Asset Management Framework

CONTENTS

1. Introduction 2
2. Principles of Asset management 2
4. Classification of assets 5
5. Distinction between Current and Capital expenditure 6
6. Recognition of Assets 11
7. Valuation methods 16
8. Public and Business Entities 18
9. Depreciation 18
10. Disclosure Requirements 20
11. Implementation Timeframes 25
12. Conclusion 25

Glossary 27

Annexures
Annexure A: Guideline on Better Asset Management
Annexure B: Classification of Assets
Annexure C: Practice Note 19 & 39 of South African Revenue Service: Expected Useful Life Cycles
1. **Introduction**

The Public Finance Management Act section 28(1) states that “The accounting officer for a department, entity or constitutional institution:

- Is responsible for the effective, efficient, economical and transparent use of the resources of the department; and
- Is responsible for the management, including the safeguarding and maintenance of the assets, and for the management of the liabilities of the department, trading entity or constitutional institution.”

In order to meet the above statutory requirement, this framework was developed to promote the effective management of assets. The framework is primarily intended to assist financial managers to interpret and implement sound asset management principles.

The principles contained herein are not definitive but are consistent with current thinking on, and trends in, improving asset management in the public sector. They are based on common-sense and are inter-dependent. Each principle is simple enough and reflects a fundamental notion of good practice, although they are not, collectively or widely practiced today in the South African public sector.

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.

The contents of a substantial portion of this document has been incorporated from National Treasury’s practice note.

2. **Principles of Asset Management**

Asset Management is 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.

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. This is based on a critical examination of alternatives to the use of assets.

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.

2.1 **Five Asset Management Principles**

2.1.1 *Service delivery needs are to guide asset practices and decisions:* Departments are to undertake asset management activities within a strategic framework that is driven by programme and service delivery needs.

2.1.2 *Asset planning and management are to be integrated with strategic business plans, budgetary and reporting processes:* Planning, budgeting for, and reporting on assets are to be integrated with broader planning processes, both within departments and between central and other departments.

2.1.3 *Asset management decisions are to be based on evaluations of alternatives that take into account full life cycle costs, benefits and risks of assets:* Capital expenditure decisions are to be based on rigorous and documented economic appraisals of options that include financial as well as non-financial parameters. The economic appraisals should be evaluated by a party other than the promoter of the project.

2.1.4 *Ownership, control, accountability and reporting requirements for assets are to be established, clearly communicated and implemented:* Ownership and control of all assets are to be fully defined. Accountability and reporting requirements for both ownership and control are to be determined and clearly communicated.

2.1.5 *Asset management activities are to be undertaken within an integrated Government asset management policy framework:* Department asset management is to be based on best practice in government and industry and on Government policy.
Effective implementation of the principles of asset management will address programme costs in terms of:

- **reduced demand for new assets and saves money** through demand management techniques and the adoption of ‘non-asset’ service delivery options;
- **maximising the service potential** of existing assets by ensuring they are appropriately used and maintained;
- **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
- **ensuring a sharper focus on results** by establishing clear **accountability and responsibility** for assets.

To be effective, asset management needs to be considered as a comprehensive and multi-disciplinary activity that takes into account a range of factors such as:

- the asset life cycle and asset management principles;
- the needs of the users of the asset;
- the policy and legislative environment;
- the department's corporate management and planning framework;
- technical adequacy and commercial viability;
- external or market factors (commercial, technological, environmental or industry implications);
- the competing demands of stakeholders (in some instances);
- the need to rationalise operations to improve service delivery or to enhance cost-effectiveness (in some instances); and
- Various techniques including value management, demand management, economic appraisal, life cycle costing and risk management.

Each of these factors are discussed in terms of the processes encompassed in asset management.

### 2.2 The Processes encompassed in Asset Management Encompasses

**2.2.1 Needs analysis**

This is the starting point for asset management. Departments must thoroughly examine the need for service and infrastructure provision and consider the full range of options for responding to it. These include both non-asset and asset solutions as well as demand management strategies and the possible role of private sector providers.

**2.2.2 Economic appraisal**

This is a systematic weighing up of the costs and benefits of the various asset based and non-asset based solutions identified. Value management is one technique that assists in this process. The appraisal, taken together with Government policy objectives, should lead departments to develop recommendations that make the best use of scarce resources.

**2.2.3 Planning**

Planning is the essential tool for achieving service delivery objectives by means of assets. Departments’ asset management plans, decisions and activities must be fully integrated with the Government's planning processes, including department, strategic business plans. Risk assessment and allocation must start at the planning stage. Departments must continue to verify service needs throughout the planning process. It is considered important that when estimating the useful life of an asset, its planned maintenance should also be considered during the planning stage.

**2.2.4 Budgeting Planning of funding for the asset**

Assets require the commitment of funding over their entire lives which includes capital expenditure for their purchase or construction and recurrent expenditure for their ongoing maintenance and operation. The disposal value at the end of their service life must also be considered. Expenditure requirements must be covered by identified sources of funding.

**2.2.5 Pricing the use of assets**

Pricing should be based on the true cost of creating, operating, maintaining and eventually disposing of the asset, and should reflect the department's service objectives and market conditions. The true cost includes a rate of return (i.e. the opportunity cost of capital investment), the operating and maintenance expenditure and a depreciation allowance. Pricing may also be used as a way of managing demand.

**2.2.6 Acquisition and disposal**

Decisions regarding acquisition/disposal require thorough examination and economic appraisal. The options for acquiring assets include creating, purchasing or leasing. Seeking private sector involvement to provide assets or
services required must also be considered. The options for disposal include alternative use, rental, sale, or sale and lease-back, and should be considered as part of the acquisition strategy.

2.2.7 Recording, valuation and reporting

Departments are accountable for the physical and financial performance of the assets they control, operate and maintain. Information about the performance and condition of an asset provided by accurate recording, valuation and reporting procedures is critical to decisions to modify, refurbish, find an alternative use for, or dispose of an asset. The maintenance of an asset register which comprises an accurate record and valuation of assets will support effective decision-making about asset utilisation.

2.2.8 Management in use

Protecting service delivery potential is a priority when making decisions about asset use and maintenance. How long an asset is useful depends on how effectively it is maintained and safeguarded for its purpose. Post-acquisition reviews and evaluations must be carried out periodically to verify that required outcomes are being achieved.


*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:

- it is service or output driven;
- it employs a structured, systematic approach; and
- 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. Department 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 reports 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 costed, 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.

4. Classification of assets

Assets take a number of forms. One distinction made is between financial assets (such as cash) and non-financial assets. Non-financial assets may have a tangible (physical) form such as buildings, machinery and motor vehicles. They can also be intangible – examples are trademarks, licences (e.g. fishing licences), and the legally enforceable rights associated with copyright and patents. They also can be a combination of both tangible and intangible, particularly where these elements operate as integral parts of a whole - a security system in a building may be combination of tangible (physical) equipment such as cameras, computers and alarms; and a suite of software which controls and monitors the equipment.

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.

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 that 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.

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 will be set locally by the Accounting Standards Board (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.

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

<table>
<thead>
<tr>
<th>Tangible (Physical Assets)</th>
<th>Intangible</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Land</td>
<td>Financial Assets</td>
</tr>
<tr>
<td>▪ Infrastructure assets</td>
<td>▪ Cash and Cash Equivalents</td>
</tr>
<tr>
<td>▪ Heritage assets</td>
<td>▪ Marketable Securities and Deposits</td>
</tr>
<tr>
<td>▪ “Owner occupied” Property</td>
<td>▪ Receivables</td>
</tr>
<tr>
<td>▪ Investment Property</td>
<td>▪ Shares in subsidiaries, associated companies and joint ventures</td>
</tr>
<tr>
<td>▪ Machinery, Plant and Equipment</td>
<td>▪ Long term securities and bonds</td>
</tr>
<tr>
<td>▪ Transport assets</td>
<td>▪ Other Financial Assets</td>
</tr>
<tr>
<td>▪ Specialist military assets</td>
<td>▪ Accrued Revenue</td>
</tr>
<tr>
<td>▪ Mineral rights and similar non-regenerative resources</td>
<td>Inventories</td>
</tr>
<tr>
<td>▪ Biological assets</td>
<td>Agricultural Produce</td>
</tr>
</tbody>
</table>

Refer to annexure B for further classification of assets.
5. 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 been however 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, it has sometimes been necessary to introduce cut-off points, which inherently have an element of arbitrariness.

Two main types of expenditure are discussed below:
1. Expenditure on projects; and
2. Expenditure on stand-alone items.

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. Projects can be carried out either by government units or by outside contractors.

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 capital good is 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. These terms are explained in more detail below.

5.1 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 current. 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 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. 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.  

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1 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.

2 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.
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.

5.1.1 Current projects

Current projects are either in the form repair, maintenance or minor works. Repair of 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 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.

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 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.

5.1.2 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, 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.

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:

• Purchases of current goods and services used as input in the project; Plus
• Compensation of employees to employees directly involved in the project; Plus
• 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. 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.

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3 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.
**Definition of purchases of current goods and services**

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.\(^4\)

Spending on current goods and services includes:

1. Tools and equipment used by the employee exclusively, or mainly, at work;
2. 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;
3. 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.;
4. Special meals or drinks necessitated by exceptional working conditions, or meals or drinks provided to servicemen or others while on active duty;
5. Transportation and hotel services provided while the employee is travelling on business;
6. Changing facilities, washrooms, showers, baths, etc. necessitated by the nature of the work;
7. First aid facilities, medical examinations or other health checks provided to the employee and required because of the nature of the work;
8. Rentals paid on the use of fixed assets, for example rental on equipment and buildings;
9. Marketing, accounting, data processing, transportation, the cost of storing equipment, maintenance, 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 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 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 of compensation of employees**

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

Wages and salaries, includes:

- “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.;"
- Supplementary allowances payable regularly, such as housing allowances or allowances to cover the costs of travel to and from work, but excluding social benefits;
- 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);
- Ad hoc bonuses or other exceptional payments linked to the overall performance of the enterprise made under incentive schemes.”

\(^4\) 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.
1. 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.

2. 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 uncapped 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.

5.2 Classifying expenditure on stand-alone items

**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.

**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 assets or repair/improve an existing capital asset.

**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.

**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.5

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5 This rule may lead to anomalies. For example, the same item may be bought in one store for slightly more than R5,000 and in another store for slightly less than R5,000. 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.
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.

**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.

5.3 **Distinguishing between relevant types of stand-alone goods**

There are two main types of goods:

1. Goods that cost more than 5,000;
2. 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:

5.3.1 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;

5.3.2 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.

5.3.3 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;

Goods that can be used repeatedly or continuously for more than a year may and may not be capital assets. Thus, purchases of such goods may and may not constitute capital spending.

Can be divided into four categories:

1. 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, vehicles 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;
2. 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;
3. Components, i.e. goods that are not functional in separation from any other good but nevertheless cost more than R5,000. Examples are certain tyres, propellers, engines, motors, dam gates and certain light tubes;
4. Goods that may be used continuously or repeatedly but cost less than 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.

**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.

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.

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.

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 results 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.

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.

6. 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:

1. The asset has future economic benefits or service potential for the department;
2. The department has the capacity to control the service potential of the asset; and
3. 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-

1. Meets the probability criteria (it is probable that any future economic benefits or service potential associated with the asset will flow to the department);
2. Meets the recognition criteria (the asset has a cost of value that can be measured with reliability); and
3. Meets the department’s recognition 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.

6.1 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.

6.2 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.

6.3 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 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.

6.4 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.

6.5 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 revaluation 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.

In the absence of accounting standards that will direct the appropriateness and accounting treatment for revaluations for external reporting, it is however worthwhile to note that 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 this requirement for financial reporting purposes, as it may be likely that a similar requirement may be included in standards of GRAP, once issued.

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.
6.6 **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 Practice 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 an asset.

One word of caution: if these low-value assets are never-the-less important to a department in supporting the delivery of programmes, it may be necessary to establish a subsidiary system to be able to track their movement within the department or to monitor and control necessary maintenance. The counter-point is that it is not necessary to capture and record financial information at this lower level, but merely track the items.

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 service potential for the department;
2. The department has the capacity to control the service potential of the asset;
3. An 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 the department's recognition threshold.
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:

7.1 Asset 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. Accounting standards to be issued by ASB in due course will contain 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).

7.2 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).

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.

7.3 Enhancement and refurbishment

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

a. 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

b. 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 costs 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.

7.4 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 in the current financial year (2002/2003):**

- **Value** equals the purchase price of the asset purchased. This is recorded under the cost price column and relevant purchase date must be recorded for depreciation calculations.

**b. Purchases in the previous 2 financial years (2000/2001 and 2001/2002) where invoices are available:**

- **Value** equals the purchase price of the asset purchased. As the asset was purchased in the previous financial year depreciation will have to be calculated, thereby reducing the book value of the asset.

**c. Purchases in the financial year previous to 2000/2001 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, eg. computer purchased four years ago exceeds three year useful life expectancy and should be recorded at R1.

d. **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.

(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.**

8. **Public Entities and Business Enterprises**
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:-

(i) established in terms of legislation or a provincial constitution;
(ii) 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
(iii) accountable to a provincial legislature.

All three elements / criteria must 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.

9. 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.*

The recognition of depreciation charges is necessary for the valuation of assets and costing of services, and is also used for resource allocation and asset performance assessment.

Depreciation can be calculated in several ways. Some methods are arithmetical, such as the straight-line or reducing-balance techniques.

9.1 Straight Line Depreciation
Where the cost of the asset is recognised in “equal instalments” over its expected useful life. For example: Vehicle R100 000 assuming 20% depreciation rate will show a depreciation charge of R20 000 each year.

9.2 Reducing-Balance Depreciation

Where the cost of the asset is recognised in reducing instalments over its useful life based on the carrying amount of the asset. For example: Vehicle R100 000 assuming 20% depreciation rate will show a depreciation charge of R20 000 in year 1, R16 000 in year 2 etc.

Other depreciation methods are designed to reflect the actual condition or capacity of the asset as realised over time (such as the production unit method, or ‘condition-based depreciation’). The method chosen should match the pattern of service potential yielded by the asset as closely as possible, and the depreciation charge will then be a realistic reflection of the cost of providing the services by using the asset.

Depreciation rates must be reviewed annually and, if necessary, adjusted to reflect the most recent assessments of the asset’s useful life.

Useful life is the period of time over which an asset is expected to be used by the department. The asset management policy of a department may involve the disposal of assets after a specified time or after consumption of a certain proportion of the economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life is a matter of judgment based on the experience of the department with similar assets. Useful life must be realistically assessed. Departments should consider the following:

- Over what period does the department expect to gain service potential from the asset?
- Has the asset been acquired for a specific project, or can it be re-deployed within the department over time?
- What has been the past experience of such assets in use?
- Is the past experience an appropriate benchmark, given the technology embodied in the asset?
- Has an independent adviser assessed the condition of the asset or its life expectancy?
- What is the opinion of the user or relevant expert about the asset’s useful life?
- What is the net amount expected to be recovered on the asset’s disposal?

Consideration of these factors will enable the expected life of an asset to be assessed realistically.

Although the useful life (and therefore the depreciation rate) is reviewed regularly, the depreciation method used for an asset is selected based on the expected pattern of economic benefits or service potential and is consistently applied from period to period unless there is a change in the expected pattern of economic benefits or service potential from that asset. The assumption of a particular level of maintenance is integral to the calculation of useful life. Maintenance which is part of this assumed level, and which is insignificant to the total asset value, is generally recognised as an expense in the year that it occurs. Assumed maintenance, which is significant (or ‘major’), and which is not carried out when required, may reduce the useful life of the asset, lower its disposal value at the end of its life, or impair its functionality and reduce its output.

Under these circumstances, a review of such assets may indicate that the carrying amount is impaired, and an impairment loss needs to be recognised. An impairment loss is the amount by which the carrying amount of an asset exceeds the total economic benefits or service potential that the department expects to recover from the continued use and ultimate disposal of the asset. Recognition of impairment losses will be dealt with in accounting standards to be issued by the Accounting Standards Board.

Practice Note 19 and 39 of SARS has provided acceptable write-off periods for various categories of assets. These have been provided for in Annexure C.

9.3 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 over its expected useful life. 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 balance sheet.

The South African Revenue Service has been approached in obtaining some form of benchmarking with regards to the expected useful life of an asset per asset category. The consultation process with provincial departments has revealed that a standard cannot be applied in all cases throughout the province. For example, vehicles used in department A in rural areas will have a lower expected useful life than in department B which operates mainly in urban areas.

It is, therefore, proposed that a benchmark be agreed upon by all departments and any subsequent deviations should be substantiated and submitted to Treasury for approval.

10. Disclosure Requirements

The present financial management system does not cater for the recording of assets in terms of historical information. At present any capital purchases are reflected as expenditure under the respective standard item in the income statement. It will therefore be necessary for departments to manually record the net value of assets on the Financial Management System (FMS) at financial year end, to ensure that it agrees to the fixed assets register.

The following Ledger account will be created on the FMS to enable Departments to reflect the net book value of each asset category in the books of account.

| Assets IT Equipment   | (dr) |
| Assets Furniture and Fittings | (dr) |
| Assets Vehicles       | (dr) |
| Assets Heavy Machinery and Equipment | (dr) |
| Assets Specialised Equipment | (dr) |
| Assets Land           | (dr) |
| Assets Building       | (dr) |
| Assets Capital Reserve| (cr) |

Furthermore, as an interim measure, 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:
- 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.
- Total depreciation charged to income
- Total accumulated depreciation provided for the period
- 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 should perform a physical verification of all assets at least once a year to ensure the accuracy of the fixed assets register.
10.1 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 is 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.

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:

- structuring to allow the different classifications of assets to be distinguished;
- financial data on assets that is maintained down to the level which is important to decision-makers;
- clear identification of the individual, or department unit, responsible for the asset; and
- 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).

<table>
<thead>
<tr>
<th>Acquisition</th>
<th>Identify</th>
<th>Accountability</th>
<th>Performance</th>
<th>Disposal</th>
<th>Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Date</td>
<td>♦ Description</td>
<td>♦ Location</td>
<td>♦ Capacity</td>
<td>♦ Capacity</td>
<td></td>
</tr>
<tr>
<td>♦ Supplier</td>
<td>♦ Model</td>
<td>♦ Programme</td>
<td>♦ Condition</td>
<td>♦ Condition</td>
<td></td>
</tr>
<tr>
<td>♦ Reference</td>
<td>♦ Manufacturer</td>
<td>♦ Custodian</td>
<td>♦ Useful Life</td>
<td>♦ Useful Life</td>
<td></td>
</tr>
<tr>
<td>♦ Amount</td>
<td>♦ Serial Number</td>
<td>♦ Convertants or restrictions</td>
<td>♦ Residual Value</td>
<td>♦ Residual Value</td>
<td></td>
</tr>
<tr>
<td></td>
<td>♦ Unique Asset Number</td>
<td>♦ Heritgage or cultural “identifier”</td>
<td>♦ Warranties or Guarantees</td>
<td>♦ Measures</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>♦ Historic Cost</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>♦ Cost</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>♦ Replacement Value</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>♦ Depreciation Rate</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>♦ Accumulate or Depreciation</td>
<td></td>
</tr>
</tbody>
</table>

Departments have a statutory obligation to manage their assets in terms of the PFMA. Until such time as a suitable computerised system is in place departments are required to maintain, as a minimum, a fixed assets register.

The format of the register and the software utilised to record such assets is at the discretion of each department, however the following minimum information should be available for reporting purposes:

1. Description of Asset and Category of asset
2. Unique ID number
3. Date of purchase
4. Location  
5. Cost Price  
6. Expected Useful life  
7. Depreciation  
8. Carrying Value (net book value)  
9. Revaluation Amount  
10. Sale of Proceeds

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

10.2 Financial Statements Disclosure

The financial statements should also disclose for each class of assets recognised:
- Leased/Owned indicator;
- Measurement bases used for determining the gross carrying amount;
- Depreciation method (in addition to the rate);
- The useful lives or the depreciation rates used;
- The gross carrying amount and the accumulated depreciation at the beginning and end of the period;
- The existence and amounts of restrictions on title for assets pledged as securities for liabilities;
- The amount of disbursements on account of assets in the course of construction; and
- 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:
- Additions;
- Disposals;
- Acquisitions through business combinations;
- Increases or decreases during the period resulting from revaluations and from impairment losses (if any) recognized or reversed;
- Impairment losses (if any);
- Impairment losses (if any) reversed;
- Depreciation; The net exchange differences arising on the translation of the financial statements of a foreign department; and
- Other movements.

When a class of assets is stated at revalued amounts the following should be disclosed:
- The basis used to revalue the assets within the class;
- The effective date of the revaluation;
- Whether an independent valuer was involved;
- The nature of any indices used to determine replacement cost;
- The revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;
- The sum of all revaluation surpluses for individual items of assets within that class; and
- 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:
- The carrying amount of temporarily idle assets;
- The gross carrying amount of any fully depreciated property, plant and equipment that are still in use;
- The carrying amount of assets retired from active use and held for disposal; and
- 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, which are not specifically recorded in the fixed asset register, have been valued at an estimated 1% of the book value of movables 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 as follows:

- **Buildings and structures** 50 years
- **Roads** 20 years
- **Reticulation systems** 15 years
- **Dams, reservoirs and bore holes** 15 years
- **Fencing** 15 years
- **Aircraft, vehicles and boats** 4 to 8 years
- **Plant and machinery** 4 years
- **Furniture, tools and equipment** 5 to 6 years
- **Computer equipment** 3 years

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**

<table>
<thead>
<tr>
<th>Note</th>
<th>Expenditure</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>R'000</td>
<td>R'000</td>
</tr>
<tr>
<td>1</td>
<td>Depreciation</td>
<td>10 000</td>
<td>8 000</td>
</tr>
</tbody>
</table>

---

**Notes to Income Statement**

23 of 31
1. **Depreciation**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and machinery</td>
<td>2500</td>
<td>2000</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>Vehicles</td>
<td>6000</td>
<td>4500</td>
</tr>
<tr>
<td></td>
<td>10 000</td>
<td>8000</td>
</tr>
</tbody>
</table>

1. **Balance Sheet**

<table>
<thead>
<tr>
<th>Note</th>
<th>Property, Plant and Equipment</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At</td>
<td>R'000</td>
</tr>
<tr>
<td>2</td>
<td>Cost</td>
<td>R'000</td>
</tr>
<tr>
<td></td>
<td>Plant &amp; Machinery</td>
<td>39 000</td>
</tr>
<tr>
<td></td>
<td>Furniture &amp; Equipment</td>
<td>45 000</td>
</tr>
<tr>
<td></td>
<td>Computer Equipment</td>
<td>166 000</td>
</tr>
<tr>
<td></td>
<td>Vehicles</td>
<td>287 500</td>
</tr>
</tbody>
</table>

2. **Note to the Balance Sheet**

<table>
<thead>
<tr>
<th>Movement 2001</th>
<th>N.B.V @ Beg. of year R'000</th>
<th>Acquisition/ Capitalisation R'000</th>
<th>Disposals R'000</th>
<th>Depreciation R'000</th>
<th>N.B.V @ end of year R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant &amp; Machinery</td>
<td>30 000</td>
<td>5 000</td>
<td>0</td>
<td>2 500</td>
<td>32 500</td>
</tr>
<tr>
<td>Furniture &amp; Equipment</td>
<td>45 000</td>
<td>0</td>
<td>0</td>
<td>500</td>
<td>44 500</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>35 000</td>
<td>0</td>
<td>0</td>
<td>1 000</td>
<td>34 000</td>
</tr>
<tr>
<td>Vehicles</td>
<td>120 000</td>
<td>50 000</td>
<td>0</td>
<td>6 000</td>
<td>164 000</td>
</tr>
<tr>
<td></td>
<td>230 000</td>
<td>55 000</td>
<td>0</td>
<td>10 000</td>
<td>275 000</td>
</tr>
</tbody>
</table>
11. Implementation Timeframes

Departments will be required to include a note to the Balance Sheet as at 31 March 2003 indicating the total cost per asset category purchased during the 2002/2003 financial year including depreciation on those assets.

Asset registers should already be in place in all departments in terms of the PFMA but may exclude depreciation due to the nature of cash accounting.

Departments must now assess all categories of assets and apply the principles of this framework in formalising their depreciation policy and apply accordingly.

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 but the extent of the recording is yet to be determined, i.e. is a listing of the assets sufficient to meet the statutory requirement? 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.

*National Treasury therefore requires departments to undertake the following for disclosure purposes in annual financial statements*

<table>
<thead>
<tr>
<th>When Acquired</th>
<th>Fixed Asset Capturing Timelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Year</td>
<td>March 2003</td>
</tr>
<tr>
<td>2001/02</td>
<td>March 2003</td>
</tr>
<tr>
<td>2000/01</td>
<td>March 2003</td>
</tr>
<tr>
<td>1999/00</td>
<td>September 2003</td>
</tr>
<tr>
<td>Prior to 1999/00</td>
<td>March 2004</td>
</tr>
</tbody>
</table>

12. 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 programmes. 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.
GLOSSARY:

1. **Accounting standards**
   Accounting standards will be defined by the to-be-established South African Accounting Standards Board.

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.

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.

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.

5. **Asset:**
   An 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.

6. **Asset acquisition**
   The process by which a department assumes control of an asset.

7. **Asset disposal**
   The process by which a department relinquishes control of an asset.

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.

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.

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.

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.

12. **Asset utilisation**
    A measure of how effectively an asset is being used to meet the department’s service delivery objectives.

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.

14. **Capital charge**
    The process of determining how best to spend/allocate appropriations or income on assets.

15. **Capital costs**
    The means used to measure the cost of capital that departments have invested in the assets under their control.

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.

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.

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.

19. **Community service obligation**
    A service provided for less than at full cost recovery (sometimes free of charge).

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.

21 **Constructed assets**
Building and related works and other capital improvements on land.

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.

23. **Core asset**
An asset that is central to the obligations of Government.

24. **Core services**
Those services that must continue to be provided to the community (e.g., health care, road maintenance etc).

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.

26. **Costing**
The process of determining the costs of operating an asset to deliver services.

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.

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.

29. **Demand management**
A management technique used to identify and control demand for services.

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 recognizes the gradual exhaustion of the asset's service potential.

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.

32. **Depreciable amount**
Is the historical cost of an asset less the estimated residual value.

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.

34. **Direct costs**
Costs that can be specifically assigned and directly attributed to an asset.

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's life.

36. **Disposal**
The process whereby an asset is disposed of or decommissioned.

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
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.

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.

40. **Efficiency**
   Refers to the use of resources so that output is maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output provided.

41. **Enhancement**
   The work needed to increase an asset's service potential (and thereby its useful life), which is regarded as capital expenditure.

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 lessor to the lessee, without transferring the legal ownership. Title may or may not eventually be transferred.

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.

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.

45. **Government policy**
   The policy made by Government Ministers pursuant to powers enacted upon them by the Parliament of Government.

46. **Gross replacement cost**
   The total current cost of replacing an asset or its equivalent as new.

47. **Hurdle rates**
   The minimum acceptable rate of return of a project for it to proceed.

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.

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.

50. **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.

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.

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.

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.

54. **Needs analysis**
   A thorough analysis to compare community demands, expectations and needs with current and possible sources of service supply.

55. **Net Present Value**
   The value of an asset, at current prices, from its continued operation and subsequent disposal.

56. **Net realisable value**
   The current market value of an asset, less all costs to dispose or re-deploy it.

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.

58. **Non-core assets**
   An asset that is not central to the obligations of Government.

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**.

60. **Open market value**  
Is the price at which, both parties (buyer and seller) are willing, to agree upon.

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).

62. **Opportunity cost**  
The income or benefit foregone by not using resources for the best other alternative.

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.

64. **Performance indicator**  
A specific qualitative or quantitative measure that allows performance against a benchmark to be assessed.

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.

66. **Recurrent costs**  
All costs, including the cost of finance, incurred in holding and operating the asset.

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.

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.

69. **Revaluation**  
The recording of an increase in the carrying value of an asset, to be reflected in the department's financial statements.

70. **Revenue**  
The gross proceeds from the sale of goods and services.

71. **Risk management**  
A management technique used to identify and analyse potential risks, and to implement appropriate responses.

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.

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.

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.

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.

76. **Standard cost pricing**  
A method whereby the price charged is based on actual full cost, adjusted to remove inefficiencies.

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.

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.

79. **Transaction**  
An event or condition which is recorded in the accounting records in monetary terms.

80. **Useful life**  
Is the period over which depreciable asset is expected to be used by the department.

81. **User charge**  
A fee or charge imposed on the users of services.

82. **Valuation**  
The process of assigning and recording a monetary value for an asset (initially, the cost at acquisition).
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.

84. **Whole-of-life cycle approach**
   Asset management across the whole life of the asset.