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**ACCOUNTING OFFICERS/CHIEF FINANCIAL OFFICERS  
PROVINCIAL TREASURY INSTRUCTION NOTE NO. 30  
MOVABLE ASSET MANAGEMENT**

**TABLE OF CONTENTS**

1. DEFINITIONS .....	2
2. OBJECTIVE.....	2
3. LEGAL FRAMEWORK .....	2
4. INTRODUCTION.....	3
5. PRINCIPLES OF ASSET MANAGEMENT .....	3
6. THE LIFECYCLE APPROACH TO ASSET MANAGEMENT .....	5
7. FRAMEWORK FOR AN INTEGRATED GOVERNMENT ASSET MANAGEMENT POLICY ...	13
8. CLASSIFICATION OF ASSETS .....	14
9. DISTINCTION BETWEEN CURRENT AND CAPITAL EXPENDITURE .....	16
10. RECOGNITION OF ASSETS .....	25
11. VALUATION METHODS .....	29
12. PUBLIC AND BUSINESS ENTITIES .....	31
13. DEPRECIATION .....	32
14. DISCLOSURE REQUIREMENTS .....	36
15. IMPLEMENTATION TIMEFRAMES .....	42
16. CONCLUSION .....	45
17. GLOSSARY.....	46

## 1. DEFINITIONS

In this Provincial Treasury Instruction Note, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the PFMA and the National Treasury Regulations, has the same meaning. Due to the complex nature of this instruction note, more explanations for terms used in this instruction note have been included in a Glossary of Terms at the end of the document. For the purpose of this instruction note:

**“Asset”** means a resource controlled by a department as a result of past events and from which future economic benefits or service potential is expected to flow to the department.

**“Asset management”** means process of guiding the acquisition, use, safeguarding and disposal of assets to make the most of their service delivery potential and manage the related risks and costs over their entire life.

**“Asset register”** means a data source that records information on individual assets, usually only those over a certain value. Information may include the assets' location, condition, utilisation and ownership details, as well as the value and depreciation of the asset and its major components.

**“Depreciation”** is the systematic allocation of the cost of an asset or other amount substituted for its cost in the financial statements (less residual value if any) over its estimated useful life. Depreciation recognises the gradual exhaustion of the asset's service potential.

## 2. OBJECTIVE

The objective of this instruction note is to provide guidelines for the management and control of all movable assets in the province. This instruction note is primarily intended to assist asset managers to interpret and implement sound asset management principles in their departments.

## 3. LEGAL FRAMEWORK

3.1 In terms of the Public Finance Management Act, Act 1 of 1999, as amended, the following sections are relevant;

3.1.1 **Section 38:** The accounting officer for a department is responsible for the management, including the safeguarding and maintenance of the assets, and for the management of the liabilities, of the department.

3.1.2 **Section 40:** The accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards.

3.1.3 **Section 42:** (1) When assets or liabilities of a department are transferred to another department or other institution in terms of legislation or following a reorganisation of functions, the accounting officer for the transferring department must –

(a) Draw up an inventory of such assets and liabilities; and

(b) Provide the accounting officer for the receiving department or other institution with substantiating records, including personnel records of staff to be transferred.

(2) Both the accounting officer for the transferring department and the accounting officer for the receiving department or other institution must sign the inventory when the transfer takes place.

(3) The accounting officer for the transferring department must file a copy of the signed inventory with the relevant treasury and the Auditor-General within 14 days of the transfer.

3.1.4 **Section 57:** An official in a public entity is responsible for the management, including the safe-guarding, of the assets and the management of the liabilities within that official's area of responsibility.

3.2 In terms of the National Treasury Regulations, Part 5: Asset and Liability Management, Chapter 10: Responsibility for asset management;

3.1.1 The accounting officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that –

(a) Preventative mechanisms are in place to eliminate theft, losses, wastage and misuse; and

(b) Stock levels are at an optimum and economic level.

3.1.2 The accounting officer must ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution's assets.

#### 4. INTRODUCTION

In order to meet the above statutory requirement, this instruction note was developed to guide departments in the effective management of their assets.

The principles contained herein are not definitive but are consistent with current thinking on, and trends in, improving asset management in the public sector. Each principle reflects a fundamental notion of good practice.

The challenge of making the principles work is not to be under-estimated, not least of all because there is a need to exercise judgement in their application. For example, the approaches adopted for maintenance of personal computers or a suite of furniture will be different to those required for a major piece of machinery. Similarly, planning for the construction of a building will be more comprehensive than that required for the purchase of a motor vehicle.

This instruction note is based on the original guidelines issued by National Treasury.

## 5. PRINCIPLES OF ASSET MANAGEMENT

There are five (5) Asset Management Principles that Asset Managers are expected to follow and implement as standard practice. Clarity is provided in this instruction note on how to put these principles into practice. This revolves around how to implement the process of the acquisition, use, safeguarding and disposal of assets to make the most of service delivery potential and to manage the related risks and costs over their useful life. The 5 asset management principles are:

### ***5.1 Service delivery needs are to guide asset practices and decisions:***

Asset Managers have to be fully aware of each Manager's strategic goals and service delivery needs before being able to guide them with Asset Management decisions. This will mean that communication between the various managers in the department and the Asset Manager must be fine tuned. The assessment of each section's asset needs, strategic goals and service delivery needs, may be undertaken by way of personal interviews. Where this is proving difficult an Asset Management questionnaire concentrating in the main on service delivery and strategic goals questions may be circulated to all responsible managers. This approach will greatly assist Asset Managers in completing their Strategic Asset Management Plans.

### ***5.2 Asset planning and management are to be integrated with strategic business plans, budgetary and reporting processes:***

Once Asset Managers have extracted information from the various managers concerning their asset requirements, future needs, any repairs or upgrades and disposals that will facilitate their service deliver needs, the Asset Manager is ready to draw up their own Asset Acquisition, operation and maintenance and Disposal Strategic Plans. All this planning has to be aligned with the planning and budgeting process in the department to ensure that managers budget for their asset requirements. Asset Managers will also be able to assist the managers in the budgeting process using historical data obtainable from the Asset Register. The 2006/2007 financial year was the year that Strategic Asset Management Planning was implemented in the KZN Province.

### ***5.3 Asset management decisions are to be based on evaluations of alternatives that take into account full life cycle costs, benefits and risks of assets:***

As Asset Managers become familiar with their asset registers and the asset needs of their departments, they will fulfil this principle of Asset Management better; e.g. a manager may need a new photocopier machine as their current one no longer meets their service delivery need. The manager may immediately proceed to purchase a new photocopier, without consulting the Asset Manager. However, consulting with the Asset Manager is imperative as a

departmental photocopier machine that is being under utilised could have been reallocated. All capital expenditure decisions are to be based on rigorous and documented economic appraisals of options that include financial as well as non-financial parameters.

**5.4 Ownership, control, accountability and reporting requirements for assets are to be established, clearly communicated and implemented:**

Asset Managers are responsible for ensuring that all assets in the department can be accounted for and in cases where assets are unaccounted for, steps are taken to ensure that an investigation on all crucial factors, circumstances and associated asset responsibilities are undertaken. Where attributable losses are determined these may be fully recovered from the respective custodians. Asset Managers fulfil this responsibility by undertaking at least one physical verification / audit exercise of all assets in the department each year. Every asset on the asset register must be assigned to a custodian who will take full responsibility for such by appending his/her signature to the respective asset list. The Asset Policy and specifically the section on roles and responsibilities of asset custodians must be expressly brought to the attention to all officials concerned.

**5.5 Asset management activities are to be undertaken within an integrated Government asset management policy framework:**

Provincial Treasury has an Asset Management Framework, various Asset Management Guidelines and a Generic Asset Management Policy which could be used by KZN Provincial Departments as a guideline in developing their own departmental specific asset policies, procedures and guidelines. KZN Provincial Asset Management support staff may be called on for assistance on related asset matters.

The principal objective of asset management is to enable a department to meet its service delivery objectives efficiently and effectively by achieving the best possible match of assets with programme delivery strategies. With pressure on resources available to deliver programmes, it is important for asset managers to understand that asset consumption is a real and significant cost of programme delivery. The application of *life-cycle costing techniques* and the establishment of *appropriate accountability frameworks* are integral to achieving this understanding.

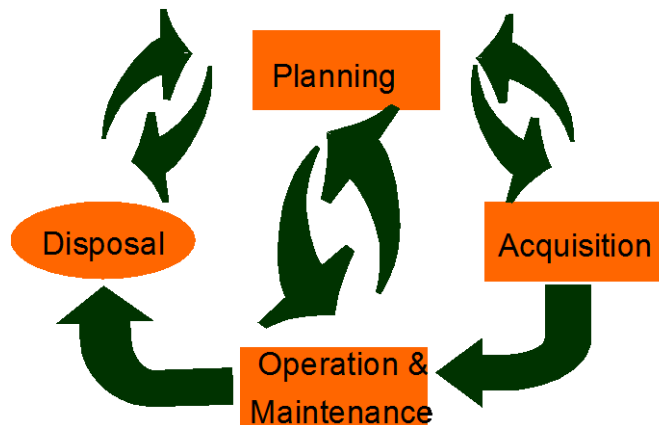
Effective implementation of the principles of asset management will address programme costs in terms of:

- a) reduced demand for new assets and saves money through demand management techniques and the adoption of 'non-asset' service delivery options;

- b) maximising the service potential of existing assets by ensuring they are appropriately used and maintained;
- c) lowering the overall cost of owning assets and achieving greater value for money through economic evaluation of options that take into account life cycle and full costs, value management techniques and private sector involvement; and
- d) ensuring a sharper focus on results by establishing clear accountability and responsibility for assets.

## 6. THE LIFECYCLE APPROACH TO ASSET MANAGEMENT

The life cycle of an asset can be defined as the period that a department can foresee itself utilising an asset on an economically effective and efficient basis for the furtherance of the department's trade or service deliverance. This period covers all the phases in the life of an asset from planning, acquisition, operation & maintenance to the eventual disposal of the asset, when it can no longer contribute to the service delivery of the Department.



**The Life Cycle Process**

### 6.1 The Planning Phase

During the Planning Phase of Asset Management the Asset Manager or the delegated official will need to identify the Departmental asset needs based on the service deliver requirements of the Department. The Asset Manager will have to perform a thorough investigation into the various asset needs of the department by identifying and evaluating each option available to satisfy the needs, including assessing non-asset solutions to service delivery based on total cost of ownership over the useful life of the asset. When considering the useful life of the asset, the Asset Manager will base his/her assessment on the historical costs, market assessments

and personal experience with similar assets on the Asset Register. All information gathered during this planning phase will be consolidated, and the financial impact of fulfilling the asset requirements during a Financial Year, included in the budget process and procurement plans. The Planning Phase of Asset Management is divided into two sub phases, the Strategic Planning Phase and the Per Asset Planning Phase.

### **6.1.1 The Strategic Planning Phase**

This process begins when service delivery targets are used to determine the asset needs of the department. The Asset Strategy will be developed to align the asset needs of the department with its service delivery objectives over the long term.

Strategic Asset Management Planning must be undertaken as an annual exercise ahead of the upcoming financial year. The Asset Management Strategic Plan which contains the Acquisition Plan, Operation & Maintenance Plan and the Disposal Plan must be undertaken in consultation with the Asset Manager and the relevant Responsibility Managers. This strategy must be submitted to management for approval before the beginning of each financial year and must indicate the monetary requirements for each asset. Once the strategy is approved, the monetary requirements should be included in the budget for current and future financial years.

Provincial Treasury has developed a Generic Strategic Asset Management Plan template that KZN Provincial Departments may use in the development of their own Departmental specific Strategic Asset Management Plans. Refer to the Asset Management Process Guide Part 3 for copies of the Generic Strategic Asset Management Plans.

The process in the Strategic Planning Phase is as follows:

- 6.1.1.1 Determine the service delivery objectives that were identified during the Strategic Planning Phase of the Organisation.
- 6.1.1.2 Identify what assets would be needed by Programme Managers to ensure that they are able to deliver the services set for their programmes. This can be done by personally interviewing each program manager or by requesting them to submit their requirements in writing. The Programme Manager should already be considering their asset needs whilst they are preparing the first draft budget, usually in June and as soon as possible thereafter, the requirements can be submitted to the Asset manager.

- 6.1.1.3 Identify whether there are any assets currently assigned to the Programme Managers that are no longer required, damaged or obsolete, that may require upgrading or replacing in order for the Programme Managers to meet their service delivery requirements. When performing the interview or when sending out the Asset Management Planning questionnaires, Asset Managers are advised to extract reports from the Asset Register for each Programme that will detail the condition of each asset
- 6.1.1.4 Any additional asset requirements can firstly be aligned with the available or surplus assets already existing on the Asset Register. Planning for the repair or upgrading of any asset can be done and any obsolete assets can be marked for disposal on the Asset Register.
- 6.1.1.5 If existing assets on the Asset Register are surplus and can meet the needs of a Program Manager, the condition of the assets must be assessed to determine the suitability of the asset to meet the needs of the program manager. Note the functionality, remaining useful life versus current products available in the market.
- 6.1.1.6 Determine the gap between the need for assets by the Program Managers, the existing assets available and the timing of when the need will have to be satisfied.
- 6.1.1.7 Prepare or update an existing Asset Management Strategy that will ensure that suitable assets will be available when needed. The Asset Manager will need to prepare plans for the acquisition, operation & maintenance and disposal of assets to meet the requirements of the strategy.
- 6.1.1.8 All financial information emanating from the Asset Strategy must be consolidated to be included in the budget process.
- 6.1.1.9 The Asset Management Strategy for Acquisition, Operation & Maintenance and Disposal Plans must be submitted to management for final approval.

## **6.1.2 The Per Asset Planning Phase**

Following the strategic planning of assets (during the Demand Management Phase of Supply Chain Management) the detailed Procurement planning (acquisition) will take place. All assets that are required should be obtained to meet the service delivery in the most effective, efficient and economical manner for the organisation. All options available to satisfy the need for an asset must be investigated. This includes evaluating possible non-asset based solutions before the investment decision is made to purchase the asset. This is where the life-cycle approach is extremely important to determine the



entire cost of purchasing or leasing the asset throughout the life of the asset (Cost of Acquisition, Operation & Maintenance and Disposal) The best value for money solution should be identified, documented and submitted to Management for approval. The following processes are required:

6.1.2.1 The Asset Manager would have to analyse the asset needs identified during the Strategic Planning Phase to determine **when** the asset will be needed and the **duration of the need** for that asset.

6.1.2.2 At this point a **market assessment** will be done to determine the various **options available** to meet the need. For example, whether to purchase a new asset, to build their own, upgrade an existing asset, rent or hire an asset or whether to outsource the function or service.

6.1.2.3 Careful consideration of the timing involved with each need is necessary and should be factored into the investment decision.

6.1.2.4 The total cost of each option for the duration of the need must be calculated using the life cycle approach; this includes calculating the cost of support in terms of specialist operators, maintenance needs, value of asset at end of useful life, disposal and alternative use, etc.

6.1.2.5 Once the overall cost of each option has been calculated, the Asset Manager would have to draw up a document that is based on overall cost of the options including the risk of not delivering the service and motivate the suggested solution to fulfil the asset need, including the timing of project and submit it to Management for approval. Subsequently, it may become necessary to revisit the Asset Management Strategic Plan document during a financial year.

## 6.2 The Acquisition Phase

At the beginning of the budget planning process, usually in June, the Program Managers will consider their asset needs to align their requirements with their budgets. The Asset Managers will request the asset needs information during the Strategic Planning process and will base the Acquisition Plan on this information. Asset Managers are then required to draw up or review and update an existing Acquisition Plan taking into consideration the needs that are identified and the timing and duration of the need. This will ensure that assets are acquired in a timely and systematic manner. The Acquisition plan should be based on the requirement that assets should only exist in a Department to enable the service delivery of that Department and must clearly indicate which officials will have the delegated authority to approve the procurement of assets. Careful consideration should be made to ensure that the Acquisition plan is drawn up in

accordance with current procurement procedures and Supply Chain Management requirements.

The Acquisition Plan will include the procedure to follow once the assets are purchased. Critical questions that should be answered are:

- a) Who will receive the delivery of the newly purchased assets?
- b) How will they be allocated and transported to the end users?
- c) When will the assets be bar-coded and updated onto the Asset Register?

Each Acquisition plan must make provision for a replacement schedule for existing assets, this schedule is drawn up in accordance with the disposal plan where assets need to be replaced once the useful life of the asset has expired or technological advances have rendered the asset obsolete. The process in setting up an Acquisition Plan includes:

- 6.2.1 An Acquisition Plan needs to be updated annually, however, throughout the year, when needs, officials or circumstances change the plan may require periodic updates during the year.
- 6.2.2 A generic Business Process Procedure Guide for the acquisition of general assets, state owned vehicles and computer equipment is available on the Provincial Treasury Website and can be used as a guideline in designing department specific Business Processes and Acquisition Plans.
- 6.2.3 A need for an asset may be planned for and included on the initial Strategic Planning process and budgeted for at the beginning of the financial year, however, ad hoc needs may arise during the year where motivation and approval is needed before the need can be supported. In either circumstance the need is identified by user and the asset unit informed.
- 6.2.4 Once again the various options available to fulfil the need is analysed and solution recommended. This analysis includes possible non-asset solutions that would be more financially beneficial to the Department.
- 6.2.5 The recommendations and chosen option identified above and the necessary background research is then submitted to management for authorisation.
- 6.2.6 A provisioning form will be completed and forwarded to the section responsible for the procurement of the asset. This section will be required to work in accordance with Supply Chain Management (SCM) procedures and processes.
- 6.2.7 Once the supplier is identified, the relevant section of the Provisioning form is completed and forwarded to the section responsible for completing the order form on the asset system. A copy of the order will be faxed to the supplier and delivery of asset is expected.

- 6.2.8 The supplier makes delivery of the asset to a logistics manager who plans the receiving, storage, deliver to end user and the capturing of the details of the delivery on the asset system. At this point the Asset Addition form may be completed and the barcode labels attached to the asset. All assets received should be thoroughly checked to ensure they are in good order before the bar-code is fixed onto the asset.
- 6.2.9 The invoice may be received with the delivery of the asset or may be posted later to the Department; once the invoice is received it would be forwarded to the section responsible for payment. This section will capture the invoice onto the Asset System and activate the payment process on the Financial System.
- 6.2.10 Departments must cross reference the invoice to asset unique number as issued (i.e. Barcode number) as this will create a link between the physical asset, the asset register and supporting documentation and assist to identify payments on financial system.
- 6.2.11 By purchasing the asset using the Purchasing Module of the Asset System, the details of the asset are already updated on the asset register. The Asset Manager would receive the Asset Addition form and check that all preset details are accurately recorded.
- 6.2.12 Once the new asset is delivered, the Asset Manager would ensure that the asset is correctly allocated to the end user and that it is secured or safeguarded appropriately. Thereafter sign-off can be obtained from the end user as an acceptance that he/she is responsibility for the new asset.

Provincial Treasury has drafted a Strategic Acquisition Plan Procedure Guide and Template that can be used as a guideline to draw up the Acquisition Plan for the department; both the guideline and templates are available in the Asset Management Procedure Guide which can be downloaded off the Provincial Treasury website. This template is designed in such a manner that the Asset Manager completes some of the fields on the document and submits it to the Program Manager to complete the remaining fields. The information received from the Program Manager would then filter down into the Strategic Operation & Maintenance and Disposal Plans. The Strategic Acquisition Template has been drawn up as a guideline tool to assist departments in the design and implementation of their own Strategic Acquisition Plans.

### **6.3 The Operations and Maintenance Phase**

New assets that are purchased may require specific Operation & Maintenance procedures to maintain the asset in an optimal condition. These assets may be purchased with service and maintenance contracts that stipulate the intervals for services to take place. The Asset Manager will need to develop and implement an annual Operation and Maintenance Plan. This

plan may require additional updates during a year as circumstances change that affect the details of the plan.

Asset Managers need to identify assets per category of assets and decide whether the type of maintenance will be preventative or corrective. Preventative maintenance requires that an asset is serviced at regular intervals in keeping with its inherent nature and functionality and thereby preventing the asset from break down. Corrective maintenance will mean that maintenance will only be undertaken once the asset has broken down. Once this decision has been made they would have to consider whether the maintenance will be in-house (performed by the Department) or whether it will be outsourced, (done by an external firm) for that asset category. Irrespective of this decision, certain standards of operation will have to be set to ensure that the asset is still functioning to its best ability. If, in spite of the maintenance efforts, the asset does not perform optimally, disposal considerations will have to be made. The Operation and Maintenance plan would have to also indicate who has the necessary authority to approve the maintenance of assets and what process would be followed to monitor the transfer and return of the asset being maintained.

Within the maintenance module, HardCat provides for a warranty & guarantee field which must be populated for each asset that carries one. In the event of an asset under performing or falling into a state of disrepair within the guarantee period, it may be returned to the supplier for repairs. Furthermore, the warranty & guarantee information on each asset will inform decisions on maintenance and will assist in developing an Operation & Maintenance Strategic Plan.

The Asset Manager is also responsible for ensuring that all assets are safeguarded; he/she must identify safeguarding measures per asset category and ensure that these measures are upheld. An example of a safeguarding measure is the trip authority and authorised signatures needed to use a state owned vehicles on an official trip.

A major activity to be included in the Operation and Maintenance Plan is to develop a condition monitoring and performance measurement schedule. All assets on the Asset Register must have their condition assessed each year and if necessary, changed. Assets purchased during a particular financial year are recorded on the Asset Register with the condition new (represented by HardCat Asset System condition code '4'). However, the asset cannot keep this condition indicator throughout its life, at some point the condition will change to functional (represented by HardCat Asset System condition code '3') and later to obsolete/not in use (represented by HardCat Asset System condition code '2') and finally to in-disrepair/needs refurbishment (represented by HardCat Asset System condition code '1'). These indicators must be updated every year during the physical verification process when the asset condition can be reasonably assessed by inspecting the asset.

A physical verification of all assets must be performed annually. However, departments are at liberty to undertake more than one asset verification per annum, should they so wish. Each Departmental Asset Manager will have to include the intervals of physical verification of assets in the Operation and Maintenance plan. Careful planning will be required to assess when the physical verification should start and end, what process should be followed at head offices, regional offices, district offices, clinics, depots etc. and how the physical verification will take place.

The Operation and Maintenance plan must also include the identification of obsolete or surplus assets. These assets may be identified during the periodic physical verification of all assets. The officials performing the physical verification can be guided to identify obsolete or surplus assets and to record them as such on the Asset Register. At certain specified times during a year Asset Managers will draw a list of all assets with the condition indicator 'Obsolete' (HardCat Asset System condition code '1') and provide the list to the Disposal committee where decisions will be made on the fate of these assets.

The most difficult task assigned to all Asset Managers is to ensure that the custodians and locations of assets are recorded correctly on the Asset Register. The monitoring of asset movements becomes a momentous task. Specific procedures will be required to monitor the movement of assets to ensure the register is kept up-to-date. Each custodian has to accept responsibility and accountability for the assets under their control, by attachment of signatures. During future physical verifications, when assets are identified as missing, a theft and losses procedure must be followed and any changes to asset information updated on the Asset System. The process in drawing up an Operation and Maintenance plan is as follows:

- 6.3.1 Asset Managers need to draw a list of assets per Asset Type Name and consider the characteristics of each asset category and allocate appropriate maintenance policy / method. (Core assets e.g. Motor Vehicles should be allocated the preventative method of maintenance, as they are crucial for operations, other assets e.g. furniture may be corrective.)
- 6.3.2 Each asset category, as mentioned above, will need to be assessed and a minimum standard of operation specified for an asset to be considered operational. (e.g. This standard may be assessed by specifying the number of times the asset needs repairing, or the number of down-times that are experienced when using the asset.)
- 6.3.3 The standard should then be compared to the condition of assets currently on the asset register to establish whether there is a gap between the required operational standard and the actual performance of the asset.

- 6.3.4 The gap that is identified will be addressed by reassessing the service delivery requirements of the Asset to determine whether the asset should be replaced, or by determining the need for maintenance or refurbishments on the existing asset.
- 6.3.5 The Operation and Maintenance plan must stipulate the intervals for maintenance per asset category (for preventative maintenance) and indicate where maintenance agreements are in place to ensure that the specific requirements in the agreements are met and the contract remains valid and fulfilled.
- 6.3.6 Where maintenance agreements are not in place the Asset Manager may consider the option to enter into agreements. If this is the case a careful cost versus benefits calculation and consideration must be done before entering into a maintenance agreement.
- 6.3.7 The Operation and Maintenance plan must include documented procedures for the physical verification process. This process must clearly indicate the steps to be taken to ensure consistency, completeness and accuracy of information.
- 6.3.8 Once the Operation and Maintenance plan has been created, all the recommendations mentioned above, must be submitted to management for approval.
- 6.3.9 After approval the Operation and Maintenance plan must be implemented in the Department.
- 6.3.10 The planning that is necessary prior to a physical verification process must be included in the Operation and Maintenance Plan. This will ensure that adequate staff is available to do the verification and that end users are not informed of the planned visits until the day before. This is done to ensure that the necessary access to offices is arranged and that users are not pre-informed of the asset audit.
- 6.3.11 Before commencing with the physical verification process, the Asset Manager will need to draw a report from the Asset System, sorted per location which details all the assets located in that area. The Asset Manager will also have to ensure that all the locations in that area are on the report.
- 6.3.12 The officials selected to assist with the Physical Verification process must have a meeting/training session to ensure that verification procedures are fully understood and are uniform across different teams.
- 6.3.13 A control sheet may be implemented to identify the staff members within a specific location and to ensure signatures are obtained at the end of verification process by both the user and the verifier.
- 6.3.14 Any deviations identified during the physical verification process must be fully investigated and suitable reasons for the deviation obtained from the end users.

Subsequently, where the asset register needs to be updated, the necessary authorisation and the relevant documentation must be sourced.

- 6.3.15 After the physical verification process has been completed, the Asset Manager will have to print an asset report / list of assets where the custodian will accept responsibility and accountability for the assets under their control. If the Asset Management practice of ‘a list behind door’ is used, then copies of the list of assets bearing the user’s signature will be attached to user’s door.
- 6.3.16 During the physical verification process, the officials performing the task must be trained to identify a change in the condition of the assets they are verifying. The noted changes in the conditions of the assets must be updated in the asset register and compared to the maintenance plan set by the department and where needed, appropriate action taken. It may be useful to include a schedule of the Performance Standards associated with each class of asset so that deviations can easily be identified.
- 6.3.17 A list the assets identified as obsolete and or surplus during the physical verification process must be updated as such on the Asset Register and acted on according to the Disposal plans set by the Department.

Provincial Treasury has drafted a Strategic Operations & Maintenance Plan Procedure Guide and Template that can be used to draw up the Departmental Operation & Maintenance Strategic Plan, both the guideline and templates are available in the Asset Management Procedure Guide which can be downloaded off the Provincial Treasury website. This guideline and template is designed in such a manner that the information obtained from the Program Manager during the previous phase; the Acquisition phase, is used to update some of the fields on this document. The remaining fields will be updated by the Asset Manager once they have completed their analysis and research. The Strategic Operations & Maintenance Template has been drawn up as a guideline tool to assist departments in the design and implementation of their own Strategic Operation & Maintenance Plans.

#### **6.4 The Disposal Phase**

This is the final phase in the life cycle of an asset. At this phase the asset is identified as being unserviceable, irreparable, redundant or obsolete and should be disposed of. As with all phases in the life-cycle approach to Asset Management, the Asset Manager will need to develop and implement an annual Strategic Asset Disposal Plan that would be updated during the year as circumstances change. The set intervals needed for updating the Disposal plan must be decided on and clearly indicated on the Strategic Asset Disposal plan. The plan should also include the various disposal options and how each method should be initiated,

evaluated, operationalised and concluded. This includes how gains and losses, as a result of the disposal, will be handled. The Asset Manager should include the various Asset Type categories in the Disposal plan and investigate and recommend the most appropriate form of disposal per Asset Type category.

It is recommended that the Accounting Officers of each Department appoints a Disposal Committee, whose function it will be to make recommendations regarding the disposal of any asset within the department. Where departments already have existing Board of Survey procedures and officials set up for the purpose of disposing of assets, it is not necessary to set up a second committee. Through consultation with the Asset Manager and noting the recommendations submitted by the Disposal Committee a disposal option can be recommended per Asset Type category.

Any recommendation made by the committee must be submitted to the relevant Manager who has the delegated authority to approve the disposal of assets, unless the Accounting Officer has given this committee chair person the delegated authority. The details of this manager and his/her delegated authority should be included in the Asset Disposal plan.

The Asset Disposal Plan should clearly document the actual steps in the disposal process, in line with Supply Chain Management initiatives. Once the recommended disposal has been approved and the physical asset removed from the department, the Asset Register will be adjusted to reflect that the asset has been disposed of. The process to follow when drawing up a Disposal Plan follows:

- 6.4.1 During each physical verification process and by referencing ad hoc reports received by the Asset Manager, the condition of the assets on the register should be monitored and adjusted. The Asset Manager will compare the remaining useful life of the asset with its reported current condition.
- 6.4.2 By thorough examination of the service delivery needs, strategic plans, objectives and economic appraisals of the market place, the Asset Manager must assess whether the asset will remain in service for the full estimated useful life or whether the current condition will render the asset obsolete sooner than estimated. The condition reflected on the asset register must be adjusted accordingly.
- 6.4.3 Where it can be identified that the asset may require replacement prior to the expiration of the useful life estimated for the asset, the Asset Manager will need to make recommendations to management regarding the replacement of the assets so that future replacements of assets can be budgeted for.



- 6.4.4 The Asset Manager can include in the recommendation the potential impact on operations and budget for all possible situations, either to dispose of the asset, upgrade or refurbish the asset or allow it to continue at its current output.
- 6.4.5 The Asset Register is designed in such a way that assets that become 'Obsolete' should be updated with the condition code '1'. At the regular intervals stipulated in the Asset Disposal Plan, the Asset Manager will draw an asset report of all assets containing the Condition code 1 (Obsolete Assets) and provide the report to the Asset Disposal Committee.
- 6.4.6 The Asset Disposal Committee will be guided by the disposal methods identified per Asset Type and included in the Asset Disposal Plan. Should the methods for disposal per Asset Type be found to be incorrect, this could be adjusted on the plan provided that the necessary approvals of the plan are made.
- 6.4.7 The Methods of disposal must be fair, equitable, transparent, cost-effective and should include but are not limited to the following methods of disposal;
- (a) Donation
  - (b) Sale by public auction or bid
  - (c) Trade-in, (Not Common)
  - (d) write-off and letting
  - (e) Transfer to other departments (Inter-departmental transfer)
- 6.4.8 The method of disposal that is chosen must include a proper cost evaluation of the associated costs related to the disposal method in relation to the benefits expected to be accrued as a result of the disposal.
- 6.4.9 Should the sale of a movable asset not be at a market-related value, by price quotation, competitive bid or auction, the reasons for the disposal should be motivated, certified and recorded for auditing purposes by the accounting officer/authority or his/her delegate.
- 6.4.10 The Asset Disposal Committee and Asset Manager should consider alternatives to the disposal of Assets listed on the disposal list. Perhaps either by upgrading, refurbishment or adapting the asset to another function, the asset could become useful to the department once again.
- 6.4.11 The Asset Disposal Plan may be updated at any time during a year with any changes that will enhance the plan, provided that the changes to the plan are authorised by management.
- 6.4.12 The items listed on the Asset Disposal report must be subject to the various requirements of the latest version of the Asset Disposal plan and must include information such as the item description, item specifications, planned disposal date,

purchase price of item, disposal method identified during planning for that category of asset, the estimated revenue/loss to be expected due to the disposal and any information regarding further use/benefits that can be derived from the item.

- 6.4.13 Any assets listed on the Disposal list must be kept in a secure location prior to the disposal and should the asset need to be moved to another secure location, the signatures from the current users as well as receiver of assets must be obtained. This transfer to a new location must also be updated on the Asset Register.
- 6.4.14 The Asset Disposal Committee will meet, evaluate and discuss the information provided by the Asset Manager. After deliberation, the recommendations identified by the Committee will be forwarded to the Accounting Officer or his/her delegate for approval.
- 6.4.15 The approved Disposal list is then returned to the Asset Manager who will put into effect any approved recommendations made by the Disposal Committee.
- 6.4.16 After the physical asset has been disposed of, the Asset Manager will update the asset Register to reflect that the asset has been disposed of and any revenue/losses incurred are recorded in the register.
- 6.4.17 The Asset Manager will need to draw disposal reports from asset register from time to time and compare the proceeds received with residual values as estimated. The information can be used to assess reasonableness of other estimates used in the register for similar items.

Provincial Treasury has drafted a Strategic Asset Disposal Plan Procedure Guide and Template that can assist department to draw up the Disposal Plan for the department, both the guideline and templates are available in the Asset Management Procedure Guide which can be downloaded off the Provincial Treasury website. This template is designed in such a manner that the information obtained from the Program Manager during the first phase; the Acquisition phase, is used to update some of the fields on the document. The remaining fields will be updated by the Asset Manager once they have completed their analysis and research. The Strategic Asset Disposal Plan Template has been drawn up as a guideline tool to assist departments in the design and implementation of their own departmental specific Strategic Disposal Plans.

## **7. FRAMEWORK FOR AN INTEGRATED GOVERNEMENT ASSET MANAGEMENT POLICY**

***It is important that asset managers understand the inter-relationship between the asset strategy and other strategies, which together form the operational or business plan of a department.***

Having defined assets it is important that we view them in their proper perspective within a department. Assets should only exist to support programme delivery. The key starting point, to ensure this is the case, is to establish a link between programme delivery and assets. Strategic objectives are translated into programme objectives, delivery strategies, outputs and outcomes. The assets held by a department are one programme input, which combine with information systems, personnel, and financial resources. As these other inputs are aligned with programmes, so assets should similarly be aligned.

Asset management decisions should not be made in isolation. They should be part of the overall framework of decision-making in a department.

Asset planning must be considered equally and concurrently with the other resource requirements used in achieving programme objectives. It requires departments to convert programme delivery strategies into specific asset strategies.

The features of an asset management framework are:

- a) it is service or output driven;
- b) it employs a structured, systematic approach; and
- c) it is based on a 'whole-of-life' concept.

Only by an integrated approach to asset management can departments deliver quality services efficiently and effectively. Departmental strategic plans reflect and translate Government policy and customer needs into broad programme and service strategies and priorities.

These programme and service strategies may be non-asset-based or asset-based. For example, some may require additional capital facilities or increased use of existing facilities, while others may involve contracting out or leasing to make them operational. Each department determines the best mix for its operating environment, consistent with overall Government policy.

The budget process involves the allocation of funds to carry out the non-asset and asset strategies. The departments' business plan translates strategies and budget into annual operational plans with output measures and performance indicators.

Finally, department's report on service delivery outcomes and asset management activities provide important feedback into Government policy and strategic planning processes.

Principles of asset management are derived from common sense and are based on the life-cycle approach. The assumption upon which the principles are based is that *assets exist only to support programme delivery.*

The importance of asset plans becomes apparent where management recognises that tangible (physical) assets are a vital resource. Effective application of the principles of asset management will ensure this resource input is at the lowest overall cost.

Principles of asset management apply to all assets - they do not, however, apply equally. *The characteristics of the assets will dictate the extent and degree to which a particular principle is applied.* One gauge of the relative importance of each management principle to particular groups of assets is the amount outlaid at each stage of their lives. For example, the ever-present furniture and fittings (typically high volume, low value items) provide an essential service and their contribution to a department needs to be recognised. By their nature however, they are typically low maintenance items. It may suffice simply to monitor their condition in lieu of a cost preventive maintenance plan. However, if they constitute a relatively large percentage of the total value of total assets held, acquisition and replacement planning assume greater importance.

The five principles of asset management used in this Framework are not definitive and represent current thinking and sound practice.

Refer to Annexure A, Guideline on Better Asset Management for detailed guidance on asset management.

## **8. CLASSIFICATION OF ASSETS**

Practically, in the application of Asset Management using the HardCat computerised Asset Registers, the classification of assets is controlled in the 'Configuration' option and set up of the Various Asset Type folders and Asset Type names. Access to the configuration of the Asset Types must be restricted to Provincial Treasury Asset Management Section only. Each Asset Type is linked to a Useful Life, a Depreciation Rate and Set, the configuration of the useful lives and rates is standardised across all KZN Provincial Departments to ensure uniformity between departments and also to facilitate comparisons between different departments.

Asset Types are set up to reflect a "higher level" of the assets in the Department. For example, the Asset Type "Printers" is sufficient to link all the printer type products such as Deskjet printers, Laserjet Printers etc. The Asset Type "Kitchen Equipment" is sufficient to link all the microwaves, fridges, urns etc. At no stage should there be an asset type called "Deskjet Printers" or "microwaves".

Provincial Treasury will process the monthly depreciation calculation once the department has managed to reconcile all capital and current asset purchases, on the HardCat Asset Register with the corresponding expenditure reflected on BAS for both capital and current Asset Purchases. This monthly processing will only be activated once the department has reported that all their assets for the period 1 April 2004 to date have been updated with the actual invoice dates and amounts and that the department has reconciled the expenditure on BAS for both capital and current assets to the records on HardCat. The BAS expenditure reports Capital Asset Purchases; and Equipment <

R5000 are compared against the HardCat reports for Capital Asset Purchases; and Current Asset Purchases respectively for the purpose of reconciliation.

Each department is currently required to submit a written request to initiate the processing of the depreciation module and to also thereby report that the reconciliations between HardCat and BAS have been achieved.

Once the initial request has been received and once the departments are reconciling regularly on a monthly basis, the HardCat Depreciation Module will be processed timeously and possibly without a request from the respective departments, on the 15<sup>th</sup> of each month by the Asset Management Section at Provincial Treasury.

### 8.1 Current and Non – Current Assets

Assets may be current or non-current. **Current assets** may have an expected shorter life due either to an inherent feature (perishable goods for example) or because they will be converted into another asset or consumed within the department within a short timeframe (deposits, investments, raw materials or inventory and debtors are examples). These assets are generally referred to as 'current' in accounting terms, as they will be consumed or converted into something else within the next twelve months after the reporting date. All KZN Provincial Departments will apply the Asset Accounting Threshold of R 5000.00 to determine whether an asset is a Current Asset or a Capital Asset.

In contrast, **non-current assets** have an extended, useful life greater than one year and it is usually expected that these assets would be used during more than one reporting period. This may reflect their physical life in the case of tangible assets or, in the case of a patent, its legal life.

### 8.2 Classification Standards

Assets vary considerably in their size and nature, and it is useful to classify them into logical groupings for management control and financial treatment. Classifications may also be imposed by external reporting requirements. Typical of these standards, are standards set by the **International Federation of Accountants (IFAC)** for financial reporting (local equivalents have been set locally by the Accounting Standards Board; ED 17; 15 September 2004; Property, Plant and Equipment (ASB)) and standards set by the **Government Finance Statistics (GFS)** manual for management reporting purposes.

It should be noted that there is no standard chart of accounts or asset classification in so much detail in IFAC standards as is provided for in GFS.

### 8.3 Tangible and Intangible Assets

The table below serves to demonstrate the differences between Tangible and Intangible assets.

Tangible (Physical Assets)	Intangible
<ul style="list-style-type: none"> <li>▪ Land</li> <li>▪ Infrastructure assets</li> <li>▪ Heritage assets</li> <li>▪ “Owner occupied” Property</li> <li>▪ Investment Property</li> <li>▪ Machinery, Plant and Equipment</li> <li>▪ Transport assets</li> <li>▪ Specialist military assets</li> <li>▪ Mineral rights and similar non-regenerative resources</li> <li>▪ Biological assets</li> </ul>	<p><i>Financial Assets</i></p> <ul style="list-style-type: none"> <li>▪ Cash and Cash Equivalents</li> <li>▪ Marketable Securities and Deposits</li> <li>▪ Receivables</li> <li>▪ Shares in subsidiaries, associated companies and joint ventures</li> <li>▪ Long term securities and bonds</li> <li>▪ Other Financial Assets</li> <li>▪ Accrued Revenue</li> </ul> <p><i>Inventories</i></p> <p><i>Agricultural Produce</i></p>

## 9. DISTINCTION BETWEEN CURRENT AND CAPITAL EXPENDITURE

The fundamental underlying principle for distinguishing between capital and current spending is to ensure that the classification reflects the economic reality of the transaction, as spelled out in *Government Finance Statistics*. It has become necessary to make recommendations that may easily be implemented, so that expenditure items can be classified in a consistent manner by all South African Government units, therefore cut-off points were introduced.

Two main types of expenditure are discussed below:

- a) Expenditure on stand-alone items; and
- b) Expenditure on projects.

**Definition 1** – A **stand-alone** item is an item that is functional in its own right. Expenditure on **stand-alone items** occurs when the government buys goods or services from outside units, usually wholesalers or retailers. For example, the government buying computers and vehicles constitutes expenditure on stand-alone items. The government paying an institution to train government employees is another example of expenditure on a stand-alone item. Stand-alone items can be both:

- a) Current goods and services; or

- b) Capital goods: a good that can be used continuously or repeatedly in production for more than a year, for example a building or a computer. Current goods are all other goods, for example fuel and bricks which are consumed within the year. These terms are explained in more detail below.

**Definition 2** - A **project** is a collection of tasks to achieve a goal, for example building a new road or maintaining a building. Expenditure on projects can either be undertaken by the government or contracted to outside contractors. Projects can be carried out in three forms:

- a) construction of new assets;
- b) improvement/rehabilitation of existing assets; and
- c) repair/maintenance of existing assets.

### 9.1 Classifying expenditure on projects

*Note: Projects outsourced to outside contractors are not classified differently from those undertaken by government units*

***Inexpensive projects costing less than R5, 000 are current***

All projects to acquire new assets and to repair, maintain, improve or rehabilitate existing assets costing less than R5, 000 are classified as Current Projects and therefore deemed to be current expenditure.

The calculation for the R5, 000 should be based on the total expected value of the project. In addition, it is important not to base the valuation on expected cost to be incurred in the current year only. For example, at the end of a year, the government may hire a consultant to do a feasibility study for a project to construct a new building. The estimated value of the whole project might be one million rand. However, for the first year a total cost incurred on the project might be R 4,000 only, consisting of the service payment to the consultant. It is then important not to use the R 4,000 as basis for classification, but rather the Rand 1 million, even though, eventually, the project may not be carried out.

***All projects to construct new capital assets are capital.***

All projects to construct or purchase new capital assets, for example new buildings or roads, are regarded as capital projects, except in the (unlikely) case of the project costing less than R5, 000. If the executing agency is a government unit, the total value of the current cost directly associated with the construction is included in the value of the capital expenditure (this is explained in more detail below). If the executing agency is not a government unit but an outside

contractor/builder the total value of amounts payable to that agency is recorded as capital spending.<sup>1</sup>

***Projects costing less than 15 per cent of the value of the existing asset are current and projects costing at least 15 per cent of the value of the existing asset are capital***

Fundamentally, the objective of the project should be the determining factor when a given project is classified as current or capital. Current projects are those that cost less than 15 per cent of the value of the existing asset. Capital projects are those that cost at least 15 per cent of the value of the existing asset. The value of the existing asset is defined as the cost of replacement of the asset.<sup>2</sup>

For example, replacing a pump in a dam would be considered a current project if the dam were considered the separate existing asset and the purchase of a pump a project associated with an existing asset (namely the pump). However, as clarified above a pump is a separate existing asset. This implies that the purchase of a new pump is capital spending on a stand-alone item. Thus, this transaction is capital spending as pumps can be used repeatedly or continuously in production for more than a year.

**9.1.1 Current projects**

Current projects are either in the form of repairs, maintenance or minor works. Repair to existing assets implies that the asset is restored to its original use due to component failure, but that the cost of the project does not exceed a certain amount in proportion to the value of the asset. Repair work is not necessarily carried out at regular intervals. Maintenance is defined as work carried out at a certain frequency to sustain usability of the asset or to prevent breakdown. The precise frequency varies, mainly depending on the type of asset. For example, roads subject to frequent floods may require maintenance much more often than roads located in a place without torrential rains. Minor works to keep pace with changes in practice or use are also considered current, provided the cost of the project does not exceed a certain amount in proportion to the value of the asset as mentioned in the previous paragraph.

Thus, for example, a project to revamp all lifts within a building, carried out on recurrent basis to ensure that good working order is maintained, is normally current expenditure. Similarly, a paint job, not being part of another project and expected to be repeated within

<sup>1</sup> The amount paid to outside contractors may not necessarily coincide with the estimated value of the building, as recorded on the balance sheet at the end of the period. This fact notwithstanding, the amount paid to outside contractors should be recorded as capital spending. The difference between the value of the asset should be recorded as holding gain/loss in a separate account so that the sum of the capital spending and the holding gain/loss adds up to the amount entered in the balance sheet.

<sup>2</sup> The exact definition for the cost of replacement has yet to be formulated. It may be defined as “the cost of constructing a new facility providing the same services”, but further refinements are likely.



a given time span, is classified as current, because it merely results in restoration of the asset to its original value. Expenditure on resurfacing of roads, carried out at a certain frequency and not being part of a project, say, to build a new road, is normally current spending. Carrying out works on land that has been cleared from invading trees and bushes to ensure it remains in that condition is also of current nature.

It is very likely that the cost of this type of projects does not exceed 15 per cent of the value of the existing asset.

### **9.1.2 Capital projects**

To be classified as capital spending, the project must enhance the value of the existing asset, either by contributing significantly to an increase in the life span, enhancement of productivity, expansion in capacity, increase in size or change in use. The project must not be undertaken on recurrent basis to ensure that the asset remains in good working order, in which case it is classified as current.

Thus, for example, a project, not carried out on recurrent basis, to revamp all lifts within a building so that they are brought up to a certain standard is capital expenditure. Similarly, a paint job, which is part of another project to improve an existing asset, but is not planned to be repeated within a given time span, is classified as capital. A job to rehabilitate an existing asset that has been neglected is also a capital project.

Expenditure on a new road surface, which is of better quality than the previous surface (for example replacing gravel with asphalt), is capital expenditure. Clearing land from invading trees intrinsically increases the value of the land and is therefore capital work if the project is not repeated on recurrent basis. It is very likely that the cost of these projects is 15 per cent or more of the value of the relevant asset.

#### ***Definition of purchases of current goods and services***

**Definition 3** - Goods and services exclude purchases of capital assets.

**Definition 4** - A current good is a good that cannot be used continuously or repeatedly in production for more than a year. Thus the purchase of bricks, cement, coal and fuel are examples of current goods, whereas the purchase of cranes and cement mixers are examples of capital goods.

All payments for services as stand-alone items are classified as current payments, including payments on training, health and research.

This category includes all spending on current goods and services used as input in the capital project. It does not include spending on capital assets, as these are recorded separately.<sup>3</sup>

Spending on current goods and services includes:

- a) Tools and equipment used by the employee exclusively, or mainly, at work;
- b) Clothing or footwear of a kind which other people normally do not choose to purchase or wear and which are worn exclusively, or mainly, at work; e.g., protective clothing, overalls or uniforms. However, uniforms or other special clothing which employees choose to wear extensively off-duty instead of ordinary clothing should be treated as remuneration in kind;
- c) Housing at the place of work of a kind that cannot be used by the households to which the employees belong, for example when workers are housed in barracks, cabins, dormitories, huts, etc.;
- d) Special meals or drinks necessitated by exceptional working conditions, or meals or drinks provided to servicemen or others while on active duty;
- e) Transportation and hotel services provided while the employee is travelling on business;
- f) Changing facilities, washrooms, showers, baths, etc. necessitated by the nature of the work;
- g) First aid facilities, medical examinations or other health checks provided to the employee and required because of the nature of the work;
- h) Rentals paid on the use of fixed assets, for example rental on equipment and buildings;
- i) Marketing, accounting, data processing, transportation, the cost of storing equipment, maintenance and the cost for hiring guards when provided by government.

All spending on items in this list should be capitalised. Indeed, it is important to include all expenditure on current goods and services consumed in connection with the capital project even though they may not directly form part of the capital asset being constructed or rehabilitated. It is obvious that spending on bricks and cement in association with a capital project, for example, the rehabilitation of a building, must be capitalised, because

<sup>3</sup> For example, even though a cement mixer may very well be purchased for a particular project, the spending on the mixer should not be included in the capitalised value for that project. Strictly speaking, the loss of value of that mixer, referred to as *consumption of fixed capital*, should contribute to the capitalised value of that project. However, as mentioned above, an estimate for consumption of fixed capital is only made when accounts are compiled on accrual basis, and this is not yet the case in KZN.

they are current goods that become part of the building. It is less obvious whether some other current cost should be included.

For example, during the rehabilitation of a building it might be necessary to erect a temporary fence around the building to prevent theft and misuse. The cost of erecting this fence should also be capitalised even though the fence will not form part of the permanent structure.

The reason is threefold:

- a) if the building is rehabilitated at a later stage, it would be necessary once again to erect a temporary fence;
- b) without the fence the construction work cannot proceed unhampered and, similarly to the cost of contracting the services of, say, an architect, it is therefore an integral part of the current cost associated with the capital project; and
- c) if the work had been contracted to a building contractor, the latter would have used all current costs, including expenditure on erection of the fence, to determine the price for the rehabilitation to be charged to government.

No other costs incurred on goods and services should be capitalised. For example, if a capital project to construct a new hospital has been identified, it is only the current cost associated with the construction of the building that should be capitalised, not the cost of purchasing future provisions and stores to be used by the hospital.

***Definition 6 - Current spending associated with capital projects undertaken by government units is Capitalised.***

Once a project has been identified as capital, all current spending associated with this project should be capitalised. The total value of this current spending then becomes the total value of capital spending associated with that project. Current spending includes:

- a) Purchases of current goods<sup>4</sup> and services used as input in the project; *plus*
- b) Compensation of employees to employees directly involved in the project; *plus*
- c) Estimated value for *consumption of fixed capital* usually referred to as *depreciation* in business accounting.

Regarding consumption of fixed capital, this item is not included in the value of the capitalised expenditure unless the government operations table is compiled on accrual basis. This is not yet the case in KZN.

<sup>4</sup> A current good is a good that cannot be used continuously or repeatedly in production for more than a year. Thus, purchases of bricks, cement, coal and fuel are examples of current goods, whereas purchases of cranes and cement mixers are examples of capital goods.

Thus, currently, spending to be capitalised is the sum of expenditure on current goods and services used as input in the project plus compensation of employees for government staff directly involved in the project.

***Definition of compensation of employees***

The total value of compensation of employees should be capitalised, namely:

Wages and salaries, includes:

- a) "Wages or salaries payable at regular weekly, monthly or other intervals, including payments by results and piecework payments; enhanced payments or special allowances for working overtime, at nights, at weekends or other unsocial hours; allowances for working away from home or in disagreeable or hazardous circumstances; expatriation allowances for working abroad; etc.;
- b) Supplementary allowances payable regularly, such as housing allowances or allowances to cover the costs of travel to and from work, but excluding social benefits;
- c) Wages or salaries payable to employees away from work for short periods, e.g., on holiday or as a result of a temporary halt to production, except during absences due to sickness, injury, etc. (see below);
- d) Ad hoc bonuses or other exceptional payments linked to the overall performance of the enterprise made under incentive schemes."
- e) Remuneration in kind; and

All remuneration in kind of government staff directly involved in capital projects is compensation of employees and should be capitalised. For example, if the government pays remuneration in kind in the form of babies' nappies, expenditure on babies' nappies should be included in the value of compensation of employees and thus capitalised. For purposes of delineating compensation of employees, there is no distinction between babies' nappies purchased directly by government and provided to the employee, and money handed over by government to employees for the latter to use at their own discretion, perhaps to purchase babies' nappies.

- f) Social contributions  
Social contributions are payments to a social security fund. They are intended to secure for their employees the entitlement to social benefits should certain events occur, or certain circumstances exist, that may adversely affect their employees' income or welfare, for example sickness, accidents, redundancy and retirement.

However, certain items, such as uniforms and clothing, exclusively used by employees whilst at work, is not remuneration in kind but expenditure on goods and services. A fairly comprehensive list of such expenditure appears above.

It is important to delimit the time spent by employees on capital and current projects. If, for example, a certain employee spends 40 per cent of his/her effectively working on capital projects, 40 per cent of his/her total remuneration, including social contributions, should be capitalised, not his/her whole remuneration.

It appears that current government data systems allow for this type of allocation between capitalised and uncapitalised compensation of employees. However, it has not been verified whether it is possible to identify the value of compensation of employees separately for each individual capital project.

It is also important to note that it is only the remuneration of government employees that is included under compensation of employees. Payment to people who are not government employees is a purchase of a service. Examples of such people are architects, consultants, engineers and occasional workers.

## **9.2 Classifying expenditure on stand-alone items**

### **9.2.1 *Expenditure on services is always current***

All expenditure on services as stand-alone items is classified as current expenditure, including expenditure on training, health, research and development. Expenditure on these items may very well enhance future productive capacity and could therefore be regarded as investment in a broad sense. However, within the strict classification norms to be used within the South African Government, expenditure on services is always classified as current spending. This is in line with international guidelines.

### **9.2.2 *Expenditure on goods may be either current or capital***

This discussion pertains to purchases of goods as stand-alone objects, i.e. not as part of a project to repair or improve/rehabilitate existing assets or construct new assets. Examples would be when a department buys computers, furniture or vehicles to be used in the normal work of the department, not to construct a new capital asset or repair/improve an existing capital asset

### **9.2.3 *Expenditure on durable goods is not always capital spending***

Durable goods are not necessarily equivalent to capital goods. Capital goods can be used continuously or repeatedly in production for more than a year. As the name implies, durable goods, however, do not perish or perish very slowly. Examples of durable goods are coal, diesel and steel sheets, because they last for a long period of

time. However, these durable goods can be used as input in production only once – therefore they are not capital goods. Expenditure on stand-alone durable goods that cannot be used repeatedly or continuously in production is classified as current spending.

#### **9.2.4 Expenditure on inexpensive goods costing less than R5, 000 is current**

Stand-alone items costing R5, 000 or less should be classified as current, irrespectively of the nature of such items. Thus, purchases of stand-alone tools and equipment worth less than R5, 000 should always be classified as current expenditure, even though such tools and equipment may very well be used continuously or repeatedly for more than a year.<sup>5</sup>

The guideline is that when a number of the same good is purchased at the same time, it is the value of each individual item that matters. For example, if 21 hammers, each costing R100 are purchased in bulk, they are classified as current even though the total purchase exceeds R5, 000.

#### **9.2.5 Expenditure on valuables is capital**

Valuables are goods that are not used in production and whose value does not diminish over time. They serve as store of value. Examples are monetary gold, expensive jewellery, paintings and carpets. Purchases of valuables are capital spending.

### **9.3 Distinguishing between relevant types of stand-alone goods**

**Definition 5 – Separable Asset** – these are stand –alone items that can function in their own right. A **Component**, on the other hand, is usually not a separable asset as they cannot function if not attached to another asset, for example the propeller of an aircraft.

There are two main types of goods:

- a) Goods that cost more than 5,000; and
- b) Goods that cost 5,000 or less.

In the first case, the good may and may not be a capital asset, and the purchase of such a good may and may not constitute capital spending. In the second case, the good is never a capital asset and purchase of the good is always current spending.

Goods that cost more than 5,000 can be divided into four categories:

<sup>5</sup> This rule may lead to anomalies. For example, the same item may be bought in one store for slightly more than R 5000.00 and in another store for slightly less than R 5000.00. If the nature of the good is such that it can be used repeatedly or continuously for production, it would then be classified as a capital good in the first instance and as a current in the second. This fact notwithstanding, strict adherence to the rule is necessary.

- a) Goods that do not depreciate in value over time, are held as store of value and are not used in production: These goods are referred to as valuables. Examples are monetary gold, expensive carpets and expensive jewellery.
- b) Goods that cannot be used repeatedly or continuously for more than a year: Examples are bricks, cement, note pads and other stationary, printing papers, slaughter animals, logging trees, petrol and coal. Valuables are capital assets, and purchases of such goods constitute capital spending.
- c) Goods that can be used repeatedly or continuously for more than a year: Examples are dams, pumps, buildings, roads, fences, machines, furniture, computers, dairy cows, fruit trees, vehicles, propellers, engines and motors.
- d) Goods that can be used repeatedly or continuously for more than a year, may or may not be capital assets. Thus, purchases of such goods may and may not constitute capital spending.

Can be divided into four categories:

- i) Goods from which the government could derive revenue if it rents them or uses them to provide goods or services. For example, the government could earn revenue from renting land, buildings, vehicles, machines and equipment such as pumps and cranes. Dams, utilities, computers, dairy cows, fruit trees and vehicles are examples of assets the government may own with the aim of generating revenue or providing goods or services. Of course, the same good could serve both to provide a good/service or to generate revenue for the government.
- ii) Goods that are functional in their own right: i.e. constitute separate assets or systems. Essentially all goods mentioned under the first category also belong to this category, but fencing is also included under this category.
- iii) Components, i.e. goods that are not functional in separation from any other good but nevertheless cost more than R 5, 000. Examples are certain tyres, propellers, engines, motors, dam gates and certain light tubes.
- iv) Goods that may be used continuously or repeatedly but cost less than R 5,000. Similarly to goods in the third category, they have no functionality in themselves. Examples are spare parts, light bulbs, certain tyres, spark plugs and cartridges.

Goods that cannot be used repeatedly or continuously for more than a year are not capital assets, and purchases of such goods constitute current spending, provided they are not part of a capital project.

**Definition 7 - Goods that are functional in their own right and/or from which the government could derive revenue and/or use to provide a good/service**

Purchases of the first and second category of items are always capital spending. No exception is made even if it is necessary to replace certain equipment at regular intervals, say, every two years or so. Thus, a vehicle used as ambulance that needs to be replaced quite frequently due to, for example, poor quality of roads, is a capital asset even though each time a new ambulance is purchased it is expected that it must be replaced within a relatively short time period. Similarly, equipment in dams includes pumps and gates that must be replaced at fairly frequent and regular intervals, say every two or three years. Because they must be replaced repeatedly and expenditure on pumps and gates is very small in comparison to the total cost of the larger asset of which they constitute but a small part – i.e. the dam – the cost for their replacement could be seen as recurrent expenditure.

Indeed, pumps and gates could be seen as standing in the same relation to the dam as light bulbs to a lamp. Everybody agrees that the cost of replacing light bulbs is current spending, implying that purchases of pumps and gates at a dam also are of a current nature. There is certain merit to this argument. Similarly to pumps and gates, light bulbs can often be used continuously or repeatedly for more than a year. Their value is normally very small relative to the value of the lamp. Without the bulb the lamp is not functional, and neither is the dam without the pumps and gates.

The reason why this argument falls is that the guiding principle to determine whether or not purchases of a certain good contributes to capital spending is if the good is functional in its own right and could be used as revenue source if the government decided to rent it. Of course, pumps are functional in their own right. A pump is a capital asset in its own right and does not necessarily have to be attached to the dam to provide a service. A dam gate, however, is not functional in its own right, and purchases of gates may and may not be considered capital spending, see below.

**9.3.1 Components, i.e. goods that are not functional in separation from any other good but cost more than Rand 5,000**

Purchases of the third category of items, components, may and may not be capital spending. Fundamentally, the objective of the purchase of the good ought to determine it should be classified as current or capital spending. However, for purposes of an easily implementable criterion that can be used consistently by all units of the South African government, the following recommendation is made. Purchases are classified as current if the cost of acquiring the new component is less than 15 per



cent of the value of the existing asset to which it is attached. Purchases are classified as capital if the cost of acquiring the new good is at least 15 per cent of the value of the existing asset to which it is attached. The value of the existing asset is defined as the cost of replacement.

### **9.3.2 Current goods**

In spite of the strict definitions stated above, discussion of the nature of current and capital components may be useful. Components are considered current if they serve to maintain the existing asset to which they are attached in good working order and this is carried out at certain regular intervals. Components are also current if they serve to restore the existing asset to which they are attached to its original value.

If the old propeller is replaced because it fell into disuse, but the new propeller is not enhancing the value of the aeroplane, the cost of the propeller is classified as current. The dam gate is treated according to the same principle. It is likely that expenditure on this type of goods does not exceed 15 per cent of the value of the relevant asset.

### **9.3.3 Capital goods**

Spending is classified as capital if the new good enhances the value of the existing asset to which it is attached, either by contributing significantly to an increase in the life span, enhancement of productivity, expansion in capacity, increase in size or usability of the asset. Thus, for example, purchasing a new propeller and attaching it to an aeroplane is capital spending provided that the attachment of the new propeller implies a significantly longer life span or enhanced capacity of the aeroplane as compared to the situation when the old propeller (i.e. the propeller that was used prior to the purchase of the newly purchased propeller) was attached. Similarly if an old dam gate is replaced by a new gate that is of significantly better quality than the old gate and this resulted in enhanced capacity or improved running of the dam, the cost of the gate is classified as capital spending. It is likely that expenditure on this type of goods exceeds 15 per cent of the value of the relevant asset.

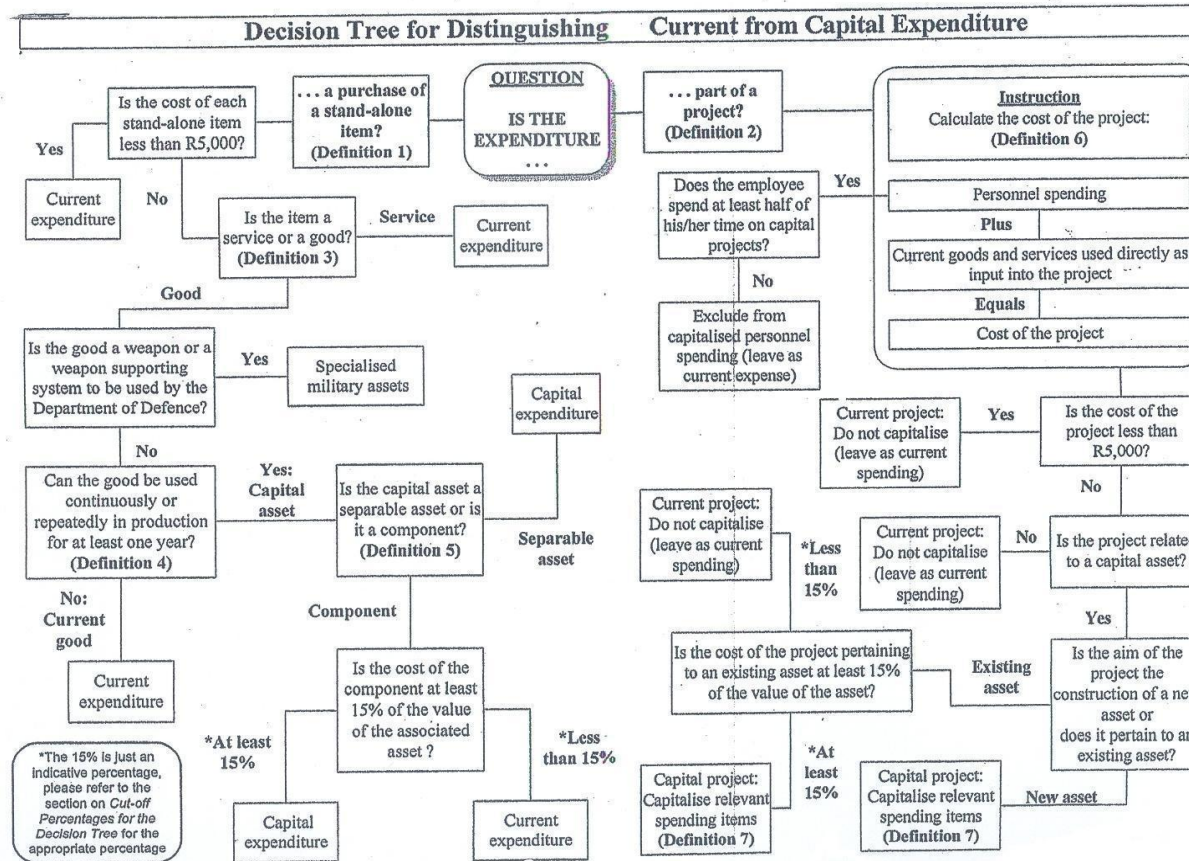
### **9.3.4 Goods costing less than R5,000**

Purchases of the fourth category of items are always current spending, even if these items can be used continuously or repeatedly for more than one year.

To assist department in effectively identifying which asset purchases are capital and which are current the following decision tree can be used.

# Capital/Current Decision Tree (1)

Appendix - Capital/current decision Tree



## 10. RECOGNITION OF ASSETS

Recognition is the process of incorporating in the statement of financial position or statement of financial performance, an item that meets the definition of an element and satisfies the criteria for recognition. It involves the depiction of the item in words and by a monetary amount. The failure to recognise such items is not rectified by disclosure of the accounting policies used, nor by notes or explanatory material.

***An asset is defined as a resource controlled by the department as a result of past events and from which future economic benefits or service potential are expected to flow to the department.***

The definition has three elements, which must all be satisfied, whether the assets are tangible or intangible:

- a) The asset has future economic benefits or service potential for the department;
- b) The department has the capacity to control the service potential of the asset; and
- c) A past event giving the department control over the service has occurred.

An item that meets the definition of an element should be recognised if it also-

- a) Meets the probability criteria (it is probable that any future economic benefits or service potential associated with the asset will flow to the department);
- b) Meets the recognition criteria (the asset has a cost of value that can be measured with reliability); and
- c) Meets the department's reporting threshold.

Thus, the definition may embrace items that are not recognised as assets or liabilities in the statement of financial position because they do not satisfy the criteria for recognition. In particular, the expectation that future economic benefits or service potential will flow to or from a department, must be sufficiently certain to meet the probability criterion before an asset or liability is recognised.

In assessing whether an item meets the definition of an asset, attention needs to be given to its underlying substance and economic reality and not merely its legal form. Thus, for example, in the case of finance leases, the substance and economic reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its useful life, in return for entering into an obligation to pay for that right an amount approximating to the fair value of the

asset and the related finance charge. Hence, the finance lease gives rise to items that satisfy the definition of an asset and is recognised as such in the lessee's statement of financial position.

The six elements of the definition of an asset as discussed further below.

### **10.1 *Future economic benefit or service potential***

In applying the asset definition to the public sector environment, the focus may mostly be on service potential rather than future economic benefits.

The concept of 'profitability' is not always applicable in the public sector, as the government provide public services and redistributes wealth for a variety of social and economic purposes (excluding government business enterprises). Mostly in the private sector, the future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the business. The potential may be a productive one that is part of the operating activities of the business. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative process lowers the costs of providing a service.

Assets that are used to deliver goods and services in accordance with a department's objectives but do not directly generate net cash inflows are often described as embodying service potential. Service potential is thus the capacity of an asset, singly or in combination with other assets, to contribute directly or indirectly to an achievement of an objective of a public sector department. Objectives may include provision of services. Typical 'services' include for example the provision of filtered water, accommodation for administrative workers, the clinical treatment of patients, or the processing and transfer of information. Services can also include services to the public for which the department receives no economic return.

The future economic benefits or service potential embodied in an asset may flow to the department in a number of ways. For example, an asset may be:

- a) Used singly or in combination with other assets in the production of goods or services to be sold by the department;
- b) Exchanged for other assets; or
- c) Used to settle a liability.

Many assets, for example, property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset; hence patents and copyrights, for

example, are assets if future economic benefits are expected to flow from them to the department and if they are controlled by the department.

## **10.2 Control of the asset**

It is control of the economic benefits of the asset rather than 'physical' control which is important. Do you enjoy the benefits of the asset and can you prevent others from sharing those benefits?

Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the department controls the benefits, which are expected to flow from the property. Although the capacity of a department to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, know-how obtained from a development activity may meet the definition of an asset when, by keeping that know-how secret, a department controls the benefits that are expected to flow from it.

## **10.3 Past transactions or events**

Transactions or events expected to occur in the future do not in themselves give rise to assets; hence, for example, an intention to purchase inventory does not, of itself, meet the definition of an asset. Assets are recognised from the point when some event or transaction transferred control to a department. Good indicators are when a department pays for the asset, when they take possession or delivery of the asset or when they create the asset. In some instances, a department may be certain it is going to gain control of an asset - this is not enough in itself.

There is a close association between incurring expenditure and generating assets but the two do not necessarily coincide. Hence, when a department incurs expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the statement of financial position; for example, items that have been donated to the department may satisfy the definition of an asset.

#### **10.4 *The probability criteria***

The concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits or service potential associated with the item will flow to or from the department. The concept is in keeping with the uncertainty that characterises the environment in which a department operates. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence available when the financial statements are prepared. For example, when it is probable that a receivable owed to the department will be paid, it is then justifiable, in the absence of any evidence to the contrary, to recognise the receivable as an asset. For a large population of receivables, however, some degree of non-payment is normally considered probable; hence an expense representing the expected reduction in economic benefits is recognised.

#### **10.5 *Measurement criteria***

The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability. In many cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the item is not recognised in the statement of financial position or statement of financial performance. For example, the expected proceeds from a lawsuit may meet the definitions of both an asset and income as well as the probability criterion for recognition; however, if it is not possible for the claim to be measured reliably, it should not be recognised as an asset or as income; the existence of the claim, however, would be disclosed in the notes, explanatory material or supplementary schedules.

An item that, at a particular point in time, fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.

An item that possesses the essential characteristics of an element but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial position, performance and changes in financial position of a department by the users of financial statements.

### ***Subsequent disbursements on assets***

Subsequent disbursements relating to an asset that has already been recognised should be added to the carrying amount of the asset when it is probable that future economic benefits or service potential over the total life of the asset is, in excess of the most recently assessed standard of performance of the existing asset will flow to the department. All other subsequent disbursements should be recognised as expenses in the period in which they are incurred.

Examples of improvements, which result in increased future economic benefits or service potential include:

- 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;
- c) Adoption of new production processes enabling a substantial reduction in previously assessed operating costs; and
- d) Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift.

Disbursements related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that a department can expect from the most recently assessed standard of performance of the asset. As such, they are usually recognized as an expense when incurred. For example, 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.

### ***Subsequent valuation or Re-valuation of assets***

While it is not compulsory for a revaluation to be disclosed in the financial statements, initial valuations of assets on a historic cost basis will become increasingly irrelevant over time for management decision making. More regular valuations will provide a measure of the real costs consumed by, and current value of the investments in, programmes. Better practice in asset management suggests, for planning purposes, management should have an indication of the future need on resources for replacement of existing assets. A regular re-valuation of assets is one method of achieving this.

It may be possible to update the value of almost all assets. However, the cost of re-valuation can be a major expense. This cost is ameliorated to a large extent when the

department has established an adequate asset register and has maintained it by ensuring that all asset movements (acquisitions, disposals and transfers between locations) are recorded in a timely manner.

The Accounting Standards Board has issued a Standard of Generally Recognised Accounting Practices on Property, Plant and Equipment which will govern the appropriateness and accounting treatment for revaluations for external reporting. It is specifically important to note paragraph 41 of the ASB on property, plant and equipment that clearly states, *“If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.”* This requirement is also contained in the international accounting standards **IPSAS ED 14** – requires that *“when an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs, should be revalued. The items within the class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements, which are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period of time and provided the revaluations are kept up to date.”* Initial revaluations for management purposes should take note of these requirements for financial reporting purposes.

The re-valuation of assets is normally an exercise best left to experts whether they are from an independent company, or internal officers with the necessary qualifications and experience.

### **10.6 Asset Thresholds**

Once it has been determined that an asset exists and its cost can be reliably measured, it may not be included in the financial statements. Financial statements do not need to report every transaction or event that affects a department. It is only necessary to capture and report on 'material' or significant amounts and events in the statements. This is an attempt to weigh the cost of gathering data against its usefulness or significance to the readers of the financial statements.

Using this criterion, it is not necessary to include the value of every asset in the financial statements. Note the subtle distinction. We are not talking about whether you need to record the existence of an asset in the underlying registers - that is an asset management



decision based on the importance of the asset or group of assets to a department, and accountability criteria. We are talking about whether you need to report the assets that you do record, in your financial statement balances. The way this is decided is to establish a financial reporting threshold in monetary terms. It is possible however that the application of a uniform threshold across all asset classes will not be cost-effective and will send the wrong signals to asset managers.

As a rule, thresholds are at least 95% of total non-current assets by value are reported in the financial statements. This rule provides significant scope to set different thresholds for different classes of assets. It may be possible to ignore an entire class of assets for financial reporting purposes where they are immaterial when compared to total non-current assets. Alternatively, it is possible to decide to report all of a particular type of asset.

The hard part comes where there are a large amount of assets with very low unit values (possibly below the value at which you normally record assets in the registers) but which, in aggregate, are material to total non-current assets due to their sheer volume. It is appropriate in this case to record these assets as a single group, with one combined value, so that you are able to satisfy reporting requirements. Examples include the creation of group totals to record different types of furniture, or the contents of professional libraries.

According to Instruction note 19 and 39 of SARS, where items which qualify as “assets” are at a cost of less than R1000, they must be **written off in full during the year of acquisition**. They should however still appear in the fixed assets register. The province has set the **threshold at R5, 000** before an item is recognised as a major asset and need to be recorded on the Financial Statements.

One word of caution: these low-value assets are never-the-less important to a department in supporting the delivery of programmes and it is, therefore necessary to record them on the Asset Register. Departments must be able to track their movement within the department,, to monitor and control them, as they do the higher-valued Assets.. Departments will still be required to perform a reconciliation of the expenditure used to purchase these assets with the records on their Asset Register.

In conclusion, an asset should be recognised in the financial statements of a department if it meets **all** of the following criteria:

- 1 The asset has an economic benefit or service potential for the department;
- 2 The department has the capacity to control the service potential of the asset;
- 3 A past event giving the department control over the service has occurred;
- 4 It is probable that the service potential will be used;
- 5 The asset has a cost or value that can be reliably measured; and
- 6 The estimated value of the asset is above R 5 000.00.

## 11. VALUATION METHODS

We have established what assets are and when assets are to be included in the financial statements. The criteria used to determine this is the asset value and the reporting threshold. The following should be considered when determining the valuation method to be adopted:-

### 11.1 Valuation

Asset values are generally recorded at the original purchase price (historic cost) of the asset. They may later be re-valued on some other basis. The Accounting Standards Board has issued a standard of Generally Recognised Accounting Practice on Property, Plant and Equipment which contains guidance on the appropriateness and accounting treatment of such revaluations. These values are referred to as the Gross Book Values of assets. In accrual accounting, the carrying value of an asset in the financial statements (its Written Down Value) is arrived at by deducting an annual depreciation charge (which accumulates over time). Deductions other than depreciation may also be made from asset values to reflect some other factor which diminishes the asset's present value to a department (deferred maintenance is one example).

### 11.2 Initial Recording of Assets

Accounting standards require the initial recording of an asset to be at cost, except in special circumstances. "Cost" includes necessary, additional expenditure such as transport of the asset to the site. For items where there is no cost to the department (e.g. gifts or transfers without cost) the standards require that they be recorded at their fair value (i.e. the amount that a willing buyer and willing seller would agree on or market value.)

For transfers between departments, on a restructure of functions, assets should initially be recorded at the value at which they were carried in the books of the transferring department. In this instance, both the gross value and accumulated depreciation should be recorded.

### 11.3 Enhancement and refurbishment

Assets are often modified during their life. There are two main types of modification:

**i. Enhancement:**

Where works are carried out on the asset that increase its service potential. “Works” of this kind may be extensions, or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift. Enhancements normally increase the service potential of the asset, and result in an increase in value; and

**ii. Refurbishment:**

Where major works are carried out to bring or restore the asset to acceptable condition. Refurbishment works do not necessarily extend functionality or the life of the asset, but are necessary for the planned life to be achieved. In such cases, the value of the asset is not affected, and the cost of the refurbishment is regarded as an expense in the income statement. If the refurbishment extends the useful life of an asset, the service potential (and value) of the asset is increased accordingly.

**11.4 Measurement**

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the statement of financial position and statement of financial performance. This involves the selection of the particular basis of measurement.

A number of different measurement bases are employed to different degrees and in varying combinations in financial statements. They include the following:

- a. **Historical cost.** Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.
- b. **Current cost.** Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
- c. **Realisable (settlement value).** Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.
- d. **Present value.** Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities

are carried at the present discounted value of the future net cash outflows *that are expected to be required to settle the liabilities in the normal course of business.*

### **PROVINCIAL POLICY ON VALUATION**

Assets are to be recorded in the departments' fixed asset register at a specific value. The following serves as a guideline to the amounts which should be recorded:-

#### **a. Purchases after 2004/2005 where invoices are available**

The value of the asset equals the purchase price of the asset. This is recorded under the cost price column and the relevant purchase date must be recorded for depreciation calculations. A monthly reconciliation of the Financial System (BAS) will ensure that all assets purchased for Capital Expenditure > R5000 and Current Expenditure < R5000 are recorded on the asset register at the correct purchase price and the correct date. Depreciation will be calculated on all assets > R5000, thereby reducing the book value of the asset.

#### **b. Purchases in previous financial years, prior to 2004/2005 where no invoices are available:**

- i. Where the market value / replacement value can be easily determined this value should be used. Obviously, in this case, the value would have taken depreciation into account up until that date so no depreciation needs to be brought into account when recording the asset for the first time.
- ii. Where, due to the complex nature and value of the asset, the valuation process would require detailed inspection and calculation, an independent valuator (internal/external to the department) should be considered. It is important to consider the cost benefit analysis of undertaking this exercise.
- iii. Where the costs involved in obtaining a value for the asset are not feasible, the asset should be recorded at R1. This applies to assets whose purchase date exceeds the useful life of an asset, e.g. Computers purchased four years ago exceeds their useful life expectancy of 3 years and should be recorded at R1. Where the purchase date of the asset is unknown and where it can be established that the useful life expectancy has already been exceeded, the asset can be loaded onto the asset register with the purchase date of 31<sup>st</sup> March 2004.

#### **c. Subsequent Changes to the Value of an Asset**

Where there are **changes to the asset**, once it has been recorded in the fixed assets register, the following should be established:

- i. Where the changes result in an increase in its service potential the expenditure is deemed to be capital expenditure and should be added to the value of the asset at the current cost of that expenditure. Such increased value would impact on the Annexure to Annual Financial Statements on assets.
- ii. Where the changes are required to restore the asset to an acceptable condition, the expenditure so incurred will be deemed to be current expenditure and should not be added to the value of the asset. Such expenditure will be included in the income statement.
- iii. Where the value of the asset increases due to the nature of the asset, the asset should be revalued in totality and the revised replacement value recorded, eg. property in developing areas.
- iv. Where the value of an asset has decreased significantly, the carrying value should be adjusted accordingly.

Asset values are generally recorded at the historical cost of the asset. They may later be re-valued on some other basis. Until such time as the Province adopts the accrual basis of accounting, revaluations would only impact on the asset register and annexures to the Annual Financial Statements. No journals should be processed at this time and such amounts would be reconciling items at month end.

## 12. PUBLIC AND BUSINESS ENTITIES

Chapter 6 of the PFMA and Part 9 of the Treasury Regulations detail the legislative framework in respect of public entities. For the purposes of asset management the issue of recognising the value of public entities in provincial departments records and ultimately annual financial statements and reports is currently being investigated by National Treasury.

The first process which must be undertaken by departments is the establishment of whether public entities and business enterprises as currently listed in the PFMA, should in fact be reflected as such in terms of the specific criteria of recognition as listed in Chapter 1 of the PFMA namely:-

- a) established in terms of legislation or a provincial constitution;
- b) fully or substantially funded either from a Provincial Revenue Fund or by way of a tax, levy or other money imposed in terms of legislation; and
- c) accountable to a provincial legislature.

All three elements / criteria must be in place in order to be recognised as an entity.

**Business Enterprises** are defined in the PFMA as an entity which:

- a) is a juristic person under the ownership control of a provincial executive;
- b) has been assigned financial and operational authority to carry on a business activity;
- c) as its principal business, provides goods and services in accordance with ordinary business principles; and
- d) is financed fully or substantially from sources other than:
  - (i) a Provincial Revenue Fund; or
  - (ii) by way of a tax, levy or other statutory money

Historically departments reflected the transfer payments to public entities and business enterprises as an expense item in the income statement. However, applying the principles of recognition in certain instances, the value of the transaction should be deemed by its nature, as an asset in the records of the respective department as well as the value of the public entity where the department exercises full control thereof.

For the purposes of asset management the issue of recognising the value of public entities in provincial departments records and ultimately annual financial statements and reports is currently being investigated by National Treasury. An appropriate policy will be formulated based on the framework provided by National Treasury.

### 13. DEPRECIATION

Cash accounting shows asset purchases as expenditure in the year in which payment is made. This overstates programme costs in that year as it fails to reflect that the asset is used over a number of years. Accordingly, the cost of the asset should be spread over that period. Accrual accounting, and in particular the process of depreciation, allows the actual cost of programmes to be seen, as and when an asset's service potential is consumed.

Depreciation recognises the cost of consuming the service potential of an asset over time, and provides a means of accounting for the cost of an asset over its useful life. It is necessary to remember that this useful life is estimated in the context of "normal" maintenance being undertaken on the asset as and when required over the period that it is in use.

*Depreciation is not a method of financing replacement assets.* It must be emphasised that accounting 'depreciation' is not saving up for new assets and is only partly a reflection of the "wearing out" of assets. Other factors, such as technical obsolescence and any residual value of the asset, must also be considered.

*Depreciation is necessary even where assets are re-valued every year. The two processes are independent.*

### 13.1 Provincial Policy

Despite the fact that provincial government operates on a cash basis of accounting, the recording of assets in the financial statements as proposed in the application of the valuation methods above, would not fairly present the state of affairs if depreciation was not taken into consideration.

Furthermore, National Treasury and the Accounting Standards Board are researching this area and until such time as a standard policy has been issued the following proposed policy should be adopted by provincial departments.

The **straight-line method** of depreciation must be applied to the various categories of assets. This method recognises the cost of an asset in “equal instalments” over its expected useful life. For example: A vehicle costing R100 000 with an applied 20 % depreciation rate will show a depreciation charge of R20 000 per year over 5 years. These costs are normally reflected as expenditure in the income statement, but for reporting purposes, will be reflected as a note to the income statement and the balance sheet.

The following Asset Types have been identified and their corresponding useful life and annual depreciation rates are indicated.

Asset Type Par Folder Name	Asset Type Fol Name	Asset Type Name	Annual Depreciatio Rate	Useful Lif in years
Computer Equipment	Hardware	Back up Devices	33.333%	3
		Binders	33.333%	3
		CD/DVD writers	33.333%	3
		Controller Cards	33.333%	3
		Data Cabinets	33.333%	3
		Data Projectors	33.333%	3
		Desktop PC's / CPU's	33.333%	3
		Docking Stations	33.333%	3
		Hubs	33.333%	3
		Keyboards	33.333%	3
		Mice	33.333%	3
		Modems	33.333%	3
		Monitors	33.333%	3
		Multifunctional Output Equipmer	33.333%	3
		Network Devices	33.333%	3
Notebooks / Labtops	33.333%	3		
P Touch	33.333%	3		

		Plotter	33.333%	3
		Pocket PC's	33.333%	3
		Port Replicators	33.333%	3
		Printers	33.333%	3
		Racks	33.333%	3
		Routers	33.333%	3
		Scanners	33.333%	3
		Servers	20.000%	5
		Speakers	33.333%	3
		Switches	33.333%	3
		Tablet PC	33.333%	3
		Tape Drive	33.333%	3
		Thin Client	33.333%	3
		UPS	33.333%	3
		USB Converter	33.333%	3
		Wireless Devices	33.333%	3
Intangible Asset	Computer Software	Major Computer Software	33.333%	3
		Minor Computer Software	50%	2
Office Furniture Equipment	Audio Visual Equipment	Cameras	20%	5
		CD/DVD/VCR's	20%	5
		TV	20%	5
		Decoders	20%	5
		Dictaphone	20%	5
		Electronic Print Board	20%	5
		Hi Fi's	20%	5
		Microfische	20%	5
		Projection Equipment	20%	5
		Public Address Systems	20%	5
		Radio Cassettes	20%	5
		Scribers	20%	5
		Smart Board	20%	5
		Other Sound & Lighting Equipm	20%	5
		Sound Systems	20%	5
		Speakers	20%	5
	Video Vex Viewers	20%	5	
	Voice Recorders	20%	5	
	Office Furniture	Artwork	20%	5
		Beds	20%	5
		Benches	20%	5
		Boards	20%	5
		Book Cases	20%	5
		Cabinets	20%	5
		Chairs	20%	5
		Couches	20%	5
		Credenzas	20%	5
		Cupboards	20%	5
Desks		20%	5	
Filing Units		20%	5	
Ladders	20%	5		
Lockers	20%	5		
Pedestals	20%	5		



		Podiums	20%	5
		Racks	20%	5
		Safes	20%	5
		Steps	20%	5
		Shelving	20%	5
		Sideboards	20%	5
		Stands	20%	5
		Stools	20%	5
		Tables	20%	5
		Trolleys	20%	5
		Turn – o – Files	20%	5
	Office Equipment	Air Conditioners	20%	5
		Automatic Punches	20%	5
		Binders	20%	5
		Boards	20%	5
		Calculators	20%	5
		Card Holders	20%	5
		Cellular Telephones	20%	5
		Cutting Machines	20%	5
		Duplicating Machines	20%	5
		Electrical Heaters	20%	5
		Engraving Equipment	20%	5
		Fans	20%	5
		Fax Machines	20%	5
		Franking Machines	20%	5
		Heaters	20%	5
		Labeling Equipment	20%	5
		Laminators	20%	5
		Letter Folding Machines	20%	5
		Microfiche Equipment	20%	5
		Money Counting Equipment	20%	5
		Paper Shredders	20%	5
		Photocopier Machines	20%	5
		Plate Makers	20%	5
		Tagging Equipment	20%	5
	Telephonic Equipment	20%	5	
	Typewriters	20%	5	
	Water Coolers	20%	5	
Other Equipment Plant & Machine	Other Equipment	Aviation Equipment	10%	10
		Cleaning Equipment	33.333%	3
		Fire Fighting Equipment	33.333%	3
		Firearm Equipment	33.333%	3
		Garden Equipment	50%	2
		Housekeeping Equipment	33.333%	3
		Kitchen Equipment	20%	5
		Laboratory Equipment minor	20%	5
		Laboratory Equipment major	14%	7
		Laundry Equipment	10%	10
		Medical HTU Equipment	10%	10
		Medical Instrument Packs	10%	10
Medical Instrument Specific Pac	10%	10		

		Medical Equipment minor	10%	10	
		Medical Equipment major	6%	15	
		Motor Transport Service Equipm	20%	5	
		Musical Equipment	10%	10	
		Sport & Recreation Equipment	20%	5	
		Emergency / Rescue Equipmen	20%	5	
		Road Traffic Inspectorate Equip	20%	5	
		Safety / Security Equipment	33.333%	3	
		Stores Equipment	20%	5	
		Survey Equipment	20%	5	
		Workshop Equipment Fixed	20%	5	
		Workshop Equipment Movable	33.333%	3	
		Plant & Machine	Air Compressors	20%	5
			Alcometers	20%	5
	Breakers Mechanical & Hydrolic		20%	5	
	Brooms Mechanical & Hydrolic		20%	5	
	Bull Dozers		10%	10	
	Caravans		20%	5	
	Compactors Mechanical & Hydr		20%	5	
	Concrete Mixers		20%	5	
	Cranes		10%	10	
	Crushers Mechanical & Hydrolic		20%	5	
	Excavators		10%	10	
	Generators		20%	5	
	Graders		10%	10	
	Hammers Mechanical & Hydrolic		20%	5	
	LDV Mechanics Vehicle		25%	4	
	Loaders Mechanical & Hydrolic		10%	10	
	Mowers Mechanical		20%	5	
	Pumps		20%	5	
	Rollers Mechanical		20%	5	
	Saws Mechanical		20%	5	
	Snow Ploughs		20%	5	
	Spray Units		20%	5	
	Sprayers Mechanical		20%	5	
TLB	10%		10		
Tractors	10%		10		
Trailers	20%		5		
Trucks	20%	5			
Vibrators Mechanical	20%	5			
Vehicles	General Vehicle	Busses Rural	10%	10	
		Busses Urban	8%	12	
		Double Cab's 4 x 2 Rural	25%	4	
		Double Cab's 4 x 2 Urban	20%	5	
		Double Cab's 4 x 4 Rural	25%	4	
		Double Cab's 4 x 4 Urban	20%	5	
		Kombis Rural	25%	4	
		Kombis Urban	20%	5	
		Light Delivery Vehicle Rural	25%	4	
		Light Delivery Vehicle Urban	20%	5	
		Sedans Rural	25%	4	

		Sedans Urban	20%	5
		Station Wagon Rural	25%	4
		Station Wagon Urban	20%	5
	Miscellaneous Vehicles	Emergency Vehicles Rural	20%	5
		Emergency Vehicles Urban	16%	6
		Motor Cycles Rural	25%	4
		Motor Cycles Urban	20%	5
		Tractors Rural	10%	10
		Tractors Urban	8%	12
		Trailers Rural	20%	5
		Trailers Urban	16%	6
		Trucks Rural	20%	5
		Trucks Urban	16%	6

#### 14. DISCLOSURE REQUIREMENTS

The disclosure of assets must be reflected as a note in both the Income Statement (in terms of depreciation charges for the year) and the Balance Sheet (in terms of the net value of assets). The disclosure requirements are detailed below.

The following should be disclosed for each major class of depreciable asset:

- a) The depreciation methods used and the valuation bases used for determining the amounts at which depreciable assets are stated should be included in the disclosure of accounting policies;
- b) Total depreciation charged to income;
- c) Total accumulated depreciation provided for the period; and
- d) The gross amount of depreciable assets and the related accumulated depreciation.

Where, in the case of investment properties, buildings are not treated as depreciable assets the carrying values and the most recently established open market values of such properties should be disclosed together with the effective date of valuation, whether it was independent or internal and any provision made to recognise permanent decline in value. If management considers that factors have occurred since the most recent valuation to render its use and disclosure misleading, such factors should also be disclosed.

Departments must perform a **physical verification of all assets at least once a year** to ensure the accuracy of the fixed assets register.

##### 14.1 Asset Register

Accrual accounting and the compilation of information within an asset register enables the identification of the ongoing costs, such as depreciation and maintenance, of owning and operating assets. Information on these costs is needed to measure the total cost of goods and services produced, which in turn is used to determine which goods and services to provide and the most efficient way of providing those goods and services.

Both summarised and detailed information are useful. Total asset figures show how much government funding is tied up in asset holdings. This allows Government to make informed decisions when considering capital investment acquisitions or disposals. Detailed asset information is more likely to be of use to those Ministers or managers with responsibilities for a particular government department.

The **asset register** is the asset database which provides a record of the figures to be included in the financial statements. It includes information on asset purchase prices, asset condition and expected life. It may also include information on current replacement cost. All assets should be recorded in the asset register, regardless of the funding source, be they capital or current assets. However, an “Exclusion List” detailing current assets (value < R5000) that may be excluded from the asset register is permissible but must however, be approved by the CFO in writing. Also, do take note that the items on the Exclusion List forms part of the reconciliation between BAS and HardCat and it therefore must be referenced in the process of any such reconciliation.

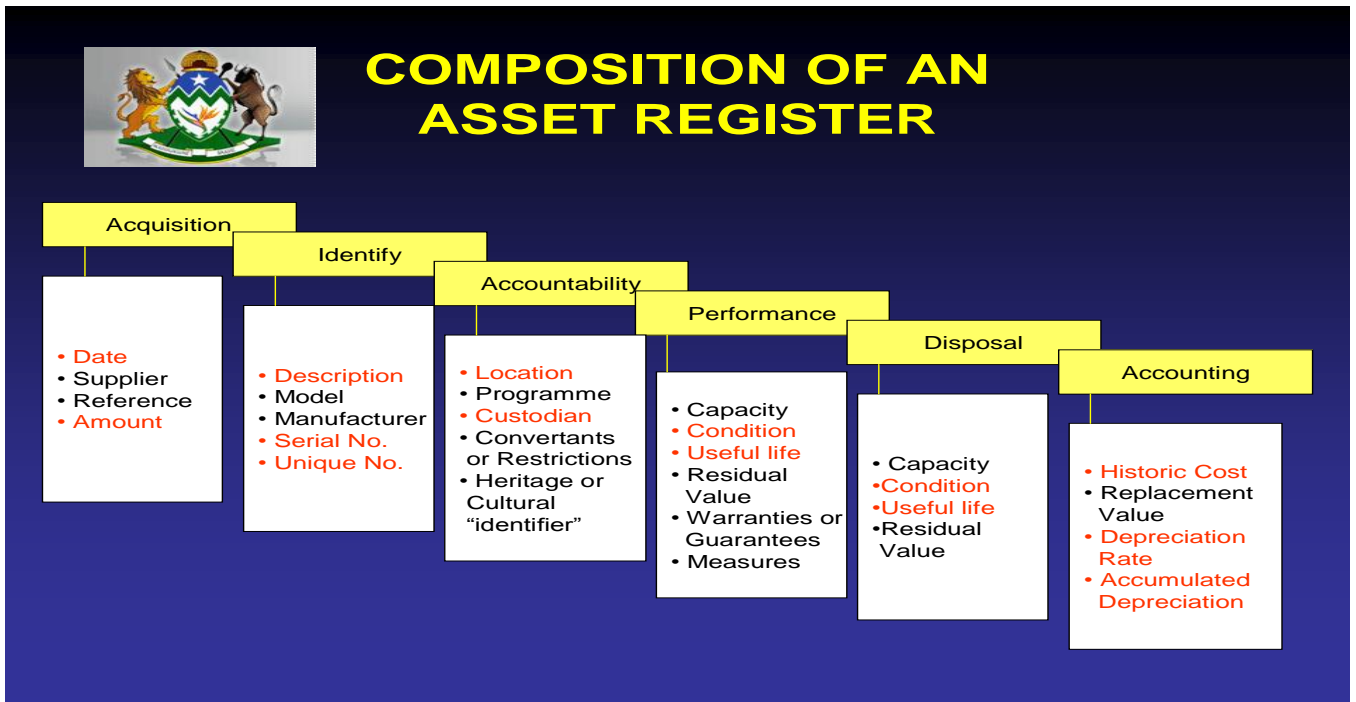
For assets which are difficult and problematic to barcode e.g. cabling or cellular phones, a NB (non-barcode) numbering system can be implemented. This involves inputting the prefix ‘NB’ with a self determined sequential number into the barcode field on HardCat. For Example, NB000001, NB000002, NB000003 etc. All other information relevant to the asset is recorded on the Asset Register just as any other asset is recorded, i.e. the Custodian Name, Supplier Name, Location Name, Cost Centre Name and if possible the Serial number is still relevant. Additionally, for control purposes it is recommended that an excel spreadsheet is maintained to ensure that the numbering is applied sequentially and that explanations as to why this system of numbering was applied to that type of asset is available.

The asset register should contain non-financial data on acquisition, department, accountability, performance and disposal, in addition to the financial data necessary to discharge statutory reporting obligations.

The size and complexity of an asset register will depend on the number and type of assets held by a department. The volume of purchases, transfers and disposals in a year is also an indicator of the degree of sophistication required for asset recording and reporting. With this in mind, the features of a good asset register include:

- a) structuring to allow the different classifications of assets to be distinguished;
- b) financial data on assets that is maintained down to the level which is important to decision-makers;
- c) clear identification of the individual, or department unit, responsible for the asset; and
- d) asset data that is:
  - updated as transactions and events occur (i.e. on an accrual basis);
  - regularly reconciled with acquisition data ; and
  - readily available to asset managers preferably ‘on-line’.

The diagram below summarises the data that should be maintained on assets (it is important that assets of cultural or heritage significance are ‘flagged’ as such and their special maintenance needs and disposal considerations are made known to asset managers).



Departments have a statutory obligation to manage their assets in terms of the PFMA. A computerised Asset Management System; HardCat, has been implemented by Provincial Treasury in the Province and all departments, whether they are utilising the system provided

or not, must ensure that they maintain, as a minimum, the above requirements of an asset register.

A guideline document has been developed by Provincial Treasury to assist departments to implement the above requirements on the Hardcat Asset Register.

The details as per the asset register will enable the preparer of financial statements to provide the disclosure that will be required by GRAP.

## 14.2 HardCat Asset Reports

The Hardcat Asset Management System has been implemented in the KZN Province as the Departmental Asset Register and its primary purpose is to maintain a list of assets with their relevant details and financial information. HardCat is however, not regarded as a financial system such as BAS, but rather a system that is geared to the transparent management and control of assets. Hence, HardCat functions as a dynamic system which is continually being updated with assets in real time. Therefore, HardCat is not able to report on asset values as at a certain past period but rather will supply asset value transactions to date. Any subsequent changes to the asset register after year-end, for example a disposal of an asset in a closed financial year, will change the value of assets for that financial year. Thus it is recommended that for the purpose of internal and external audits, at financial year end, reports on total asset value as at the date the figures are extracted for the Annual Financial Statements are printed as a hard-copy and a copy is downloaded on some electronic storage device which can be accessed at a later date for audit purposes.

## 14.3 Financial Statements Disclosure

**The financial statements should also disclose for each class of assets recognised:**

- a) Leased/Owned indicator;
- b) Measurement bases used for determining the gross carrying amount;
- c) Depreciation method (in addition to the rate);
- d) The useful lives or the depreciation rates used;
- e) The gross carrying amount and the accumulated depreciation at the beginning and end of the period;
- f) The existence and amounts of restrictions on title for assets pledged as securities for liabilities;
- g) The amount of disbursements on account of assets in the course of construction; and
- h) The amount of commitments for the acquisition of property, plant and equipment.

**Information that would enable a reconciliation of the carrying amount at the beginning and end of the period showing:**

- a) Additions;
- b) Disposals;
- c) Acquisitions through business combinations;
- d) Increases or decreases during the period resulting from revaluations and from impairment losses (if any) recognized or reversed;
- e) Impairment losses (if any);
- f) Impairment losses (if any) reversed;
- g) Depreciation;
- h) The net exchange differences arising on the translation of the financial statements of a foreign department; and
- i) Other movements.

**When a class of assets is stated at revalued amounts the following should be disclosed:**

- a) The basis used to revalue the assets within the class;
- b) The effective date of the revaluation;
- c) Whether an independent valuer was involved;
- d) The nature of any indices used to determine replacement cost;
- e) The revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;
- f) The sum of all revaluation surpluses for individual items of assets within that class; and
- g) The sum of all revaluation deficits for individual items of assets within that class.

**Financial statement users also find the following information relevant to their needs:**

- a) The carrying amount of temporarily idle assets;
- b) The gross carrying amount of any fully depreciated property, plant and equipment that are still in use;
- c) The carrying amount of assets retired from active use and held for disposal; and
- d) When assets are recognised at cost, the fair value, when this is materially different from the carrying amount

The following serves as an **illustrative example** of the type of presentation required in the Financial Statements once GRAP has been established:-

**A. Accounting Policies Statement****PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are stated at historical costs or revalued amounts, less conditional grants and accumulated depreciation, with the exception of small tools and equipment.

Small tools and equipment, which comprise low value items of furniture and equipment, i.e. costing less than R 5000.00, which are still recorded in the asset register, have been valued at an estimated 1% of the book value of movables as at April 1998. Replacements are charged to the income statement as they are purchased and therefore no depreciation is charged on this category of assets.

Depreciation is calculated on historical costs, reduced by conditional grants where applicable, or revalued amounts using the straight-line method over the estimated useful lives of the assets.

Expenditure on major improvements and additions to property, plant and equipment is capitalised. All land occupied by the organisation belongs to the State and as such does not represent any value in these financial statements.



**B. Income Statement**

		<b>2001</b>	<b>2000</b>
	<b>Note</b>	<b>R'000</b>	<b>R'000</b>
<b>Expenditure</b>			
Depreciation	1	10 000	8 000
Etc...			

**Notes to Income Statement**

1.	<b>Depreciation</b>		
	Plant and machinery	2500	2000
	Furniture and Equipment	500	500
	Computer Equipment	1000	1000
	Vehicles	<u>6000</u>	<u>4500</u>
		<u>10 000</u>	<u>8000</u>

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**Balance Sheet**

	<b>Note</b>	<b>2001 R'000</b>	<b>2000 R'000</b>
Employment of Capital	1		
Property Plant and Equipment	2	275 000	230 000
Etc...			

**Note to the Balance Sheet**

	<b>At Cost R'000</b>	<b>Accum. Dep R'000</b>	<b>Net Book Value R'000</b>
<b>2. Property, Plant and Equipment</b>			
Plant & Machinery	39 000	6 500	32 500
Furniture & Equipment	36 500	2 500	44 500
Computer Equipment	166 000	2 000	34 000
Vehicles	<u>287 500</u>	<u>12 500</u>	<u>275 000</u>

<b>Movement 2001</b>	<b>N.B.V @ Beg. of year R'000</b>	<b>Acquisitio n/ Capitalisat ion R'000</b>	<b>Disposa ls R'000</b>	<b>Depreciatio n R'000</b>	<b>N.B.V @ end of year R'000</b>
Plant & Machinery	30 000	5 000	0	2 500	32 500
Furniture & Equipment	45 000	0	0	500	44 500
Computer Equipment	35 000	0	0	1 000	34 000
Vehicles	120 000	50 000	0	6 000	164 000
	<b>230 000</b>	<b>55 000</b>	<b>0</b>	<b>10 000</b>	<b>275 000</b>

**15. IMPLEMENTATION TIMEFRAMES**

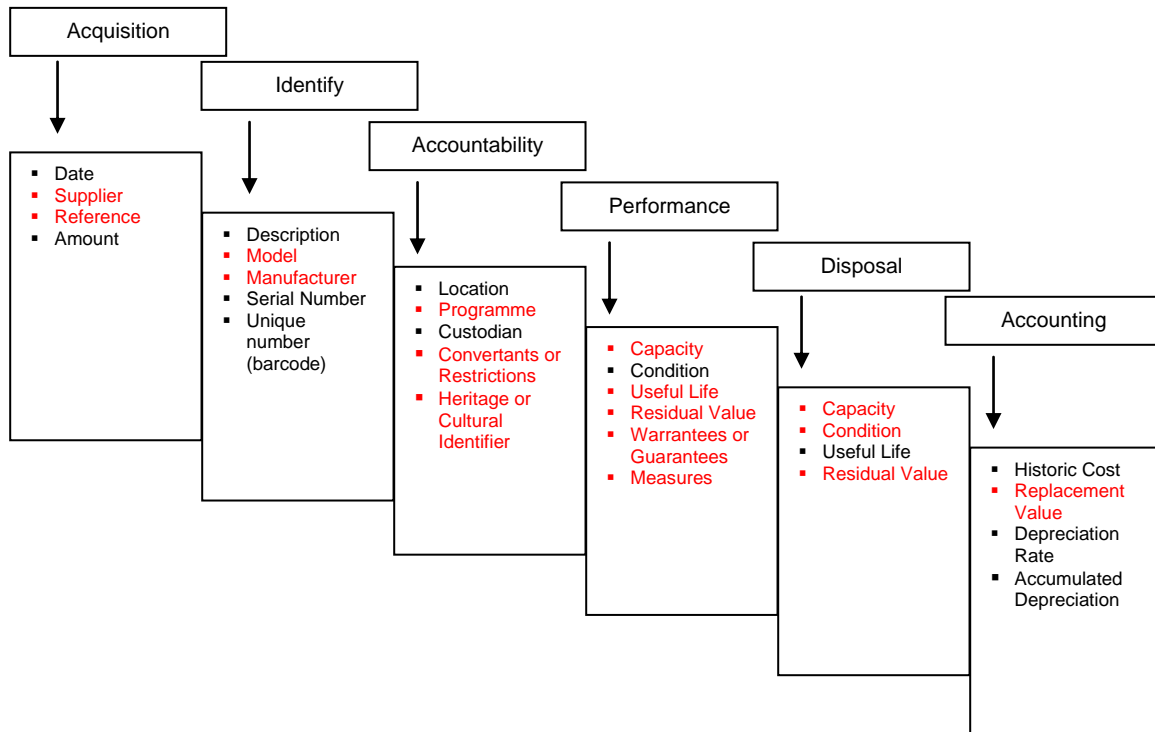
Provincial departments are at various stages of recording their assets, which is directly attributable to the size and complexity of their organisations. The recording of assets is already a statutory requirement of departments. In order to manage a department's assets one would require more information than a mere listing of assets owned by the department. Information such as the remaining useful life of assets for budgeting for the replacement thereof, maintenance scheduling and estimating the value of a loss to the state where damages have occurred is necessary for proper asset management.

*KZN Provincial Treasury has therefore prescribed the following Asset Management milestones as part of its Asset Management Reform in the Province.*

<b>Asset Management Reform in KZN Province</b>	
<b>Minimum Requirements of an Asset Register for the 2005/2006 Financial Year</b>	
<b>Activity</b>	<b>Due Date</b>
Assets purchased between 1 April 2004 to 31 March 2006 must all have an actual purchase date and amount extracted from the invoice.	31 March 2006
All assets purchased prior to 1 April 2004 where no invoices were readily available, a R1.00 value and date of 31 March 2004 can be updated.	31 March 2006
There must be a reconciliation between BAS expenditure for Capital Asset Purchases and Equipment < R 5000 with the records on HardCat for 2004/05 and 2005/06 financial years.	31 March 2006
<p>The items marked in red on the following diagram were implemented at the departments during the 2005/06 Financial Year.</p> <pre> graph TD     Acquisition[Acquisition] --&gt; Identify[Identify]     Identify --&gt; Accountability[Accountability]     Accountability --&gt; Performance[Performance]     Performance --&gt; Disposal[Disposal]     Disposal --&gt; Accounting[Accounting]     </pre> <p><b>Acquisition</b></p> <ul style="list-style-type: none"> <li>Date</li> <li>Supplier</li> <li>Reference</li> <li>Amount</li> </ul> <p><b>Identify</b></p> <ul style="list-style-type: none"> <li>Description</li> <li>Model</li> <li>Manufacturer</li> <li>Serial Number</li> <li>Unique number (barcode)</li> </ul> <p><b>Accountability</b></p> <ul style="list-style-type: none"> <li>Location</li> <li>Programme</li> <li>Custodian</li> <li>Conventants or Restrictions</li> <li>Heritage or Cultural Identifier</li> </ul> <p><b>Performance</b></p> <ul style="list-style-type: none"> <li>Capacity</li> <li>Condition</li> <li>Useful Life</li> <li>Residual Value</li> <li>Warrantees or Guarantees</li> <li>Measures</li> </ul> <p><b>Disposal</b></p> <ul style="list-style-type: none"> <li>Capacity</li> <li>Condition</li> <li>Useful Life</li> <li>Residual Value</li> </ul> <p><b>Accounting</b></p> <ul style="list-style-type: none"> <li>Historic Cost</li> <li>Replacement Value</li> <li>Depreciation Rate</li> <li>Accumulated Depreciation</li> </ul>	
<b>Minimum Requirements of an Asset Register for the 2006/2007 Financial Year</b>	
<b>Activity</b>	<b>Due Date</b>
Physical Verification of all assets for the 2006/07 financial year	31 March 2007

Monthly reconciliation between Capital Asset Purchases and Equipment < R 5000 on BAS with records on HardCat for 2006/07 financial year.	31 March 2007
Monthly processing of the Depreciation Module	31 March 2007
Design and implement Business Processes for General Asset Management.	31 March 2007
Departmental Asset Management Policy	31 March 2007
Design and implement Strategic Asset Management Plans for Acquisition, Operation and Maintenance and Disposals	31 March 2007

The items marked in red on the following diagram were implemented at the departments during the 2006/07 Financial Year.



**Minimum Requirements of an Asset Register for the 2007/2008 Financial Year**

<b>Activity</b>	<b>Due Date</b>
Physical Verification of all assets for the 2007/08 financial year	31 March 2008
Monthly reconciliation between Capital Asset Purchases and Equipment < R 5000 on BAS with records on HardCat for 2007/08 financial year.	31 March 2008
Monthly processing of the Depreciation Module	31 March 2008
Design and implement Business Processes for State Owned Vehicles.	31 March 2008
Design and implement Strategic Asset Management Plans for 2008/09 financial Year	31 March 2008
<b>Minimum Requirements of an Asset Register for the 2008/09 Financial Year</b>	
<b>Activity</b>	<b>Due Date</b>
Physical Verification of all assets for the 2008/09 financial year	31 March 2009
Monthly reconciliation between Capital Asset Purchases and Equipment < R 5000 on BAS with records on HardCat for 2008/09 financial year.	31 March 2009
Monthly processing of the Depreciation Module	31 March 2009
Design and implement Business Processes for Computer Equipment.	31 March 2009
Identify and Capture all leased Assets onto Hardcat	31 March 2009
Design and implement Strategic Asset Management Plans for 2008/09 financial Year	31 March 2009

## 16. CONCLUSION

Traditional accounting conventions used in government were based on cash and commitment accounting, and did not yield all the information needed for asset management purposes. Under cash-based accounting, assets purchased with capital funds, once approved, were treated effectively as 'free' goods in subsequent years, so that there was little ongoing incentive to ensure that service potential is optimised. The separate bidding for recurrent funds on an annual basis ignores the concomitant nature of capital and operating costs. It also provides the opportunity to defer necessary maintenance expenditure, as the impact of such a decision is not felt until later in the asset's life.

Accrual accounting, coupled with improved financial management information systems, can provide the comprehensive and timely information that is necessary, and can provide the 'ideal' solution in terms of some of the above problems. As the accrual accounting approach requires timely and comprehensive information for budgeting, recording transactions, and reporting, this implies the maintenance of complete and accurate asset registers. The true cost of owning and operating assets can then be readily determined.

Financial accounting is not an end in itself, and the managers of assets will require other information to gauge some aspects of asset performance such as functionality and utilisation. There is a close correspondence between financial management and other records associated with asset performance, and managers need to have a good understanding of the fundamental financial management and accounting concepts that apply.

The devolution of authority has been driven by the expansion of accountability mechanisms. However, **accountability for asset use** has been blurred. This is mainly due to inherent features of non-current assets, such as their long life, which makes it difficult to ensure that the management of life-cycle costs is not fragmented.

Better practices in asset management call for the management (and hence responsibility and accountability) of assets to be on a 'whole-of-life' basis. In practice, this translates to making Accounting Officers accountable for all of the life-cycle costs of the assets which they consume in delivering their Programme Services. Mechanisms to achieve this will be directed at making all asset costs transparent to the Accounting Officer.

In a cash-based environment it is suggested that Accounting Officers require that whole-of-life costs for assets be established and these be used as internal budgets, at the programme level, to

track and control expenditure. Significant deviations from the plan would then need to be explained in terms of their impact on asset performance and condition. Departments need to strike a balance between devolution and delegation of authority on the one hand; with the need to ensure a consistent, coherent approach to achieving all programme objectives on the other.

Accountability extends beyond cost, to making Accounting Officers responsible for the management, maintenance and safeguarding of the assets they control and consume.

## **17. EFFECTIVE DATE**

17.1 This Provincial Treasury Instruction Note is effective from 1 April 2013.

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**ACTING PROVINCIAL ACCOUNTANT-GENERAL**

**DATE: 1 APRIL 2013**



**GLOSSARY:**

- 1.1. **“Accounting standards”** Accounting standards as defined by the South African Accounting Standards Board (ASB).
- 1.2. **“Accrual accounting”** A basis of accounting under which transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
- 1.3. **“Administrative policy”** The policies that detail and execute Government policy. Focuses on process-procedures and propriety, and is the more detailed level of policy that determines ‘how’ Government policy is executed.
- 1.4. **“Appropriateness”** Appropriateness is whether the objectives or outcome of programs, operations, activities or processes address the real need of customers and the extent to which program objectives or desired outcomes align with Government priorities or policy and client needs.
- 1.5. **“Asset”** Is a resource controlled by a department as a result of past events and from which future economic benefits or service potential are expected to flow to the department
- 1.6. **“Asset acquisition”** The process by which a department assumes control of an asset.
- 1.7. **“Asset disposal”** The process by which a department relinquishes control of an asset.
- 1.8. **“Asset Life Cycle”** The life of an asset, from the establishment of the need, through to its acquisition, operation and any maintenance or upgrading, to its disposal
- 1.9. **“Asset management”** The process of guiding the acquisition, use, safeguarding and disposal of assets to make the most of their service delivery potential and manage the related risks and costs over their entire life.
- 1.10. **“Asset register”** A data source that records information on individual assets, usually only those over a certain value. Information may include the assets’ location, condition, utilisation and ownership details, as well as the value and depreciation of the asset and its major components.
- 1.11. **“Asset strategy”** The means by which a department proposes to manage its assets (across all phases of their life cycle) to meet service delivery needs most cost-effectively. **“Asset utilization”** A measure of how effectively an asset is being used to meet the department’s service delivery objectives.
- 1.13. **“Business Plan”** A document that details how the strategies defined in the Strategic Plan are to be implemented, as well as the financial implications of these actions.
- 1.14. **“Capital charge”** The process of determining how best to spend/allocate appropriations or income on assets.
- 1.15. **“Capital costs”** The means used to measure the cost of capital that departments have

invested in the assets under their control.

- 1.16. “Capitalisation”** The costs incurred by the department in procuring additional or upgraded assets. This needs to be distinguished from costs incurred to maintain assets. Subsequent disbursements relating to an asset that has already been recognised, are usually added to the carrying amount of the asset when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the department. All other subsequent disbursements should be recognised as expenses in the period in which they are incurred
- 1.17. “Carrying amount”** Carrying amount is the amount at which an asset is recognised in the statement of financial position (balance sheet) after deducting any accumulated depreciation and accumulated impairment losses thereon.
- 1.18. “Chart of Accounts”** The Chart of Accounts for a department identifies the structure of the ledger and represents the framework upon which the ledger and associated management reports are based.
- 1.19. “Community service obligation”** A service provided for less than at full cost recovery (sometimes free of charge).
- 1.20. “Condition assessment”** An assessment of the current condition of an asset (and its components) in relation to its service performance, as well as the maintenance or renovation required and associated costs.
- 1.21. “Constructed assets”** Building and related works and other capital improvements on land.
- 1.22. “Control of an asset”** A department is deemed to control an asset if it:
- has the capacity to benefit from the asset in pursuing its objectives;
  - is able to deny or regulate the access of others to that benefit; and
  - has the ability to secure the service potential or the future economic benefit.
- 1.23. “Core asset”** An asset that is central to the obligations of Government.
- 1.24. “Core services”** Those services that must continue to be provided to the community (e.g health care, road maintenance etc).
- 1.25. “Cost of an asset”** The cost of an asset comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:
- the cost of site preparation;
  - initial delivery and handling costs;
  - installation costs;
  - professional fees such as for architects and engineers; and
  - the estimated cost of dismantling the asset and restoring the site, to the extent that it

is recognized as a provision.

- 1.26. “Costing”** The process of determining the costs of operating an asset to deliver services.
- 1.27. “Current asset”** An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.
- 1.28. “Cost plus pricing”** A method whereby the price charged is based on the full cost of providing the product or service, plus a mark-up on the cost.
- 1.29. “Demand management”** A management technique used to identify and control demand for services.
- 1.30. “Depreciation”** A systematic allocation of the cost of an asset or other amount substituted for its cost in the financial statements (less residual value if any) over its estimated useful life. Depreciation recognises the gradual exhaustion of the asset's service potential.
- 1.31. “Depreciable assets”** Are assets which:
- Are expected to be used during more than one accounting period;
  - Have a limited useful life; and
  - Are held by a department for use in production, supply of goods and services, for rental or administrative purposes.
- The amount at which they are shown in the balance sheet is normally an historical record of their cost less amounts provided for depreciation. The net amount at which the assets are carried in the financial statements does not necessarily purport to be their realisable value.
- 1.32. “Depreciable amount”** Is the historical cost of an asset less the estimated residual value.
- 1.33. “Deprival Value”** The cost that would be incurred by a department if it were deprived of an asset and was required to continue delivering programmes / services using the asset. The value is measured by the replacement cost of the benefits currently embodied in the asset. Deprival value may also represent an opportunity value i.e. the cost avoided as a result of having control of an asset.
- 1.34. “Direct costs”** Costs that can be specifically assigned and directly attributed to an asset.
- 1.35. “Discounted Cash Flows”** An investment appraisal technique which takes into account both the time value of money (i.e. the conversion of cash flows that occur over time to an equivalent amount at a particular point in time) and the total return / service delivery over a project' life.
- 1.36. “Disposal”** The process whereby an asset is disposed of or decommissioned.
- 1.37. “Economic appraisal”** The analysis of the costs and benefits of each service delivery option identified. In essence, it shows: whether the benefits of an option exceed its costs; which option is the most cost-effective, if project benefits are equivalent; and which option has the highest net benefit. This analysis is also referred to as investment appraisal.
- 1.38. “Economy”** Refers to the acquisition of the appropriate quality and quantity of financial, human and physical resources at the appropriate time and place, at the lowest possible cost.

- 1.39. "Effectiveness"** Refers to the extent of the achievement of set or pre-determined outcomes, objectives or other intended effects of programs, operations, activities or processes.
- 1.40. "Efficiency"** Refers to the use of resources so that output is maximized for any given set of resource inputs, or inputs are minimized for any given quantity and quality of output provided.
- 1.41. "Enhancement"** The work needed to increase an asset's service potential (and thereby its useful life), which is regarded as capital expenditure.
- 1.42. "Finance lease"** Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset from the lesser to the lessee, without transferring the legal ownership. Title may or may not eventually be transferred.
- 1.43. "Financial statements"** Statements consisting of at least:
- A balance sheet;
  - An income statement;
  - A cash-flow statement;
  - Any other statements that may be prescribed; and
  - Any notes to these statements.
- 1.44. "Full cost pricing"** A method whereby the price charged is based on the actual full costs of holding and using the asset. No profit is allowed. **"Government policy"** The policy made by Government Ministers pursuant to powers enacted upon them by the Parliament of Government.
- 1.46. "Gross replacement cost"** The total current cost of replacing an asset or its equivalent as new.
- 1.47. "Hurdle rates"** The minimum acceptable rate of return of a project for it to proceed.
- 1.48. "Indirect costs"** Costs that cannot be directly associated with one particular asset, but which can be attributable to the department's total asset base.
- 1.49. "Internal rate of return"** The rate of return at which a project is expected to achieve break even or for which the net present value is zero. **"Investment"** An asset (or money outlaid to acquire an asset) that delivers, or is expected to deliver, services, and that yields, or is expected to yield, revenue for the department.
- 1.51. "Lease"** An agreement that conveys the right to use an asset, usually for a specified duration, and for an agreed payment or series of payments.
- 1.52. "Life cycle costing"** The full cost of an asset over its life. This includes all costs associated with acquiring, controlling, operating and disposing of the asset.
- 1.53. "Maintenance"** The work needed to maintain an asset in a condition that enables it to reach its service potential over its useful life. Maintenance does not **extend an asset's useful life and related expenditure is treated as current expenditure.**
- 1.54. "Needs analysis"** A thorough analysis to compare community demands, expectations and

needs with current and possible sources of service supply.

- 1.55. “Net Present Value”** The value of an asset, at current prices, from its continued operation and subsequent disposal.
- 1.56. “Net realisable value”** The current market value of an asset, less all costs to dispose or re-deploy it.
- 1.57. “Non-asset option/Solutions”** A means of increasing service capacity without creating or acquiring additional assets. Methods include pricing mechanism changes, selective targeting or services and the use of private sector expertise.
- 1.58. “Non-core assets”** An asset that is not central to the obligations of Government.
- 1.59. “Non-current assets (fixed assets)”** Are tangible (physical) items of significant value, with the following characteristics:
- it possesses service potential and / or future economic benefit, that will flow to the department;
  - the service potential or future economic benefits is controlled by a department;
  - the service potential or future economic benefits arose from past transactions or events (that is, “future” assets cannot be recognised in the financial statements);
  - it is held by a department for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
  - it is expected to be used during more than one reporting period.
- 1.60. “Open market value”** Is the price at which both parties (buyer and seller) are willing, to agree upon.
- 1.61. “Operating lease”** A lease where the risks and benefits incidental to ownership are not substantially transferred to the lessee. (A lease other than a finance lease).
- 1.62. “Opportunity cost”** The income or benefit foregone by not using resources for the best other alternative.
- 1.63. “Overhead costs”** Costs that cannot be directly associated either with the department's total asset base or with one particular asset, but which are incurred by the department in delivering the services involved.
- 1.64. “Performance indicator”** A specific qualitative or quantitative measure that allows performance against a benchmark to be assessed.
- 1.65. “Pricing”** The process of developing the rates for charging a department's products and services. Prices can be based on market rates, full cost or partial cost. Products and services can also be supplied at no cost, reflecting community service obligations.
- 1.66. “Recurrent costs”** All costs, including the cost of finance, incurred in holding and operating the asset.
- 1.67. “Refurbishment”** Modification works carried out on an asset to restore it to acceptable

condition. Some refurbishment works do not extend the life of the asset, but are necessary for the useful life to be achieved.

- 1.68. “Residual value”** The net market value or recoverable value, which is (or expected to be) realised from the disposal of an asset at the end of its life, after deducting the cost (or expected costs) of disposal.
- 1.69. “Revaluation”** The recording of an increase in the carrying value of an asset, to be reflected in the department's financial statements.
- 1.70. “Revenue”** The gross proceeds from the sale of goods and services.
- 1.71. “Risk management”** A management technique used to identify and analyse potential risks, and to implement appropriate responses.
- 1.72. “Sensitivity analysis”** The testing of the variation in the outcome of an evaluation by altering the values of key factors about which there may be uncertainty.
- 1.73. “Service potential/Future economic benefit”** A measure of an asset's ability at any point in its life to contribute to the delivery of a service.
- 1.74. “Service strategy”** A plan of action for the supply of appropriate services to the community, which is consistent with the department's strategic goals.
- 1.75. “Standard Chart of Accounts”** A list of accounts that an accounting system tracks which is divided into 5 categories, viz. assets, liabilities, net assets / net equity, revenue and expenditure.
- 1.76. “Standard cost pricing”** A method whereby the price charged is based on actual full cost, adjusted to remove inefficiencies.
- 1.77. “Strategic Plan”** A document or statement setting out the strategies that the department intends to follow in the medium term in order to achieve the Government's policy objectives.
- 1.78. “Target profit pricing”** A method whereby the price charged is based on a target profit, which can be either a specific Rand amount or another variable such as return on assets.
- 1.79. “Transaction”** An event or condition which is recorded in the accounting records in monetary terms.
- 1.80. “Useful life”** Is the period over which depreciable asset is expected to be used by the department.
- 1.81. “User charge”** A fee or charge imposed on the users of services.
- 1.82. “Valuation”** The process of assigning and recording a monetary value for an asset (initially, the cost at acquisition).
- 1.83. “Value management”** A management technique that aims to provide all the functions needed to deliver services at the lowest total cost, consistent with required levels of performance and quality.
- 1.84. “Whole-of-life cycle approach”** *Asset management across the whole life of the asset.*