

Andhra Pradesh Municipal Asset Management Manual



Department of Municipal Administration &
Urban Development
Government of Andhra Pradesh



CENTRE FOR GOOD GOVERNANCE
Knowledge • Technology • People

February 2008

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GO Ms. No.233 MA dated 22-5-2007

GO Ms. No.619 MA dated 21-8-2007

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Koneru Ranga Rao
Minister for Municipal Administration
Government of Andhra Pradesh

MESSAGE

In the year 2001, Government of India (GoI), based on the recommendations of the Eleventh Finance Commission, issued guidelines to the Comptroller and Auditor General of India (CAG), to prescribe formats of Budget and Accounts for Panchyat Raj Institutions and Urban Local Bodies (ULBs) amenable to computerization.

In September, 2003, the GoI suggested to the CAG to develop National Municipal Accounts Manual (NMAM). In December, 2004, the NMAM developed by CAG was made available to State Governments across the country for development of State-specific Budget and Accounts Manuals to be used by the ULBs. Like many other ULBs in the country, ULBs in Andhra Pradesh have been following cash based single entry system of accounting, while the NAMM suggest accrual based double entry system of accounting.

The State Government has decided to introduce reforms in budgeting and accounting in all ULBs and desired the Centre for Good Governance (CGG) to develop state-specific accounts and budget manuals keeping the NMAM guidelines in view.

Centre for Good Governance has developed Manuals for Accounts, Budget, Audit, and Asset Management; and Handbook on Municipal Financial Accountability. I am confident that these manuals would facilitate better management of finance and accounts activities in the Urban Local Bodies (ULBs) and help in improved and efficient delivery of civic services.

Koneru Ranga Rao



K. Rosaiah

Minister for Finance, Planning & Legislative Affairs
Government of Andhra Pradesh &
Chairman, Steering Committee
Centre for Good Governance, Hyderabad

MESSAGE

Centre for Good Governance (CGG) was established by Government of Andhra Pradesh (GoAP) in October, 2001 to help it to achieve its goal of transforming governance. One of the focus areas of CGG is Financial Management – to improve planning, resource allocation, monitoring, management and accounting systems and access to information, so that accountability is clear, spending is transparent and public expenditure is more effectively controlled and more productively targeted.

Government of Andhra Pradesh in Municipal Administration and Urban Development department have issued orders (GO Ms. No.233 MA dated 22nd May, 2002) in 2002 that ULBs adopt with immediate effect accrual based accounting system within their jurisdiction.

Government of India made the National Municipal Accounts Manual (NMAM) available to State Governments during December, 2004 for development of state-specific accounts and budget manuals. The Government of Andhra Pradesh has decided to introduce reforms in budgeting and accounts in all ULBs and in January, 2006 entrusted the CGG the work relating to preparation of state specific accounting and budget manuals as per the guidelines in NMAM. CGG has immediately responded and developed the following manuals and handbook.

- Andhra Pradesh Municipal Accounts Manual;
- Andhra Pradesh Municipal Budget Manual;
- Andhra Pradesh Municipal Asset Management Manual;
- Andhra Pradesh Municipal Audit Manual;
- Andhra Pradesh Municipal Uniform Budget and Accounts Code; and
- Handbook on Municipal Financial Accountability.

The manuals were approved by Government recently in GO Ms. No.619 MA dated 21 August, 2007. I am glad that the manuals and handbook are being published and hope that they would be helpful to all ULBs to improve their performance and serve the people.

K. ROSAIAH

Preface

Physical assets of ULB are no different in nature compared to the assets that are typically used by businesses. The only difference is that the assets of ULB are also the assets of the community which pays for them through the taxes that the ULB collects. Unlike the businesses, the cost of use of assets (maintenance plus depreciation) may not be fully recovered from the users. For this reason alone, the assets have not been given proper attention by ULBs. There is no proper record maintained of their particulars, acquisition value, location and so on.

After 74th Amendment to the Constitution, the ULBs are in the process of switching over to Accrual Based Accounting System from the present single entry cash based accounting system. Moreover, there is pressure to improve the infrastructure facilities, social housing provision and better services. Under the circumstances, good asset management has become imperative for the ULBs.

At the request of Government, Centre for Good Governance (CGG) has undertaken the responsibility of developing a Manual on Municipal Asset Management. The scope of the Manual is to enable functionaries to understand the importance of asset management and maintenance of proper records and ensure management of their fixed assets, including the procurement, maintenance and disposal thereof.

The Manual is developed by M/s. Vidya Sagar & Co, Chartered Accountant firm with the assistance of CGG team consisting of Sri V. Chandrasekhar, Knowledge Manager, Sri DV Rao, Consultant, Sri N. Manmadha Rao, Internal Auditor and Sri M. Brahmaiah, Director (FMRG). I would welcome any suggestions for improvement of the Manual.

Dr. RAJIV SHARMA, IAS
Director General
Centre for Good Governance

June 2007
Hyderabad

GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Municipal Administration & Urban Development Department – Decision taken in the Workshop on Governing for Results – Local Bodies and Self Help Group V on 16th and 17th May, 2002 held in MCR HRD Institute, Hyderabad – Implementation – Orders – Issued.

MUNICIPAL ADMINISTRATION AND URBAN DEVELOPMENT DEPARTMENT

GO Ms. No.233 MA

DATED 22-5-2002

ORDER

The following decision was taken in the Workshop, Governing for Results - Local Bodies and Self Help Groups held on 16th and 17th May, 2002 in MCR HRD Institute to adopt accrual based accounting system.

“The Urban Local Bodies/Corporations adopt with immediate effect the accrual based accounting system within their jurisdiction”.

2. Government has considered the above suggestion and hereby accepts for immediate implementation.

(BY ORDER AND IN THE NAME OF GOVERNOR OF ANDHRA PRADESH)

A.K.GOYAL

PRINCIPAL SECRETARY TO GOVERNMENT

To
The Commissioner, Municipal Corporation of Hyderabad, Hyderabad
The Director of Municipal Administration, Hyderabad
The Engineer-in-Chief,(PH), Hyderabad
The Director of Town Planning, Hyderabad
SF

//FORWARDED BY ORDER//

SECTION OFFICER

GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

MA&UD Department - National Municipal Accounting Manual - A.P. State Municipal Accounting Manual - Implementation in all ULBs in the State - Orders Issued.

MUNICIPAL ADMINISTRATION AND URBAN DEVELOPMENT (UBS) DEPARTMENT

G.O. Ms. No. 619 MA

Date: 21-08-2007

Read:

Guidelines issued by Government of India dated: 16-05-2005.

O R D E R

In the reference cited above, Government of India have communicated the model National Municipal Accounting Manual and instructed the State Governments to prepare the State Municipal Accounting Manual according to their needs and implement the same in all the Urban Local Bodies,

2. Accordingly Government of A.P, have prepared the A.P. State Municipal Accounting Manuals (1. A.P. Municipal Accounting Manual, 2. A.P. Municipal Budget Manual, 3. A.P. Municipal Asset Management Manual and 4. A.P. Municipal Audit Manual) in collaboration with Centre for Good Governance, Hyderabad. C. & A. G, Hyderabad has concurred with implementation of the same in the State.
3. Government hereby direct all the Urban Local Bodies in the State to implement the A.P. Municipal Accounting Manuals. The required Hard and Soft copies of A.P. Municipal Accounting Manuals will be provided by Centre for Good Governance, Hyderabad.
4. Commissioner and Director of Municipal Administration is instructed to take further necessary action.
5. These orders are issued with the concurrence of Fin. U.O. No. 17728/268/AI/Exp. M & F/07, dated: 2-08-2007.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDRHA PRADESH)

PUSHPA SUBRAHMANYAM
SECRETARY TO GOVERNMENT

To

The Commissioner and Director of Municipal Administration, Hyderabad.

All the HoDs ,UDAs and ULBs in the State through CDMA, Hyderabad.

Abbreviations

ICAI	Institute of Chartered Accountants of India
MIDS	Municipal Information Data Standards
PO	Purchase Order
TAM	Total Asset Management
ULB	Urban Local Body

- 1.1 Creation, management and maintenance of amenities and other assets is one of the important functions of Urban Local Body (ULB) for the good service delivery to its people. The purpose of Asset Management is to help organizations utilize and effectively manage their assets.

What Is Asset Management And Why Is It Important?

- 1.2 The 124 ULBs in Andhra Pradesh control Lands, Buildings, Roads, Bridges, Plant and Equipment worth several crores, whether funded through internal revenue, Central or State Government grants or borrowings, held for the common good.
- 1.3 The changed scenario after 74th Amendment to the Constitution brought pressure on revenue budgets to fund capital infrastructure investment and the municipal functionaries are under pressure to improve the infrastructure facilities. Good asset management can also help the ULB in the achievement of sustainable development, which is part of its obligatory functions.
- 1.4 Efficient asset management will enable an ULB to:
 - Assess the make-up of the best portfolio required to deliver the given services
 - Minimise maintenance costs, and maximise property efficiency
 - Maximise efficiency of service delivery
 - Facilitate long term planning in the context of ULB objectives
 - Develop valuable long term partnerships
 - Allocate resources effectively to areas of greatest need
 - Account to the public for its use of public assets

Mission

- 1.5 The mission of the ULB's Asset Management is to provide the highest quality service and guidance in asset management to ULB functionaries. The goal is to provide timely, accurate asset information by implementing uniform policies and procedures in a fair and consistent manner while fulfilling the financial recording and reporting requirements of the ULB.

Scope

- 1.6 Scope of Asset Management Manual
 1. The scope of the Asset Management Manual is to enable functionaries to understand the importance of asset management and maintenance of proper records and ensure management of their fixed assets, including the procurement, maintenance and disposal thereof.
 2. The scope of the Manual restricts to laying down the policies and procedures for management of Fixed Assets. It does not cover Current Assets like investments, stocks, receivables, loans and advances, cash and bank balances. The main reasons for excluding Current Assets from the scope are:
 - a. The functionaries handling the fixed assets are different from the functionaries handling the current assets;

- b. The management of fixed assets is different in nature from the management of current assets; and
- c. The magnitude of the problem in the management of fixed assets is very high due to non maintenance of proper records and inadequate attention to their upkeep.

The Manual is, therefore, confined primarily to the management of Fixed Assets.

Definitions

1.7 Though practices may vary, the underlying principles of good asset management remain the same, and it is important that they are commonly identified and clearly understood by those working in the ULBs. Technical definitions of capital assets, fixed assets, or tangible physical assets can vary: this manual will be concentrating primarily on infrastructure and property (including all operational and non-operational property) assets. This includes open land, buildings, roads, bridges, flyovers, water ways, sewer lines, drains, schools and dispensaries.

- 1) **Asset:** As such, there is no exhaustive definition of asset. Plainly speaking, an Asset is a property or right to property.

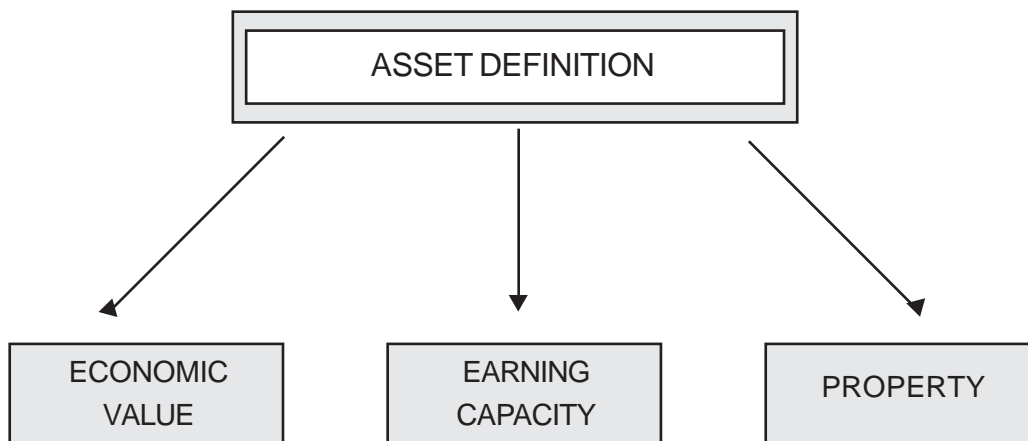
Assets are defined from economic point of view as:

“Any item of economic value owned by an individual or corporation, especially that which could be converted to cash.”

However, if we go deep into the purpose of acquisition of assets, we may be able to define it as:

“Anything, which has the capacity of earning or assisting in earning of revenue for the organisation.”

Examples of assets are cash in hand, balance in banks, lands, buildings, equipment, machinery, vehicles, furniture, etc. However, assets can be classified on the basis of their existence.



An asset may be tangible or intangible. A tangible asset is something which can be seen and which participates directly in satisfying the needs of the organisation. The best example of tangible asset is machinery. Intangible asset is one, which cannot be seen but plays an important role in furtherance of the objectives of the organization, like goodwill of the organisation, which it enjoys among its customers whom it serves.

Further, assets can be classified as assets, which are used for a longer term; and assets, which are used to meet short-term requirements of an organisation.

2) Fixed Assets

In layman's terms, 'Fixed Asset' is a long-term tangible asset held for business use and not expected to be sold, such as manufacturing equipment, real estate, furniture and plant. Fixed Asset is something which is generally long-term in nature and from which an organisation derives benefit over a period of time.

The Institute of Chartered Accountants of India (ICAI) has defined Fixed Asset in Accounting Standard 10 as:

“Fixed Asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.”

The definition gives criteria for determining which of the items are to be classified as fixed assets. Judgment is required in applying the criteria to specific circumstances or specific types of enterprises.

It may be appropriate to aggregate individually insignificant items, and to apply the criteria to the aggregate value.

Fixed assets often comprise a significant portion of total assets of an enterprise, and therefore, are important in the presentation of financial reports. Further more, the determination of whether expenditure represents an asset or an expense can have a material effect on an enterprise's financial reports

Asset management is commonly defined as the full life cycle management of such assets in order to derive maximum benefits. It covers site acquisition and disposal, the replacement and remodeling of buildings, roads and bridges to include extensions and improvements, plus the management and maintenance of such capital infrastructure assets. From a financial standpoint, regard must also be made to the opportunity cost of such assets, i.e. the costs of having capital tied up in the asset rather than available for investment.

1.8 Good asset management usually meets the following criteria

- The functionary knows what is in its asset portfolio, where those assets are and who is responsible for their upkeep. Usually this means that each asset is assigned a short asset statement. These are summarised into service asset statements which support the ULB asset management plan;
- The functionary has developed a means of relating the assets in its portfolio to its wider objectives, thus providing a basis for investment and disposal decisions and for setting priorities between them;
- The asset portfolio is reviewed regularly, both on section-wise and functionary-wise basis, according to criteria set centrally and used consistently across the ULB;
- The functionary has considered both long term (5-10 years) and short term objectives;
- It links the use of assets to the use of other resources; and
- Decisions about reviews, additions, disposals, maintenance programmes and collaboration with other partners are taken systematically and implementation is monitored.

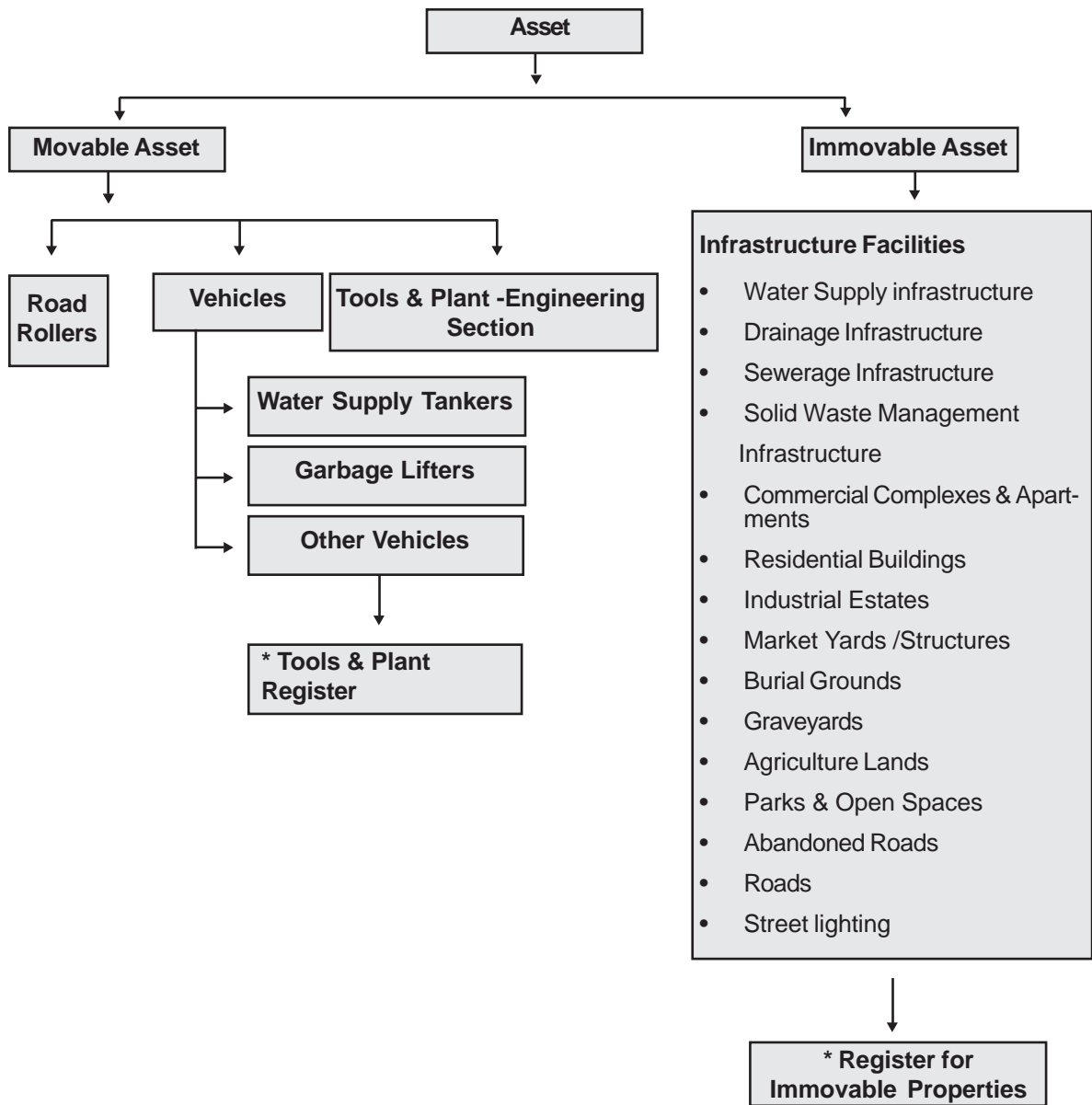
2 Asset Management

- 2.1 ULBs play a very important role in efficient and continuous services to its people and generally concerned with provision of basic amenities to the people.
- 2.2 ULBs have to ensure that the resources are used in the most optimum and efficient manner. Moreover, ULBs generally function on the basis of resources, which are collected from the public through various taxes and non-taxes. They also receive grants from Government and donations from various sources. Hence, the aspect of accountability is also imbibed in the functioning of ULBs.
- 2.3 With growing importance of municipalities, its governance has come under constant public scrutiny. This has set in motion the reforms in governance aspects of ULBs.
- 2.4 In most of the municipalities, poor control over stocks, stores, fixed assets, land and buildings have resulted in wide-spread theft, misuse, misappropriation and encroachment. Asset management is an area that any municipality concerned with the management of public resources must tackle as a matter of urgency.
- 2.5 The municipalities control the largest and costliest portfolio of assets, which primarily include infrastructure assets. A major investment goes into assets and hence, the need for proper guidelines and adherence to good asset management practices.
- 2.6 A formal and serious approach to management of assets is vital for municipalities in order to ensure that assets are managed and maintained in an efficient and a cost-effective manner so that they can lead to good service delivery.
- 2.7 Successful asset management requires input and effort from across the ULB. It is by no means the sole preserve of property professionals. Managing a local authority property portfolio involves two broad strands of activity, both of which are considered in this manual:
- 2.8 **Strategic considerations:** most importantly, what number, type and location of assets are required to deliver the ULB's objectives?
- 2.9 Answering this question is the responsibility of senior functionaries and elected members, supported by property specialists.
- 2.10 **Property services:** Functionaries provide or procure a range of services to run and maintain property on a day-to-day basis, and to acquire new assets or dispose of unwanted ones as required. Such property services include both administrative and professional/technical services.

Asset Classification and Compilation

- 2.11 The assets of the municipality can be broadly classified into two types as Movable and Immovable Assets. The municipality is required to maintain separate registers for each item as per the orders issued in G.O. No. 1512 Local Administration, dated 5-8-1948. The Tools and Plant Register contains particulars of Movable Assets and the Register for Immovable Properties contains particulars of all the immovable assets owned/held by the municipalities. The following chart presents a bird's eye-view of the various Movable and Immovable Assets.

Asset Classification

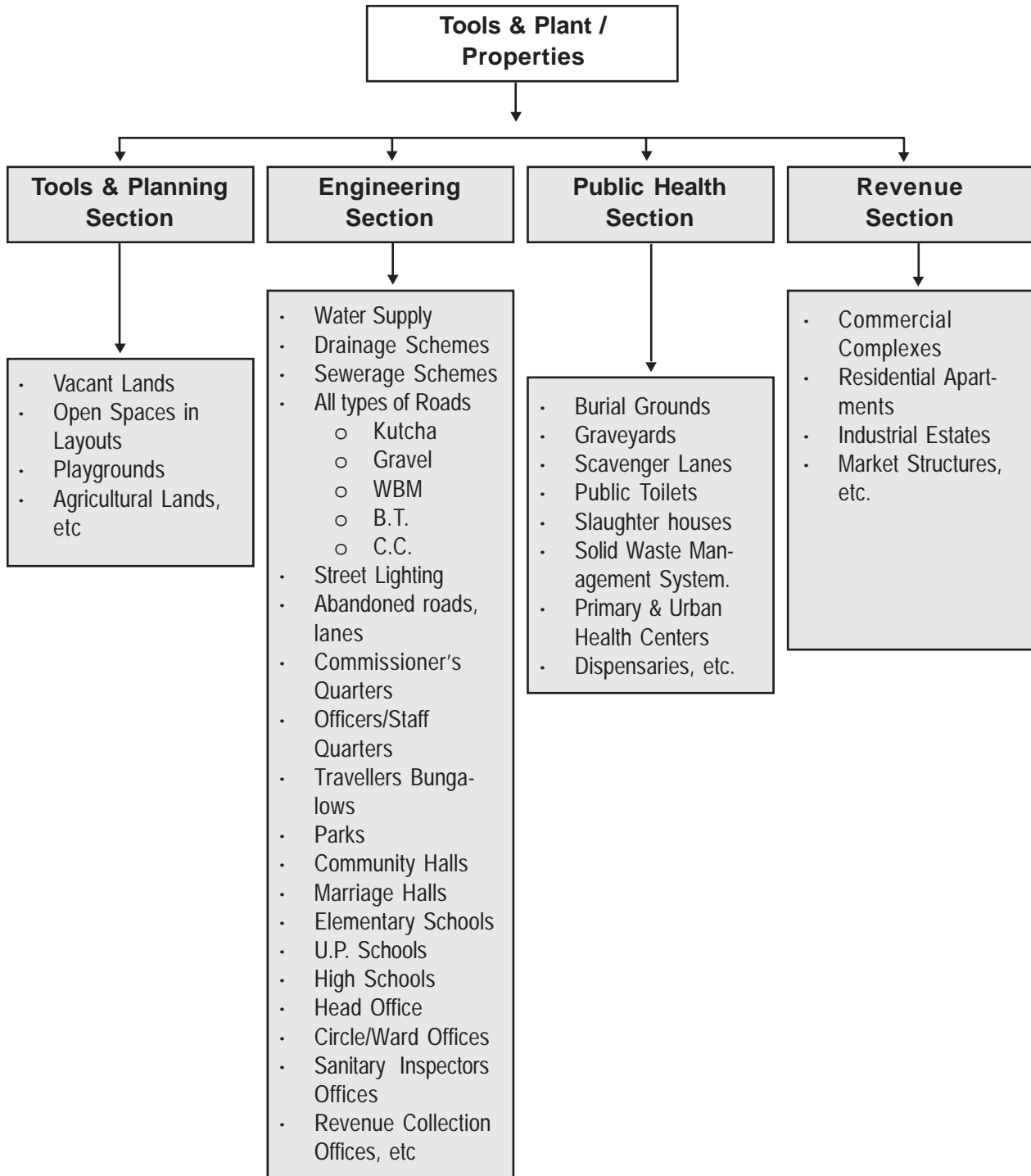


* Municipalities Shall maintain the Registers for recording all particulars of assets owned by it.

Inventories

2.12 To make an inventory of all the assets owned/held by a municipality, one has to know the details of the various assets as well as the sections responsible for the creation, recording, maintenance and preservation of the assets.

Section-wise Asset Classification



Essential Elements in an Effective Asset Management System in Municipalities

Sustainability

- 2.13 For an asset management system to be effective, the concept and principles of sustainability are basic pre-requisite. Sustainability refers to carrying out the process over a period of time in an effective manner.
- 2.14 The principles of sustainability must include not only the economic elements, but should also include the social good. This would encompass issues of health and safety, reducing of environmental impacts, and the financial sustainability of infrastructure assets.
- 2.15 Because of wear and tear, the value of an asset tends to diminish over a period of time despite good maintenance programme. Thus, every asset component at some point of time will **demand** repair or substitution, if service is to be delivered. Sustainability requires that resources be available not only to address those demands but to do so at a time which optimises cost and minimises risk.
- 2.16 One more important point to be taken into account is that, apart from repairs, the assets need to be replaced with new and much more efficient assets as and when the need arise. The asset management programme must also provide resources for any such needs.

A Defined and Understood Strategy and Supporting Policies

- 2.17 It is of prime importance that the asset management policies of the ULBs lay proper definition of the objectives of the programme and a commitment from them towards the underlying principles is necessary before undertaking an asset management programme.
- 2.18 While implementing the asset management programme, care should be taken to draft them in such a way that they should be undertaken both strategically as well as in the continuing programme implementation.
- 2.19 Policies, which are easily understood need to be formulated at the level of services to be delivered and the desired long-term condition of the assets. Building of financial resources to support the programme should be included in the policy. Particularly useful in this policy development phase is a **benchmarking** exercise.

Asset Inventory

- 2.20 Inventory forms the first stage of implementation of an asset management programme. While undertaking an inventory, ***it is important to know what you have, where it is, how old it is, how much of it you have, and the characteristics of each component*** in the inventory. This has to be done for each element in each category. To begin with, the inventory can consist of approximations of the quantity, size, materials, and age of each category of asset.
- 2.21 Once we come to project level decisions, we need more details for assessing condition and performance. At this level, one would require a multi-year programme of data collection and field verification.

Valuation of Assets

- 2.22 Valuation of assets is one of the most important components of asset management. An asset management programme should consist of the valuation of each group of assets, and the total value of all assets to be managed.
- 2.23 It is important that infrastructure assets be recognised and documented as having real value and that they deteriorate in expected ways to inescapably demand resources. Asset valuation methodology should be a matter for discussion and policy development. Current replacement values for assets are used as a common practice, when the information is used to assess capital rehabilitation and replacement spending as a percentage of asset value. This can be categorised as the high level approach. However, it becomes essential to know the value of each of the assets at a particular point of its life cycle for reserve fund analysis to guarantee funding for asset replacement.
- 2.24 This information is more useful for the shorter term project level funding and is also essential in longer-term reserve fund viability. Other matters that become important in asset valuation are the standard of performance, level of service and the accommodation of newer technologies that must apply when an old asset is eventually substituted to current standards. Hence, the assessment of replacement value as the cost of replacement to current standards is common practice.

A Methodology for Condition and Performance Assessment

- 2.25 Therefore, two complementary methodologies for condition assessment are required for successful systems of municipal asset management. It is fitting to undertake a high level assessment at the inception of an asset management programme itself. This can simply be based on the age and life expectancy of the infrastructure elements. It is possible to derive reasonable long-term capital needs and to identify the setting up of resources based on logically reached assumptions of life span and on knowing the estimated age of blocks of infrastructure within each category.
- 2.26 As detailed information is being gathered on inventory, it is also apt to collect detailed information on the condition of specific assets. To allow consistent evaluation of options for rehabilitation, detailed condition assessment must be integrated across all categories of assets. Performance evaluation is only necessary at the detailed, project level of analysis.

Strategy for Rehabilitation or Replacement

- 2.27 The functionaries responsible for asset management should develop policies to allow rehabilitation or replacement decisions to be made constantly on defensible criteria.
- 2.28 Decisions regarding rehabilitation actions become easier when level of service and performance standards are understood. The detailed condition assessment produces condition indices that set off a range of rehabilitation options.
- 2.29 For instance, the pavement quality index on a road that indicates resurfacing will be totally different from that which specifies reconstruction. In conclusion, those who deliver the municipal asset management programme should have an established strategy that guides decisions on options.

Business Plan

2.30 The Business Plan is the most important component in any system of Asset Management. All the other components propel the business plan which would guarantee the timely availability of resources to sustain the assets in a satisfactory condition to reliably deliver the level of service determined by the policy.

2.31 The three essential elements of a business plan are:

- A long-term schedule at the high level for the delivery of rehabilitation actions in blocks of time for each category of assets;
- A project specific budget and schedule based on detailed assessment for the shorter term. This element should include the tracking of actual rehabilitation costs to allow more dependable pricing of future projects.
- A revenue analysis that will ensure building of reserve funds to sustain the Asset Management programme.

2.32 The Asset Management process must be in touch with other strategically important business processes like financial systems, GIS, master plans, and other initiatives for managing growth.

Key Principles for Municipal Asset Management

2.33 Some important principles are:

- An unambiguous understanding of which assets to be managed by the programme
- Managing all assets in the recognition that they have value and expected deterioration paths
- Take into account all infrastructure to the end of their useful lives
- Technical and financial analyses should be fully integrated.

A Common Outline for High Level and Detailed Analysis

2.34 While the method for managing assets will be different for high level strategic analysis and detailed project analysis, the same standards of condition assessment, deterioration prediction, and programme for rehabilitation need to be employed in a compatible manner. The high level and detailed analyses need to be complementary, and consistent with the broad objectives.

An Understanding of Asset Deterioration and the Ability to forecast it

2.35 Deterioration prediction technology is in the process of evolution. For instance, the technology has evolved to a stage where it is now possible to predict pavement deterioration with precision, but the same cannot be said with conversion for pipe networks. The theory that will prove successful here would be to make a practical assumption about asset life expectancy, use a straight-line deterioration model over the assumed life and by re-examining condition at regular intervals, and adjust the assumed deterioration curve.

2.36 While dealing with non-linear infrastructure such as treatment, pumping and storage facilities; historical records, assumed life expectancy of various critical elements and judgment based on experience can form the basis of prediction efforts. The tracking of rehabilitation costs in due course will permit predictions of needs to be adjusted and improved.

An Objective and Repeatable Process for Assessment and Decision-Making

2.37 Irrespective of the proprietary technology that is used, the process at both the high level and detailed assessment phases must be objective, defensible and logical. The high level decisions need to set in motion meticulously crafted policies and principles that are easily grasped and uniformly applied. Life span assumptions need to be constant across the system.

2.38 The conclusions and decisions need to be as objective as possible. The detailed condition assessment must be technology-reliant for quantifying defects that become observer-reliant to the greatest extent possible.

Implementation Needs for Municipal Asset Management

Commitment to the Asset Management Concept

2.39 It is essential that all stakeholders believe in the concept and are confident of the benefits of the Asset Management programme. An enthusiastic votary at the top-most level of the structure, to push the benefits in a convincing manner, best achieves this. The skill to manage better, reduce long term costs, minimise risks, and protect levels of service, must be able to put forward to the stakeholders in an understandable presentation that boosts their confidence in the concept.

2.40 This can be accomplished successfully if the corporate culture of the organisation is not averse to new ideas and technologies, and aspires to be leaders in their field. It is important that the municipality understands the principles and endorses the programme for the long term.

Commitment to Provide the Resources Necessary to Support the Programme

2.41 In the long-term, there must be an assurance by the municipality to contribute in terms of both financial and human resources to the programme. The expenses involved in collecting data, analysis and strategic planning will seem sizeable in the beginning, but if the expenses can be considered as a percentage of asset value, it can be shown to be insignificant. Resources should be made available for a continuing programme of data collection and analysis either with resources from within the organisation or from contracted sources. The resources needed should be quantified and made a part of the business plan for the delivery of the Asset Management programme.

2.42 The Asset Management programme should be integrated into the existing municipal structure. With a top-down leadership and a readiness to do things differently, the existing resources in terms of staff strength may be reassigned to the new know-how without conspicuous personnel additions for this programme.

Corporate Commitment to the Business Plan

- 2.43 The Asset Management programme will produce both a strategic plan and a project prioritisation plan that will require committed financial resources. The means to collect and analyse the data and produce the programme must be defined and supported by the ULB.
- 2.44 It is important to remember that assets themselves will demand rehabilitation and replacement whether or not resources are available. Therefore, the asset management business plan must initially focus on high level analysis of capital needs and high level quantification of the financial resources needed in the long term, and define the reserve funds that are necessary to address those needs.
- 2.45 The actual annual spending at the detailed project level will vary on an annual basis. Traditionally the revenue contributions to reserve funds remain at a constant level with perhaps some indexing to rates of inflation or construction costs. Therefore, a long-term proforma statement of reserve funds to accommodate the projected swings in project spending has to be incorporated into the business plan.

Data Collection for Municipal Asset Management

- 2.46 It is essential to understand that the Asset Management programme should operate in parallel at two different levels. At the higher level, data (Strategic Data) is required to take policy decisions and they need not be exact, but correct enough for strategic business issues. The other level being at micro level (Project Level Data) should be exact. The exhaustive data collected to smoothen the progress of project decisions will be much more detailed, more costly to collect, and more precise.
- 2.47 The following points attempt to deal with both data levels:
- Before gathering data at each level, it is essential to understand that the staff responsible for the asset management programme is aware of the processes to evaluate the data and the manner in which it will be used to steer decisions.
 - This data collection process and analysis will operate excellently, if the municipality nominates one specific centralised data collection outfit within the organisation. This agency, in consultation with the staff should decide the quantity and quality of data.
- 2.48 The task of data collection pertaining to the municipal assets (both movable and immovable) involves the following stages:
- (1) Listing of all assets shall be done in Form GEN 30, 31 & 32 provided in Andhra Pradesh Municipal Accounts Manual from available registers and relevant sources.
 - (2) Compilation of the data;
 - (3) Rapid survey of the assets, especially land and open spaces;
 - (4) Detailed physical verification of the assets.

2.49 For the purposes of base data collection of municipal assets, the following records created after an All India Survey conducted in 1917, for all towns and villages, are taken as the starting point for the study.

1. Town survey land register: This register contains the details of all types of lands (Survey number-wise) situated in local areas (Municipal limits) as on the date of survey. A brief detail of land – Government land/Patta land – is included in this Register along with extent of land and its usage.
2. Resettlement register: All types of lands in villages are included in this Register. A brief detail of land – Government land/Patta land – is included in this Register along with extent of land and its usage.
3. Fair Adangal (Pahani) register: All types of lands in estate villages are included in this Register. A brief detail of land – Government land/Patta land – is included in this Register along with extent of land and its usage.
4. 8 A Register: All types of land movement such as alienations, acquisitions, etc., by Government bodies are routed through this register. This register is an annual register and one register is maintained per Fasli (year).

Strategic Data

2.50 These are the high level data for strategic and programme planning that allows the long-term programme capital needs and revenue streams to be quantified. It has been referred to as defining “the size of the elephant”.

2.51 Having made the strategic policy decisions about desired performance, levels of service and long-term condition for each category of assets, the scope of data needed becomes defined.

2.52 The high level data will vary for each category of infrastructure elements but all will require as a minimum inventory including the lengths (or quantity) of infrastructure, its age in blocks of 5- or 10-year intervals, its size in categorised blocks, the materials that affect life span, and the environment in which the elements must perform. Much of the high level data may or may not exist in every municipality, and needs to be assembled or collected for high level analysis.

Project Level Data for Inventory and Condition Assessment

2.53 The collection of detailed data for project level decisions can be a long-term expensive programme. It is, therefore, essential to understand how the data will be weighed, analysed and applied in decision-making, before the data is collected.

2.54 Municipalities need to have programmes in place to inspect and collect detail on every meter of each element of infrastructure and assets held.

2.55 The following Table represents one approach to detailed data collection to define in a broad spectrum the kinds of parameters to be considered. The Table is intended to represent only the kinds of issues to be considered.

Infrastructure Element Characteristics for Data Collection		
1	Sidewalks & Cycling Paths	Base Characteristics
		Pavement Materials
		Characteristics & Age
		Structural Condition
		Surface Condition
2	Roadways	Base Characteristics
		Pavement materials
		Characteristics & Age
		Traffic
		Characteristics
		Flexural strength
		Roughness (Riding Comfort)
		Surface Distress (Cracking & Rutting)
3	Storm Water & Wastewater Pipes	Materials Age
		Hydraulic Performance
		Structural Condition
		Cracks, Breaks, sags Level of Service
		Strategic Importance & Impacts of Public Disruption
4	Potable Water Pipes	Materials & Soil
		Environment
		Corrosiveness - Age Pressure Fire Flows Break history
		Strategic Importance & Impacts of Public Disruption
	Non linear Infrastructure Treatment, Pumping & Storage Facilities	Age
		Technology
		Structural Evaluation of Components
		Mechanical & Electrical Component Evaluation
		Capacity
		Analysis & Risks of Compromised Performance

2.56 ***To the greatest extent possible, data collection should be automated.*** Technology exists to collect roughness, surface distress, and structural condition of pavements with data collection vehicles. For piped infrastructure, internal television inspection of waste-water piping can be linked to keyboard collection of data on sags, cracks, joint distress and other selected characteristics.

Calibration of Data

2.57 For either the high level data or the detailed condition assessment data, it is desirable to calibrate the data over time. The high level data demands for rehabilitation and/or replacement that should be compared to the predictions of capital needs to validate or correct the original assumptions.

2.58 If life expectancy or deterioration rates of categories of elements prove significantly different than what was originally assumed, the strategic forecast of capital needs and revenues will change. Accurate historical data is critical to this part of the process.

2.59 For the detailed project level condition and performance assessment data, regular revisiting of a representative sample of elements can alter the performance prediction assumptions in the decision-making tools. To illustrate this point by example, pavement performance prediction is a well-developed and widely accepted technology. The pavement deterioration curves can be precise deterioration models, if traffic characteristics and pavement characteristics are accurately known. However, measuring the actual flexural strength of the pavement at, say, 5-year intervals, can validate or correct the structural performance prediction curves selected initially, and affect the project prioritisation decisions. The same is true with a lesser degree of precision for pipe networks, where structural condition has initially been assessed. In summary, the principle is to confirm and validate deterioration predictions.

Data Structure Issues

2.60 In establishing the architecture of the asset management database, it is important to consider the linkages to other municipal applications. The data should be structured to be useable by geographic information systems, operations activity planning, financial systems related to capital budgeting, and other interests of the stakeholders.

2.61 A standardised data structure would be desirable. This would describe recommended data to be collected and how to record it in a database. Though it is flexible, it facilitates integration. This should gain acceptance as asset management systems evolve.

Financial Data

2.62 For the high level strategic decisions, current unit costs must form the basis of evaluation for linear infrastructure. Evaluation of non-linear infrastructure is based on current replacement costs. Replacement and rehabilitation costs can be based upon historical experience.

2.63 For the project level decisions, the various proprietary software packages usually seek to have the user to define a set of alternative rehabilitation strategies from spot repair to full replacement of the asset under review. It is necessary to have reliable unit costs for each alternative strategy in the database that selects and prioritises project decisions. The unit cost data for rehabilitation or replacement options needs to be updated annually based on current cost records.

Fixed Assets Register

- 2.64 Accurate knowledge of assets and their location is a must. A detailed Asset Register is therefore essential. By implementing a proper asset system, details of each asset and its location are correctly reflected in the Register. This can be verified with a regular inspection regime.
- 2.65 The Asset Register is used to record the assets owned and to prepare financial statements. The Asset Register may also be used to keep track of maintenance required for different assets.
- 2.66 An Asset Register is particularly useful when selling assets, as the purchase date, price and Written Down Value (WDV) or the Depreciated Value are known to make correct accounting and tax adjustments.
- 2.67 Other benefits of maintaining an accurate Asset Register include
- Regular reporting of assets;
 - Identification of assets;
 - Providing information for insurance purposes;
 - Providing accounting information (acquisitions, disposals, depreciation, etc.);
 - Security of assets.
- 2.68 Additional security is conferred to the assets when they are subject to an efficient inspection regime. An Asset Register gives a reliable record of equipment owned, helps to maintain accurate insurance levels, identify and prove losses. In its simplest form, the register is just a list but it will be easier to maintain and adapt if put on a computerised spreadsheet such as Microsoft Excel.
- 2.69 A central Asset Register should be prepared in the interests of minimising the administrative burden. The Asset Register will extend to
- (a) items with a cost of Rs.5,000 and above;
 - (b) personal computers regardless of value;
 - (c) items which are vulnerable to misappropriation regardless of value.

General Guidelines

- 2.70 An Asset Register must be maintained by each Section and the following guidelines have to be followed to ensure that this is carried out in a uniform manner.
- a. **The Asset Register** will provide a record of the physical assets held by the ULB which will:
 - facilitate and secure the physical control and security of these assets;
 - provide information and values for insurance and accounting purposes;
 - facilitate the provision of detailed statistical information, e.g., numbers, location, etc.; and

- allow the compilation of a centrally held record which will provide information on assets held throughout the ULB.

b. Collection of Data

The following procedures should be adopted in the compilation of the Asset Register:

- All assets must be recorded through an Asset Installation Note (A.I.N.01).
- Heads of Sections should nominate a 'responsible person' who will liaise with the Accounts/Finance Section, to ensure that the task of collecting the initial data is carried out correctly and on time. The Accounts/Finance Section should be informed of the name of the person nominated by each Section.
- The collection of initial data, throughout the ULB, should be undertaken on a regular basis.
- The 'responsible person' will also monitor the collection of data relating to new purchases, disposals, etc., and will ensure that the Asset Register is updated at regular intervals.
- Data held for all purchases includes the cost price and the purchase date, if the value is greater than Rs.5,000.

c. Input and Retention of Data

- All data collected initially, for existing assets, will be input centrally but maintained at Section level thereafter.
- Data for new purchases may be input by the Sections and each Section will be required to nominate a member of staff to be trained on the system.
- Input of data should be completed in accordance within a timescale.
- Data should be retained during the life of the asset and deleted only when the asset has been sold, disposed or scrapped.
- All disposals must be authorised in writing by the Head of Section and the records held for inspection.

d. Asset Defined for accounting purposes

An asset is defined as "A plot of land, a building, an item of plant or equipment which operates independently or a group of such items which only operate as a single unit." However, only the following items will be held on the Asset Register:

- (a) All plots of land.
- (b) All buildings.
- (c) All existing plant or equipment with an estimated original purchase price of Rs.5,000 or over.
- (d) All new plant or equipment with a purchase price of Rs.5,000 or over.

- (e) All personal computers, even if valued at less than (c) or (d) above.
- (f) All other items of plant or equipment, even if valued at less than (c) or (d) above, if these items are considered by Sections to be vulnerable to misappropriation.

No “consumable” items should be included in the Register.

2.71 Also, items which meet the above criteria and are the subject of finance lease agreements should be included in the Register. Assets owned by other external parties should not be included.

Data to be collected

2.72 The following information is required for all existing items:

- (1) Building Code
- (2) Section Account Code
- (3) Division/Circle Code
- (4) Asset Category and Type
- (5) Source of Funds
- (6) Make or Model
- (7) Description
- (8) Serial No.
- (9) Purchase Order No.
- (10) Portable or Fixed
- (11) User/Contact
- (12) Purchase Price
- (13) Purchase Date

2.73 The above information should be recorded on Asset Installation Note (A.I.N.01) issued by the Accounts/Finance Section and the ‘responsible person’ should ensure that all forms are accounted for.

Asset Register Procedures

2.74 Various procedures in respect of Asset Register are discussed below.

a. Access

The Accounts/Finance Section will be responsible for entering the data into the Asset Register on receipt of the relevant forms from the “responsible persons” nominated by the Sections.

b. Additions

All new purchases of assets should be captured in the Asset Register. This also includes gifted assets if the asset becomes the property of the ULB.

c. Disposals

The external sale, write-off or scrapping of any asset has to be recorded in the Asset Register. An Asset Disposal Form (A.D.F.04) must be completed for each asset disposal. Two disposals can be entered per form. This form should be signed by the “responsible person” nominated by the Section and then authorised by the Head of Section.

d. Transfers

The transfer of ownership of an asset held in the Asset Register, from one Section to another Section.

A detailed Note has to be made for each asset being transferred. It should first be prepared and completed by the transferring Section and should be signed by the “responsible person” nominated by the Section and authorised by the Head of Section.

The recipient Section, on receipt of the asset and the note, should make a note of the receipt of the asset, and signed by the recipient Section’s “responsible person” and authorised by the Head of Section.

Thus, the note relating to the transfer of asset is considered as complete and such Note should then be sent on a monthly basis to the Accounting Assistant - Asset Register. In addition, the recipient Section’s “responsible person” should send a copy of this completed note to the transferring Section for confirmation.

e. Controls

It will be necessary for Sections to regularly check the accuracy of the details held in the Asset Register. The “responsible person” should request a report of the Section’s assets annually to check the asset information held. Any amendments required to the assets on the

Assets Register should be noted on a Note and sent to the Accounting Assistant - Asset Register.

It is the responsibility of the Head of Section to ensure that the Asset Register records held for the Section are correct.

f. Reports

Detailed Asset Register Reports should be requested by each Section’s “responsible person” on an annual basis. Should Sections wish reports at other times, there are two options available:

- a) By Access to the Asset Register
- b) By making a request and sending it to the Accounting Assistant - Asset Register.

The “responsible person” may request through a note, either a detailed or summary report of assets. The detailed report will list all the information input from the Asset Register. The summary report will show only the asset code, the make/model, purchase date and purchase cost of the asset.

On receipt of this note, the Accounting Assistant - Asset Register will arrange for the reports to be produced and sent to the Section.

In their own interest, each Section should retain a copy of all asset forms issued to the Accounts/ Finance Section. This helps in answering any queries that arise in future, or review of Asset Register or during inspections/audit.

Inspection/audit of Assets

- 2.75 Heads of Sections will be required to ensure that an annual inspection of all recorded assets is carried out, and a record made of the results and the date(s) of the inspection. Any problems or irregularities identified at the time of the inspection must be notified.
- 2.76 Sections must provide access to the Asset Register at any time if requested to do so by the auditors.

3 Asset Acquisition

- 3.1 The asset management system is maintained to ensure the accurate and timely recognition and recording of assets, as well as location details for all ULBs' assets disclosed in the ULBs' financial statements. It is important that all the assets of the ULBs are recorded correctly in the Asset Registers and the ledger. The information that is recorded in the ledger is the basis for all reporting. The year-end Financial Statements disclose Property, Plant and Equipment, etc., as a separate note and lists the amounts recorded in each asset category.
- 3.2 Acquisition of asset is the first step in any asset management process. It is a very important process, in the sense that, it, in a way, defines the asset management procedure as such. The assets which are to be acquired must be those which are commensurate with the needs of the organisation. Due care must be taken while acquiring the assets. A proper study has to be conducted and proper tender procedures have to be followed to see that an asset is properly acquired. After acquisition of asset, the condition and performance of the asset must be ascertained.

Identification of Fixed Assets

- 3.3 All fixed assets should be identified, secured and accurately recorded in the financial information management and asset management systems in the appropriate manner for the type of asset and method of acquisition.

General Information

- 3.4 There are number of ways under which ULBs acquire assets:
- Purchase;
 - Manufacture;
 - Donation or Gift;
 - Transfer from other ULBs/Departments.
- 3.5 The acquisition of assets extends to both new assets and additions to existing assets already capitalised.
- 3.6 Asset responsibility rests primarily with each Section (of the ULB) for assets directly under their control. Sections should ensure that assets that are recorded in the asset management system are accurate and upto date.
- 3.7 When an asset is acquired, the concerned Section should ensure that an *Asset Installation Note* (A.I.N. 01) is completed and forwarded to Finance/Accounts Section (Accounting Assistant – Asset Register) which will update the ULB's asset management system. Upon receipt of an authorised Asset Installation Note, the Finance/Accounts Section would carry out necessary steps and on acquisition of asset, adds the asset to the ULB's asset management system and prepares a journal to update the financial system.

Asset Acquisition

- 3.8 The ULB adds an asset to its portfolio when it is considered purchased, manufactured, donated or acquired by any other means. However, any purchase of asset is generally preceded by the request from the concerned Section which is in need of the asset.
- 3.9 This request generally starts from a requisition form. The *Asset Installation Note* (A.I.N. 01) should be completed to provide the necessary authority for the physical acquisition of an asset and as documentary support for the addition of the asset on the ULB's asset management system. The Form together with any associated documentation provides the minimum level of documentation required for the ULB to substantiate all acquisitions.
- 3.10 The Form must be completed and authorised by the Section involved in asset acquisitions and must include the following details:
- Asset Description
 - Nature of acquisition
 - Holding location
 - Purchase consideration
 - Relevant payment details (Purchase Order number, invoice number)
 - Copies of document evidencing acquisition.

Purchase of Assets

- 3.11 Purchases are the most common way of acquiring assets in ULBs. As such sufficient care must be taken to ensure that the acquisition process is fool proof.
- 3.12 As stated earlier, any asset acquisition process must be preceded by a request form. However, before the Requisition Note is prepared, a proper analysis of the need, nature and specifications of the asset has to be laid down in detail. It must clearly state the reasons for acquisition of the asset. It must also state the nature of asset and also outline the specifications of the asset to be acquired.
- 3.13 After making the preliminary analysis, the requirements along with the Asset Requisition Form must be forwarded to the Finance/Accounts Section. In the Finance/Accounts Section, the request is then subject to technical sanction and administrative sanction. In technical analysis, the feasibility and viability of assets are established. The specifications of assets are ascertained and are analysed and a report is submitted. In case of administrative sanction, the budget under which the expenditure is to be met is ascertained. The availability of funds under the respective head is ascertained. Then the sanction is accorded by the Council or competent authority.
- 3.14 Once the technical and administrative sanctions are obtained, the concerned Section can proceed with subsequent procedures for acquisition of asset. The tender procedures must be followed and the most eligible party must be selected. A purchase order (PO) must be issued to selected party authorising him to supply the asset to the ULB.

3.15 After purchase order (PO) is issued to the supplier/vendor, the copy of the PO must be filed in a PO file together with copies of sanctions, agency approval, etc. A condition and performance assessment has to be made in the PO Register.

a. Trade-ins

3.16 When an asset has been purchased and an item has been traded in, it is important to record both the disposal of the asset traded in and the purchase of the new asset. When this occurs, it is important to note on the Asset Installation Note that a trade-in has occurred and that an Asset Disposal Form is completed for the trade-in and is attached to the Asset Installation Note.

3.17 It is also important that when an asset has been purchased after a trade-in, the relevant journal entries are completed to record the sale/disposal of the asset traded in. Ultimately, the sale proceeds and the increase in cost of the new asset purchased must be recorded.

b. Asset Purchases – Lease vs. Buy Cost Benefit Analysis

3.18 Sections should undertake a cost benefit analysis (cost of leasing versus outright purchase) when ordering assets of significant value to determine if the ULB is receiving value for money. Items to consider:

- Operating lease – ongoing regular cash outflow, minimal maintenance and running costs, no ownership of asset.
- Outright purchase – generally 100% paid up-front, ongoing maintenance and running costs, retain ownership of asset.

Manufactured Assets

3.19 Equipment/asset built or manufactured within the ULB for long-term use in a particular Section or other area may constitute capital expenditure on manufactured assets.

3.20 Any manufactured items which fulfil the following conditions should be capitalised and recorded in the financial management information and asset management systems as an asset:

- Items that have an expected useful life of more than two years.
- The total cost of manufacture equals or exceeds the monetary threshold for the recording of assets within the ULB's definition of an asset.

3.21 Once it has been determined that the manufactured items do constitute capital expenditure, the total cost/value should be determined and the asset recorded in the asset management system and the necessary entries completed in the Financial Ledger.

3.22 The Financial Ledger entries require that the *total cost* of manufacture be debited by journal entry to the appropriate non-current asset account. The credit entry is made against all the project grants and account codes where the expenditure involved in the total cost had been charged initially (e.g., materials and supplies, labour and other resources used). If expenditure is spanned more than one fiscal year, the account code is used which includes work-in-progress in the balance prior to transfer to asset code when manufactured asset spans reporting periods.

- 3.23 Areas involved in making items that need to be capitalised should maintain suitable records or systems to ensure that all costs can be accurately assessed. It is recommended that a new project grant should be set up for each new asset to be manufactured so that the costs can be captured by account code but can be readily identified when the asset is to be capitalised. It is advisable to inform Financial Function (Accounting Assistant – Asset Register) of the relevant project grants at the time of opening, so that amounts requiring recognition as work-in-progress or capitalisation as an asset can be readily identified by both the Cost Centre and Financial Function.
- 3.24 It is important that once the asset is complete and ready for capitalisation, the relevant details are forwarded to Financial Function to ensure that the asset is recorded in the asset management system at the correct value by providing:
- Completed Asset Installation Note;
 - Copy of journal transfer; and
 - Copy of the project grant's details.

Work-In-Progress

- 3.25 When it is expected that the manufacture process will take more than twelve months to complete (estimated total cost is greater than the monetary threshold), recoveries against the relevant expenditure items should be made at the end of each fiscal year until the item is complete and ready for capitalisation.
- 3.26 This process removes the recognition of the individual expenditure items and recognises the asset in its place, i.e., the capitalisation of expenditure to an asset. By recovering the expenditure in the year incurred, the organisation avoids the costs of manufacture being expensed and perhaps not being included when the item is complete and ready for capitalisation. It is effectively work-in-progress on an asset until capitalisation. Work-in-progress recorded will not attract any depreciation charge.

Donated Assets

- 3.27 Assets may be acquired by donation/gift to the ULB from an outside organisation or individual. The acceptance of a donated asset by the ULB is regarded as an addition to the capital of the ULB. The monetary value of donated item is assessed when accepted by the ULB and the value is confirmed by the authorised officer within the section.
- 3.28 Immediate notification of all donations irrespective of value should be forwarded to the section maintaining the Asset Register for inclusion in the Register. The Asset Registers are registers maintained by ULB to record the assets, like Immovable Properties, Tools & Plants etc. When a section receives a donation or a gift, it should be properly documented and the information forwarded to the section maintaining the Asset Register.
- 3.29 When the value equals or exceeds the monetary thresholds for the recording of assets, Accounts section (Accounting Assistant – Asset Register) should also be advised. It is important that the relevant details are forwarded to Accounts section to ensure the asset is recorded in the asset management system at the correct value by providing:

- Completed Asset Installation Note
- Copy of Gift, Donation and Processing Form (clearly marked copy); and
- Confirmation of the market value of donated item.

3.30 A journal will be prepared by Accounts section to recognise both the asset acquired and the donation received. The value is debited to the appropriate non-current asset account and credited to the appropriate donations/gifts income account in the project grant nominated on the Gift, Donation and Bequest Processing Form.

3.31 In the circumstances where non-asset items are donated, a value should be assessed and recorded by journal with a debit to the appropriate expenditure account and a credit to the donation/gifts income account.

Leased Assets

3.32 Leased assets are items under a leasing arrangement, wherein the ULB has acquired the right to use for a period of time, in exchange for a series of payments to the legal owner. Whilst there are many types of leasing arrangements, the majority of leases can be classified either as a finance lease or an operating lease. The type of lease is important in determining the required accounting treatment in the ULB's financial function.

All leased equipment should be insured, otherwise they will not be recoverable under insurance in the event of loss.

a. Finance Leases

3.33 A finance lease transfers all the risks and benefits associated with actual ownership of the asset to the ULB. Effectively the ULB "buys" the asset over the term of the lease and incurs costs of maintenance, obsolescence and gains/losses in the value of the asset.

3.34 If the value of the finance lease equals or exceeds the monetary thresholds, the leased items should be recognised as both an asset and a liability in the ULB's financial system. The initial value of the lease is determined by reference to the present value of the minimum lease payments.

3.35 The relevant details of any finance lease should be forwarded to Accounts section (Accounting Assistant – Asset Register) for determination of accounting treatment and appropriate recognition on the asset management system.

b. Operating Leases

3.36 An operating lease leaves the risks and benefits associated with the ownership of the asset with the legal owner. Effectively the ULB only "rents" the right to use the asset for a proportion of the asset's useful life. At the end of the lease period, the asset is returned to the owner who has full discretion on the future use of the asset (i.e., whether released, used or sold).

3.37 All operating lease payments are charged to the Cost Centre's project grant as an expense in the period in which they are incurred and are not recognised on the ULB's asset management system.

Additions to an Existing Asset

- 3.38 Additional capital expenditure may be incurred which increases the cost/value of existing assets. It is important that the ULB's asset management system is updated for additions to the items already recorded, and the capital expenditure is appropriately recorded in the ULB's finance system. Such additions should not be recorded as separate assets. If the additions are also recorded as separate assets, a new barcode would be issued for each addition, producing more than one barcode to the same asset.
- 3.39 To ensure the capital addition is automatically recorded on the asset management system, the acquiring Cost Centre is required to:
1. Forward to Accounts section (Accounting Assistant – Asset Register):
 - The completed Asset Installation Note;
 - A copy of the invoice or payment request; and
 - Relevant identification details of the existing asset clearly indicating that the expenditure is a capital addition.
 2. Ensure the purchase is recorded in the correct account code in the ledger.

Special Considerations

Vehicles – Inter section transfers

- 3.40 A purchase/transfer of an asset from one section to another within the ULB is not technically an asset acquisition. The transaction is an internal transaction and not between the ULB and a party external to the ULB.
- 3.41 When an asset transfer occurs between sections, an *Asset Transfer Note (A.T.N. 02)* should be completed and forwarded to Accounting Assistant – Asset Register, to update the asset management system with the change in Section/Cost Centre and location, if necessary.
- 3.42 The following details should be provided:
- Completed Asset Transfer Note in Format A.T.N 02; and
 - Copy of Form (if funds “paid” between Cost Centres for the transfer).
- 3.43 Where a Cost Centre “purchases” existing ULB's assets from another Cost Centre, the transfer of funds should be made via a Form with the transaction recorded in the correct account code in the Ledger. As there is no new asset purchase for the ULB, it is essential that the same account code be used on both sides of the transaction.
- 3.44 Where the Cost Centre “purchases” an item for another Cost Centre which is not recorded in the asset management system (i.e., below the monetary threshold), Accounts section (Accounting Assistant – Asset Register) do not need to be advised of the transfer. However, the transaction should be recorded to the correct non-asset account code range ensuring that the same code is used on both sides of the transaction.

4 Asset Maintenance and Verification

Maintenance

4.1 After acquiring assets, it is the responsibility of the concerned section to take necessary steps to maintain the asset for deriving the intended benefits. A high level asset maintenance programme has to be in place to ensure proper up-keep of assets. The main components of asset management programme at this stage are:

- a) Review of condition and performance assessment
- b) Repairs
- c) Replacement

Verification

4.2 The verification of assets is an important process in asset management. By convention, its scope has to be limited to inspection of assets, where it is applicable and collection of information about them on an examination of documentary and other evidence so as to confirm:

- a) that the assets are in existence on the date of a Balance Sheet;
- b) that the assets had been acquired for the purpose of the business and under proper authority;
- c) that the right of ownership of the assets vests in or belongs to the ULB;
- d) that they are free from any lien or charge not disclosed in the Balance Sheet;
- e) that they had been correctly valued having regard to their physical condition; and
- f) that their values are correctly disclosed in the Balance Sheet.

4.3 The verification of assets is primarily the responsibility of the sections in which the assets have been installed, since the officials of the section are expected to have a much greater intimate knowledge of the assets as regards the location, condition, etc., than that which an outsider might be able to acquire on their inspection. They alone thus are competent to determine the values at which these should be included in the Balance Sheet.

4.4 The principles regarding verification of assets include:

- 1) The costs of the assets acquired piecemeal should be verified with their invoices, purchase agreements or ownership rights and the receipt of the sellers of the price paid. It should be verified that the expenditure on assets newly acquired and that on the renewal and replacement of the assets has been correctly recorded, consistent with the method that has been generally followed in the past.
- 2) When the asset is sold, its sale proceeds should have been verified with reference to the agreement containing the terms and conditions of sale, counterfoil of the receipt issued to the purchaser or any other evidence which may be available, if the sale of a fixed asset

has resulted in the capital profit, it would be transferred to the capital reserve. However, the profit limited to the original cost or a loss should be transferred to the Income and Expenditure Account.

- 3) The existence of fixed assets, where practicable, should be verified by a physical inspection and/or by comparing the particulars of the assets as are entered in the schedule attached to the Balance Sheet with the Tools & Plant or Immoveable Property Register.
 - 4) Wherever possible, all securities and documents of title, cash, negotiable instruments, etc., representing the assets, should be inspected at the close of the last day of the accounting period. If this is not practicable and the examination is undertaken at a later date, a careful scrutiny of the transactions subsequent to the date of the Balance Sheet must be made to ensure that the change in their balance that have subsequently taken place are bonafide and are supported by adequate evidence.
 - 5) Where the depreciable assets are disposed, discarded, demolished or destroyed, the surplus or deficiency of material should be disclosed separately.
- 4.5 The verification of the records would include verifying the opening balances of the existing fixed assets records. Acquisition of new fixed assets should be verified with reference to supporting documents such as orders, invoices and title deeds. Self constructed fixed assets and capital work-in-progress should be verified with reference to the supporting documents such as contractor's bills, work orders and independent confirmation of work performed from other parties. When the fixed assets have been written off or fully depreciated, it should be verified whether these are recorded in the Fixed Assets Register before being written off or depreciated. In respect of retirements of fixed assets, it should be verified whether retirements were properly authorised, whether depreciation accounts have been properly adjusted, whether the sale proceeds, if any, have been properly accounted for and the resulting gains or losses, of material, have been properly adjusted and disclosed in the Income & Expenditure Statement.
- 4.6 Physical verification of fixed assets is primarily the responsibility of the ULB. The concerned section is required to carry out the physical verification of fixed assets at appropriate intervals in order to ensure that they are in existence.
- 4.7 However, the method of verification must be reasonable in the circumstances relating to each asset. The reasonableness of the frequency of verification will depend on the kind of the asset involved and the circumstances of each case. The discrepancies which might be noticed during the verification must be ascertained, properly recorded and dealt with.
- 4.8 The valuation of the assets and their disclosure must also be carried out carefully as per the generally accepted accounting principles. The depreciation must be calculated as per the rate provided and should be compared with previous year figures, if any, to ensure correctness of their charge.

Verification of different kinds of Assets

A. Land and Buildings

- 4.9 In general, even though these two assets are clubbed together, their Ledger Account should always be separated, particularly in view of the fact that buildings are subject to depreciation while land in general is not.
- 4.10 The land holdings should be verified by an inspection of the original title deed to ensure that land described therein covers all the lands, the cost of which is being debited in the books of the ULBs. The conveyance deed has to be verified to see that it has been duly registered as required by the Rules. And it should also be verified whether the title of the asset is free from any encumbrances.
- 4.11 In case land is acquired under compulsory acquisition, it must be verified that the title deeds of the land so acquired have been obtained and also whether the amount paid to the party from whom the land has been acquired is as per the predetermined amount.
- 4.12 If the building has been built or in the course of construction under a contract, the completion of the building has to be tracked and where required appropriate assessment has to be made as to the stage of completion.
- 4.13 This assessment can be made independently by the officers of the ULB as authorised by the Commissioner or can be based on the certificate of independent Architect engaged for this purpose. The payment must also be properly authorised after going through the relevant certificates on completion of contract and with reference to the terms laid down in the contract.
- 4.14 If the building has been constructed by the ULB itself, it will be necessary to verify the cost of materials involved, wages paid and the supervision charges incurred and check whether they have been allocated to the appropriate account on a reasonable basis. The amount of expenditure where possible, should be compared with the budgeted cost of the construction and any deviations and discrepancies must be reviewed for ascertaining the actual cost.

B. Leasehold Property

- 4.15 Various steps involved in the verification of the leasehold rights are stated below:
- a. Inspect the lease agreement to ascertain the amount of premium for securing the lease, and its terms and conditions, and that the lease has been duly registered. A lease exceeding one year is not valid unless it has been granted by a registered instrument.
 - b. Ascertain that all conditions, the failure to comply with which might result in the forfeiture or cancellation of the lease, e.g., payment of the ground rent on the due dates, insurance of property, its maintenance in satisfactory state of repairs, etc., prescribed by the lease are being duly complied with.
 - c. Examine the counterpart of the tenant's agreements, if part of the leasehold property has been sub-let.

- d. Make certain that due provisions for any claim that might arise under the dilapidation clause on the expiry of the lease has been made, and if no such provision has been made, draw the client's attention to the matter.
- e. Ensure that the outlays as well as any legal expenses incurred to acquire the lease which is shown as an asset in the Balance Sheet are being written off at a rate which could completely wipe off the asset over the unexpired term of the lease.

4.16 A leasehold property, even where no premium has been paid for its acquisition, may sometimes have considerable value. In such case, it may not be advisable to show the asset as if it has no value. Nevertheless, where the leasehold rights have been revalued, that should be clearly shown on the Balance Sheet till account has been completely written off.

C. Plant and machinery

4.17 In the absence of a Tools and Plant Register containing detailed particulars of various articles of machinery and equipment, showing separately, original cost, addition to and sales from time to time, it is normally not practicable to verify the existence of such assets. Hence, Tools and Plant Register has to be maintained, where the value and variety of machinery and plant are substantial in comparison with the total assets of the ULB.

4.18 Where such Register is kept, it is customary to prepare at the end of each year a statement from the Register showing the opening balance, sale and addition thereto during the year in respect of various items of machinery and plant.

4.19 The cost of addition, if any, is verified with the invoice of machinery supplied together with evidence in respect of other incidental expenses chargeable to the account, including installation expenses. If any of the addition represents the cost of machinery manufactured by the organization with its own material and by its own labor, the basis on which the expenditure has been allocated should be verified. In addition, a certificate is obtained from the Engineer responsible for the manufacture of the plant confirming the total cost of manufacture.

4.20 In case, any item of machinery has been scrapped, destroyed or sold, it should be ascertained that the profit or loss thereon has been correctly determined.

4.21 It is the duty of the management to (a) examine periodically and physically various items of the plant and machinery and other fixed assets, say, once in every three or five years, depending upon the size of the ULB and (b) ensure that fixed assets are in existence.

4.22 For convenience of inspection, attach to each unit of plant and machinery a metallic disc bearing the number at which it is shown in the Register.

4.23 When an asset has been revalued, depreciation should be provided on the revised value and not on the historical value.

D. Patterns, dies, tools, etc.

4.24 Several entities have large investments in such assets which have a relatively short useful life and have unit cost. Evidently, it is a difficult matter, under the circumstances, to prepare a separate account for each such asset although a careful control over such property is necessary.

- 4.25 On these considerations, some entities charge off small tools and other similar items to Production Account as and when they are purchased and do not place any value on the unused stock on the Balance Sheet.
- 4.26 Nevertheless, a record of issues and receipts of tools to workman is kept, as a check on the same being pilfered and a memorandum of Stock Account of dies and patterns is also maintained. In other concerns, the cost of tools, dies, etc., purchased is debited to appropriate Assets Account and an inventory of the unused items at the end of the year is prepared and valued. The sum total of opening balance and purchase reduced by the value of the closing stock as disclosed by the inventory is charged off to Production Account in respect of such assets.
- 4.27 On the other hand, some concerns carry such assets at their book values at the end of the first year and charge off the rest of all the purchases in the subsequent year to the Production Account on the plea that they represent cost of replacement.
- 4.28 The most satisfactory method, however, is that of preparing an inventory of serviceable articles, at the close of each year, and the revaluing the assets on this basis, the various articles included in the inventory being valued at cost. Care, however, should be taken to see that the inventory does not include any worn out/defective articles, the life of which has already run out.

E. Furniture, Fittings and Fixtures

- 4.29 The cost of these assets should be verified by reference to the invoices of the suppliers. All expenditure incidental to their purchase also should be debited to the appropriate Asset Account. Further, details of the cost of additions should be debited to these accounts so as to ascertain that only the cost of genuine additions has been debited to the Accounts. In case of assets with regard to which there is a danger of loss through pilferage, there should be a satisfactory system of stock control over them.
- 4.30 It requires that each article of furniture is entered in the Stock Register before its price is paid and stock number under which it is entered is printed over it. Also, at the end of each period, an inventory should be prepared and reconciled with the Stock Register and cost of all the articles which become unserviceable or articles that are lost is written off under proper authority.

F. Motor Vehicles, Vans, etc.

- 4.31 The cost of these assets should be verified by reference to the invoices of the suppliers and their ownership confirmed from the permit and registration books. It should also be verified whether the vehicles are covered by a comprehensive policy of insurance and adequate depreciation has been provided in respect of each of them. In case the number of vehicles is large, there should be a Vehicle Register similar to that of a Tools and Plant Register.

G. Computers

- 4.32 The computers as such have become one of the most important assets of the ULBs and hence, it is the responsibility of the ULB to take proper care of the computers. The computers may be in a separate section in the case of smaller municipalities or each section may have its own computer in the case of larger municipalities.

- 4.33 However, in both cases, it is the duty of the concerned section to take adequate control for the safeguard of the computers and its accessories. The acquisition of computers is one of the most important aspects of management process of computers. The specifications of computers must be of the highest order as even a small change in description may render the computers obsolete and may result in loss of valuable resources to the organisation.
- 4.34 A comprehensive analysis must be carried out to ascertain the correct specification of the items required. A report must be prepared and the tender procedures must be followed very stringently to ensure that the services of best vendor are obtained. While deciding about the vendor, it has to be ensured that along with costs, after-sales service and reputation of the vendor are considered. The vendor selection must be very detailed and unbiased to ensure the availability of high quality computer equipments.
- 4.35 After acquisition of the computers, they have to be carefully installed and all necessary software must be uploaded so that the performance generated by the computer is commensurate with the needs of the ULB. All computers must be thoroughly checked and a condition and performance assessment has to be carried out. All the computers and their accessories have to be numbered and a Register for Computers must be maintained. The location of the computers must be tracked carefully.

5 Asset Valuation

Fixed Assets

- 5.1 Fixed Assets are acquired with the object of earning revenue in the ordinary course of business; these are intended to be used and not sold, e.g., land, building, machinery, etc. Almost all fixed assets (except land and goodwill) suffer depletion or exhaustion due to efflux of time and their use or exploitation.
- 5.2 Hence, fixed assets are generally included at their cost less depreciation. Cost includes all the expenditure necessary to bring the assets into existence and to put them in working condition. It would be incorrect to value them at their sale price since these are not intended to be sold. For the very same reason, the fluctuations in the market values are ignored even when they are permanent. If these were taken into account, it would result in under- or over-allocation of their cost.
- 5.3 While valuing fixed assets, the provisions of the Accounting Standard-10 on Fixed Assets have to be applied wherever necessary. The Accounting Standard-10 on Fixed Assets states the following:
- “The cost of an item of fixed asset comprises its purchase price, including import duties and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its 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:*
- i. site preparation;*
 - ii. initial delivery and handling costs;*
 - iii. installation cost, such as special foundations for plant; and*
 - iv. professional fees, for example, fees of Architects and Engineers.”*
- 5.4 The cost of fixed asset may undergo changes subsequent to its acquisition or construction on account of exchange fluctuations, price adjustments, changes in duties, or similar factors. Administration and other general overhead expenses are usually excluded from the cost of fixed assets because they do not relate to a specific fixed asset. However, in some circumstances, such expenses as are specifically attributable to construction of a project or to the acquisition of a fixed asset or bringing it to its working condition, may be included as part of the cost of the construction project or as a part of the cost of the fixed asset.
- 5.5 The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, is usually capitalised as an indirect element of the construction cost. However, the expenditure incurred after the plant has begun commercial production, i.e., production intended for sale or captive consumption, is not capitalised and is treated as revenue expenditure even though the contract may stipulate that the plant will not be finally taken over until after the satisfactory completion of the guarantee period.

- 5.6 If the interval between the date a project is ready to commence commercial production and the date at which commercial production actually begins is prolonged, all expenses incurred during this period are charged to the Income and Expenditure Statement. However, the expenditure incurred during this period is also sometimes treated as deferred revenue expenditure to be amortised over a period not exceeding 3 to 5 years after the commencement of commercial production.
- 5.7 On the basis of the above, the following policies may be evolved:
- 1) In arriving at the cost at which an asset can be capitalised, the following need to be considered:
 - Purchase cost;
 - Taxes and duties on purchase;
 - Cost incurred to bring an asset to its original condition like carriage inwards, insurance during transit, installation expenses, etc.;
 - Trade discounts, rebates that would need to be reduced in determining the cost of the asset.
 - 2) The cost of purchased fixed assets should comprise of its purchase price and any attributable cost of bringing the assets to its working condition for its intended use.
 - 3) The cost of a self constructed asset should comprise of those costs that relate directly to the specific asset and those that are attributable to the construction activity in general and can be allocated to the specific asset.
 - 4) Financing costs relating to the deferred credits or to the borrowed funds attributable to construction or acquisition of fixed assets for the period upto the completion of such construction or acquisition should also be included in the gross book value of the related assets. However, the financing costs relating to the periods after such assets are ready to be put to use should not be included in the cost of fixed assets.
 - 5) In case of movable assets, final payment would be processed only upon securing the Asset Installation Note in relation to the respective asset.
 - 6) When a fixed asset is acquired in exchange or in part exchange for another asset, the asset acquired should be recorded either at fair value or at net book value of the asset given up, adjusted for any balancing payment or receipt of cash or other consideration. Fair market value is the price that could be gained in an open and unrestricted market between knowledgeable and willing parties dealing at arms length who are fully informed and are not under any compulsion to transact.
 - 7) In case of composite fixed assets like parks which would comprise of several other assets like play equipment, buildings, etc., the value of such assets should be capitalised under the respective asset head.

Valuation of different Fixed Assets

Lands

5.8 ULB may acquire land in a variety of ways such as the following:

- By way of purchase,
- By way of compulsory acquisition.
- Land gifted by institutions or individuals, whether with or without any conditions as to their use. This includes open spaces gifted by the promoters of colonies.
- Land provided by Government free of cost, whether with or without any conditions as to their use.
- Besides the above, some lands may be vested in ULB in respect of which the ULB acts merely as a trustee and has no ownership rights.

The accounting treatment of land acquired through the above modes may be as follows:

5.9 Land Acquired through Purchase

Such land should be recorded at the aggregate of the price paid/payable and other costs incidental to acquisition such as registration charges.

5.10 Land Acquired through Compulsory acquisition

In the case of land acquired under compulsory acquisition, many a times, there is a dispute as to the rate of compensation between the ULBs and the owners whose land has been acquired.

In such a case, in determining the cost of land, an appropriate allowance should also be made for the additional compensation that may become payable, if the following conditions are satisfied:

- The payment of additional compensation is probable, and
- The amount so payable can reasonably be estimated.

5.11 Land Acquired Free of Cost

In many cases, land is provided by the Government free of cost. In some cases, land is also provided by individuals or institutions under endowment for specific purposes like construction of schools etc., or by promoters of colonies , for construction of parks and similar common facilities.

The cost of such land to the ULBs is nil. Such land should be accounted for at a nominal value (e.g., Rupee One). However, to maintain proper control, such land must be recorded in the Fixed Assets Register.

Any incidental costs of acquisition such as registration charges should be added to the above.

5.12 Vested Government Land

Such land is neither owned by the ULB nor do the economic benefits from use of such land otherwise flow to the ULB. The ownership remains with the Government and the ULB merely acts as a trustee in

respect of such land. As neither the ownership nor the economic benefits arising from such land vest with the ULB, it should not be considered as an asset of the ULB (Section 37 of the APM Act)

5.13 Land Improvements

Cost of any improvement to land such as filling cost, fencing cost, etc., should be capitalised as a part of the cost of the land. In case any super structure has been built on the land, the cost of such super structure should be capitalised separately under the head “buildings”.

Buildings

- 5.14 In case of buildings which have been purchased for a consideration, the value of the building will be the amount of consideration. Any incidental expenditure incurred for the purpose of acquisition of fixed asset must be added to the cost of building.
- 5.15 In case the building is a self-constructed one, the value of such building would be any cost directly related to the construction. Any other indirect cost with respect to administration that may have been incurred in relation to the construction of the building shall also be included in the value.

Plant and Machinery

- 5.16 In case of newly acquired plant and machinery, the amount paid by way of consideration for acquisition of the plant would be the value. Along with it, any incidental expenditure which has been incurred to bring the plant to the place of business of ULB and also any other expenditure incurred for installing the plant and machinery, such as site preparation costs, installation costs and professional fees should also be added to the total cost of plant and machinery.
- 5.17 In case of addition of plant and machinery, any incidental expenses, including the installation expenditure, has to be charged to the cost of machinery.

Vehicles

- 5.18 The vehicles must be valued at the price at which they have been bought together with the amount incurred on the registration charges and also any other incidental expenditure.

Computers

- 5.19 The amount incurred for purchase of computers must be capitalised and shown as asset. All the accessories attached to the computer must also be added to the total cost of acquisition of computers. Any other incidental expenditure which has been incurred must also be added.
- 5.20 The cost incurred on software, which is very quintessential in nature and which is necessary for making computers operational, must also be added to the cost of the computers. However, demarcation must be made between the software which is essential in nature and software which is otherwise. Any software which is not substantially enhancing the productivity of the computer must not be added to the total cost and must be written off in the year of purchase by charging it to Revenue Account.

Furniture and Fittings

5.21 The furniture is generally acquired for the purpose of general administration. The amount of furniture and fittings to be shown as total cost must include the cost of the acquiring along with any incidental expenditure.

Streetlights

5.22 In some cases, the street light fittings may be the property of the ULB, while poles and wires may be the property of AP Transco. In such cases, it is obvious that only the fittings would be recorded as fixed assets of the ULB.

Roads

5.23 Expenditure on widening of roads, upgradation from gravel to black top, putting up road dividers, etc., should be capitalised. The expenditure on maintenance of these items should be charged as expenditure.

Drainage/Sewerage Systems

5.24 The cost of construction of drainage/sewerage systems would include such items as materials, labour costs and construction overheads.

Composite Fixed Assets

5.25 In some cases, a single asset may comprise several components of different nature. For example, a park comprises land, buildings and play equipment etc. Where each of these assets has been purchased/constructed separately, the attributable cost (i.e., purchase price and incidental costs, or construction cost, as the case may be) of each asset should be capitalised under the respective account heads.

5.26 On the other hand, where a composite asset has been purchased or constructed for a consolidated amount, such amount should be apportioned among various components of the asset on a reasonable basis, e.g., in proportion to their respective market prices on the date of the acquisition.

Non-cash Consideration

5.27 In some cases, a fixed asset may be compulsorily acquired from a tax payer for non-payment of taxes or fees. In such cases, the unpaid amount as appearing in the books constitute the consideration for the acquisition and the asset acquired should accordingly be recorded at such amount.

Revaluation

5.28 Unlike most commercial enterprises, large number of assets, predominantly land, may have been acquired by an ULB free of cost or at concessional rates. As per AS10, such assets are to be recorded at a nominal value/actual cost, as the case may be.

5.29 It is recognised that in many cases, use of nominal value/actual cost of assets may lead to erroneous economic decisions and/or inappropriate performance evaluation, e.g., where a part

of the land acquired free of charge is sold for development of a commercial complex. Therefore, at least in such cases, the assets concerned should be revalued subsequent to acquisition.

- 5.30 In this regard, it may be emphasised that in revaluing the assets like land, the market value to be used as the basis for revaluation should be that for an asset in similar condition and location. In case this is not possible, an appropriate allowance should be made for differences in the condition and location of the relevant assets.
- 5.31 For example, where an ULB owns a plot of land of several acres in a prime locality, the available information regarding market value of land in that locality rates to small plots. The fact that larger chunks of land usually fetch a lower rate than the smaller ones (due to relatively smaller number of potential buyers) would need to be duly considered in valuing the piece of land

Land under Encroachment

- 5.32 Where there is an encroachment on land belonging to an ULB, provision equal to virtually the entire carrying amount of the land should be made in the records, where it can be clearly demonstrated that there is a strong possibility of getting the encroachment removed.
- 5.33 Due to complex and protracted legal process and other constraints, it is generally not possible to get the encroachment removed. It would therefore be useful to include in the financial statements a description of land under encroachment and, wherever possible, the market value thereof.
- 5.34 In case the encroachment is subsequently got removed, the provision made in respect of encroachment should be reversed.

6 Disposal of Fixed Assets

- 6.1 Assets are of value to ULB only if they continue to cost-effectively support the delivery of the ULB services. Once they no longer play this role, their worth lies only in the benefits to be gained from their disposal. Asset disposal is thus the final stage in the asset life cycle. Its proper planning and management is therefore an integral part of the Asset Management strategic process.
- 6.2 This Chapter provides guidelines on the strategic processes to be adopted in planning disposal of their surplus assets. While the guidelines are generic in nature and relate to the full range of ULB fixed assets, they recognise that real property assets generally have high values and their disposal often involves more complex planning and financial issues. These guidelines also provide the application of the generic process to the disposal of real property.

The Essence of Disposal Planning

- 6.3 Asset Disposal Strategic Planning allows agencies to cull redundant assets that might otherwise reduce efficient and effective service delivery.
- 6.4 Asset Disposal Planning involves two separate and distinct elements: the detailed assessment of assets identified as **Surplus** by the Asset Strategy followed by an analysis of the physical **Disposal** of the assets.
- 6.5 An asset is identified as **SURPLUS** when one of the following occurs:
- The asset is not required for the delivery of services, either currently, or over a longer planning time frame
 - The asset becomes uneconomical to maintain and/or operate
 - The asset is not suitable for service delivery. For example, changes in service delivery methods either due to advances in technology or social expectations can cause assets to become surplus. This can also occur as a result of changing demographic patterns or the economies of scale made possible by new service capacity.
- 6.6 Once an asset is identified as surplus, its physical **DISPOSAL** will depend on one or more of the following:
- Whether there are net disposal benefits, either in financial or other terms.
 - Whether there are any secondary service obligations associated with the asset which dictates its retention.
 - Whether a disposal can be carried out without adverse impacts on the physical environment.
- 6.7 Therefore, the disposal of an asset identified as surplus is not a foregone conclusion. The net disposal benefits (disposal value less disposal costs) may be negative for some assets (especially fixed or purpose-built equipment such as buildings, pipelines and process control equipment) which will discourage their premature disposal.

- 6.8 The disposal value will also be dependent on the market for the asset. For example, the market for two-year old cars is much larger than that for second hand office furniture. Disposal benefits will not always be dictated by monetary returns. Disposal relieves from responsibility of an asset's supervision, day-to-day management, maintenance, insurance, security, cleaning etc. along with housing or storage throughout the asset's life.
- 6.9 Under-utilised assets may be of significant value to another organization. In assessing the benefits of disposal, the advantages from the whole of the ULB perspective must be considered.
- 6.10 Assets identified as surplus to core service delivery requirements may need to be retained for other reasons such as heritage, open space or other social environmental considerations, which ULB may have as secondary service obligations.

Benefits of Disposal Planning

- 6.11 A strategic approach to the management of ULB assets and the disposal of those no longer required will have impacts on:
- Whole of ULB
 - Various Sections in the ULB
 - Community
 - Environment

Whole of ULB

- 6.12 A managed disposal strategy will assure ULB that its asset investments are effective and that the assets are currently relevant to the service it requires to provide, thus maximising the return on ULB asset portfolio.

Constant review of asset relevance offers ULB the economies and benefits that flow from new cross-section asset sharing opportunities that can replace existing assets.

Sections

- 6.13 Disposal planning offers various sections a means of disposal of unnecessary or non-performing assets timed to minimise disruption to their service delivery and maximise returns by selecting appropriate times in their market cycle to dispose.
- 6.14 Disposal may have impacts on section's services and staff. A section's functionaries may feel that they would be adversely affected by disposal in that some aspect of service may be reduced or made more difficult.
- 6.15 Staff may see disposal of a facility in which they work as threatening, especially, if it requires them to relocate to distant premises or if it significantly alters or ends their employment.
- 6.16 In both cases, a section should consult the affected groups, explaining the organisation's role, the reasons for the disposal and advise of any compensatory measures it plans to introduce to avoid or reduce the impacts.

- 6.17 In the disposal of significant assets, sections should also be aware that there may be broader community concerns other than those related to service delivery, particularly when disposal involves re-use or redevelopment of property assets.
- 6.18 Ultimately, it will be of benefit to sections to identify any such concerns and to accommodate them where possible since this can avoid protracted community confrontation and consequent delays in the disposal of the asset.

Community

- 6.19 The community will benefit from the increased efficiency in overall service delivery resulting from disposal of assets that have become ineffective. Again, the disposal of assets may cause anxiety among communities that feel their services will be compromised by such disposal.
- 6.20 To minimise this understandable concern, sections should break the perceived nexus between the services they provide and the assets that are used to deliver them. When a community understands that the service it requires is, for example, education or health and not a school or dispensary, they are less likely to resent disposal of assets.
- 6.21 It is the responsibility of the section to design an effective service delivery model using the portfolio of assets proposed to demonstrate to the community:
- that the change will not affect them adversely, or
 - how special provisions will be implemented to minimise impacts
- 6.22 Sections need to be sensitive to the symbolic importance that major assets play in the community.
- 6.23 The presence of a hospital in a town provides a sense of security quite apart from the service. The existence of a hospital is a symbolic part of the service. The sections must consider the cultural significance of assets such as roads, schools and water-ways to a community when planning their disposal. Failure to address such concerns may well result in community confrontation and delays in the disposal process.

Environment

- 6.24 The production, maintenance and disposal of assets can have environmental impacts. Hence, there are significant environmental advantages in minimising both the number of assets used and the density of that usage. If asset disposal strategically considered is not premature and considered further use or recycling by future owners, then it is the final stage of good environmental stewardship of ULB assets.

Roles and Responsibilities of Various Sections

Service Sections

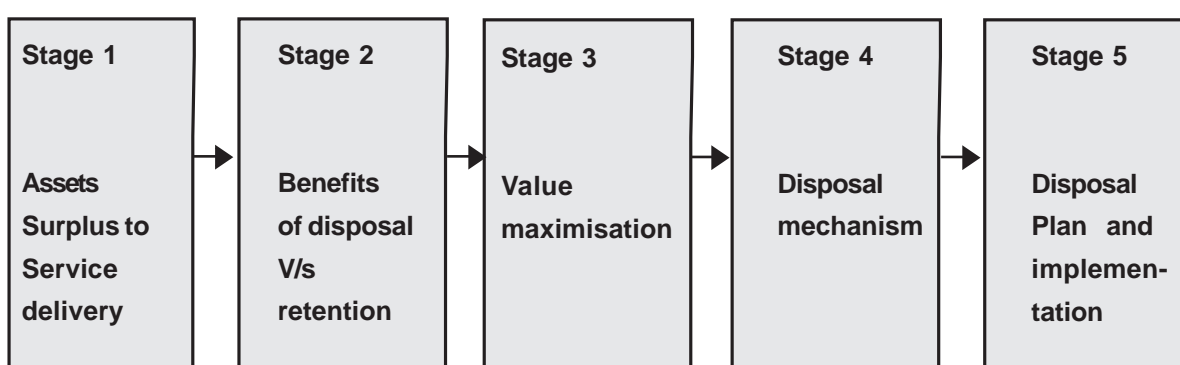
- 6.25 All sections are required to prepare annual Disposal Plans as part of their Total Asset Management Strategic Planning. This reflects the need to integrate disposal planning into a Municipal Annual Strategic Asset Management Planning and Budgeting Cycle.

General Asset Disposals

6.26 Most sections have the skills to manage the disposal of general assets. The actual disposal process, which may include valuation or auctioneering, can be outsourced to Specialists. The sections should carefully consider the advantages of engaging specialists, if their experience in disposal activities is infrequent or not core business.

The Asset Disposal Planning Process

6.27 Asset Disposal Planning is a structured and systematic process aimed at ensuring an ULB's asset portfolio. It comprises only those assets that effectively meet its service delivery requirements at the lowest long-term cost to ULB. Disposal Planning links, via the Asset Strategy, with service delivery in the following five stages as shown in the diagram and described in the following stages.



The process described here is generic and covers disposal of all types of assets.

Stage 1

6.28 The first stage in the disposal process is to assess in detail those assets identified by the Asset Strategy as surplus to service delivery needs both at the present time and over the longer planning time frame.

6.29 Assets are of value to an agency only in so much as they continue to cost-effectively support the delivery of the agency's service. Once they no longer play this role, their worth lies only in their disposal value. An asset's continuing acceptability in service must be measured against its disposal and procurement of alternative assets to provide the services specified in the ULB Service Delivery Strategy.

6.30 The identification of surplus assets should include the following considerations:

- Assets may no longer support an agency's service objectives either because of changes in the type of service or its method of delivery
- Assets can have varying service life expectancies. Some are required to continue in service indefinitely with adequate maintenance, e.g. roads, water supply, drainage or sewerage systems
- Assets such as buildings can often be economically maintained and kept in service for prolonged periods, however some become uneconomic or cannot be economically adapted to changed operating environments or service requirements.

- Some assets may still be able to perform as originally planned but have been made redundant because of advances in technology or changed work practices
- The potential savings available from replacement of an asset must be weighed against the cost of that replacement, the estimated economic service life and the market value of the asset

6.31 Some assets are perceived to be inferior in certain aspects (particularly when compared to more recently acquired assets), yet may still provide acceptable service. Care must therefore be taken to avoid replacing assets on superficial grounds such as improved but unnecessary performance or higher prestige. This can be challenging, especially when technical experts plead the case for disposal and replacement. Sometimes, disposal may be more advantageous to the operatives than the ULB's service delivery.

6.32 If an asset is not presently used, the likelihood of it being required within the foreseeable future should be considered. Changing demographic trends or service demands may see a renewed call for the asset in its present or altered state, or in a new location.

Stage 2

Assess the advantages to ULB, various sections and the community in divesting assets.

6.33 Not all assets identified as surplus will have great residual value and in some cases this will be negative when the disposal costs are included. In such circumstances, the advantages of disposing must be weighed against the cost of continued ownership.

6.34 Many assets require significant resources for their maintenance (repairs, servicing, etc) and operation (staff, energy, cleaning, security costs, etc.). Other costs that stem from ownership include opportunity costs on the residual value of the asset.

6.35 Therefore, retaining such assets in service when they no longer effectively support service delivery will expend resources that could otherwise be used elsewhere and could effectively block the acquisition of more suitable and economic assets.

6.36 If the cost of removing redundant pipelines is greater than its scrap value and if there is no significant risk, or impact on re-use options in leaving the asset in its present state, then disposal should be decided against.

6.37 If disposal releases the land for sale or further use, then this might well make disposal of the assets worthwhile. The failure to dispose of under-capacity desktop computers restricts the organisation from acquiring more effective technology. The real need for greater capacity should however be closely checked prior to decisions being made.

Stage 3

Identify opportunities for increasing asset value before their disposal.

6.38 Maximisation of net benefits to ULB requires a whole of organisation and cross-section view of the assets to be disposed of over the period under consideration. The disposal value of an asset is its sale value and the savings achieved in the cost of service delivery or other benefits. The

sale value is dependent on the market for the asset and the perceived advantages it offers the buyers in that market.

- 6.39 An asset can have a range of values to potential buyers, with each valuing different aspects of the asset. It may also be most highly valued as part of a site for a major office development, but this might be dependent on the acquisition of adjoining sites.
- 6.40 The wider and longer term the perspective that can be taken, the greater the options for maximising the value by most appropriately marketing surplus assets. An understanding of the property cycle allows maximum advantage to be made of rising property markets and disposal may be delayed to coincide with such cycles if a longer term perspective is taken. Care however is required in attempting to speculate on market trends and expert advice should be sought if timing is important. The perspective can also allow judgments to be made on the levels of maintenance applied to the asset and the best condition in which to present it for disposal.
- 6.41 Disposal need not generate a financial outcome to be valuable. Often opportunities will arise including:
- Swapping one asset or site for another
 - Joint disposal with owners of adjoining properties
 - Contra-deals involving construction of a facility for an agency within a development in payment for the land on which it is built
- 6.42 Other assets may have no value but disposal can provide benefits such as avoidance of maintenance or operating costs, staffing or insurance costs.

Stage 4

Identify disposal requirements including probity considerations.

- 6.43 The disposal mechanism must be carefully chosen to ensure that the disposal of assets is carried out to:
- Satisfy probity considerations
 - Provide adequate and equal opportunity to purchase, including clear stipulation of the basis on which decisions will be made
 - Achieve best returns to ULB
 - Avoid any adverse environmental impacts
 - Disposal will generally be by auction, tender or private treaty. Any other proposed methods of disposal should be referred to the Council/Standing Committee for approval.
- 6.44 Auction** is a common method of disposal because it is usually more straightforward and the process is open to public scrutiny. In some circumstances, the environment of an auction may generate a higher price.

6.45 Tender is preferred where more control over the actual disposal of the asset is required or where the credentials of the buyer need to be assessed in detail.

6.46 Whatever the disposal mechanism, it may be important for an ULB to be satisfied as to the **credentials** of the proposed purchaser.

Stage 5

Prepare and implement the Disposal Plan and monitor performance.

6.47 Disposal plans should cover the same period of time as the ULB's Capital Investment and Asset Maintenance Strategic Plans. This ensures ULBs remain focused on service delivery rather than the assets. Linkages should be made between the capital investment and disposal plans by listing assets for disposal that have service lives within the planning time frame.

6.48 These linkages are particularly important where the proceeds of asset disposals are being relied upon to fund capital works. In such situations, it is essential to allow an adequate time and funding buffer between the disposal and acquisition events.

6.49 While disposal plans will not contain every asset under an ULB's control, significant items should be listed in appropriate detail on a long-term basis to ensure that the sections are properly prepared for disposals and replacements.

6.50 The one-year plan should contain asset disposal proposals that can be achieved. That is:

- They can be removed from service and if replacement assets are involved, these will become available so that service delivery is not jeopardised
- Pre-disposal approval and planning (including protracted actions such as re-zoning) have or can be obtained in time for disposal to be completed within the year
- The state of the market being appropriate to achieve a satisfactory outcome while annual plans should be considered to be binding on an agency to achieve the actions proposed, the longer-term disposal plans will always have some inherent flexibility to cater for changes in operating environment.

6.51 While the accuracy of a plan reduces with time, the period of the long-term projection should be chosen to include much of an ULB's asset service life expectancy and its longest service life planning cycle. In the case of real property assets, this could be upto 20 years. As indicated previously, the process described here is generic and covers the disposal of all types of assets.

Documents, Registers and Reports 7

7.1 In the process of asset life cycle from creation to disposal, various documents are obtained and prepared. Following are the basic documents, registers and reports need to be maintained for evidence of ownership, location, condition, purpose, performance etc of the property.

- Asset Ownership documents
- Warranty and Guarantee information
- Other Internal Documents and Registers

Asset Ownership Documents

7.2 Property documents stating the ownership or control of the asset is one of the important documents providing the ownership or control over the property. Mostly these are invoices.

Warranty and Guarantee Information

7.3 Some of the properties acquired may have warranty or guarantee for a particular period or performance. These documents need to be preserved in such a way that, tracing of these documents when required should be made easy.

List of Documents, Registers and MIS in the Activity Flow		
Sl. No.	Documents/Registers/MIS	Form No.
Documents		
1.	Asset Installation Note	A.I.N.01
2.	Asset Transfer Note (ATN)	A.T.N.02
3.	Asset Adjustment Slip	A.A.S.03
4.	Asset Disposal Form	A.D.F.04
Registers		
5.	Fixed Asset Register (Section-wise)	F.A.R.(S).01
6.	FAR (at Finance and Account Section)	F.A.R.(F&A S) .02
7.	Project Register	P.R.03
MIS		
8.	Asset Discrepancy List	A.D.L.01
9.	Schedule of Depreciation	S.D..02
10.	Schedule of Fixed Assets	F.A.S.03

A.I.N.01

Name of the ULB _____

ASSET INSTALLATION NOTE

Journal Voucher No.:

Project Code:

Document No.:

Date :

Scheme Code:

Supplier Name:

Section:

Location:

Asset Code	Asset Group	Sub Group Code	Asset Discription	Asset Number (Assigned By Section)	Identification Number, if any	Ledger Folio in FAR (S)	Cost Rs.	Date of Installation
1	2	3	4	5	6	7	8	9

Prepared by: Asst. – Section

Checked by: HOD – Section

Approved by: Dept. in-charge
of Purchase

Note 1: Asset Code will be filled in Accounts Section

Note 2: If new asset is associated with any asset disposal (trade-in), the relevant A.D.F.04 has to be attached to A.I.N.01.

A.T.N. 02

Name of the ULB _____

ASSET TRANSFER NOTE (ATN)

Doc. Date :

Doc. No. :

Transfer From :

Transfer To :

Sl. No.	Fixed Asset Code		Qty.	Original Cost Rs.	Accumulated Depreciation Rs.	WDV Rs.	Date of Transfer	Reasons for Transfer
	Code	Description						
1	2	3	4	5	6	7	8	9

Name of the ULB _____

ASSET ADJUSTMENT SLIP

Doc. No. :

Doc Date :

Sl. No.	Fixed Asset		Original Cost Rs.	Accumulated Depreciation Rs.	Nature of Adjustment	Remarks
	Code	Description				
1	2	3	4	5	6	7

A.D.F. 04

Name of the ULB _____

ASSET DISPOSAL FORM (A.D.F.)

Document No.:

Date :

Journal Voucher No.:

Section:

Location:

Asset Code	Asset Group	Asset Discription	Asset Number (Assigned By Section)	Identification Number, if any	Ledger Folio in FAR (S)	Cost Rs.	Reasons for disposal	Authority for disposal	Date of disposal	Nature of disposal	Amount realized, if any for disposal
1	2	3	4	5	6	7	8	9	10	11	12

Prepared by: Asst. – Section

Checked by: HOD – Section

Approved by: Dept. in-charge
of disposal

Note : If asset disposal is associated with purchase of new asset, A.D.F. 04 has to be attached to A.I.N. 01

F.A.R.(S).01

Name of the ULB _____									
FIXED ASSETS REGISTER (SECTION - WISE)									
Asset Group :			Sub-Group :			Unit of measurement :			
Date	Supplier Details	Value (Rs)	Original (Qty)	Additions (Qty)	Deletions (Qty)	Transfer (Qty)	Balance (Qty)	Asset Identification No.	Remarks (damages/reasons for removal, etc.)
1	2	3	4	5	6	7	8	9	10

F.A.R. (F&A.S.) 02

Name of the ULB _____

FIXED ASSET REGISTER (F&A SECTION)

Asset Group :

Sub -Group:

Depreciation Rate:

Asset No :

Section Bill Number :

JV No.:

Location and Section at which installed :

Date of Installation :

Narration

Asset Description	Supplier Details	Invoice No.	Cost of Asset	Other Installation Cost	Total Cost	Depreciation for the year		Cumulative Dep. Amount	Written down Value (6)- (9)	Date of removal/sale	Amount of Sale	Details of Sale	Remarks (damages/ reasons for removal, etc.)
						Year	Amount						
			Rs.	Rs.	Rs.		Rs.	Rs.	Rs.		Rs.		
1	2	3	4	5	6	7	8	9	10	11	12	13	14

P.R.03

Name of the ULB _____

PROJECT REGISTER

Document No.:

Date :

Project Code:

Project Description:

Estimated time:

Estimated Start date:

Estimated Completion date:

Estimated project cost:Rs.

Sources of funds:

Source

Amount: Rs.

Actual Start date :

Actual Completion date:

SI No.	Work Order/ Purchase No. and Date	Bill Reference	Contractor/ Supplier Code	Account Code	Direct Cost Rs.	Project expenses apportionment Rs.	Project capitalized Rs.	Capitalised JV No. and Date
1	2	3	4	5	6	7	8	9

Prepared by: Asst. – Section

Checked by: HOD – Section

Approved by: Dept. in-charge of Purchase

Note : Asset Code will be filled in Accounts Section

A.D.L.01

Name of the ULB _____

ASSET DISCREPANCY LIST

Physical Verification Date :

People Present

Section :

SI No.	Asset No.	Asset Description*	Book Qty.	Physical Qty.	Discrepancy (4) - (5)	Remarks
1	2	3	4	5	6	7

Prepared by:

Verified by :

Approved by:

Asset Description* - It would also contain details of the Asset Number allotted by the Section for cross verification.

S.D.02

Name of the ULB _____

SCHEDULE OF DEPRECIATION

Location Code :

Description :

Account Code :

SI No.	Fixed Asset		Qty.	Rate	Acc. Dep. as on 1-4-..... Rs.	Depreciation For the Year			Total Depn. For the year Rs.	Acc. Dep as on 31-3-..... Rs.
	Code	Discription				On Additions Rs.	On Existing Assets Rs.	On Disposals Rs.		
1	2	3	4	5	6	7	8	9	10	11
	TOTAL									

Name of the ULB _____

SCHEDULE OF FIXED ASSETS

FOR THE PERIOD ENDED _____

Discription	Gross Block				Depreciation				Net Block as at the end of the year	Net Block as at the end of Previous Year
	As at beginning of the year	Additions during the year	Deduc-tions during the year	As at the end of year	Upto beginning of the year	Additions during the year	Deductions during the year	As at the end of year		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
1	2	3	4	5	6	7	8	9	10	11
Total										
Previous Year										

Registers for verification at the preliminary stages for collection of base data regarding the assets owned by the municipality

Sl. No.	Name of the Register	Source	Content
Immovable Assets			
Land			
1	Town Survey Land Register	Town Planning Section/Revenue. Department (MRO)	Details of urban lands
2	Resettlement Register	Town Planning Section/Revenue. Department (MRO)	Details of lands in villages
3	Fair Adamgal (Pahani) Register	Town Planning Section/Revenue. Department (MRO)	Details of lands in Estate villages
4	BA Register	Revenue. Department (MRO)	Land Movement Register
5	POB Register - Prohibited Order Book	Revenue. Department (MRO)	Records related to lands earmarked for specific purpose, e.g., temples, burial grounds, etc.
6	Fixed Assets Register	Town Planning Section/Revenue. Department (MRO)	Details of fixed assets
7	Approved Layouts	Town Planning Section	Reserve open Spaces
8	Register for Reserve open spaces	Town Planning Section	Reserve open Spaces
9	Register for Council meetings	Municipality	Reserve open Spaces
10	Register or urban Development Authority (UDA)	UDA	Reserve open Spaces
11	Maps and layouts of the concerned municipality	Directorate and Country Planning (DTCP)	Layouts approved by the Gram the formation of municipality

Roads			
1	Layouts/list of roads and type of roads/Internal roads	Engineering Section	Details of roads
2.	Master Plan	Town Planning Section	Details of roads
Buildings			
1.	Fixed Assets Register	Engineering Section	Details of Immovable Assets
Water Works			
1.	Registers related to water	Engineering Section and Public Health Engineering Dept. (PHED)	Water Works Network
Drainage Schemes			
1.	Copy of transfer of Drainage Scheme by PHE Department	Engineering Section and Public Health Engineering Dept. (PHED)	Drainage Network
Underground Drainage Schemes			
1.	Copy of transfer of Under Ground Drainage Scheme by PHE Dept.	Engineering Section and Public Health Engineering Dept. (PHED)	UDS Network
Street Lighting			
1.	Register (Electrical)	Engineering Section	Details of Streetlights
Burial Grounds			
1.	Pahani Register	Revenue. Department (MRO)	List of Burial grounds
2.	Layout Plans	Town Planning Section	Land earmarked for burial grounds
Municipal Agricultural lands			
1.	Pahani	Revenue. Department (MRO)	Details of Agricultural/vacant lands vested with the municipality

Clock Towers			
1	Maintenance Register	Engineering Section	Details of Clock Towers
Guest Houses and Choultries			
1	Maintenance Registers	Engineering Section	Details of Guest houses/choultries
Bus Shelters			
1.	Registers	Engineering Section	Details of bus shelters with the municipality
Arches and Boards (Hoardings)			
1.	Registers	Town Planning	Details of Arches and boards with the municipality
Culverts and Bridges			
1.	Registers	Engineering Section	Details of Culverts and bridges
Traffic Islands			
1.	Registers	Engineering Section	Details of Traffic Islands under municipality
Movable Assets			
1.	Physical verification of all the Premises under the municipality	Concerned Sections	Furniture, Fixtures, Computers, etc.
2.	Inventory register	Concerned Sections	Furniture, Fixtures, Computers, etc.

Format for report for each municipality**1. Government Land vested with the municipality****Name of the Municipality:****Date:**

Name of the Village	Survey numbers	Location (Ward No.)	Area (acres)	Alienations			Acquisitions			Balance (acres)	Physical Verification status
				Date	Section	Acres	Date	Section	Acres		
1	2	3	4	5	6	7	8	9	10	11	12

2. Layout lands - Reserve Open Spaces**Name of the Municipality:****Date:**

Name of the Village	Survey numbers	Location (Ward No.)	Area of layout (acres)	Layout plan No. & Date	Council Resolution & Date	Reserve Open Space			Physical Verification status	Remarks
						%	Area	Purpose		
1	2	3	4	5	6	7	8	9	10	11

Annexure - Relevant Accounting Standards

Accounting Standard 6 - Depreciation Accounting

Depreciation is an important item of expense under accrual basis of accounting. Under-provision or over-provision for depreciation would vitiate the view presented by the Income and Expenditure Account. Therefore, ULBs should provide depreciation in accordance with the requirements of AS6.

Depreciation amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset.

Depreciable assets have been defined as assets which are expected to be used during more than one accounting period, have a limited useful life, and are held for use in the production of goods and services, or for rental to others, or for administrative purposes and not for purpose of sale in the ordinary course of business. Thus most of the fixed assets would qualify to be classified as depreciable assets.

Depreciable amount of a depreciable asset refers to its historical cost, or revalued amount, as reduced by estimated residual value.

Useful life of a depreciable asset is either the period over which it is expected to be used, or the number of production or similar units expected to be obtained from the use of the asset.

The depreciation method selected should be applied consistently from period to period. The standard requires, whichever method of depreciation is selected, that it should be applied consistently. The selection of the method depends on the type of asset, the nature of its use and the circumstances prevailing in the ULB. A combination of more than one method of depreciation can also be used, provided it is followed consistently. Thus, a ULB may adopt the straight line method for charging depreciation on furniture, while it uses written down value method to charge depreciation on plant and machinery.

A change from one method of providing depreciation to another should be made only if the adoption of new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the ULB.

The useful life of a depreciable asset should be estimated on considering the following factors.

- a) expected physical wear and tear,
- b) Obsolescence,
- c) Legal or other limits on the use of assets.

The useful lives of major depreciable assets or classes of depreciable assets may be reviewed periodically. If as a result of such a review, there is a revision of useful life, the unamortized depreciable amount (the written down book value minus the estimated residual value) should be charged over the revised remaining useful life.

Any addition or extension which becomes an integral part of the existing asset should be depreciated over the remaining useful life of the asset. Alternatively, depreciation on such addition or extension may be provided at the rate applied to the existing asset. However, where an addition or extension retains its separate identity and is capable of being used after the existing asset is disposed of, depreciation on the same should be provided independently on the basis of an estimate of its own useful life. Thus, the basic test is whether or not an addition or extension has a separate identity and is capable of being used after the existing asset is disposed of.

Where the historical cost of a depreciable asset has undergone a change, depreciation should be provided on the revised unamortized depreciable amount prospectively over the residual useful life of the asset.

Where a depreciable asset is revalued, the charge for depreciation should be based on the revalued amount and on the estimate of the remaining useful life of such asset. If the effect of revaluation on the amount of depreciation is material, the same should be disclosed separately in the year in which revaluation is carried out.

If any depreciable asset is disposed of or retired, the net surplus or deficiency, if material, should be disclosed separately.

The historical cost or the revalued amount of each class of depreciable assets should be disclosed in the financial statements. The total depreciation for the period for each class of assets as well as the related accumulated depreciation should be similarly disclosed. Disclosure should be made of the depreciation methods. Depreciation rates of the useful life of the assets should also be disclosed if they are different from the rates prescribed by the law governing the ULBs.

In some cases, several kinds of fixed assets may form part of a single asset, e.g., an asset, apart from land, may comprise buildings, pumping station, machinery, equipment etc. Some of these assets may be depreciable, while others may not be. Even the depreciable assets may have varying useful lives. In order that depreciation can be computed properly, it would be necessary to account for items of different nature and different useful lives under separate account heads.

Accounting Standard 10 - Accounting for Fixed Assets

The principles enunciated in AS10 regarding accounting for fixed assets would apply equally to ULBs as to other organisations. However, due to the very nature of their structure and operations, ULBs have certain peculiar features which have accounting implications. The application of AS10 to some major items of fixed assets in the context of peculiar features of ULBs is discussed below.

Accounting Standard 12 - Accounting for Government Grants

Accounting for Government Grants defines Government Grants as 'assistance by Government in cash or kind to an enterprise for the past or future compliance with certain conditions'. Government for this purpose includes Government agencies and similar bodies, whether local, national or international. The standard lays down the following:

- A) Government grants should not be recognized until there is reasonable assurance that (a) the grants will be received, and (b) the ULB will comply with the conditions attached to them.

- B) A Government grant related to a specific fixed asset should be accounted for in either of the following ways:
- (i) under the first alternative, the grant should be shown in the balance sheet as a deduction from the gross value of the relevant fixed asset
 - (ii) under the second alternative, the gross value of the fixed asset should be left undisturbed and the grant should be dealt with as follows:
 - (a) where the grant relates to a non-depreciable asset, eg., free-hold land, and does not require the fulfillment of any future obligation, it should be credited to capital reserve. On the other hand, if a grant related to a non-depreciable asset and require the fulfillment of certain obligations, the grant should be credited to profit and loss account over the same period, over which the cost of meeting these obligations is charged to income; the deferred income balance should be shown separately in the financial statements.
 - (b) if the grant relates to a depreciable asset, it should be treated as deferred income which should be recognized in the profit and loss account by allocating it over the periods and in proportions in which depreciation on the asset is charged.
 - (c) Government grants in the form of non-monetary assets (such as fixed assets) given at a concessional rate should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value of rupee one.

Accounting Standard 16 - Borrowing costs

The primary issue in accounting for borrowing costs is, whether interest, is to be considered as a part of the cost of the asset. In this regard, AS 16 requires expensing of all borrowing costs except those directly attributable to assets whose acquisition, construction or production necessarily takes a substantial period of time.

Meaning of borrowing costs: Borrowing costs are defined as 'interest and other costs incurred by an enterprise in connection with the borrowing of funds'. Thus, apart from interest, borrowing cost would also include commitment charges on bank borrowings and on other short-term and long-term borrowings, amortization of discounts, premiums and ancillary costs relating to borrowing (eg., costs involved in raising funds through debentures, such as cost of preparation and printing of prospectus, legal fees, fees of merchant bankers etc.), finance charges in respect of assets acquired under finance leases.

Treatment of borrowing costs: Borrowing costs that are directly attributable to the acquisition, construction or production of an asset should be capitalized as part of the cost of that asset. All other borrowing costs should be recognized as an expense in the period in which they are incurred.