



The holistic Asset Management in the Public Sector



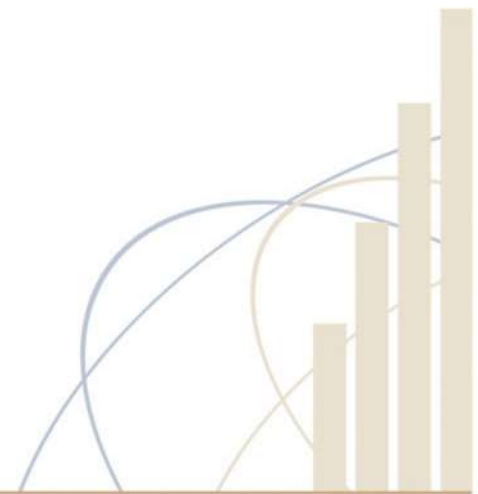
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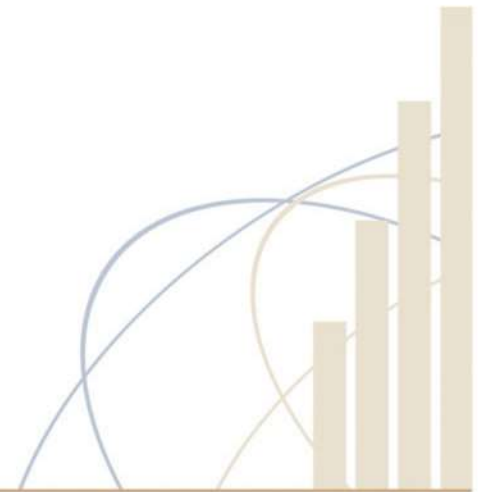
- 1. INTRODUCTORY COMMENTS**
- 2. ACCOUNTING MATTERS**
- 3. OPERATIONAL AND REPORTING MATTERS**
- 4. AUDIT MATTERS / AGSA CURRENT FOCUS AREAS**



1. ASSET MANAGEMENT cont...



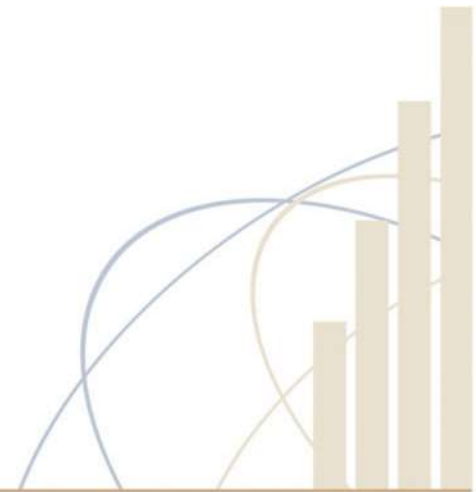
1. INTRODUCTORY COMMENTS



1.1. Introductory comments



- Why a holistic approach?
 - Nature of assets – controlled by directorate
 - Directorate best placed to understand assets
 - Accountants advise on accounting best practise
- Asset form the base for service delivery



1.2. Introductory comments



Asset and liability management – MFMA Section 63

63. (1) The accounting officer of a municipality is responsible for the management of—

- (a) the assets of the municipality, including the safeguarding and the maintenance of those assets; and
- (b) the liabilities of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

- (a) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- (b) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- (c) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

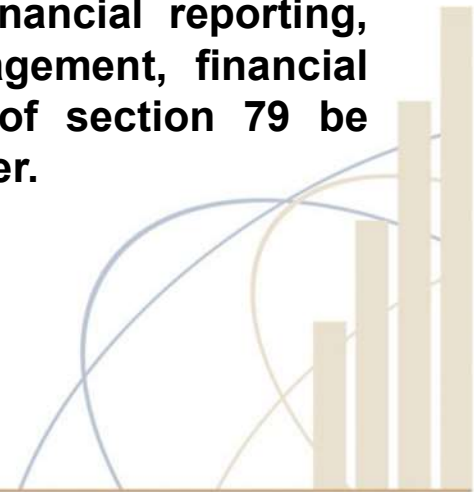
1.3. Introductory comments



Role of chief financial officer – MFMA Section 81

81. (1) The chief financial officer of a municipality—

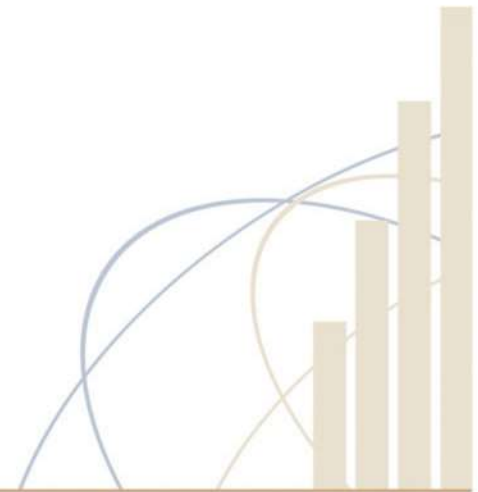
- (a) is administratively in charge of the budget and treasury office;**
- (b) must advise the accounting officer on the exercise of powers and duties assigned to the accounting officer in terms of this Act;**
- (c) must assist the accounting officer in the administration of the municipality's bank accounts and in the preparation and implementation of the municipality's budget;**
- (d) must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79; and**
- (e) must perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, supply chain management, financial management, review and other duties as may in terms of section 79 be delegated by the accounting officer to the chief financial officer.**



2. ASSET MANAGEMENT cont...



2. ACCOUNTING MATTERS



2.1. Understanding acquisition



ASSET

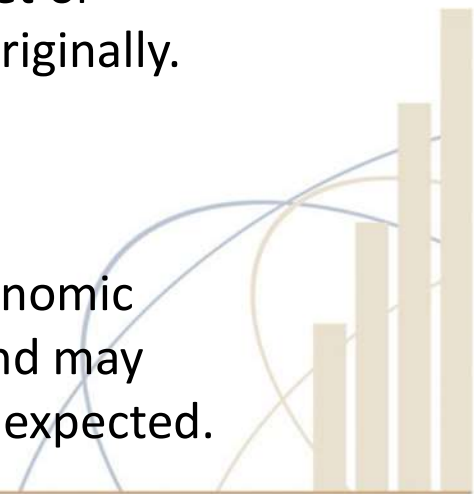
A resource owned or controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity

CAPITAL EXPENDITURE (CAPEX)

Expenditure used to create new assets, increase the capacity of existing assets beyond their original design capacity or service potential, or to return the service potential of the asset or expected useful life of the asset to that which it had originally. CAPEX increases the value of capital asset stock.

CAPITAL UPGRADING

Enhances the service potential of the asset or the economic benefits that can be obtained from use of the asset and may also increase the life of the asset beyond that initially expected.



2.2 - Componentisation



- ❑ When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.
- ❑ COMPONENT - A component (**Note 1**) is a specific part of a complex item (**Note 2**) that has independent physical or functional identity and specific attributes such as different life expectancy, maintenance and renewal requirements and regimes, risk or criticality.
- ❑ **Note 1:** A component is separately recognised and measured (valued) in the organisation's asset register as a unique asset record, in accordance with the requirements of GRAP 17 to componentise assets.
- ❑ **Note 2:** A complex item is one that can be disaggregated into significant components. Infrastructure and buildings are considered complex items
- ❑ Where the entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component
- ❑ Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately

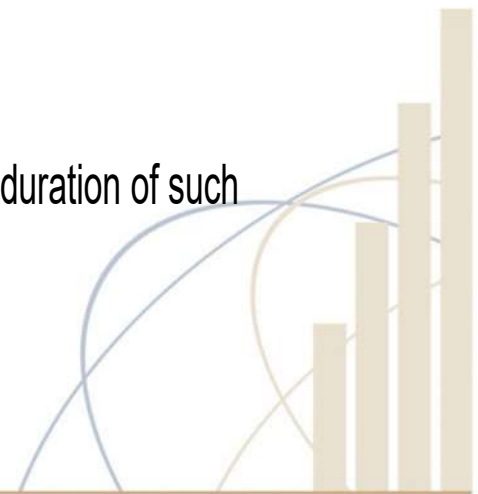


2.3. Sub Registers



FAR, the following non-adherence with the municipality's Asset Management Policy by the municipality was identified:

1. Fixed property of the municipality has been recorded in the FAR without title deed number and erf number.
2. Date on which the asset was available for use is not recorded in the FAR for majority of assets.
3. Date on which the asset was acquired is not recorded in the FAR.
4. Depreciation method to be used is not recorded in the FAR.
5. Funding source of the asset is not recorded in the FAR.
6. Date the asset is disposed of or retired from use is not recorded in the FAR.
7. Current insurance arrangements are not recorded in the FAR.
8. Whether the asset has been used to secure any debt, and if so the nature and duration of such security arrangements are not recorded in the FAR.



2.4. Sub Registers

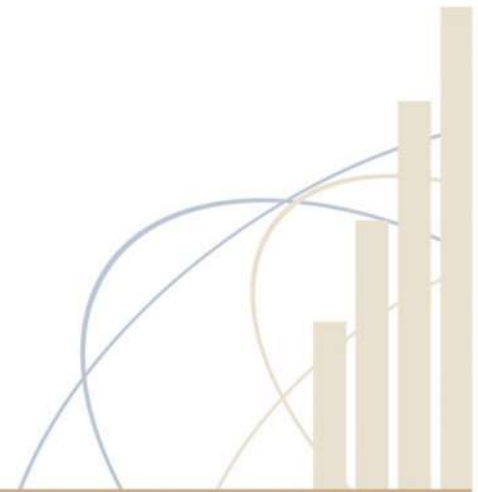


- To have each component separately recognised on the FAR would make the FAR too detailed and cumbersome.
- But to correctly account for the asset, a sub register needs to be maintained by the directorates to ensure correct accounting treatment upon disposal/replacement of an asset.
- Sub register allows for a more appropriate asset management process.
- The sub register needs to be reconciled and balanced to the FAR.
- Sub registers – compiling and continuous updating
- Heritage, Playground equipment, Gym equipment
- Baud, Streetlights, Water meters, Electricity meters

2.5. Work in Progress



Capital Works-in-Progress (CWIP) is expenditure incurred on assets in the process of construction. It is the accumulation of costs associated with each project.



2.6. WIP internal control weaknesses



Capital Works-in-Progress (CWIP) is caused by:

- Inadequate or no controls in accounting for work in progress within the asset register
- Lack of physical verification of projects for accurate valuation, existence and completeness of assets.
- Work in progress projects not supported by monthly progress reports.
- Incorrectly expensing work in progress due to insufficient capital budget/ Incorrectly capitalizing work in progress.
- Lack of document management systems for the proper filing of project files, resulting in inadequate audit evidence.

2.7. WIP misstatements in AFS



- Projects not capitalised timeously resulting in understatement of depreciation and overstatement of WIP
- Late submission of supporting documents causing late capitalisation of WIP resulting in understatement of WIP
- Overstatement of WIP in asset register resulting from completed projects not capitalised to PPE, resulting in understatement of PPE
- Possible audit qualification if projected misstatement is material.

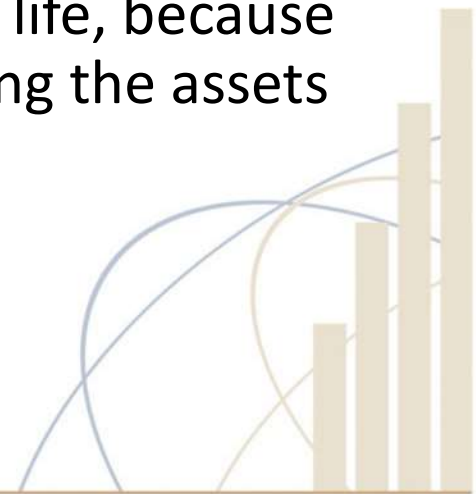


2.8. - Useful life Review



Useful life is:

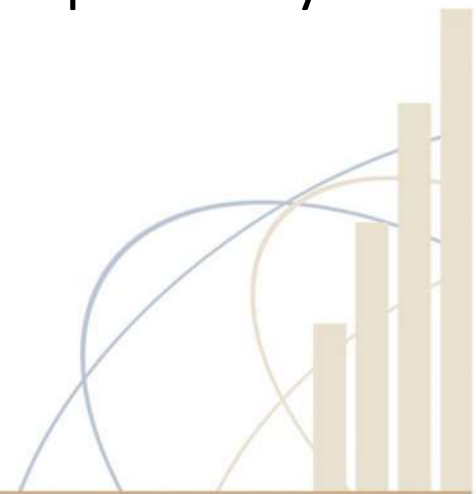
1. the period over which an asset is expected to be available for use by an entity;
 2. or the number of production or similar units expected to be obtained from the asset by an entity.
- Useful life is the term that the entity expects to use an asset while the economic life is the actual life span of the asset
 - Useful life may be shorter than its economic life, because management may have a practice of disposing the assets after a specified time.



2.9. - Useful life Review



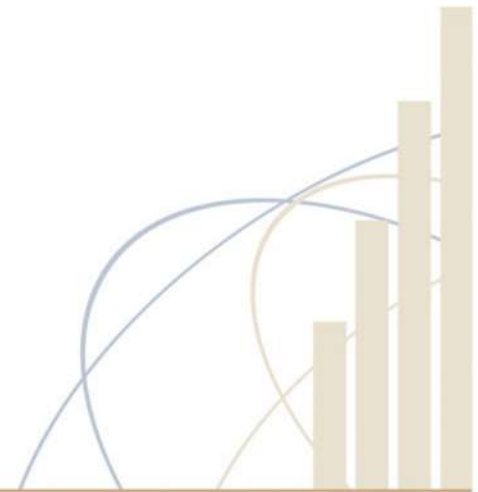
- Accountants need to engage with directorates to ensure that the requirements of the standard are met
- The directorate carries the operational management responsibility and is best placed to apply **professional expertise/judgement** in assessing an assets useful life.
- Accountants must ensure that assets with a low remaining useful life is communicated with directorate to specifically assess the asset useful life



3. ASSET MANAGEMENT cont...



3. OPERATIONAL AND REPORTING MATTERS



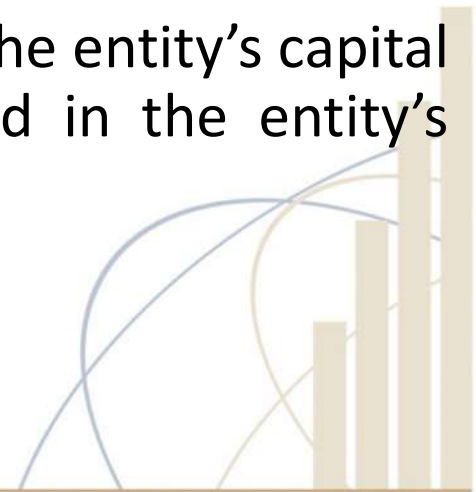
3.1. OPERATIONAL AND REPORTING MATTERS



Project expenditure between capital and operating

RENEWAL Expenditure on an existing asset that returns the service potential of the asset or expected useful life of the asset to that which it had originally.

- Renewal can include works to replace existing assets or facilities with assets or facilities of equivalent capacity or performance capability.
- Expenditure on renewals is funded through the entity's capital budget, and such expenditure is recognised in the entity's Statement of Financial Position

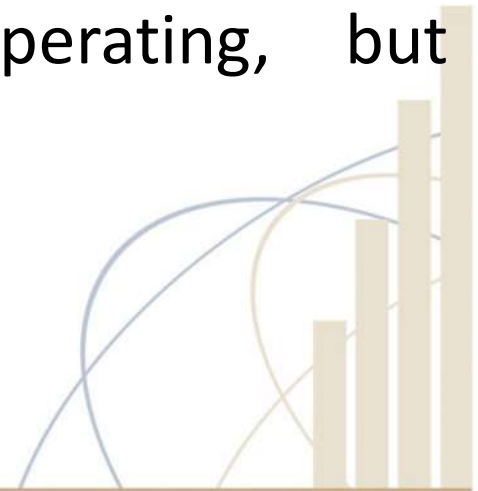


3.2. OPERATIONAL AND REPORTING MATTERS



Consideration of repairs and maintenance

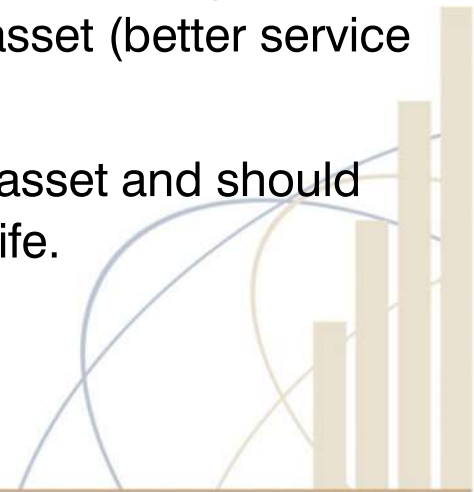
- MAINTENANCE is actions intended to ensure that an asset performs a required function to a specific performance standard(s) over its expected useful life by keeping it in as near as practicable to its original condition, including regular recurring activities to keep the asset operating, but specifically excluding renewal.



3.3. OPERATIONAL AND REPORTING MATTERS



- Budget concerns around New, renewal and upgrade projects and impact on assets
 - Projects are split between New, renewal and upgrade projects.
 - Directorates must work at ensuring that the work performed within projects classified in this manner match.
 - A new project should result in the creation of a new asset and not the improvement of an asset.
 - Upgrade project should result in the improvement to an existing asset and would result in an increased functionality of the asset (better service delivery),
 - A renewal project should result in a restoration of an asset and should result in an extension to the assets remaining useful life.



3.4. OPERATIONAL AND REPORTING MATTERS



DEPRECIATION

- Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life

IMPAIRMENT

- The loss of future economic benefits or service potential of an asset over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

IMPAIRMENT LOSS

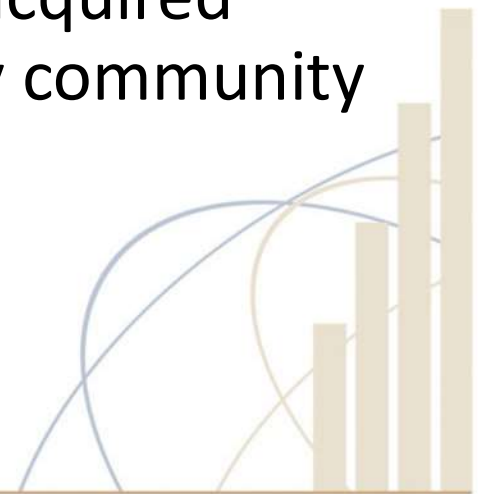
- An impairment loss of a cash-generating asset (GRAP 26) or a non-cash generating asset (GRAP 21) is the amount by which the carrying amount of an asset exceeds its recoverable amount

3.5 OPERATIONAL AND REPORTING MATTERS



Projects that may be impaired

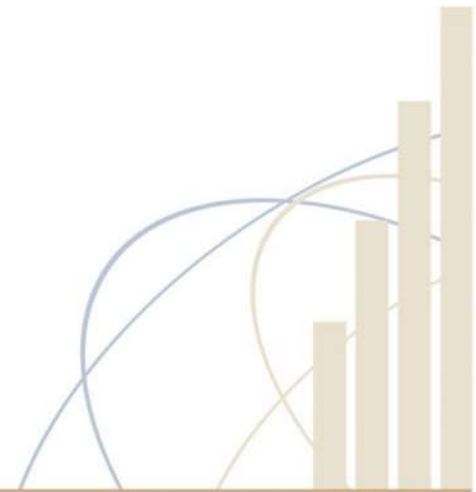
- Projects that were halted
- Projects that are at design stage and the design is completed but construction has not started due to budget constraints in the current and future periods
- Projects that are under investigation with construction not permitted
- Projects that were planned and land acquired however construction was stopped by community protests



4. ASSET MANAGEMENT cont...



4. AUDIT MATTERS / AGSA CURRENT FOCUS AREAS

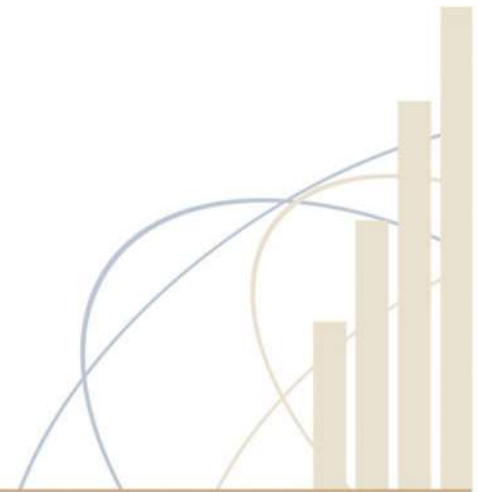


4.1. AUDIT MATTERS / AGSA CURRENT FOCUS AREAS



Project Costing/Project management

- Capitalisation events vs completion certificates
- Does expenditure meet asset definition
- Consideration of all assets being created

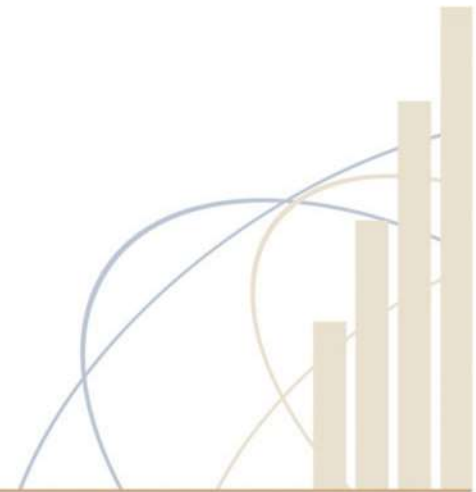


4.2. AUDIT MATTERS / AGSA CURRENT FOCUS AREAS



Continued review of componentisation and useful life review

- Impairment of asset
 - Process followed by institute
 - Treatment of 3rd party info (newspapers, deeds office...)
 - Consequence of damage at a project level
- Impact of 3rd party information on audit process
 - Contacting other auditees and audit teams
 - Utilisation of operational information
 - E.g.) SANRAL Report or Title Deed information
- Asset verification
 - Proof of existence
 - Condition of the asset



4.3. AUDIT MATTERS / AGSA CURRENT FOCUS AREAS

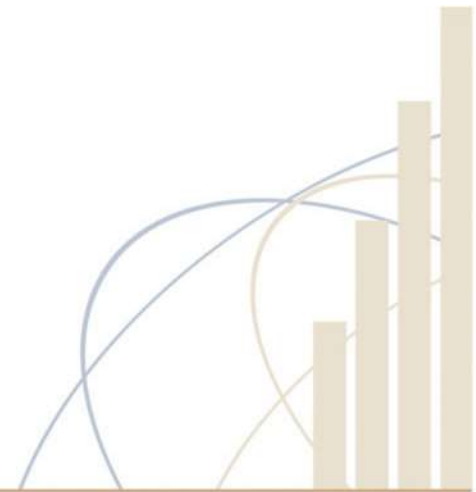


Impact of non-financial information

- Directorate project and performance reporting
- AGSA auditing directorates at a Engineering/Technical level

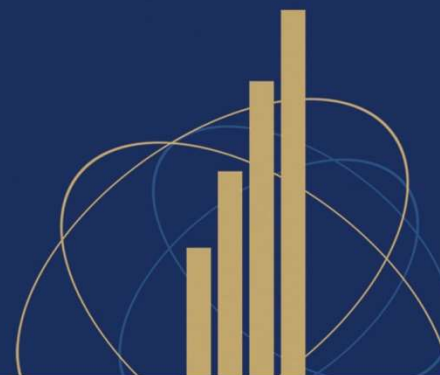
Structure of FAR

- Compliance with GRAP standards
- Fit for purpose for control
- Assist with correct accounting and operational reporting
- MSCOA aligned





Thank You!



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