

# CIGFARO EASTERN CAPE BRANCH SEMINAR

## The holistic Asset Management in the Public Sector

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Prepared For:

Presented By:



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**BONAKUDE**

# Presentation Outline

1. Purpose of the Presentation
2. Related GRAP Standards
3. Statutory Frame Works & related regulations
4. Assets Management Policy and Procedures
5. Assets Under Construction
6. Property Plant & Equipment
7. Investment Property
8. Heritage Assets
9. Impairment

# Purpose of the Presentation

The purpose of this presentation is to:

- ❖ Ensure that the young professionals are well equipped on how to appropriately procure assets, record and maintain assets.
- ❖ Reduce or eliminate any possible audit issues which might resulting assets audit qualification.
- ❖ Proper maintenance plan for the assets, for them to work in a manner expected by management.

# Related GRAP Standards

<b>GRAP Standard</b>	<b>Description</b>
GRAP 17	Property, Plant & Equipment
GRAP 16	Investment Property
GRAP 103	Heritage Assets
GRAP 3	Change in Policy, Accounting Estimates & Errors
GRAP 21 & 26	None Cash & Cash generate assets Impairment Loss

# What is an Asset and Why

ISO55000 – International Standard for Asset Management.

This International Standard provides an overview of asset management and asset management systems (i.e. management systems for the management of assets).

An asset is an “item or thing that has potential or actual value to an organization”.

So, the main intent is to realize value from the asset(s):

“Value can be tangible or intangible, financial or non-financial, and includes consideration of risks and liabilities. It can be positive or negative at different stages of the asset life.”

Asset Management Objectives:

“To provide affordable levels of service that have been agreed with the customers in the most cost-effective way for present and future customers”

# Statutory Framework

## **The Constitution of the Republic of South Africa, 1996**

- ❖ The Constitution's prime mandate for Local Government is that services are provided in a sustainable manner. (Section 152)

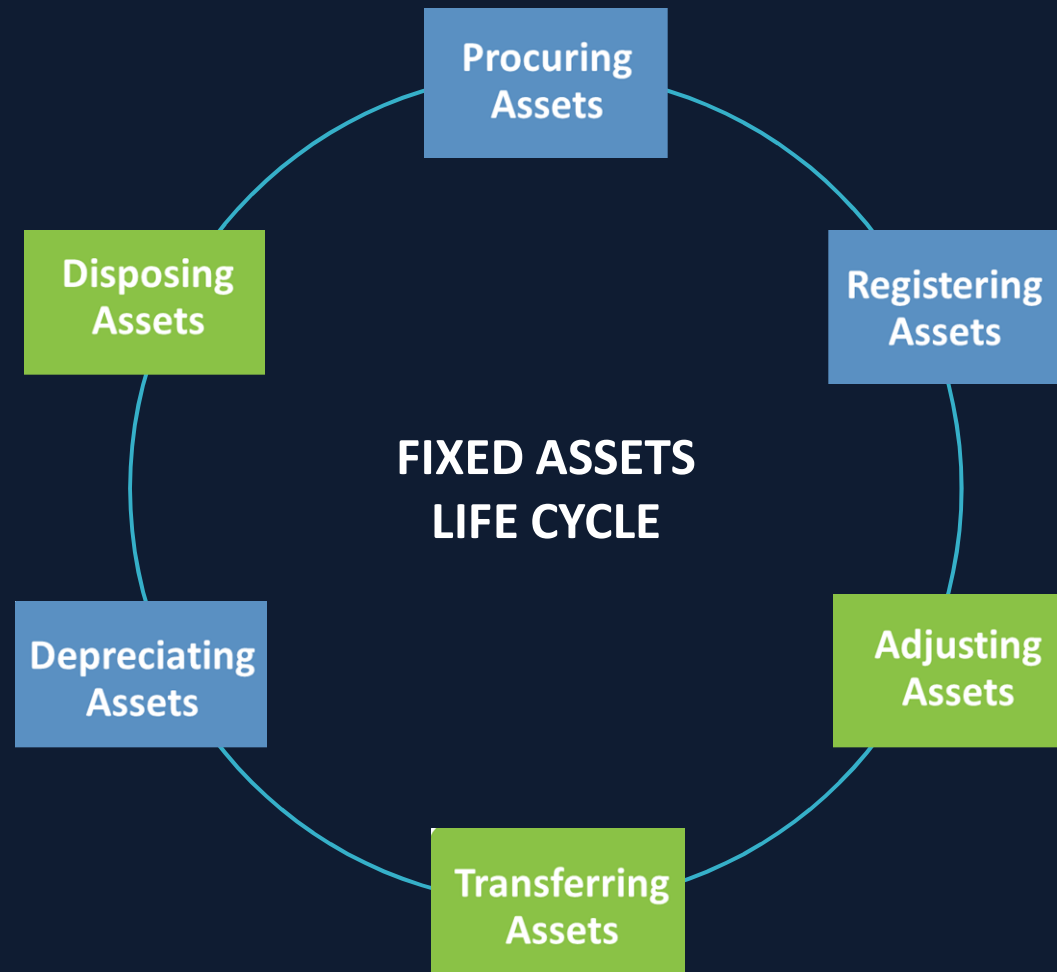
## **Municipal Systems Act, 2000**

- ❖ The MSA in sections 4(2)(d) states that a municipality has the duty to strive to ensure that municipal services are provided to the local community in a financially and environmentally sustainable manner.

## **Municipal Finance Management Act, 2003**

- ❖ The MFMA (Section 63) states specific duties in respect of asset management, i.e. the safeguarding and maintenance of assets, valuation in accordance with GRAP, maintaining a system of internal control over assets and keeping an asset register.
- ❖ Each municipal manager must ensure that the provisions of S63 are implemented.

# Fixed Assets Life Cycle



# Definitions (cont.)

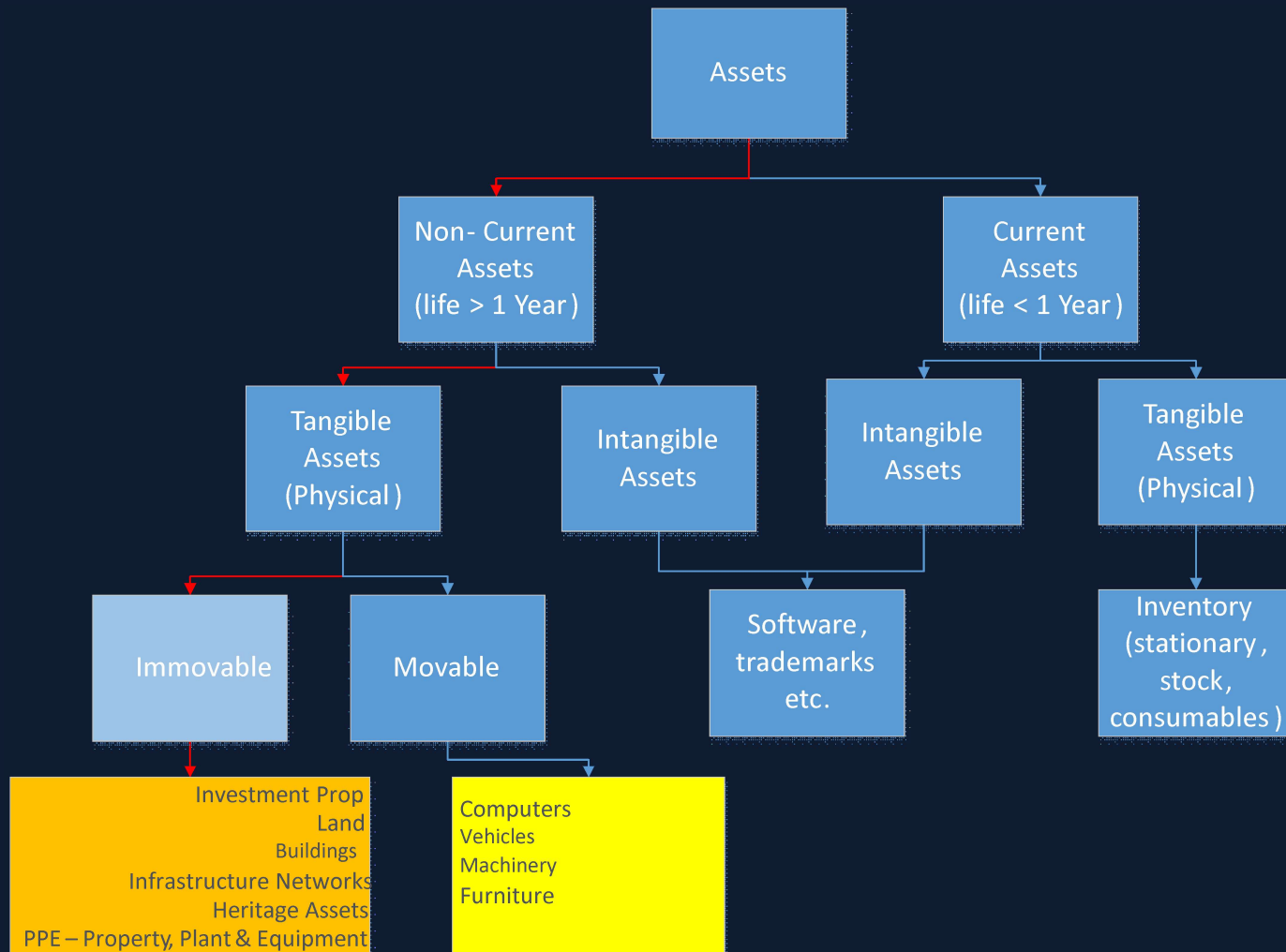
## What is an Asset?

- ❖ Physical infrastructure (e.g. PPE) / resource controlled by a Municipality from which future economic benefit will be derived (> 1 year)

## What is a Component?

- ❖ Elements of an asset
- ❖ Maintainable 'parts'
- ❖ Different Expected Useful Life(!)
- ❖ Significant cost in relation to its parts(!)

# Classification of Assets



# Assets Under Construction

Capital projects are pursued in accordance with approved budgets.

Transaction data is identified each month through inspection of the monthly GL and recorded in the WIP register.

On a monthly basis the WIP register is updated considering the following:

- ❖ Operating expenses that need to be expensed;
- ❖ Movables that are transferred to the movables register;
- ❖ Capitalisations; and
- ❖ Impairments

# Assets Under Construction (Cont...)

## CAPITALISATION

Documentation required to capitalise a project:

- ❖ As built drawings;
- ❖ Final BOQ;
- ❖ Completion certificate;
- ❖ Asset capitalisation certificate; and
- ❖ Final payment certificate

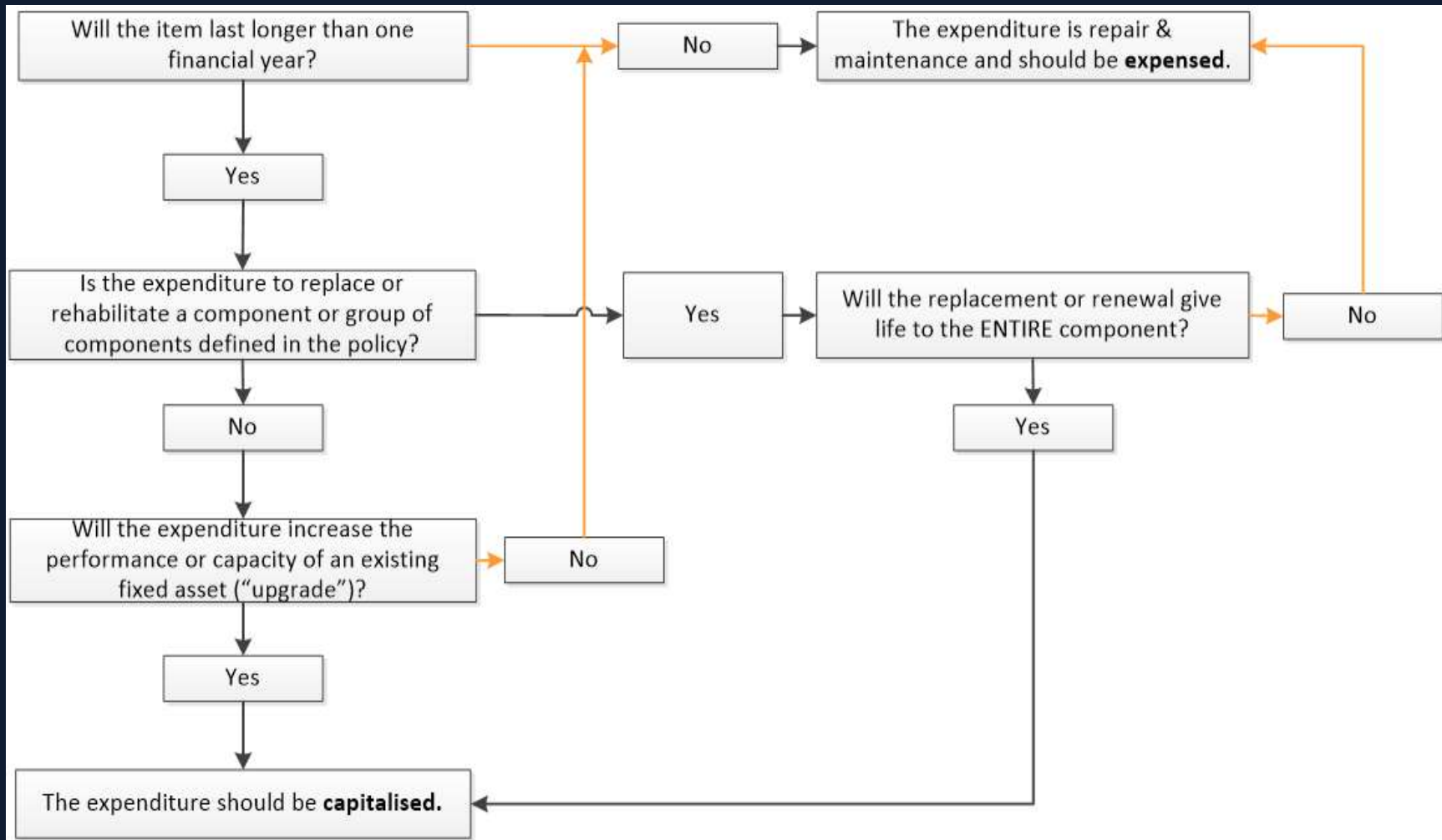
An asset becomes available for use once the municipality has confirmed that it conforms to the required specification.

The asset is recorded in the FAR and depreciation commences.

Adjustments are made to the WIP register in order to effect capitalisation in the FAR.

Where a component is capitalised that was part of a renewal of an existing component already in the register that component should be identified and then derecognised at the carrying value as at the date that the new component is recognised.

# WIP : Repairs vs Capitalisation



# Property, Plant & Equipment

GRAP 17 par 12: Infrastructure assets characteristics:

- ❖ They part are of the system
- ❖ Specialised in nature, thus no any other alternative use
- ❖ Immovable constraints to disposal

NB: No universal accepted definition of infrastructure assets

Examples of infrastructure assets:

- ❖ Roads
- ❖ Sewer network
- ❖ Electricity network
- ❖ Water network

# PPE General Explanation of Terms

- ❖ **Cost** → Cash paid or Fair value of the acquired assets
- ❖ **Depreciable Amount** → Cost less residual Value
- ❖ **Residual Value** → Amount expected on asset disposal
- ❖ **Useful Life** → Period expected use the assets
- ❖ **Depreciation** → Systematic allocation of depreciable amounts

# Property, Plant & Equipment

Property, plant and equipment are tangible items that:

- ❖ are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- ❖ are expected to be used during more than one reporting period.

Recognition criteria requirement for assets

- ❖ it is probable that future economic benefits or service potential associated with the item will flow to the entity
- ❖ Cost or fair value can be measured reliably

# Property, Plant & Equipment

PPE through exchange transaction e.g cash sale which qualified the recognition criteria:

- ❖ Initially measured at cost
- ❖ Elements of cost include:
  - Purchase price
  - Cost directly attributable to the location and condition intended by management e.g site preparation, installation costs and delivery cost
  - Estate Cost of restoring the place after the asset is derecognised or removed
  - Professional fees i.e hence engineers consulting fees are included in WIP & capitalised

NB: Cost capitalisation ceases when the asset is now in a manner intended by management

PPE through non exchange transaction e.g donations or barter trade which qualified the recognition criteria:

- ❖ initially measured at fair value
  - If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then:
    - the **fair value of the asset given up is used** to measure the cost of the asset received **unless the fair value of the asset received is more clearly evident.**

# PPE: Subsequent Measurement

The subsequent measurement method shall apply to the whole different type PPE classes: Refer to par 42 for examples



COST MODEL

REVALUATION MODEL

Cost Model intel's:

- ❖ Cost Less accumulated depreciation & Impairment loss

Revaluation Model intel's:

- ❖ Revalued amount less subsequent depreciation & impairment losses

# PPE: Subsequent Measurement

## REVALUATION MODEL

### Increase in asset value :

- ❖ Increase recorded in revaluation reserve in statement of changes in Equity.
- ❖ However, should there had been an impairment initially, then the revaluation increase will first off set the impairment then the excess recorded as revaluation reserve.

### Decrease in asset value:

- ❖ Reduces the revaluation reserve, the reversal will be limited to the amount recognised in the reverse.
- ❖ Excess is recorded as impairment loss in the income statement.

# PPE: Subsequent Measurement

## UNWINDING OF REVALUATION RESERVE

ON DISPOSAL



DURING USE

If the municipality chose to unwind revaluation during use then upon revaluation decrease, the amount to decrease the valuation would be the difference between the carry value based on the original cost and the carry value based on the revalued amount

# PPE: Depreciation

The depreciation charge for each period shall be recognised in surplus or deficit

Depreciation could either be based on:

- ❖ Straight line method or
- ❖ Diminishing balance method

The **depreciation method** applied to an asset shall be **reviewed at least at each reporting date** to assess if there has been a significant change in the expected pattern of consumption of the future economic benefits.

The municipality shall assess at each reporting date whether there is any indication on the expectation of the following:

- ❖ residual value and
- ❖ the useful life

Such changes will be considered as changes in estimates in terms of GRAP 3.

The impact would be for the current year onwards

# PPE: Derecognition

Assets should only derecognised upon:

- ❖ Disposal through sale or donation
- ❖ No more economic benefits / service potential is expected from the asset.

Below is the accounting treatment:

- ❖ Cost of the asset is credited
- ❖ Accumulated depreciation and impairment loss debited
- ❖ Proceeds if there any are then debited as either cash or receivable
- ❖ Net effect of the elements would then yield a profit or loss.

# Impairment

An entity shall assess at each reporting date whether there is any indication that an asset (including WIP) may be impaired. [GRAP 21.18]

Impairments are typically event based (something unforeseen has happened), need to be significant and enduring.

NB: There needs to be compelling evidence that the asset will not be able to provide or realise the previously anticipated economic benefit or service potential. Such evidence includes:

- ❖ operational & maintenance plans/reports,
- ❖ internal assessments and reports,
- ❖ photographic evidence,
- ❖ police reports,
- ❖ insurance reports etc.

# Impairment: External Factors

Cessation, or near cessation, of the demand or need for services provided by the asset.

Significant long-term adverse changes have taken place during the period or will take place, imminently, in the :

- ❖ technological,
- ❖ legal
- ❖ regulatory or
- ❖ policy environment

# Impairment: Internal Factors

Obsolescence or physical damage of an asset.

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

Service performance of an asset is, or will be, significantly worse than expected.

Significant long-term adverse changes that affect manner of use of an asset or expected use, changes include:

- ❖ the asset becoming idle;
- ❖ plans to discontinue or restructure operations;
- ❖ plans to dispose of an asset before the previously expected date; and
- ❖ reassessing the useful life of an asset

THANK YOU