



CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers



CMAM
Centre for Municipal Asset Management



SALGA
SOUTH AFRICAN LOCAL
GOVERNMENT ASSOCIATION
Inspiring service delivery

The Chartered Institute of Government Finance, Audit & Risk Officers (CIGFARO) in Collaboration with the Center for Municipal Asset Management (CMAM) and the South African Local Government Association (SALGA) presents:

THE LOCAL GOVERNMENT ASSET MANAGEMENT IMPROVEMENT PROGRAMME

Legislative Framework and mSCOA Requirements

01-09-2021

Fostering Excellence in Municipal Asset Management

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INTRODUCTION

- From earliest known times man possessed assets, but municipal fixed asset management is a young and vibrant science.
- Limited guidance provided in legislation on the procedures to be followed during the last century (20th).
- Restricted to the provincial level, with limited guidance on the management of property, and funding of assets.
- Code of Accounting Practice for Local Authorities in South Africa (September 1996) by the Institute for Municipal Finance Officers (IMFO).



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BACKGROUND

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- Fixed Asset Management includes compliance with the accounting and disclosure requirements.
- Capital Accounting is a specialised area of municipal finance management.
- The term originated from the British Rail System (1868), which divided the accounting system into two accounts, capital and operating, with objective to disclose the amount of capital expended rather than the value of assets.
- Fixed assets were not depreciated but shown in the balance sheet at historical cost together with the source of financing employed. The cost of assets was reconciled with the “capital receipts”.
- IMFO (now CIGFARO) promoted the change to the international accepted norms, but the remnants of capital accounting remained in place in the form of “Loans redeemed and other Capital receipts” which was disclosed in the place of depreciation.



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Aspects of Asset Management

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The management of municipal assets includes two clear aspects; Accounting and Physical.

There is a fine balance required between these aspects to be successful in the provision of services.

Accounting

Asset budgeting
/Business Plans

Recording/Transactions

Calculations/Values

Disclosures/Reporting

Physical

Strategy/Planning

Acquisition/Construction

Operations/Maintenance

Disposal/Replacement



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LG: Legislation prior to the Constitution

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There was some legislation in place to govern local government:

➤ Provincial Ordinances

- KZN – Town Planning Ordinance – No 27 of 1949
Guidance regarding immovable property belonging to the municipality.
- KZN – Local Authorities Ordinance – No 25 of 1974
Guidance regarding funding of capital expenditure.

➤ Black Local Authorities Act, Act No. 102 of 1982

Providing for the establishment of local authorities in townships.

There was national legislation that provided the foundation for further change:

➤ Local Government Transition Act, Act 209 of 1993

- The restructuring of local government;
- Delimitation of areas of jurisdiction;
- Establishment of LG Demarcation Boards in respect of the various provinces.



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Constitution Of The Republic Of South Africa No. 108 Of 1996:

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Powers And Functions Of Municipalities - Section 156

- (1) A municipality has executive authority in respect of, and has the right to administer
 - a. the local government matters listed in Part B of Schedule 4 and Part B of Schedule 5; and
 - b. any other matter assigned to it by national or provincial legislation.
- (4) The national government and provincial governments must assign to a municipality, by agreement and subject to any conditions, the administration of a matter listed in Part A of Schedule 4 or Part A of Schedule 5 which necessarily relates to local government, if—
 - (a) that matter would most effectively be administered locally; and
 - (b) the municipality has the capacity to administer it.
- (5) A municipality has the right to exercise any power concerning a matter reasonably necessary for, or incidental to, the effective performance of its functions.



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MODERN DEVELOPMENT

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- Physical management of assets has a direct result on financial results, and legislation since 1994 changed the way assets are intended to be managed.
- Some prescriptions were issued regarding the format of asset registers (data base/management systems).
- There were, at most municipalities:
 - No reconciliation between physical records and the financial disclosures.
 - Descriptions of assets made it difficult, if not impossible, to verify asset components.
 - No coordinated effort to manage all the assets, and conflicts arose.



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Legislation prior to 2000

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- **MUNICIPAL DEMARCATION ACT (27 OF 1998)**
 - To provide for criteria and procedures for the determination of municipal boundaries by an independent authority
- **MUNICIPAL STRUCTURES ACT (117 OF 1998)**
 - Categories and types of municipality;
 - Criteria for determining the category
 - Types of municipality within each category;
 - Division of functions and powers between categories of municipality;
 - Internal systems, structures and office-bearers of municipalities;
 - Appropriate electoral systems.



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Municipal Systems Act (MSA) Act 32 Of 2000

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76. Mechanisms for provision of services

A municipality may provide a municipal service in its area or a part of its area through-

(a) an **internal mechanism**, which may be-

- (i) a department or other administrative unit within its administration;
- (ii) any business unit devised by the municipality, provided it operates within the municipality's administration and under the control of the council in accordance with operational and performance criteria determined by the council; or
- (iii) any other component of its administration; or
- (v) any other institution, entity or person legally competent to operate a business activity.

b) an **external mechanism** by entering into a service delivery agreement with-

- (i) a municipal entity;
- (ii) another municipality;
- (iii) an organ of state, (eg Water Board, Licensed body, Traditional Authority)
- iv) a community-based organisation or other non-governmental organisation legally competent to enter into such an agreement, or
- (v) any other institution, entity or person legally competent to operate a business activity.



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Guidelines For Capital Accounting

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NT provides standards and guidance on the financial aspects of asset management.

- High level prescriptions regarding the responsibilities for asset management were included in the Municipal Finance Management Act (MFMA) Act 56, 2003.
- Statutory requirements for capital expenditure and funding were included in the MFMA and MSA.
- MFMA Circulars issued in terms of the MFMA - continuously.
- Local Government Capital Asset Management Guideline in 2008
- Municipal Asset Transfer Regulations (GN No R 878 of August 2008)
- Generally Recognised Accounting Practice (GRAP) – as amended.
- Accounting Guideline on GRAP 17 – Property, Plant and Equipment (June 2012)
- Standard Operating Procedures for Municipalities (May 2016)



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Municipal Finance Management Act (MFMA): Section 63

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- 1) The **accounting officer** of a municipality is responsible for the management of –
 - a) The **assets of the municipality**, including the safeguarding and the maintenance of those assets; and
 - b) The liabilities of the municipality.
- 2) The **accounting officer** must for the purpose of subsection (1) take all reasonable steps to ensure –
 - a) That the municipality has and maintains a management, accounting and information **system** that accounts for the assets and liabilities of the municipality;
 - b) That the municipality's assets and liabilities are **valued** in accordance with standards of generally recognised accounting practice; and
 - c) That the municipality has and maintains a system of **internal control** of assets and liabilities, including an asset and liabilities register, as may be prescribed.



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Municipal Finance Management Act (MFMA): Section 78

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- (1) **Each senior manager** of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps **within their respective areas of responsibility** to ensure -
 - (a) that the **system** of financial management and **internal control** established for the municipality is carried out diligently;
 - (b) that the financial and other resources of the municipality are **utilised effectively**, efficiently, economically and transparently;
 - (c) that any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;
 - (d) that all revenue due to the municipality is collected;
 - (e) that the **assets** and liabilities of the municipality are **managed effectively** and that assets are **safeguarded and maintained** to the extent necessary;
 - (f) that all **information** required by the accounting officer for compliance with the provisions of this Act is timeously submitted to the accounting officer; and
 - (g) that the provisions of this Act, to the extent applicable to that senior manager or official, including any delegations in terms of section 79, are complied with.
- (2) A senior manager or such official must perform the functions referred to in subsection (1) **subject to the directions of the accounting officer** of the municipality.



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Statutory Guidelines on Funding

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

MFMA Section 19. (2)

Before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider—

- (a) the projected cost covering all financial years until the project is operational; and
- (b) the future operational costs and revenue on the project, including municipal tax and tariff implications.

MSA Section 74.

(1) A municipal council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act and with any other applicable legislation.

(2) A tariff policy must reflect at least the following principles, namely that (see Act for full text).



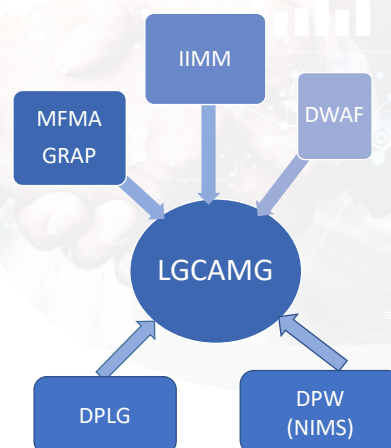
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Local Government Capital Asset Management Guideline (LGCAMG) Of 2008

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Various mutually supporting guidelines have been aligned in the LGCAMG, including the following:

- The DPLG “Guidelines for Infrastructure Asset Management in Local Government”
- Sector specific guidelines on how asset management principles would be applied for efficient, effective and economical management of sectoral assets:
 - Verification and Valuation of Major Water Infrastructure Assets – Department of Water and Forestry Affairs (DWAF);
 - International Infrastructure Management Manual co-authored by Institute of Municipal Engineering of Southern Africa IMESA; and
 - National Infrastructure Maintenance Strategy (NIMS) managed by Department of Public Works (DPW).
- The accounting and reporting principles governing capital assets are covered in more detail in standard specific guidelines and should be referred to in conjunction with the LGCAMG.



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LGCAMG - GUIDANCE

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- **ASSET MANAGEMENT IMPLEMENTATION**
Coordination and guidance on implementation.
- **ASSET MANAGEMENT**
Strategy and Life Cycle management
- **GOVERNANCE AND INTERNAL CONTROLS**
Responsibilities, Planning, Budgeting and Reporting
- **ASSET REGISTERS**
Information, linkages and interfaces, Useful lives.
- **ACCOUNTING FOR CAPITAL ASSETS**
Recognition, Components, Depreciation, Subsequent costs, Reviews, Disposal



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Asset Register/Management System

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NT Guideline 2008: An asset register is a complete and accurate database of the assets that is under the control of a municipality and that is regularly updated and validated.

- Identification & Location - What and where is this asset, and who does it serve?
- Accountability - Who is accountable and how it is being safeguarded?
- Performance – What is its intended and actual level of service?
- Accounting – How is it accounted for?
- Management & Risk – How is it managed? How critical is it?
- Acquisition and disposal – Transactional source (Audit Trail).

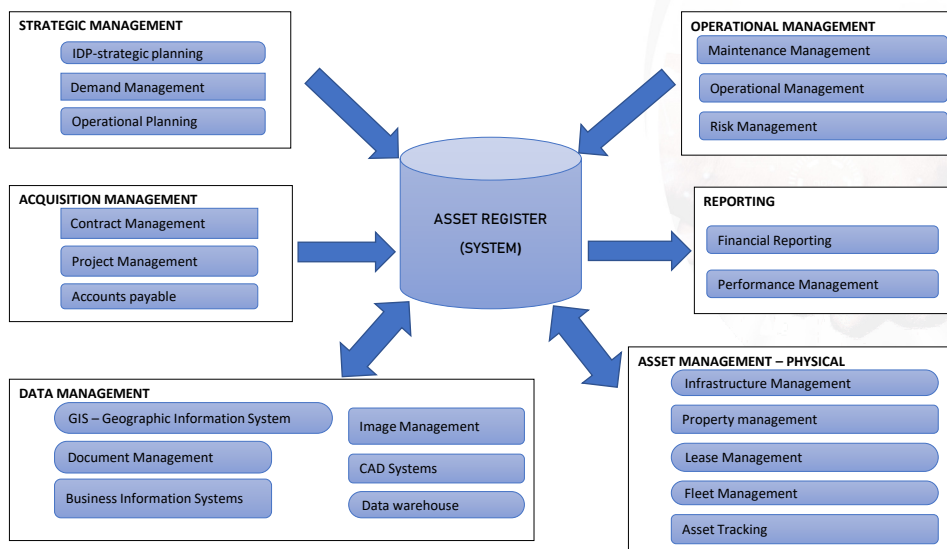
The diagram below (see next slide) illustrates how integrated management systems work and the essential role the asset register plays in facilitating various essential decision-making processes.



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System Requirements – 2008 (NT)

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Other National Treasury Guidelines

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➤ MUNICIPAL ASSET TRANSFER REGULATIONS

(GN No. R. 878 of 22 August 2008 in terms of Section 168 of the MFMA)

The regulations cover all transfers and disposals of municipal assets, including transfers to private sector parties, other municipalities, municipal entities and national and provincial organs of state and the granting of temporary rights to use municipal assets (such as leasing of assets).

➤ Accounting Guideline on GRAP 17 – Property, Plant and Equipment (June 2012)

This document provides guidance on how an entity can distinguish property, plant and equipment from other non-current assets and the accounting treatment thereof. The GRAP takes precedence while this guideline is used mainly to provide further explanations on the concepts already in the GRAP.

➤ Standard Operating Procedures for Municipalities (May 2016)

- ❖ This manual is intended to be a practical guide providing procedural guidelines on the operational management aspects of running a Finance Department of a municipality.
- ❖ The SOPs can be used by all municipalities, and municipalities are advised to adjust the SOPs to their size, operations, environment and organogram.

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GRAP

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- The Accounting Standards Board (Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), read with Section 216 (1)(a) of the Constitution, to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).
- The Board must determine GRAP for: (a) departments (national and provincial); (b) public entities; (c) constitutional institutions; (d) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and (e) Parliament and the provincial legislatures.
- Generally Recognised Accounting Practice (GRAP) relating to Municipal Asset Accounting:
 - ❖ Property, Plant and Equipment (GRAP 17)
 - ❖ Investment Property (GRAP 16),
 - ❖ Intangible Assets (GRAP 31)
 - ❖ Heritage Assets (GRAP 103)
 - ❖ Agricultural assets (GRAP 27)
 - ❖ Assets held under a finance lease (GRAP 13) and,
 - ❖ Inventory under certain circumstances (GRAP 12).



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Municipal Plans

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Strategic Plan:

- development of the overall guidelines for meeting demand, including the level of service for each function.
- Setting the parameters for the business plans relating to the construction or acquisition of assets.

Asset Management Policy

- The capital asset management policy should cover the asset life-cycle management processes and procedures, including the accounting policy.
- The compilation of the Asset Management Policy includes decisions where national directives (especially GRAP) gives a choice to the municipality, like; disclosure method for the value of PPE and Investment Property, Depreciation method and Calculation of Impairment of assets.
- The policy cannot contradict national directives but must disclose municipal preferences and choices within that framework, and add decisions not necessarily provided for in national directives.



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Procedure Manual

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The final procedure manual must have extensive referencing to enable integration with the Job Descriptions of all personnel tasked with duties relating to the management of assets.

The integration of these documents will ensure:

- All required tasks have been assigned,
- There is a clear understanding by each staff member of their responsibilities, and
- There is an easy way to establish control and supervision over all aspects of assets management.



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Municipal Standard Chart of Account Regulations (mSCOA)

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When recording a transaction in the ledger of a municipality, a selection must be made from each of these **segments**, meaning that all segments must be used for recording a single transaction.

In finding the appropriate classification code from a segment the following questions need to be answered:

- **Funding** – What source of funding will be used, from which source is the revenue received?
- **Function** – Against which functions or sub-functions should the transaction be recorded?
- **Standard Classification** – Against which organisational vote/sub-vote should the transaction be recorded?
- **Item** – What is the nature of the transactions to be recorded?
- **Project** – Does the transaction relate to a specific project and if so, what type of project?
- **Regional Indicator** – Which geographical area is deriving the benefit from the transaction?
- **Costing** – Impact of the transaction on secondary costing?



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Municipal Standard Chart of Accounts (mSCOA)

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mSCOA typical layout – Asset

Infrastructure		
	Cost	
		Opening Balance
		Acquisitions
		Decommissioning, Restoration and Similar Liabilities
		Correction of Error
		Change in Accounting Policy
		Disposals
		Transfers Received
		Transfers Made
		Closing Balance
	Accumulated Depreciation	
		Opening Balance
		Other Changes
		Depreciation
		Disposals
		Transfers
		Closing Balance
	Accumulated Impairment	
		Opening Balance
		Impairment
		Disposals/Transfers Out
		Changes not specifically listed
		Closing Balance



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MFMA Circular 80 – March 2016

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Para 4. What Constitutes Minimum Compliance to mSCOA – Business Processes and System Functionality

- System of financial management and internal control capable of providing for the uniform recording and classification of both municipal budget and financial information at a transaction level in the prescribed municipal standard chart of accounts.
- Commercial or bespoke solutions are meant to assist officials within an organisation to generate information for management control and decision making purposes.



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Annexure B Of MFMA Circular 80 – Asset System

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➤ Manage the full asset life cycle

- ❖ Manage the contract and build phase of the project by registering the component and rolling the accounting transaction up to the work-in-progress (WIP);
- ❖ Immediately after a completion certificate is received, unbundle assets and maintain the parent-child relationship between the main asset and its components
- ❖ Enable *table-to-floor* inspection sheets (electronic devices are preferred) as well as *floor-to-table* look-up methodologies
- ❖ Seamless integration with a Geographical Information System (GIS) or alternative mapping enabled graphical user interphase

➤ Identification of Assets

- ❖ Ability to identify and track assets in a hierarchy structure of departments, locations, components and sub-components.

➤ Maintenance Strategies

- ❖ Compile and monitor expenditure against the asset maintenance plans
- ❖ Ability to attach and insert links to Technical Documentation throughout the maintenance module



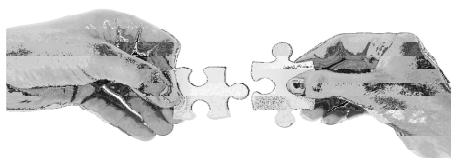
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Conclusion

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- The guidance provided by the existing legislation and directives is extensive, but there is still an onus on individual municipalities to compile their own strategies, policies and plans.
- The procedures to implement the specific plans must be recorded by each municipality, and the management team must ensure the structures are in place to cover all processes, with adequate training to all individuals involved.
- The effective management of municipal assets also requires a coordinated effort of the accounting and physical management processes, and we need to cooperate.

THANK YOU!



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Questions?



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