

# POLICY



**Date adopted:** 30/05/2017  
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**Policy title:** ASSET MANAGEMENT - IMPAIRMENT  
**Directorate:** ORGANISATIONAL SERVICES  
**Branch:** FINANCE  
**Policy objective:** To provide a management framework to ensure that Council assets are carried at no more than their *recoverable amount* per Australian Accounting Standard AASB136.

**Policy scope:**

1. This policy formalises Council's approach to the inspection and determination of asset recoverable amounts in compliance with Australian Accounting Standards.
2. This policy applies to Council property, plant and equipment (PPE), intangible assets and investment property assets and is to be read in conjunction with Council's policy 'Revaluation of Non-Current Assets'.
3. A review of Council's PPE assets will be undertaken annually or in accordance with operational procedures where annual inspection is impractical to determine and report asset condition per asset impairment indicators established by Council management.
4. The purpose of the review is to ensure that assets are not carried at in excess of recoverable amount, as required by Australian Accounting Standards.
5. References
  - (a) the *Local Government Act 2009*
  - (b) the Local Government Regulation 2012
  - (c) Australian Accounting Standard AASB136 Impairment of Assets
  - (d) Australian Accounting Standard AASB116 Property, Plant and Equipment.

**Definitions:**

TERM	DEFINITION
Carrying amount	Means the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.
Depreciated replacement cost	Means the current replacement cost of an asset less, where applicable, accumulated impairment and accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.
Fair value less costs to sell	Means the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

TERM	DEFINITION
Impairment loss	Means the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.
Recoverable amount	Means the higher of fair value less costs to sell and value in use.
Value in use	Means depreciated replacement cost.

**Policy statement:**

The following procedure is to be undertaken for this policy:

1. Preamble
  - (a) AASB136 is the Australian accounting standard for the Impairment of Assets.
  - (b) AASB136 requires that the "recoverable amount" of an asset be determined and compared with its carrying amount whenever there is an indication that the asset may be impaired. Impairment indicators are to be developed and asset inspections undertaken annually to ensure that assets are not impaired.
  - (c) Where an impairment loss occurs, the amount of the loss is immediately recognised as an expense or is net off against revaluation reserves where a revaluation reserve exists for the class of assets to which the asset belongs.
2. Inspection and impairment procedures
  - (a) Asset owners will:
    - (i) Develop suitable impairment indicators.
    - (ii) Undertake inspections of assets annually or in accordance with operational procedures where annual inspection is impractical.
    - (iii) Provide details of impairment to the Asset Accountant for actioning.
    - (iv) Maintain records of inspection and impairment reporting.
  - (b) Operational management will:
    - (i) Assess materiality of impairment and arrange independent valuation where appropriate.
    - (ii) Approve impairment adjustments.
  - (c) The Asset Accountant will:
    - (i) Administer standard impairment notification formats.
    - (ii) Arrange valuation processes for material impairment as instructed by operational management.
    - (iii) Calculate and process impairment losses and reversals as required.
    - (iv) Keep a record of impairment per asset in Council's corporate asset registers.
3. Identifying an asset that may be impaired
 

An asset is impaired when its carrying amount exceeds its recoverable amount. The following will be used as indications that an asset may be impaired:

  - (a) During the period, an asset's replacement cost has declined significantly more than would be expected as a result of the passage of time or normal use (e.g. the asset has become technically obsolete).
  - (b) Evidence is available of obsolescence or physical damage of an asset.

- (c) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used (e.g. the asset has become idle, there are plans to discontinue or restructure the operations to which the asset belongs, there are plans to dispose of the asset before a previously expected date or a reduction in residual value or useful life).
4. Measuring recoverable amount
- (a) Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.
  - (b) Fair value is determined in accordance with Council's policy 'Revaluation of Non-Current Assets':
    - (i) Where an active and liquid market exists for an asset, fair value is the asset's market value less costs to sell.
    - (ii) Where an active and liquid market does not exist for an asset and there is no other market-based evidence of value, fair value is the asset depreciated replacement cost.
  - (c) Value in use for Council assets is depreciated replacement cost.
  - (d) Recoverable amount is calculated to assess carrying value and determine whether an impairment loss has been incurred.
5. Calculating impairment loss
- (a) Where the carrying amount of an asset is greater than recoverable amount, there is an impairment loss.
  - (b) Carrying amount is calculated as gross replacement value (i.e. gross cost or valuation) less accumulated depreciation less accumulated previous net impairment losses.
  - (c) Impairment loss is to be calculated as carrying amount less recoverable amount.
  - (d) Where an asset is impaired, carrying amount is restated as gross replacement value less accumulated depreciation less accumulated impairment loss.
  - (e) A separate record is maintained on asset registers of accumulated impairment loss per asset.
6. Processing of impairment losses
- (a) Where the recoverable amount of an asset is less than the asset's carrying amount, the carrying amount of the asset will be reduced to its recoverable amount and the reduction recognised as an impairment loss.
  - (b) Where assets are carried at cost:
    - (i) An impairment loss will be recognised immediately as an expense in profit or loss.
    - (ii) A reversal of an impairment loss shall be recognised immediately in profit or loss and shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.
  - (c) Where assets are carried at revalued amount:
    - (i) An impairment loss of an asset will reduce the revaluation reserve of the class of assets to which the impaired asset belongs.
    - (ii) Should the impairment loss exceed the revaluation reserve for the class of assets, the excess will be recognised as an expense in the profit and loss.

- (d) An impairment reversal will:
- (i) To the extent that an impairment loss on the same class of asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss.
  - (ii) Increase the revaluation reserve up to the aggregate amount of previous impairment losses charged against the reserve for the class of assets concerned.
  - (iii) Any excess of the aggregate amount of previous impairment losses for the class of assets concerned shall be treated as a revaluation increase in accordance with AASB116.
- (e) After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
7. Infrastructure assets
- (a) Infrastructure assets for which there is no liquid and active market are measured during valuation at depreciated replacement cost.
  - (b) As there is no active market for these assets, recoverable value is also measured as depreciated replacement cost, which means that infrastructure asset carrying values and recoverable amounts will be the same.
  - (c) Any adjustment to infrastructure asset carrying values as a result of impairment is treated as a revaluation adjustment and accounted for in terms of Council's asset revaluation policy.
8. Timing of impairment tests
- (a) Impairment testing is to be conducted annually or in accordance with operational procedures where annual inspection is impractical and is to be incorporated in normal asset review procedures.
  - (b) Operational management will provide details to the Asset Accountant immediately an asset is impaired. Details are to include the nature of the impairment, impact on the value and life of the asset and actions taken to resolve.
  - (c) The Asset Accountant will process an impairment adjustment immediately impairment is reported. The recoverable amount of an impaired asset will be determined and compared with its carrying amount whenever there is an indication that an asset may be impaired.
  - (d) The Asset Accountant will ensure that asset carrying values for impaired assets have been adjusted prior to Council's annual reporting date.
  - (e) Impairment losses will be disclosed separately from revaluation adjustments in the notes to Council's Annual Financial Statements.

**Related policies/legislation/other documents:**

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
<a href="#">5974644</a>	Policy	Revaluation of Non-Current Assets
-	Legislation	<i>Local Government Act 2009</i>
-	Legislation	Local Government Regulation 2012