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NORTHERN CAPE PROVINCE
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DEPARTMENT OF ENVIRONMENT AND NATURE CONSERVATION

ASSET MANAGEMENT POLICY
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A PROSPEROUS AND EQUITABLE SOCIETY LIVING IN HARMONY WITH OUR NATURAL RESOURCES

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DEPARTMENT OF ENVIRONMENT AND NATURE CONSERVATION

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1. CONCEPTUAL BACKGROUND

Introduction

The Department of Environment and Nature Conservation (DENC) is attempting to align its strategic objectives with the global move towards the improvement in public sector accounting by adopting principles of the Public Finance Management Act, 1999 (PFMA). The Municipal Finance Management Act, Act 56 of 2003 (MFMA), has also been introduced to extend the improvement to local government level.

Good asset management is important in any business environment and more so in the public sector, particularly as some of the significant assets are infrastructure assets with long life spans and enormous capital outlay that are vital to providing a foundation for economic activity.

There are two main systems of recording income and expenditure being used in the public sector in the world today. One system is the cash based system that has historically been used by most governments for accounting in the past, and the accrual based system. There has been a steady move towards the use of an accrual system in recent years in the public sector at large. Under the cash based system there is a tendency to focus on whether or not to **spend** on new assets rather than measuring the full and most effective and efficient use of assets available. In addition maintenance of assets on hand is frequently ignored or postponed in favour of other pressing needs. On the other hand, under an accrual based system, the focus can extend further on whether to retain and upgrade existing assets as opposed to only the purchase of new assets by providing information for continued measurement of actual cost against benefits derived. Decision-makers are thus able to focus on the broader range of options available in managing assets.

Financial management and accounting conventions provide a disciplined and consistent framework for recording and reporting much of the information needed for asset management. Accounting conventions and reporting obligations influence all phases of the Asset Life Cycle. It must be noted that the decision to draft an asset management policy is not dependant on or in contradiction of an accounting system in use, but rather based on



the need for decision-making information due to the current lack of such available information and towards assisting with the improvement of asset management in the department, as required by the PFMA.

The PFMA places the responsibility on the accounting officer for the financial and risk management of the entity as well as the effective and efficient use of the resources thereof. Assets form a significant part to the resources of the department and management thereof can be considered as a systematic, structured process covering the whole life of an asset. The underlying assumption is that assets exist to support programme delivery.

The Department of Environment and Nature Conservation (the department) wants to reaffirm its unreserved commitment to work towards the establishment of cooperative governance and custodian of public assets through an effective, efficient, accountable, transparent and responsible public service system. As a department we pledge to protect public funds and assets, protect the integrity, security and reputation of the department, its partners and service providers and maintain high levels of service to all the people in the province which are consistent with the principles and practices of good governance. We endeavour to do everything within our power to combat fraud and corruption and thereby safeguarding as well as ascertain the appropriate and responsible utilization of all resources.

Legislative Framework

This policy has been based on the following pieces of legislation:

- Public Finance Management Act, No. 1 of 1999
- Treasury Regulations 10.1, in terms of PFMA 1999
- Asset Management Framework
- Asset Management Learners' Guide,

Definition and Classification

4.1.1 Definition

- Asset



An asset is an item of value, which has resulted from a previous transaction and from which future economic benefits will be generated

➤ Capital and Current Assets

Assets to a value of R5000 and above will be considered Capital Assets. Assets with a value of less than R5000 will be considered as Current Assets.

➤ Intangible Assets

Generally Accepted Accounting Practices (GAAP) Handbook 2007 Section 16.2: 'An intangible asset is defined as an identifiable non-monetary asset without physical substance'. In principle, an intangible asset is an asset without physical substance. However, this does not preclude an intangible asset from being contained in or on a physical substance, for example, computer software stored on a compact disk and a licensee or patent contained in legal documentation. An operating system and software without which a computer cannot operate, form an integral part of the computer and should be treated as part of the property, plant and equipment. If the software does not form an integral part of the related hardware, it should be treated as an intangible asset and not as property, plant and equipment. Examples of such items are:

- Patents, Computer software, copyrights, franchises and marketing rights

➤ Redundant/ Unserviceable

An asset which no economic benefit will be derived from it in the future, i.e. an asset which is not useful to the department.

➤ Obsolete

An asset which is broken or impair, and cannot be utilized for the enhancement of service delivery.

➤ Shortages

Assets which were not accounted for during stock counting.



2. POLICY STATEMENT AND APPLICATION SCOPE

The purpose of this document is to introduce the concept of asset management. It is designed to highlight the principles of, and need for, asset management and give broad guidelines in this regard.

This Asset Management Policy will assist the Department of Environment and Nature Conservation (DENC) in dealing with assets and the effective management thereof.

This document will outline the procedures and principles to be adhered to in terms of asset management. This policy applies to all the officials of the Department.

Policy Objectives:

- This document is intended to provide guidance into the management of assets in the ownership of the Department of Tourism, Environment and Conservation.
- To enhance the utilization and management of assets
- To provide guidance in terms of the recording of assets
- To provide procedures in regards to acquisition, management and disposal of assets
- To provide guidance on the delegation of powers

Asset Management

In the pursuit towards the attainment of a goal or a set of goals, resources are required, which will enable the entity to achieve the goal as set. Some obvious examples of resources are assets (inventory, immovable property, transport assets, cash) and human (a number of people with different kinds of expertise). When these combined resources are used to the best possible advantage the goal will be achieved quicker and easier. The decision making process to decide what to use, where to use it and how to use it, is generally referred to as "management".

The management process weighs up the advantages and disadvantages (cost versus benefit) of utilising resources in a specific way against the risk of not doing so and not achieving the set goal in the shortest period and most effective way possible.



By managing all resources at our disposal we can ensure that we remain goal orientated and that resources not utilised properly can be better applied or alternatively even changed for resources that will be more effective in the process towards the attainment of the goal.

Operations and Management

Identification of Assets:

All the department's assets will be numbered to identify ownership, allocation and to facilitate asset control and the physical counting process. When an asset is acquired, the asset management office should be informed to mark the asset prior to allocation of asset to the relevant unit. This will ensure that all assets are in good condition and accounted for.

Transfer of Assets

Assets transferred in or out of the department will be administered in accordance with Section 42(1-3) of the PFMA, 1999. The Act stipulates that:

"(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 function, 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."

Movement of Assets

The movement of assets implies that the asset is being moved from one location to another but still remain within the boundaries of the department. Any such movement of an asset shall be recorded on the asset movement form in order to show movement from the original allocation. The requesting party (current inventory holder) for the movement shall be responsible to formally notify the Asset Manager prior to the physical move of the asset, and subsequently to ensure that the relevant detail has been updated accordingly. No movements shall be effected during the period of a physical count being undertaken at the premises where the asset is or is to be allocated



Obsolete/ Redundant Assets

If an asset becomes redundant/ obsolete the inventory holder should inform the asset manager.

Asset managers are responsible for effectively managing redundant/obsolete assets. Once an asset has been identified as redundant/obsolete the asset manager should relocate the asset to a redundant store

Assets relocated to a redundant store shall remain in the store for a minimum of one disposal review cycle. The list of redundant/obsolete asset should be forwarded to the disposal committee. This matter will be dealt with according to the disposal committee.

Financial Accounting for Assets

Assets shall be recorded at cost, where such cost shall include the purchase price and any other acquisition costs incurred, such as installation costs, freight and transportation charges as well as taxes and duties

Asset Register

Minimum information on movable assets:

The minimum information required regarding movable assets, are listed below with reference to the Asset Management Guideline.

1. Acquisition
 - If acquisition date is the payment date and not invoice date;
 - Name of supplier;
 - If invoice number is not noted but payment reference number used in its place.
2. Identify
 - A unique asset number should be assigned to each movable asset. The use of a barcode system is recommended due to its versatility and resource efficiency for asset counting but not a requirement.
3. Accounting
 - Historic cost for assets acquired before 1 April 1999 where the recording at R 1.00 is allowed;



- Replacement value.

It should be noted however that the use of additional documentation to carry the outstanding or additional information is encouraged in order that the management of the assets and the application of the life-cycle approach can be facilitated. It would serve as a database on which to base future decisions.

Minimum information on immovable assets:

The minimum information regarding immovable assets, are listed below:

1. General asset information

- Formal property (cadastral) description
- Location (e.g. 16km South of Polokwane bordering the N1 highway), preferably including global positioning coordinates (e.g. 23.5°S, 30°E)
- Extent of land parcel
- Zoning of property (as per relevant town planning legislation)

At this stage it is not seen as critical should the global positioning coordinates not be available. It is however important for infrastructure assets that the location thereof be described clearly.

2. Type of asset

- Type of asset (Describe the function of the asset for example hospital, police station, clinic, vacant land, residential accommodation etc)

3. Description of asset

- Extent of building/structure (recorded in m²)
- Occupancy/level of utilisation
- Condition reports
- Lay-out of building/structure/images (photographs of building/structure)
- Building plans
- Serial numbers (this may relate to lifts, air-conditioners, etc)
- Building name and address

4. Ownership

- Ownership (state-owned or leased)
- If state-owned, details of title deed, title conditions/restrictions
- If state-owned, cost of acquisition & current valuation of asset (if available)
- If leased, details of lease (term, rental, escalation, responsibility for maintenance, etc)

Where cost is not available for older assets (pre-1999 assets) R1.00 may be used.

Inventory Lists

All assets should be recorded on the sub-inventory list. The inventory list should agree with the asset register. The list should be placed at the back of each office door. The inventory holder should sign on the inventory as proof that they will be accountable for asset provided to them. Inventory lists will be updated quarterly during the quarterly visits undertaken by the asset management unit.

Depreciation

Current assets will be fully depreciated in the year that they were purchased.

Capital assets will be depreciated with the straight-line method over the specified period in years below:

| | <u>YEARS</u> |
|--|--------------|
| Pump stations | 15 |
| Audiovisual Equipment | 5 |
| Building air conditioning systems | 10 |
| Cellular phones (over R5000) | 2 |
| Electric wire and power distribution equipment | 5 |
| Emergency/rescue equipment | 5 |
| Farm/agricultural equipment | 5 |
| Fire fighting equipment | 5 |
| Gardening equipment | 4 |
| Irrigation equipment | 10 |
| Kitchen appliances | 5 |
| Laboratory equipment | 5 |

| | |
|--|----|
| Laundry equipment and industrial sewing machines | 10 |
| Photographic equipment | 5 |
| Pumps, plumbing and sanitation equipment | 5 |
| Radio equipment | 5 |
| Security equipment/systems/materials | 5 |
| Marine equipment | 5 |
| Tents, flags, and accessories | 5 |
| Woodworking machinery and equipment | 5 |
| Workshop equipment and loose tools | 5 |
| Cutlery and crockery | 5 |
| Domestic and hostel furniture | 10 |
| Linen and soft furnishings | 5 |
| Office equipment | 5 |
| Office furniture | 5 |
| Paintings, sculptures, ornaments | 5 |
| Computer hardware and systems | 5 |
| Cycles | 4 |
| Motor vehicles | 5 |
| Trailers and accessories | 8 |
| Trucks | 5 |

Disposals

Disposals will be dealt with in the Disposal Policy.

Biological Assets

Biological Assets will be dealt with in the Biological Asset Strategy.

Non-compliance

The Asset Management unit will take steps in ensuring that the department complies with this policy. If there is non-compliance an investigation will be launched into the reasons why an asset audit was negated. These investigations will be conducted during the theft and/ or loss of assets. Thus, every inventory holder should be vigilant and careful in the protection of the assets in his possession.



If an asset is lost or stolen it is the responsibility of the inventory holder to complete a report explaining the theft or loss. If an item is lost or stolen the report completed by the inventory holder should be forwarded to the Disposal/theft and losses committee for review and recommendation. The recommendation of the committee should be forwarded to the Chief Financial Officer (CFO) for authorization of the recommendation and thereafter to the Head of Department (HOD) for approval.

Losses in respect of State property are divided into the following categories:

- Losses or damages through criminal acts or omissions
- Losses and damages through unavoidable causes
- Losses or damages through acts committed or omitted by officials

The asset manager should be informed immediately after the discovery of losses or damages of assets reported in writing by the person responsible for the specific asset/s. On discovery of losses and damages on stock take/spot-checks the responsible person will report the losses and damages to the Asset Manager in writing.

When it appears that asset losses or damages occurred through criminal or possible criminal acts or omissions, the matter must be reported to the South African Police Services (SAPS).

The asset manager will state in a formal report if a lost of an asset is recoverable or irrecoverable:

- Recoverable losses(avoidable losses) will be recovered by the person responsible for assets lost due to his/her act or omission, or negligence to safeguard the asset/s including the following:
 - Misusing and abusing of assets
 - Unlawful acts
 - Leaving assets in a motor vehicle, like laptops, cell phones, cameras
 - Leaving laptops, camera's, cell phones in unlocked, unattended offices
- Irrecoverable losses will be written off against the State.

In the case of fire, the investigation reports are to be submitted separately, in duplicate, as follows:



- Loss in respect of articles totally destroyed or irreparably damaged (detailed schedule)
- Loss in respect of articles partially damaged, together with the estimated repair costs thereof.
- The investigation report by the Fire Inspector from the local fire station, or any other appointed organization, as well as the result of the SAPS investigation are, as soon as possible, to be attached to the investigation documents and are to be taken into consideration when determining accountability.

Scope of application

This policy will apply to all officials of the Department of Environment and Nature Conservation.

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3. POLICY FRAMEWORK

3.1 Identification and consultation of stakeholders

The stakeholders for this policy are all officials in the department and the provincial treasury asset manager.

3.2 Timeframes

This policy was first drafted on July 2007. The second draft was worked on from November 2007.

3.3 Implementation strategy

Asset Management Plan

The implementation of this policy rests with all officials of the Department of Environment and Nature Conservation.

In order to ensure adequate utilisation of assets, the department's directorate will compile an Infrastructure investment and asset management plan. The plan will be updated on an annual basis and will contain details on future asset /infrastructure acquisitions. The financial implications will be indicated on the plan in order to ensure that funds are available.

Implementation date

This policy will be effective as from **01 November 2013**

3.4 Financial Implications

This unit will reside in the management accounting unit which has a budget of approximately R600 000.

3.5 Communication

The provincial treasury: Asset manager will be the primary advisor on the development of a comprehensive departmental asset management policy.

The South African police services will be the department's primary partner in terms of apprehending officials who committed criminal acts within the department.



3.6 Compliance, monitoring and evaluation (M&E)

Monitoring and Evaluation

Annual and Spot Counts

The asset management unit will be responsible for conducting annual stocktake at all departmental offices. The annual stock count will include accounting for all assets on each premises and reconciling with the existing list (inventory list and asset register). Quarterly spot counts will be undertaken in order to ensure proper management of assets at regional offices.

The Asset Manager will be responsible to ensure that assets reflected the quantities as determined in the physical count. Asset managers will be responsible to effectively resolve all exceptions established as a result of the physical count as far as they possibly can. Exceptions that could not be resolved should be forwarded to the supervisor for further clarity. On conclusion of the annual stocktake a report on all the shortages, surpluses, unserviced and obsolete assets will be compiled. This report should correspond with the asset register and inventory list.

3.7 Policy review

This policy will be reviewed annually by the supply chain manager. This will take effect on the third quarter of every new financial year. This policy also provides for an urgent once-off amendment every first quarter.

3.8 Policy impact

This policy desires to set a precedent on the effective management of assets by supply chain management and the Department of Environment and Nature Conservation. It intends to do a feasibility study on the methodology used to track assets of the department. It stresses that accountability should be the responsibility of all officials within the department.

3.9 Interim measures

Until this asset management policy is approved the department will maintain to utilize the asset management framework. The department would however gradually move towards adopting this policy next year. The Asset Management Policy will be implemented in



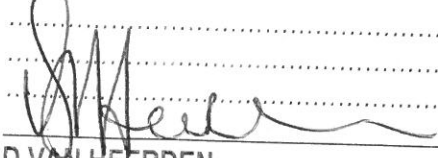
stages. Sections of the policy relevant to asset management will become effective on 1 July 2008.

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4. ADOPTION OF POLICY

Approved / ~~Not Approved~~
Comments:

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.....
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D VAN HEERDEN
HEAD OF DEPARTMENT

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DATE

