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Department:
Public Works; Roads and Transport
North West Provincial Government
Republic of South Africa

SUPPLY CHAIN MANAGEMENT POLICY

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PREAMBLE

Given the materiality of the Department's assets, and the decentralised locations of these assets, coupled with the high risk of theft and limited funds for replacement, it is imperative that assets are well managed and controlled. To this end, the Department shall establish a rigorous asset acquisition, management and disposal process and maintain a proper asset register, to adequately safeguard all assets against theft, misappropriation, negligence and obsolescence and to ensure that there is prompt management reporting in this regard.

1. DEFINITIONS AND ABBREVIATIONS

For the purposes of this policy, the following definitions apply:

Asset:	movable or immovable items owned and controlled by the Department and from which current or future economic benefits are expected to flow to the Department.
Asset register:	a database or record listing details of all movable and immovable assets.
Board of survey:	disposal committees appointed by the Accounting Officer responsible for asset/inventory losses or damages and recommending appropriate disposal methods.
Obsolete:	outdated assets that can no longer be used by the Department.
Unserviceable asset:	an asset that, owing to normal wear and tear, has become useless and cannot be restored to a condition where it can be utilised for the purpose for which it was originally obtained.

2. PURPOSE AND OBJECTIVES

The purpose of this policy is to articulate the departmental guidelines regarding the acquisition, administration, management, maintenance, safeguarding and disposal of departmental assets.

3. PRINCIPLES

3.1 Legislated

Treasury Regulations 10.1.1 and 10.1.2 state:

- 10.1.1** - "The accounting officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that –
 - (a) preventative mechanisms are in place to eliminate theft, losses, wastage and misuse; and
 - (b) stock levels are at an optimum and economical level."
- 10.1.2** - "The accounting officer must ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution's assets."

To achieve the aforementioned, the Accounting Officer, or his/her delegate, shall prescribe a uniform format for the implementation of a consolidated and decentralised asset register.

The Accounting Officer, or his/her delegate, shall appoint the cost centre managers, in writing, as custodians of departmental assets and hold them responsible for the safeguarding thereof. For each cost centre, heads of sections and chief users shall be appointed to maintain and reconcile the assets and administer the related documentation.

3.2 Classification of Fixed Assets

In compliance with related requirements, the Departmental Asset Manager shall ensure that all fixed assets are classified under the following headings in the fixed assets register; and that asset controllers shall, in writing, provide the Asset Manager with such information or assistance as is required to compile a proper classification:

(a) Property, Plant and Equipment

- i. land (not held as investment assets)
- ii. infrastructure assets (assets which are part of a network of similar assets)
- iii. other assets (ordinary operational resources).

3.3 Recognition of Donated, Sponsored or Partly-owned Assets

Where a fixed asset is donated to the Department, or a fixed asset is acquired by means of an exchange of assets between the Department and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the Accounting Officer, or his/her delegate.

Assets that are partly owned or have been sponsored or donated shall be clearly specified in the asset or inventory register of the Department.

Information to be provided includes:

- (a) the name of the other department or institution that has ownership/control of the assets.
- (b) the period of joint ownership.
- (c) the serial number and/or asset number of the item.

3.4 Capitalisation Criteria

(a) Material Value

No item with an initial cost or fair value of less than R1 000 (one thousand rand), or such other amount as the Accounting Officer, or his/her delegate, may from time to time determine, shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Every cost centre manager shall, however, ensure that any item with a value in excess of R250 (two hundred and fifty rand), and with an estimated useful life of more than one year, shall be recorded in an inventory register.

The departmental Asset Management Team shall ensure that the existence of items recorded in the inventory registers is verified from time to time, at least once in every financial year, and any amendments that are made to such registers shall be retained for audit purposes.

(b) 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 capitalised.

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 capitalised, irrespective of the quantum of the expenses concerned.

Expenses that are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset. Such expenses may include but need not be limited to import duties; and forward cover, transportation, installation, assembly and communication costs.

3.5 The Fixed Asset Register Details

- (a) Classes of assets
- (b) Asset codes
- (c) Asset locations
- (d) Purchase date of the assets
- (e) Date sold or scrapped
- (f) Cost price of the assets
- (g) Book value at the beginning and end of the year
- (h) Accumulated depreciation at the beginning and end of the year
- (i) Total depreciation in the Income statement and per asset class
- (j) Total additions of assets during the year
- (k) Total disposals of assets during the year
- (l) Profit or loss on the disposals.

All cost centre managers and asset controllers under whose control any fixed asset falls shall promptly provide the Asset Manager, in writing, with any information required to compile the fixed asset register, and shall promptly advise the Asset Manager, in writing, of any material change that may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, after which it shall be appropriately capitalised as a fixed asset.

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

3.6 Amendment of Asset Lives and Diminution in the Value of Fixed Assets

Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset.

The Chief Financial Officer 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.

If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the fixed asset register.

3.7 Carrying Values of Fixed Assets

All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.

4. LEGISLATIVE FRAMEWORK

4.1 Legislation

- (a) Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999)
- (b) Treasury Regulations (March 2005)
- (c) Asset Management Guideline – January 2002 Version 1 – National Treasury
- (d) North West Fixed Assets Provincial Guidelines and Procedures

4.2 Departmental

- (a) Financial Management Delegations of Authority
- (b) Supply Chain Management Delegations of Authority

5. SCOPE OF APPLICATION

This policy is applicable once an asset is acquired by/transferred to the Department or any of its offices, and therefore applies to all departmental employees, learnership participants and interns. In particular, the Accounting Officer; the Chief Financial Officer; the Director: Supply Chain Management; the departmental Asset Manager and the Asset Controllers shall play significant roles in the management of the Department's fixed assets.

6. PROCEDURAL PROCEDURE

6.1 General

- (a) The fixed asset register shall be updated on a continuous basis throughout the year.
- (b) Fixed assets shall be counted once a year at year-end.
- (c) Fixed assets shall be reconciled on a monthly basis. The manual reconciliation between the opening and closing balance will be performed, taking additions, disposals and depreciation into account.
- (d) The approval for the purchase of fixed assets is assigned in terms of the Supply Chain Delegations of Authority.
- (e) Each cost centre shall be responsible for:
 - i. purchasing fixed assets
 - ii. updating the fixed asset register
 - iii. safeguarding the fixed assets.
- (f) Depreciation shall be calculated on all fixed assets using the straight-line method.
- (g) The Departmental Asset Manager shall record the fixed asset in the fixed asset register from the date it was purchased. When assets are disposed of, they are taken out of the fixed asset register from the date of sale.
- (h) A code shall be awarded to each fixed asset for inclusion in the fixed asset register and to identify the asset easily.

- (i) Appropriate security mechanisms shall be in place to ensure that fixed assets are kept safe (e.g. alarm system, patrolling guards, safety gates).

6.2 Demand of Assets

In determining the demand for an asset, the Department's applicable supply chain management policy shall be complied with.

6.3 Acquisition of Assets

The acquisition of any departmental asset shall comply with the applicable supply chain management policy.

6.4 Receipt of Assets

- (a) An Asset Controller shall be appointed in writing in each decentralised office to ensure effective control and management of assets received and distributed.
- (b) The receiving officer shall carefully check every delivery before any delivery note is signed. Any evidence of damage or shortage shall be immediately investigated and the particulars reported and endorsed on the delivery note.
- (c) The quality and quantity must always be verified when assets and inventory are received.
- (d) The delivery note shall be signed as proof that the assets have been recorded in the asset register and a printout of the asset register entry shall be attached to the invoice before the documents can be presented for payment.
- (e) Every asset received shall be marked using the Department's coding system and be immediately recorded in the departmental asset register using the prescribed barcode label.
- (f) All assets shall be bar-coded prior to allocation to end users.

6.5 Movement of Assets

- (a) All officials shall be provided with a copy of the asset register applicable to their office(s), which shall be signed as acknowledgement of receipt of the assets.
- (b) Erasures and amendments to the asset register entries are strictly forbidden unless carried out or authorised by the departmental Asset Manager.
- (c) All additions/reductions in any office's assets shall be supported by vouchers. Every office's asset register shall be updated with every transaction.
- (d) No person, whether official or otherwise, may acquire, use, transfer or assign custody or dispose of an asset unless duly authorised in writing by the departmental Asset Manager.
- (e) Written approval from the Asset Manager shall be obtained by any official for the removal of assets, whole or in part, for repairs, service or restoration.

6.6 Safekeeping of Assets

Every cost centre manager shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the directorate or office in question.

In exercising this responsibility, every manager shall adhere to any written directives issued by the Accounting Officer, or his/her delegate and the Asset Manager to the directorate or office in question, or generally to all cost centres, with regard to the control of or safekeeping of the Department's fixed assets.

6.7 Loss, Theft and Destruction or Impairment of Fixed Assets

Every cost centre manager shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the directorate or office in question is promptly reported in writing to the relevant Asset Controller; the departmental Asset Manager; the Loss Control Officer; and, in cases of suspected theft or malicious damage, also to the South African Police Service.

Where an asset entrusted to an employee or manager is lost through the manager's negligence or the asset is reported lost and it is later established that the manager misrepresented that loss in order to personally misappropriate that asset, that manager shall be held personally responsible for the cost of the asset. Such cost shall be recovered from that employee or manager in accordance with the departmental debt management policy.

6.8 Maintenance

(a) Plans

Every cost centre manager shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Chief Financial Officer for approval.

(b) Deferred Maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans that the Chief Financial Officer has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the fixed asset in question and shall recalculate the annual depreciation expenses accordingly.

(c) General Maintenance of Fixed Assets

Every cost centre manager shall be directly responsible for ensuring that all assets (other than infrastructure assets, which are dealt with above) are properly maintained and in a manner that will ensure that such assets attain their useful operating lives.

6.9 Verification of Fixed Assets

- (a) The Asset Management Team shall at least once during every financial year undertake a comprehensive verification of all fixed assets recorded in the asset register of the Department. The verification shall be undertaken to:
 - i. ensure the existence and condition of assets
 - ii. confirm the presence of barcoded asset numbers
 - iii. ensure the correctness and completeness of the assets.
- (b) The Asset Management Team shall report all discrepancies revealed through the verification process for investigation and immediate correction.
- (c) As asset holders, all officials shall assist the Asset Management Team during the asset verification, but not carry out the verification themselves.
- (d) A register of the asset verification shall be maintained to record the verifications carried out.

- (e) After the asset verification, a printout of the electronic asset register shall be signed by the Chief Financial Officer to authorise the correctness of the register.

6.10 Transferral of Assets

- (a) When assets or liabilities of the Department are transferred to another institution in terms of legislation or following a re-organisation of functions, the Accounting Officer shall comply with Section 42 of the Public Finance Management Act i.e.
 - i. draw up an inventory of such assets.
 - ii. provide the accounting officer for the receiving institution with substantiating records, including personnel records of staff to be transferred.
- (b) The Department and the accounting officer for the receiving institution must sign the inventory when the transfer takes place.
- (c) The Department shall file a copy of the signed inventory.

6.11 Losses and Damage of Assets

- (a) All losses and damages to departmental assets shall be reported to the Chief Financial Officer.
- (b) The losses reported shall be recorded in a loss register.
- (c) Upon receipt of the report, a submission shall be made to the Board of Survey to consider the loss/damage and the associated responsibility.

6.12 Disposal of Fixed Assets

- (a) All assets identified as redundant, obsolete and/or unserviceable shall be reported by the Asset Manager to the Chief Financial Officer. The report shall detail:
 - i. a full description of the asset
 - ii. the barcode
 - iii. office number or location of the asset
 - iv. the condition of the asset
 - v. a reason or cause for the obsolescence or redundancy.
- (b) The disposal shall be recommended by the Board of Survey and shall consider the following:
 - i. The disposal of movable assets must be at market-related value or by tender or auction, whichever is most advantageous to the Department.
 - ii. Any sale of immovable property must be at market-related value.
 - iii. When movable assets are written off, this must be noted in the asset register.
 - iv. Subsidiary ledgers, including inventory cards and records relating to assets no longer held or liabilities that have been discharged, can be disposed of after 5 years.
- (c) The disposal of assets shall be approved by the Accounting Officer or his/her delegate.
- (d) The Accounting Officer shall ensure that Treasury Regulations 10.2.1 and 10.2.2, as well as Section 76 (1)(k) of the Public Finance Management Act are complied with prior to granting approval for the disposal or write-off of an asset.

6.13 Letting of Assets

- (a) The Department may not initiate the letting of immovable property without the approval of the Accounting Officer.
- (b) The letting of immovable property must be at market-related tariffs.

- (c) No property may be let free of charge.
- (d) The Accounting Officer must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of property to ensure sound financial planning and management.

The Accounting Officer, or his/her delegate, shall provide departmental employees with the format for the letting of an asset and shall ensure that Section 76(1)(k) of the Public Finance Management Act is complied with prior to granting approval for the letting of an asset.

6.14 Management of Assets

The Asset Manager, under the supervision of the Director: Supply Chain Management, shall draw up procedures on the management of assets in accordance with the National and Provincial Asset Management Guidelines.

6.15 Insurance of Assets

The Accounting Officer, or his/her delegate, may (if deemed economical and based on a risk assessment) insure motor vehicles, including hired vehicles, or such other movable assets determined by the Provincial Treasury, but the insurance premium cost may not exceed R250 000 a year of the Department's vote, unless otherwise approved by the Provincial Treasury.

6.16 Management Reporting

(a) Strategic Planning

The strategic plan of the Department, as envisaged in Treasury Regulation 5.2.2., shall include:

- i. details of proposed acquisitions of fixed or movable capital assets, planned capital investments and rehabilitation and maintenance of physical assets.
- ii. details of proposed acquisitions of financial assets or capital transfers and plans for the management of financial assets and liabilities.
- iii. multi-year projections of income and projected receipts from the sale of assets.

(b) Annual Reporting

On a quarterly basis, the Director: Supply Chain Management shall report in writing to the Chief Financial Officer on the state of affairs of assets in the Department. Such reporting shall include significant acquisitions, disposals and letting of assets and any other matters pertaining thereto.

The Chief Financial Officer must present the report to the Accounting Officer.

(c) Quarterly Reporting

On a quarterly basis, the Director: Supply Chain Management shall report in writing to the Chief Financial Officer on the state of affairs of assets in the Department. Such reporting shall include significant acquisitions, disposals and letting of assets and any other matters pertaining thereto.

The Chief Financial Officer must present the report to the Accounting Officer.

7. RESPONSIBILITIES AND OBLIGATIONS

7.1 The Accounting Officer

In terms of Section 38(1)(d) of the PFMA, the Accounting Officer, or his/her delegate, is responsible for the management, including the safeguarding and maintenance of the departmental assets.

Treasury Regulation 10.1.1.(a) prescribes that the Accounting Officer must take full responsibility and ensure that proper control, accountability and monitoring systems exist for assets and that preventative mechanisms are in place to eliminate theft, losses, wastage and misuse of State assets.

Such responsibility and control system shall include the acquisition, maintenance and disposal of assets.

7.2 Chief Financial Officer

In paragraph 2.1.3 of the Treasury Regulations, the Chief Financial Officer is assigned the general responsibility to assist the Accounting Officer in discharging the duties prescribed in Part 2 of Chapter 5 of the PFMA and the annual Division of Revenue Act. These duties relate to the effective financial management of the Department including the exercise of sound budgeting and budgetary control practices; the operation of internal controls and the timely production of financial reports.

The Chief Financial Officer therefore has overall responsibility for the implementation of an efficient, effective and economical asset acquisition, management, maintenance, safeguarding and disposal system.

7.3 Other Officials

In terms of Section 45(e) of the PFMA, all officials in the Department are responsible for the management, including safeguarding of assets within their areas of responsibility.

A variety of departmental assets have been issued to every departmental official to assist him/her in the execution of his/her responsibilities. Every individual is therefore an inventory/asset holder and shall, as such, be held responsible for the inventory items and/or the assets in his/her office.

7.4 Head of Sections and Chief Users

Each cost centre shall be assigned a head of section and chief users who are responsible for the directorate's financial and supply chain administration. This function shall include responsibility for the maintenance, administration and safeguarding of assets and inventories assigned to the relevant directorate.

7.5 Inventory / Asset Controller

The Asset Controller is responsible for the effective control and management of all departmental assets. In particular, the Asset Controller, under the authority of the Supply Chain Manager, shall ensure that:

- (a) all information required to update the asset register is promptly circulated throughout the Department.
- (b) the asset management team is notified of all changes in the status of assets (i.e. purchases, transfers, impairments and disposals).
- (c) assets are not used for private enterprise or gain by any employees.
- (d) all assets are properly recorded in the asset register and are bar coded.
- (e) a physical verification and stock take of all assets is undertaken on an annual basis.
- (f) all discrepancies in the physical verification are reported and followed up.

7.6 Loss Control Officer

The Loss Control Officer shall investigate, report and record all losses in the loss control register in accordance with the departmental loss control policy and procedures.

7.7 The Board of Survey

(a) Function

The Board shall be appointed by the Accounting Officer to manage asset losses and damages and dispose of assets. The Board shall consider the recommendations for disposal and asset losses and make recommendations to the Accounting Officer regarding disposal or write-off of the asset(s) in question.

The Board shall ensure that:

- i. adequate details on the assets to be considered for disposal are submitted.
- ii. appropriate and duly authorised motivation has been submitted.
- iii. the decisions/recommendations are justified and valid and appropriately substantiated.
- iv. the decision making process was fair, consistent and correctly applied.
- v. The following was taken in account:
 - the assets recommended for write-off were indeed damaged or lost
 - all disposal alternative were considered
 - all replacement alternative have been considered.

(b) Composition

The members of the Board shall be appointed in writing by the Accounting Officer, who shall also determine the term of office. The Board shall consist of at least four senior officials and be constituted as follows:

i. **The Chairperson**

Where possible, the chairperson shall be the Chief Financial Officer.

ii. **Vice-Chairperson**

The vice-chairperson shall be at least a member of the senior management service (at a level 13).

iii. **Other Members**

The other members shall be selected across functions and shall comprise senior officials of whom at least one shall represent the Asset Management Unit within the Supply Chain Management Directorate.

iv. **Secretariat**

An official shall be made available to perform the secretarial duties.

v. **Secundi**

The Accounting Officer may appoint *secundi* to temporarily replace members that are absent from meetings due to illness, leave etc. The *secundi* shall have the same powers as the members.

(c) **Decision-Making**

The Board shall only consider recommendations if at least sixty percent (60%) of its members are present.

8. COMMENCEMENT OF THE POLICY

This policy is effective from the signature date below.

APPROVED



PJ N VAN STADEN
DEPUTY DIRECTOR GENERAL

1 September 2009

Date