



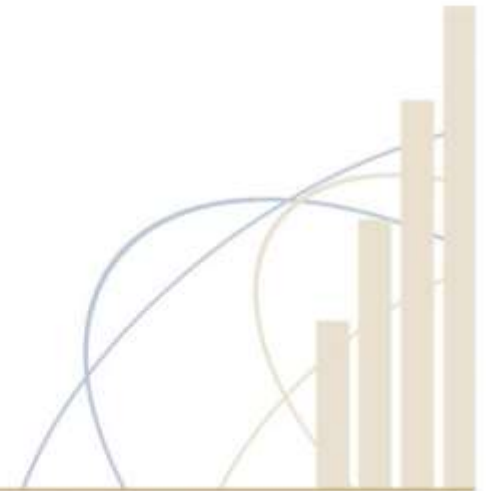
Municipal Finance in Practice – Rotation Session: Asset Management

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Date: 25 March 2026



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INTRODUCTION

In terms of section 63 (1)(a) of the MFMA:

“The Accounting Officer of a Municipality is responsible for the management of assets, including safeguarding and the maintenance of those assets”.

“The Accounting Officer must for the purposes of subsection (1)(a) take all reasonable steps to ensure:

- a) That the Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality.
- b) That the Municipality’s assets are valued in accordance with GRAP standards.
- c) That the Municipality has and maintain a system of internal control of assets including asset register as may be prescribed”.

INTRODUCTION

- **In terms of section 152(1) of the constitution:**

“The objectives of local government are-

- a) To provide democratic and accountable government for local communities;
- b) To ensure the provision of services to communities in a sustainable manner;
- c) To promote social and economic development;
- d) To promote a safe and healthy environment; and
- e) To encourage the involvement of communities and community organisations in the matters of local government.

DEFINITIONS

- **Assets:** are the resources controlled by the Municipality as a result of the past event and from which economic benefits or service potential is expected to flow to the Municipality.
- **Biological Assets:** are living animals or plants.
- **Heritage Assets:** are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and held indefinitely for the benefit of present and future generations.
- **Intangible Asset:** is an identifiable non-monetary asset without physical substance.

DEFINITIONS

- **Investment Properties:** are properties (land or buildings) that are acquired for economic and capital gains, it can also be vacant land kept for undetermined future use.
- **Property, Plant and Equipment:** are tangible assets that are held by a municipality 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 for more than one reporting period.
- **Depreciation:** is the systematic allocation of the depreciable amount of an asset over its useful life.

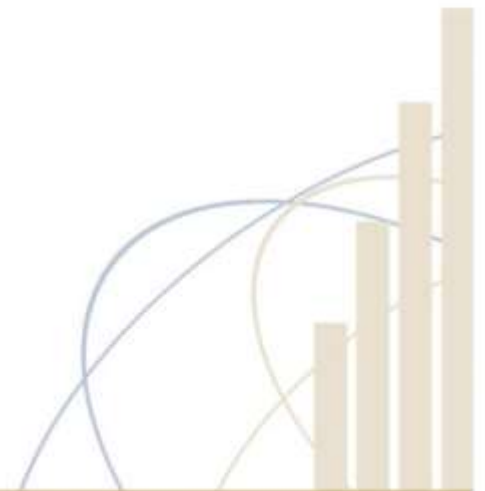


DEFINITIONS

- **Amortisation:** is the systematic allocation of an intangible asset over its useful life.
- **Impairment loss:** is a loss in the future economic benefits or service potential of an asset, over and above depreciation.
- **Useful Life:** is the period of time over which an asset is expected to be used by the Municipality.
- **GRAP:** are standards of Generally Recognized Accounting Practice.
- **Asset Management:** is a systematic process of developing, operating, maintaining, upgrading, and disposing of assets cost-effectively.

LEGISLATION THAT GOVERNS ASSETS

- Generally Recognized Accounting Practice (GRAP)
 - a) GRAP 13: Leases
 - b) GRAP 16: Investment Properties
 - c) GRAP 17: Property, Plant and Equipment
 - d) GRAP 21 & 26: Impairment of assets
 - e) GRAP 27: Agriculture
 - f) GRAP 31: Intangible Assets
 - g) GRAP 103: Heritage Assets
 - h) GRAP 110: Living & Non-Living Resources.
- Municipal Finance Management Act (MFMA)
- National Treasury Asset Management Guidelines
- National Treasury Asset Management Regulations



STANDARD OPERATING PROCEDURES

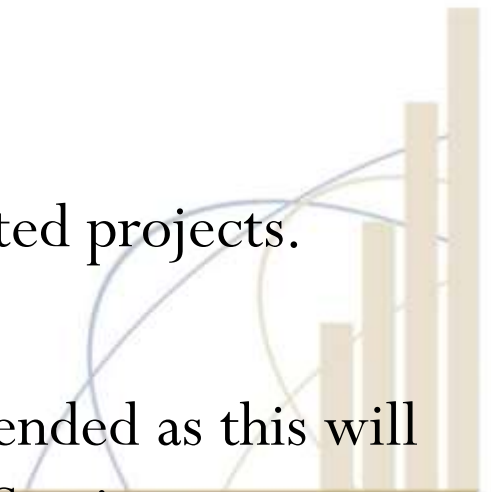


Standard Operating Procedures (SOPs) are the backbone of a successful organization. They provide clear, step-by-step instructions for routine tasks, ensuring work is done **safely**, **efficiently**, and **uniformly** every time.

Below are common SOPs within the Assets Section:

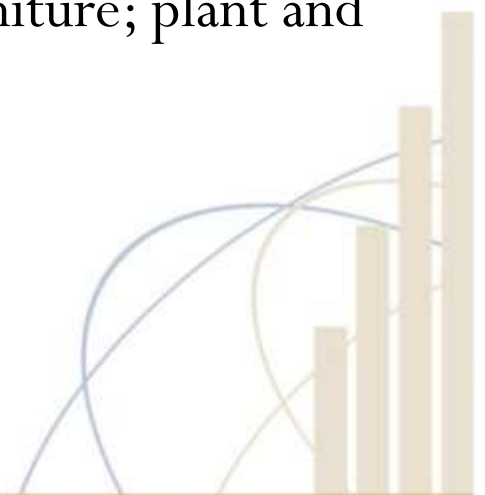
- SOP on physical verification and conditional assessment of movable assets.
- SOP on reconciliation of Municipal properties.
- SOP componentisation & capitalisation of completed projects.
- SOP on disposal of Municipal redundant assets.

Implementation of the Asset Annual Plan is recommended as this will ensure consistency and continuity within the Assets Section.



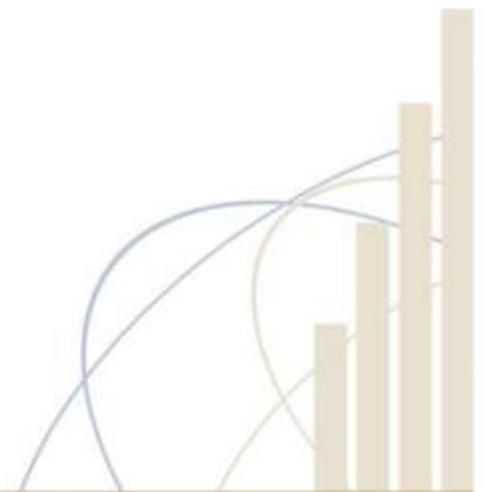
CLASSIFICATION OF ASSETS

- **Property, Plant and Equipment (GRAP 17)**
 - a) Community Assets (Office buildings; halls; sports fields; parks & cemeteries)
 - b) Land
 - c) Infrastructure Assets (immovable assets that are used to provide basic services)
 - d) Furniture and Fittings (computer equipment; furniture; plant and equipment)
 - e) Vehicles
 - f) Leased Assets (Finance lease)
 - g) Solid Waste (Refuse collection)

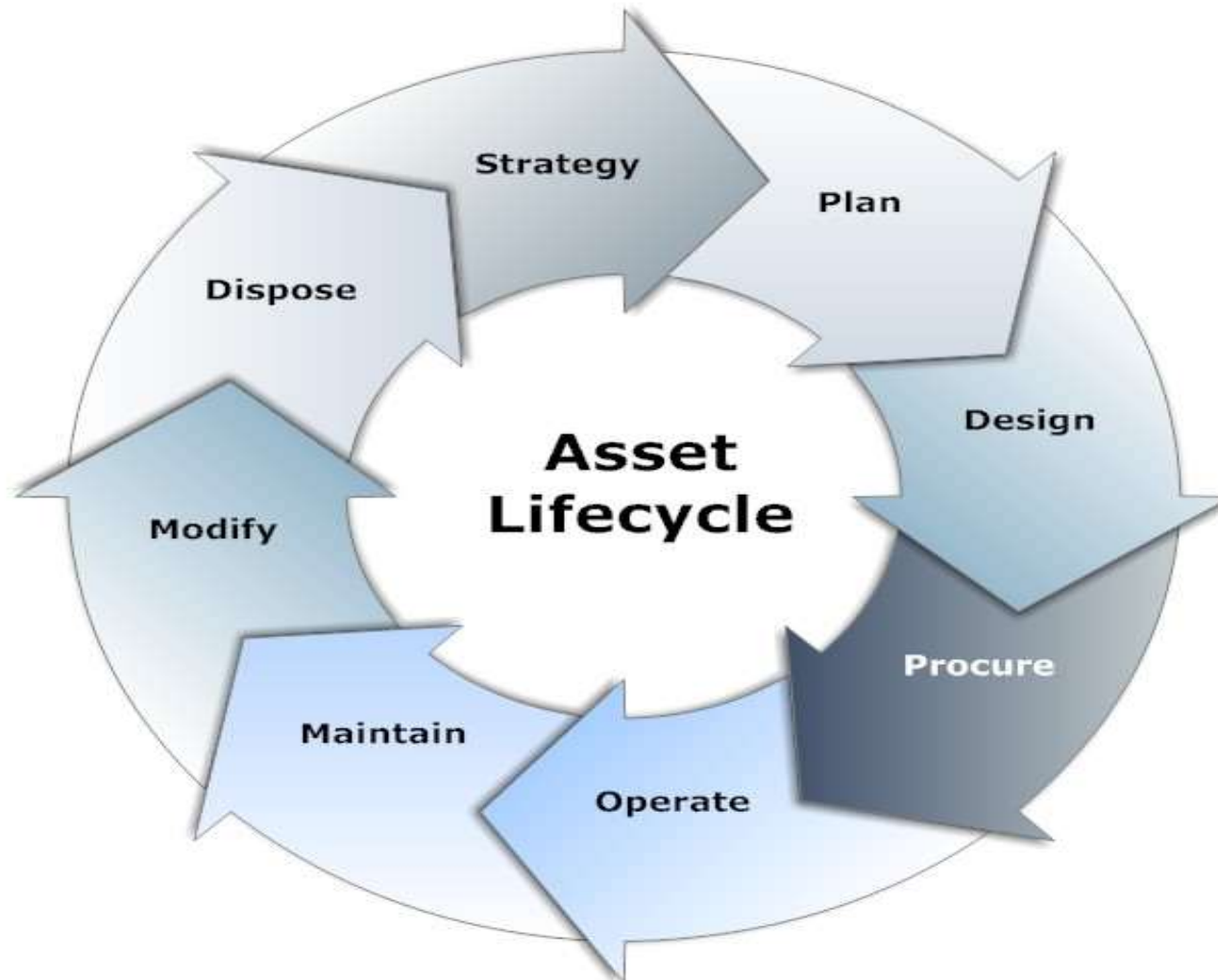


CLASSIFICATION OF ASSETS

- **Investment Properties (GRAP 16)**
 - a) Investment Assets (resources held for capital or operational gain).
 - b) Properties held for undetermined future use.
- **Intangible Asset (GRAP 31)**
 - a) Computer Software (excluding the standard software).
 - b) Copyrights.
- **Heritage Assets (GRAP 103)**
 - a) Wall of Remembrance.
 - b) Heritage sites, statues etc.



ASSETS LIKE CYCLE



ASSET LIFE CYCLE

- **Acquisition of Assets:** should the Municipality decide to acquire an asset, the following fundamental **principles** should be carefully considered prior to acquisition of such assets:
 - a) The purpose for which the asset is required is in keeping with the **objectives** of the municipality.
 - b) The item to be acquired **meets the definition** of an asset.
 - c) The asset have been **budgeted** for in the capital budget.
 - d) The **future annual operation** and maintenance needs have been calculated and **budgeted for in the operational budget**.

- **Operation and Maintenance of Assets**

- a) During the operation of the acquired assets, the Municipality needs to ensure that it gains full economic benefits and service potential from those assets.
- b) **Depreciation** will have to be accounted for on monthly basis.
- c) Proper maintenance plans need to be put in place especially for infrastructure assets to **maximize expected useful life** of such assets.
- d) The asset acquired will have to be **tested for impairment** at least once within a reporting period.
- e) **Reassessment of RUL** should be undertaken annually.

- **Disposal of Assets**

- a) Once an asset has reached its expected useful life or if the Municipal Council decides that the asset is no longer needed to provide the minimum level of basic services, Municipal Council must dispose of this asset. The disposal of an asset **must be fair, equitable, transparent, competitive and consistent** with the municipality's supply chain management policy.
- b) Section **14 and 90 of the MFMA** states that the appropriate means of disposal may include **public auction, public tender, transfer to another institution, trade in**, etc.

All assets require physical control and verification of existence:

- All movable assets, where practicable, must have a **visible bar code** that have a **unique asset number** to identify each asset from a similar groups of assets.
- Physical verification and conditional assessment of assets should be conducted. This process would enable the Municipality to identify discrepancies (losses or damage of an asset) and properly investigate and put strict majors to prevent the similar situation to repeat itself in future.
- Municipal assets must be **insured** against destruction, fire and theft.

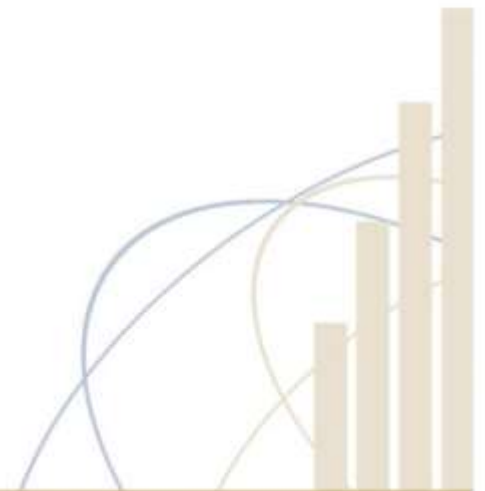
PURPOSE OF PHYSICAL VERIFICATION OF ASSETS



- To reduce misappropriation of assets.
- To trace any unreported movements of assets.
- Ensure existence of assets disclosed on the fixed assets register.
- Ensure completeness of the fixed assets register.
- Ensure condition of each asset (**RUL review, Impairment testing, and Budgeting**).
- The end product is the **accurate** and **credible** fixed assets register

EFFECTIVELY MANAGING YOUR ASSETS

- Maintenance of the Fixed Asset Register on regular basis taking into consideration the following:
 - Newly acquired assets (current year additions).
 - Newly identified assets (assets found on the floor during verification).
 - Repairs and maintenance capitalised.
 - Completed capital projects.
 - Donations received.
 - Disposals and write offs.
 - Changes in asset classes.
 - Changes in conditions.
 - Changes in useful lives.



EFFECTIVELY MANAGING YOUR ASSETS



- Correctly account for depreciation.
- Ensure that all Municipal assets are insured from damage/loss/theft.
- Testing and calculation of impairment loss or reversal.
- Reconciliation of the Asset Register with General ledger & TB.
- Provision of assets related AFS notes.
- Proper compilation of working paper file (supporting documents).
- Annual review of the Asset Management Policy.
- **SOPs** should be in place to intensify internal controls; **simplify the policy and make it implementable.**
- **Effective Asset Management Committee** need to be in place to deal with all strategic and operational issues regarding asset

COMMON CHALLENGES

- High rate of unverified assets during physical verification of movable assets.
- Lack of co-operation between Finance and assets holders regarding movement of assets from one user to another or from one location to another.
- User Business Units doesn't take ownership/responsibility of assets under their control.
- Poor understanding and implementation of Asset Management Policy.
- Undisposed redundant/scrap assets.
- Too much reliance is placed to the external Service Providers.

WAY FORWARD

- The **Asset Transfer Form** need to be filled for any movement of assets from one user or location to another.
- **Regular workshops and meetings** need to be held with different Business Units where asset management policy and asset procedure manual can be unpacked and discussed (**Create sense of ownership to all asset users**).
- Ownership must be driven from the **top-down** to ensure that we all respect the processes.
- Conduct physical verification of movable assets **on regular basis**.
- **Disposal of redundant** assets need to be undertaken on regular basis. (Section 14 of the MFMA to be followed)
- Internal capacity building and transfer of skills need to be prioritised.



I Thank You!



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