:</u>	
NAME AND SURNAME:	_____
POSITION:	_____
SIGNATURE:	_____
DATE:	_____
<u>AUTHORISED BY:</u>	
NAME AND SURNAME:	_____
POSITION:	_____
SIGNATURE:	_____
DATE:	_____
CHANGE UPDATED ON THE SYSTEM BY BUDGET & TREASURY OFFICE:	_____

5.6 SPECIMEN ASSET REMOVAL FORM



UTHUKELA DISTRICT MUNICIPALITY ASSET REMOVAL FORM

DATE REQUESTED:	_____
DATE REMOVED:	_____
DEPARTMENT:	_____
ASSET BARCODE:	_____
ROOM NUMBER:	_____
ASSET DESCRIPTION:	_____
ASSET LOCATION:	_____
CLASSIFICATION OF ASSET:	_____
REASON FOR REMOVAL:	_____
RETURN DATE:	_____
DATE RETURNED:	_____
REQUESTED BY:	_____
NAME AND SURNAME:	_____
POSITION:	_____
SIGNATURE:	_____
DATE:	_____
<u>AUTHORISED BY:</u>	_____
NAME AND SURNAME:	_____
POSITION:	_____
SIGNATURE:	_____
DATE:	_____

5.7 SPECIMEN PERSONAL ASSET DECLARATION FORM



UTHUKELA DISTRICT MUNICIPALITY PERSONAL ASSET DECLARATION FORM

SERIAL NUMBER: _____

ASSET DESCRIPTION: _____

NAME OF USER: _____

ASSET LOCATION: _____

ROOM NUMBER: _____

REASON FOR BRINGING THE ASSET ONTO THE PREMISES:

ESTIMATED REMOVAL DATE: _____

OWNER DETAILS:

DECLARATION: I,the owner agree not to hold Uthukela District Municipality liable for any theft or damage incurred relating to the use of the abovementioned asset.

NAME AND SURNAME: _____

SIGNATURE: _____

DATE: _____

DEPARTMENT ASSET CONTROLLER :

DECLARATION: I,the Department Asset Controller, agree that Uthukela District Municipality is not the owner of the abovementioned asset.

NAME AND SURNAME: _____

SIGNATURE: _____

DATE: _____