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STOCK AND ASSET MANAGEMENT/DISPOSAL POLICY

SEPTEMBER 12, 2018

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1. OBJECTIVE

1.1 To ensure the effective and efficient control of the CEF's assets through:

- proper recording of assets from authorization to acquisition and to subsequent disposal.
- providing for safeguarding procedures, and
- setting proper guidelines as to authorized utilization and prescribing for proper maintenance.

1.2 To assist staff in understanding their legal and managerial responsibilities about assets.

2. BACKGROUND

2.1. The proper utilization and management of its assets is one of the prime mechanisms by which a CEF can fulfill the legal objects for:

- Delivery of sustainable services.
- Promotion of social and economic development.
- Promoting a safe and healthy environment and,
- Providing for the basic needs to the community.

2.2. The CEF has a legal and moral obligation to ensure it implements policies to provide for the effective and efficient usage of its assets over the useful life thereof.

2.3. The asset management policy deals with the CEF rules required to ensure the enforcement of appropriate stewardship of assets.

2.4. Stewardship has three components being the:

- Management, utilization and control by CEF staff.
- Financial administration by the Chief Financial Officer, and
- Physical administration by the Manager: Expenditure & Asset Management.

2.5. Statutory provisions exist to protect public property against arbitrary and inappropriate management or disposal by a CEF.

2.6. Accounting standards are set to ensure the appropriate financial treatment for property, plant or equipment. The requirements of these accounting standards include:

- The compilation of asset registers recording all assets controlled by the CEF;
- Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant, or equipment, and
- The standards to which these financial records must be maintained.

3. DEFINITIONS

Assets	are resources controlled by the CEF as the result of past events and from which future economic benefits or future service potential are expected to flow to the CEF and for the purpose of this policy refers to property, plant and equipment but excludes Investment Properties.
Amortization	is the systematic allocation of the depreciable amount of an intangible asset over its useful life.
Capitalization	is the recognition of expenditure as an Asset in the Financial Asset Register.
Carrying amount	is the amount at which an asset is included in the Statement of Financial Position after deducting any accumulated depreciation and accumulated impairment thereon.
Control items	are items of assets that are not significant enough for financial recognition but are valuable enough to warrant special safeguarding.
Cost	is the amount of cash or cash equivalents paid or the fair value of the other consideration given or received to acquire an asset at the time of its acquisition or construction.
Cost of acquisition	is all the costs incurred in bringing an asset item to the required condition and location for its intended use.
Depreciation	is the systematic allocation of the depreciable amount of an asset over its useful life.
Depreciable amount	is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Fair value	is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.
Financial asset register	is the control register recording the financial and other key details for all CEF assets recognized in accordance with this policy.
Impairment loss of a cash-generating asset	is the amount by which the carrying amount of an asset exceeds its recoverable amount.
Recoverable amount	is the amount that the CEF expects to recover from the future use of an asset, including its residual value on disposal.
Residual value	is the net amount that the CEF expects to obtain for an asset at the end of it's useful life after deducting the expected costs of disposal.
Useful life	is either: (a) the estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the CEF, or (b) the estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the CEF.

4. RESPONSIBILITIES AND ACCOUNTABILITIES

4.1. CEF staff is responsible for the management of the assets of the CEF, including the safeguarding and the maintenance of those assets.

4.2. CEF staff must take all reasonable steps to ensure that:

- the CEF has and maintains a management, accounting and information system that accounts for the assets of the CEF.
- the CEF complies with standards of GRAP.

- the CEF has and maintains a system of internal control of assets, including an asset register, and
- the finance manager and other senior staff comply with this policy.

4.3. Finance Manager is responsible to ensure that the assets are properly recorded and safeguarded.

4.3.1. The Finance Manager must take all reasonable steps to ensure that:

- appropriate systems of financial management and internal controls are established and carried out diligently.
- the financial and other resources of the CEF are utilized effectively, efficiently, economically, and transparently.
- any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- the systems, processes and registers required to substantiate the financial values of the CEF's assets are maintained to standards sufficient to satisfy the requirements of all statutes;
- financial processes are established and maintained to ensure the CEF's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- the managers are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

4.3.2. The Finance Manager may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

4.4. The Managers must take all reasonable steps to ensure that:

- appropriate systems of physical management and controls are established and carried out for assets in their areas of responsibility;
- the CEF resources assigned to them are utilized effectively, efficiently, economically, and transparently;
- the assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied;

- any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- they are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the CEF's strategic objectives;
- the purchase of assets complies with all CEF policies and procedures;
- all movable and immovable assets are duly processed and identified when it is received into his/her stewardship;
- all movable and immovable assets received into his/her stewardship are appropriately safeguarded for inappropriate use or loss. This will include control over the physical access to these assets and regular asset counts to ensure any losses have not occurred.
- assets are appropriately utilized for the purpose for which the CEF acquired them for.

The Manager may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

4.5. Safeguarding of assets.

Managers shall be directly responsible for the physical safeguarding of any asset controlled or used by the department in question.

In exercising this responsibility, managers shall adhere to the stipulations of this policy as well as any other written directives issued by the CEF Executive Director to the department in question, or generally to all departments/field offices, in regard to the control of or safe-guarding of the CEF's assets.

5. FINANCIAL MANAGEMENT

5.1. Approval to acquire assets

Funds can only be spent on a capital project if:

- the funds has been appropriated in the capital budget, and the future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- the project, including the total cost and funding sources, has been confirmed;
- the Finance Manager confirms that funding is available for that specific project, and
- the Supply Chain Management prescripts/procedures have been adhered to.

5.2. Funding period of capital projects

The acquisition of assets will not be funded over a period longer than its useful life.

5.3. Disposal of assets

- The CEF may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide the minimum level of basic CEF services, unless such asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic CEF services must not be compromised as a result of the disposal of the asset.
- The decision that a specific asset is not needed to provide the minimum level of basic CEF services, may not be reversed by the CEF after that asset had been sold, transferred or otherwise disposed of.
- The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with CEF supply chain management regulation and policy.
- The transfer of assets to another CEF office is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.
- Managers shall report in writing to the Finance Manager on all assets controlled or used by the department/field office concerned, which such manager wishes to alienate by public auction or public tender.
- Once the assets are alienated, the Finance Manager shall approve the de-recognition of the asset from the asset register.
- All gains and losses realized on the alienation of assets shall be accounted for according to GRAP requirement.

5.4. Loss, Theft, or destruction of assets

Managers shall ensure that any incident of loss, theft, or destruction of any asset controlled or used by the department/field office in question is promptly reported in writing to the Finance Manager and community safety in cases of suspected theft or malicious damage also to the Nearby Police station.

CEF reserve the right to recover carrying value of assets in case of proven negligent from the liable staff.

6. INTERNAL CONTROLS

6.1. Financial asset registers

6.1.1. The Supply Chain Manager will establish and maintain the asset register containing key information on each item of asset that satisfies the recognition criteria.

6.1.2. Contents of the financial asset register:

- The asset register shall be maintained in the format determined by the Supply Chain department in consultation with Finance Manager, which shall comply with the requirements of GRAP.

6.1.3. Internal Controls over the financial asset registers:

- Controls around the asset registers should be sufficient to provide managers with complete accurate and valid information.
- These controls will include the physical management and recording of all acquisitions, transfers, losses, and disposals of assets.

6.2. General management of assets

6.2.1. The Supply Chain Manager will undertake annual asset verification.

6.2.2. A manager must notify the Finance Manager about any new acquisition of asset in writing for inclusion in the asset register

6.2.3. Every field office must keep a maintenance record for any repairs and maintenance done.

6.3. Transfers of assets

- Asset transfers must be done in writing

6.4. Verification of assets

- The CEF shall perform full asset verification at the end of each financial year.

6.5. Insurance of assets

- The CEF shall ensure that insurable assets are comprehensively insured.

7. CLASSIFICATION & COMPONENTS

7.1. Classification of assets

- Any asset recognized as an asset under this policy will be classified according to categories as per the Polokwane Asset Register
- All fixed assets should be classified under the following headings in the Asset Register:

a. Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the CEF's operations, that is shown as a single class for the purposes of disclosure in the financial statements);
b. Intangible Assets

Property, plant, and equipment:

- Land
- Buildings (not held as investment assets)
- Community assets (resources contributing to the general well-being of the community)
- Infrastructure assets (assets which are part of a network of similar assets)
- Intangible assets
- Other assets (ordinary operational resources, consisting of Furniture, Equipment and Vehicles
- Library books

8. ACCOUNTING FOR ASSETS

8.1. Recognition of assets

An item of property, plant or equipment will be recognized as an asset when:

- *it is probable that future economic benefits or potential service delivery associated with the asset will flow to the CEF,*
- *the cost of the asset to the CEF can be measured reliably,*
- *the CEF has control over the asset,*
- *the costs are above the recognition threshold, and*
- *the asset is expected to be used during more than one financial year.*

8.2. Initial measurement

An item of property, plant or equipment that qualifies for recognition as an asset should be initially measured at its "cost of acquisition".

This "cost of acquisition" usually include the following:

- *Purchase costs (less any discounts given)*
- *Delivery costs*
- *Installation costs*

- *Professional fees for architects and engineers*
- *Import duties*
- *Non-refundable taxes*
- *Site development costs*
- *Contractor fees*

8.3. Donations or exchanges

Where an item of property plant or equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the asset register.

8.4. Depreciation

- All fixed assets, except land shall be depreciated.
- The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.
- The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed by the CEF.
- The depreciation charge for each period will be recognized as an expense against the budget of the relevant department/field office unless it is included in the carrying amount of another asset.
- The depreciation method used shall reflect the pattern in which the assets future economic benefits or service potential are expected to be consumed by the CEF.
- A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method.

Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

- The depreciation method will be the straight-line method.

- Depreciation shall be calculated from the day the fixed asset is available for use (GRAP 17).
- The Finance Manager, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the directorate in question or expected to be so controlled or used during the ensuing financial year.
- The procedures to be followed in accounting and budgeting for the amortization of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

8.5. Initial determination of useful life

- Managers need to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:
  i. The program that will optimize the expected long term costs of owning that asset,
  ii. Economic obsolescence because it is too expensive to maintain,
  iii. Functional obsolescence because it no longer meets the CEF's needs,
  iv. Technological obsolescence,
  v. Social obsolescence due to changing demographics, and
  vi. Legal obsolescence due to statutory constraints.
- The useful lives adopted by the CEF, which serves as a guide to the minimum useful lives of an asset at initial recognition, is included in the Asset Hierarchy, attached as Annexure A to this policy.

8.6. Review of useful life

- Only the Finance Manager may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs, the Finance Manager shall inform the Executive Director of the CEF of such amendment.
- The Finance Manager shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

- The useful life of an item of property, plant or equipment should be reviewed annually and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods should be adjusted and the additional depreciation expenses shall be debited to the department/field office using the fixed asset in question.

8.7. Review of depreciation method

- The depreciation method applicable to property, plant or equipment should be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method should be changed to reflect the changed pattern.
- When such a change in depreciation method is necessary the change should be accounted for as a change in accounting and the depreciation charge for the current and future periods should be adjusted.

8.8. Subsequent expenditure on property plant or equipment

- Subsequent expenditure relating to an item of property, plant or equipment that meets the definition of an asset should be added to the carrying amount of the asset when such expenditure will increase the useful life of the asset or increase the efficiency of the asset or reduce the cost of operating the asset, resulting in financial or service delivery benefits.
- All other expenditure should be recognized as an expense in the period in which it occurred.
- Before allowing the capitalization of subsequent expenditure, the Finance Manger must be satisfied that this expenditure will significantly:
    - i. increase the life of that asset beyond that stated in the asset register, or
    - ii. increase the quality of service provided by that asset beyond the existing level of service, or
    - iii. increase the quantity of services that asset can provide, or
    - iv. reduce the future assessed costs of maintaining that asset.
- Expenditure that is proposed to be capitalized must also conform to recognition criteria for assets and should also be appropriately included in the approved capital budget.

8.9. Impairment of assets

The accounting treatment relating to impairment losses is outlined as follows**:**

The carrying amount (Book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically to assess whether the recoverable amount has declined below the carrying amount**.** Recoverable amount is the amount that the CEF expects to recover from the future use of an asset, including its residual value on disposal. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognized as an expense immediately.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose.

In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

The following may be indicators that an item has become impaired:

- The asset has been damaged.
- The asset has become technologically obsolete.
- The asset remains idle for a considerable period either prior to it being put into use or during its useful life.

The following steps will have to be performed regularly during the year to account for impairment losses:

- Field office/department will identify and inform Supply Chain department of assets that:
    i. Are in a state of damage at year end.
    ii. Are technologically obsolete at year end. This can be facilitated if Supply Chain department supply them with a Fixed Asset Register print-out pertaining to major assets showing the remaining useful lives of assets. The field office/department can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout.

iii. Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
iv. Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is Land that is purchased at market value and is to be utilized for subsidized housing developments.
v. The recoverable amounts of these assets need to be calculated by calculating the Net selling Price per asset as defined above.
vi. The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
vii. The impairment loss needs to be accounted for by identifying the relevant funding source.
viii. The carrying amount of an asset should be reviewed annually to assess whether the recoverable amount has declined below the carrying amount.
ix. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount.
x. The amount of the reduction should be recognized as an Impairment expense immediately, unless it reverses a previous revaluation in which case it should be charged to the Revaluation Reserve.
xi. For assets providing economic benefits, the recoverable amount is the net present value of future ownership.
xii. For assets providing future service delivery, the recoverable amount is the remaining proportional to its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance programs.

8.10. Subsequent increase in recoverable amount

- A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount, should be written back when the circumstances and events that led to the write–down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

8.11. Accounting treatment on Disposal

- An item of property, plant or equipment should be eliminated from the Statement of Financial Position, on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its disposal.
- Gains or losses arising from the retirement or disposal of an item of property, plant or equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the Statement of Financial Performance.
- All gains realized on the alienation of fixed assets shall be appropriated annually to the CEF's Capital Replacement Reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the Statement of Financial Performance of the department/field office concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department/field office, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

8.12. Reinstatement, maintenance, and other expenses

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalized.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalized, irrespective of the quantum of the expenses concerned.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalized as part of such fixed asset. Such expenses may include but need not be limited to, transportation costs, installation cost etc.

The following matrix will assist in distinguishing capital expenditure from maintenance expenditure: -

Capital Expenditure	Maintenance

• Acquiring a new asset • Replacing an existing asset • Enhancing an existing asset so that its use/capacity is expanded • Further developing an existing asset so that its original useful life is extended	• Restoring an asset so that it can continue to be used for its intended purpose and designed capacity • Maintaining an asset so that it can be used for the period for which it was initially intended

8.13. Assets held under leases

Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the CEF and reflected as such in the FAR. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the CEF.

8.14. Investment property

Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant, and equipment for purposes of preparing the CEF's statement of position.

Investment assets shall comprise land or buildings (or parts of buildings) or both held by the CEF, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

The CEF has adopted the fair value model in respect of Investment Properties

Fair value

Investment assets shall not be depreciated but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the Statement of Financial Performance at such fair value.

Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department/field office or service controlling the assets concerned.

8.15 Fixed assets treated as inventory

Any land or buildings owned or acquired by the CEF with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the CEF with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the CEF's statement of position.

Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, as capital spares, but a separate section of the fixed assets register shall be maintained for this purpose.

8.16. Other write-offs of fixed assets

The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question.

In every instance where a not fully depreciated fixed asset is written off, the Finance Manager shall immediately debit to such department/field office, as additional depreciation expenses, the full carrying value of the asset concerned.

8.17. General maintenance of fixed assets

Every manager shall be directly responsible for ensuring that all assets are properly maintained and in a manner, which will ensure that such assets attain their useful operating lives.

9. FINANCIAL DISCLOSURE

Assets must be disclosed, in respect of each class of property, plant and equipment, in accordance with Generally Recognized Accounting Practice.