



Steve Tshwete
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METHODOLOGY FOR THE IMPAIRMENT & ASSESSMENT OF USEFUL LIVES OF ASSETS POLICY

AMENDED

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1. **DEFINITIONS & ABBREVIATIONS**

“*ASB*” means Accounting Standards Board.

“*CFO*” means chief financial officer.

“*entity*” means Steve Tshwete Local Municipality.

“*ESKOM*” means the Electricity Supply Commission.

“*EUL*” means estimated useful life, which is the period of time over which an asset is expected to be used by the municipality.

“*FAQ*” means frequently asked questions as issued by the Accounting Standards Board.

“*financial year*” means the period 1 July of one year to 30 June of the following year (both days included).

“*GRAP*” means generally recognised accounting practices.

“*IDP*” means integrated development plan.

“*impairment*” is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the assets future economic benefits or service potential through depreciation or amortisation.

“*impairment loss of a cash-generating asset*” is the amount by which the carrying amount of an asset exceeds its recoverable amount.

“*impairment loss of a non-cash-generating asset*” is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

“*MFMA*” means Municipal Finance Management Act, Act 56 of 2003.

“*municipality*” means Steve Tshwete Local Municipality.

“*NERSA*” means the National Energy Regulator of South Africa.

“*reporting date*” means 30 June of each year.

“*RUL*” means remaining useful life.

“*SDBIP*” means service delivery budget implementation plan.

2. **PURPOSE**

The purpose of this document is:

- To set out a methodology for the impairment and useful lives assessment of property, plant and equipment in line with the applicable accounting standards;
- To ensure that sufficient provision is made for the impairment of property, plant and equipment in the annual financial statements; and
- Ensure that assets disclosed in the annual financial statements are stated at amounts that are in line with GRAP 17 property, plant and equipment.

3. **SCOPE**

The methodology is applicable to all property, plant and equipment subsequently measured at cost. This includes the following:

- Land;
- Buildings;
- Infrastructure assets;
- Community assets;
- Other property, plant and equipment; and
- Housing development fund assets.

4. **APPLICABLE ACCOUNTING STANDARDS**

GRAP 17 property, plant and equipment sets out the requirements and guidelines for the assessment of useful lives.

GRAP 17.56 “the residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on accounting policies, changes in accounting estimates and errors”.

GRAP 17.57 “reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate”.

GRAP 21.18 and GRAP 26.19 “the entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset”.

GRAP 21 will be applying by the entity on impairment of non-cash-generating assets and GRAP 26 on impairment of cash-generating asset.

5. **ADDITIONAL GUIDANCE**

The frequently asked questions (FAQ) issued by the Accounting Standards Board (ASB) issued 5 May 2014 provided additional guidance on the treatment of fully depreciated assets still in use.

Extract out the FAQ issued 5 May 2014

“In terms of GRAP 17 property, plant and equipment, an entity is required to assess the appropriateness of the useful lives, residual values and depreciation methods of assets at every reporting date. Where an entity has fully depreciated assets because it did not appropriately apply the principles of GRAP 17, either because it did not review the useful lives or residual values of assets at previous reporting dates, or because it did not use available information appropriately, this results in an error in accordance with GRAP 3.

When an entity applies the principles in GRAP 17 appropriately and uses all the information available to it in considering the useful lives, residual values and depreciation methods, then this would not result in an error but a change in estimate.

It may be appropriate, in rare instances, for an entity to hold fully depreciated assets which it still uses. If an entity made an appropriate estimate of the useful lives, residual values and depreciation of an asset based on the information available at the previous reporting dates, it continues to measure the assets at R1, and considers whether disclosure of the fact that it has fully depreciated assets still in use is appropriate.

The instances when an entity would be allowed to follow this approach (i.e. retain as fully depreciated and disclose where appropriate) would be very rare and would be limited to assets that are not significant to an entity’s operations. If the assets are significant to an entity’s operations and service delivery objectives, then appropriate adjustments will need to be made.

If the requirements of GRAP 17 were correctly applied in prior periods, but expectations changed after year end, then the adjustment will result in a change in accounting estimate (i.e. an adjustment to depreciation) and not an error. However, if the requirements of GRAP 17 were not correctly applied in prior periods, the adjustment results in an error in accordance with GRAP 3.

Whether adjusting for a change in an accounting estimate or an error, the disclosure requirements in GRAP 3 should be applied”.

6. **METHODOLOGY FOR IMPAIRMENT**

6.1 **Scope**

The assessment for impairment will not apply to the following categories:

- Inventories;
- Assets arising from construction contracts;
- Financial assets that are within the scope of the Standard of GRAP on financial instruments;
- Investment property that is measured at fair value;
- Biological assets related to agricultural activities that are measured at fair value less costs to sell; and
- Deferred acquisition costs, and intangible assets, arising from an insurers contractual rights under insurance contracts within the scope of the International Financial Reporting Standard on insurance contracts.

6.2 **Timing of assessment**

The municipality will assess at the end of each reporting date whether there is objective evidence that property, plant and equipment are impaired. Only if such evidence exists, the municipality will estimate the impairment loss.

6.3 **Evidence of impairment**

An item of property, plant and equipment indicates the possibility of impairment if the asset is not performing the way it is intended to perform.

The assessment of impairment is performed per asset.

The following are some key indicators which the municipality considers in determining if an impairment loss has incurred:

Incidents or indicator	Example	
Physical damage of assets	<ul style="list-style-type: none"> ▪ Building or roads closed due to structural damage; ▪ Sections of elevated roadways that have sagged, indicating it requires replacement in five (5) years instead of seven (7) years; ▪ Water treatment plant whose capacity has been reduced by an intake blockage and the removal is not economical; ▪ Moveable assets where the condition is indicated as very poor or not in use (broken) to be disposed; ▪ Where the condition of asset deteriorate faster than expected. 	
Riots that caused damaged to assets	Buildings or vehicles being burned or vandalised.	
Excessive maintenance required on an asset.	The actual spend on maintenance is significantly higher that what was budgeted or anticipated	
Intended use of an asset changed and now the assets are not being used	Rental buildings being used as storage facilities instead to earn rental	
Performance of the asset has reduced beyond what is expected based on the age of asset or group of assets	<ul style="list-style-type: none"> ▪ Printer print 200 copies a month instead of the expected 500 copies ▪ Sewer Purification plant effluent not up to required standard ▪ Water purification not up to blue drop requirements/standard 	
Acts of God	Flood damage	Buildings and road flooded resulting in structural damage
	Lightning	<ul style="list-style-type: none"> ▪ Resulting in burning down of assets; ▪ Causing damage to electricity network; or ▪ Causing damage to electronic devices such as TV, computers, etc.
Decision to halt the construction of the asset before it is complete or in a usable condition	Construction was stopped due to identification of environmental condition (for example identification of graves at construction site) and the construction will not continue or it will take a significant time before it commences again	
Decrease in the request for a service although the asset can still perform at the level required	Sport fields of stadia which are not being utilised by the community although they are in working order	
Changes in technology with an adverse effect on the use of asset	Computer equipment that is not being used as the technology is old and new computers are rather purchased	

Incidents or indicator	Example
Significant changes with an adverse effect on the municipality in the government policy environment	Introduction of SCOA with could lead to the current financial operating system becoming obsolete
Decline in land's market value that is significantly greater than would be expected as a result of passage of time or normal use	Decline in the values as per the current valuation roll compared to that of the previous valuation roll
Increase in rehabilitation cost for landfill sites, borrow pits and quarries	Any debit entry to the cost of land for landfill sites, borrow pits or quarries as a result of the increase in the estimated rehabilitation cost

A change in a parameter such as demand for the service, extent or manner of use, legal environment or government policy environment would indicate impairment only if such a change was significant and had or was anticipated to have a long term adverse effect.

The following incidents are not considered indicators of impairment but rather an indication that maintenance is required:

- Office chair where one of more wheels are missing;
- Office desk where a drawer is not opening properly;
- Office chair where the material is dirty due to continues used however the chair is still in good functional condition;
- Office cupboard of which the door is hanging loose due to hinges being missing or broken; or
- Water treatment plant whose capacity has been reduced by an intake blockage **and** the removal of the blockage is economical.
- Movable assets broken and no longer in use should be written off.

If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard of GRAP applicable to the asset, even if no impairment loss is recognised for the asset. Refer to the section on **Methodology for reassessment of remaining useful life**.

6.4 Documentary proof of impairment

In events where indicators are found for impairment to significant assets must be supported by documentary proof for example:

Incidents or indicator of impairment	Examples of documentary proof
Physical damage of assets <ul style="list-style-type: none"> ▪ Building or roads closed due to structural damage; ▪ Sections of elevated roadways that have sagged, indicating it requires replacement in 5 years instead of 7 years; ▪ Water treatment plant whose capacity has been reduced by an intake blockage and the removal is not economical; ▪ Moveable assets where the condition is indicated as very poor; ▪ Where the condition of asset deteriorate faster than expected 	<ul style="list-style-type: none"> ▪ Council resolution and pictures close to reporting date. ▪ Engineer assessment report and pictures close to reporting date ▪ Engineer report on capacity reduction and intake reports close to reporting date or council resolution. ▪ Pictures close to reporting date or council report for disposal. ▪ Condition assessment report, increased maintenance schedule or report to Council for disposal.
Riots that caused damaged to assets <ul style="list-style-type: none"> ▪ Buildings or vehicles being burned 	Council resolution and pictures close to reporting date.
Excessive maintenance required on an asset. <ul style="list-style-type: none"> ▪ The actual spend on maintenance is significantly higher that what was budgeted or anticipated. 	Report on actual spend on maintenance on a specific assets which is significantly higher that what was budgeted.
Intended use of an asset changed and now the assets are not being used <ul style="list-style-type: none"> ▪ Rental buildings being used as storage facilities instead to earn rental 	Council resolution and cancelation of rental agreement
Performance of the asset has reduced beyond what is expected for the age of asset or group of assets <ul style="list-style-type: none"> ▪ Sewer purification plant effluent not up to required standard ▪ Water purification not up to blue drop requirements/standard. 	Engineer report on performance of asset with evidence of effluent report, water testing results etc.
Acts of God <ul style="list-style-type: none"> ▪ Flood damage (Buildings and road flooded resulting in structural damage) ▪ Lightning (Resulting in burning down of assets, Causing damage to electricity network; or Causing damage to electronic devices such as TV, computers, etc.) 	Report to council, pictures close to reporting date, Insurance claim etc. Report to council, pictures close to reporting date, insurance claim etc.
Decision to halt the construction of the asset before it is complete or in a usable condition <ul style="list-style-type: none"> ▪ Construction was stopped due to identification of environmental condition (for example identification of graves at construction site) and the construction will not continue or it will take a significant time before it commences again. 	<ul style="list-style-type: none"> ▪ Environmental impact study report or photos ▪ Council resolution to continue or not continue with construction
Decrease in the request for a service although the asset can still perform at the level required	Sport fields of stadia which are not being utilised by the community although they are in working order

Incidents or indicator of impairment	Examples of documentary proof
Changes in technology with an adverse effect on the use of asset	Computer equipment that is not being used as the technology is old and new computers are rather purchased
Significant changes with an adverse effect on the Municipality in the government policy environment	Introduction of SCOA with could lead to the current financial operating system becoming obsolete
Decline in land's market value that is significantly greater than would be expected as a result of passage of time or normal use	Decline in the values as per the current valuation roll compared to that of the previous valuation roll
Increase in rehabilitation cost for landfill sites, borrow pits and quarries	Any debit entry to the cost of land for landfill sites, borrow pits or quarries as a result of the increase in the estimated rehabilitation cost

When the assets have been identified for impairment, the list, together with the impairment amount workings, shall be submitted to the executive director financial services for approval to the municipal manager for approval.

The executive director financial services must then ensure that the impairment as approved by the municipal manager is then implemented and processed in the municipal asset register.

6.5 Distinguish between cash and non-cash generating assets

In order to calculate the impairment loss it is necessary to calculate the recoverable service amount or the recoverable amount, these calculations however is dependent on if the asset is cash generating or non-cash generating.

Cash generating assets are asset held with the **primary objective** to generate a **commercial return**, while non-cash generating assets are asset that are not cash generating. (FAQ – non-cash generating primary held for service delivery purposes.)

In order to determine if any of the municipality's assets are cash generating it looks at the objective of the asset and what return does it generate.

6.6 Administrative/owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

6.7 **Infrastructure assets**

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management.

Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:
 - the funds required as per the budget; and
 - the fees set by ESKOM and NERSA
- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;
- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size. These landfill sites are however management to project health, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

6.8 **Community assets**

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return.

The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

7. **CALCULATION & RECOGNITION OF IMPAIRMENT LOSS**

The impairment loss is calculated as the difference between the carrying values at reporting date less the recoverable service amount (non-cash generating assets) or recoverable amount (cash generating assets).



The impairment loss is recognised in the statement of financial performance to the following accounts:

Account number	Account description	Line item on statement of financial position
3700-HLCL-441643	Impairment	Impairment loss / (Reversal of impairment)
3700-HLCL-442643	Impairment	
3700-PKPK-533643	Impairment	
3700-TWWP-561643	Impairment	
3700-WMRR-430643	Impairment	
3700-WWSR-550643	Impairment	
3700-WWSR-552643	Impairment	
3700-TPRD-540643	Impairment	
3700-COPY-154643	Impairment	
3700-CSHA-161643	Impairment	
3700-TWWP-563643	Impairment	
3700-HSHS-223643	Impairment	
3700-TPRD-543643	Impairment	
3700-PSSL-731643	Impairment	
3700-PDPL-502643	Impairment	
3700-CSCM-505643	Impairment	
3700-PKPK-530643	Impairment	
3700-COPY-555643	Impairment	
3700-EDER-710643	Impairment	
3700-EDER-700643	Impairment	
3700-TWWD-560643	Impairment	
3700-HLCL-441643	Impairment	
3700-HLCL-442643	Impairment	
3700-PKPK-533643	Impairment	
3700-TWWP-561643	Impairment	
3700-WMRR-430643	Impairment	
3700-WWSR-550643	Impairment	
3700-WWSR-552643	Impairment	
3700-TPRD-540643	Impairment	
3700-COPY-154643	Impairment	
3700-CSHA-161643	Impairment	
3700-TWWP-563643	Impairment	
3700-HSHS-223643	Impairment	
3700-TPRD-543643	Impairment	
3700-PSSL-731643	Impairment	
3700-PDPL-502643	Impairment	

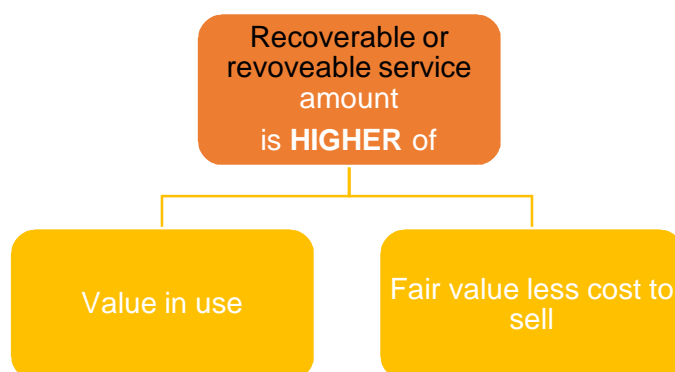
Account number	Account description	Line item on statement of financial position
3700-CSCM-505643	Impairment	
3700-PKPK-530643	Impairment	
3700-COPY-555643	Impairment	
3700-EDER-710643	Impairment	
3700-EDER-700643	Impairment	
3700-TWWD-560643	Impairment	

The impairment is recognised in the statement of financial position in the allowance accounts:

Account number	Account description	Line item on statement of financial position
955406	Infra: Roads; Pavements & Bridge	Property, plant and equipment
955407	Infra: Stormwater	
955411	Infra: Dams & Reservoirs	
955412	Infra: Water Purification	
955413	Infra: Water Reticulation	
955415	Infra: Transportation	
955420	Not In Use	
955421	Infra: Electricity Reticulation	Property, plant and equipment
955426	Infra: Sanitation Reticulation	
955427	Infra: Sewerage Purification	
955430	Infra Housing	
955431	Housing Development Fund	
955435	Infra: Street Lighting	
955440	Infra: Waste Management	
955450	Other (Town Plan & Develop)	Property, plant and equipment
955451	Not In Use	
955500	Comm: Parks & Gardens	
955505	Comm: Sportsfields & Stadia	
955506	Comm: Swimming Pools	
955510	Comm: Community Halls.	
955515	Comm: Libraries	
955520	Comm: Recreational Facilities	Property, plant and equipment
955525	Comm: Clinics	
955535	Comm: Fire; Safety & Emergency	
955536	Comm: Security	
955537	Comm: Cemeteries	
955538	Heritage Assets	
955800	Other: General Vehicles	
955805	Other: Plant & Equipment	Property, plant and equipment
955810	Other: Furniture & Office Equip	
955815	Abattoirs	
955836	Civic Land & Buildings	
955837	Other: Civic Land & Buildings	
955838	Other: Other Buildings	
955839	Other: Other Land	
955840	Other: Computer Hard/Software	Property, plant and equipment
955900	Other: Spec Vehicles-Refuse	

Account number	Account description	Line item on statement of financial position
955905	Other: Spec Vehicles-Fire	Property, plant and equipment
955990	Heritage Assets	
955450	Other (Town Plan & Develop)	
955500	Comm: Parks & Gardens	
955505	Comm: Sportsfields & Stadia	
955510	Comm: Community Halls	
955520	Comm: Recreational Facilities	
955525	Comm: Clinics	
955536	Comm: Security	
955537	Comm: Cemeteries	
955800	Other: General Vehicles	
955805	Other: Plant & Equipment	
955810	Other: Furniture & Office Equip	
955837	Other: Civic Land & Buildings	
955838	Other: Other Buildings	
955840	Other: Computer Hard/Software	
955510	Not In Use	
955515	Comm: Libraries	
955525	Comm: Clinics	
955536	Comm: Security	
955837	Other: Civic Land & Buildings	
955838	Other: Other Buildings	
955950	Lease: Office Equipment	
955951	Lease: Plant And Equipment	
955952	Lease : Buildings	
954950	Lease: Office Equipment	
954951	Lease: Plant & Equipment	

8. **RECOVERABLE SERVICE AMOUNT**



The recoverable service amount of the following assets is considered to be R0. These assets are impaired to R0 and subsequently scrapped from the register.

Impairment indicator	Reason
Assets lost	The asset's remaining service potential to the municipality is R0 as the asset does not exist anymore and in addition the asset cannot be sold thus there is no value in use or fair value for the asset
Vehicles written off / scraped by insurance company	The asset's remaining service potential to the municipality is R0 as the asset is taken by the insurance company. The amount to be paid out by the insurance company is not the fair value of the vehicle in a similar condition
Assets with condition being very poor	The asset's remaining service potential to the municipality is considered minimal. The reason is because the DRC should be calculated taking the condition into account and due to the condition the DRC will be a minimal amount. The fair value is also considered minimal as the only indication of the possible amount to be obtained from sale of these assets is auctions held. The prices obtained at auctions are minimal and although these are not the fair value it is used as an indication of fair value
Where an asset was replaced which is not yet fully depreciated	
Assets refurbished which is not yet fully depreciated	

8.1 Value in use

Value in use is the present value of the asset's remaining service potential and is determined using the depreciated replacement cost method.

Depreciated replacement cost

Depreciated replacement cost is the current cost that will have to be incurred to replace the asset and then this amount is depreciated to reflect the asset's current age and condition.



The current replacement cost is obtained from the following sources:

- If there was a purchase in the last 6 months of the same asset by the municipality
 - The invoice of that particular purchase is used to determine the current replacement cost

- If there has been no purchase in the last 6 months of the same asset by the municipality
 - A quotation is obtained from a reputable supplier for the current purchase price

The RUL and EUL of the asset being impaired are obtained from the current asset register.

8.2 Fair value less cost to sell

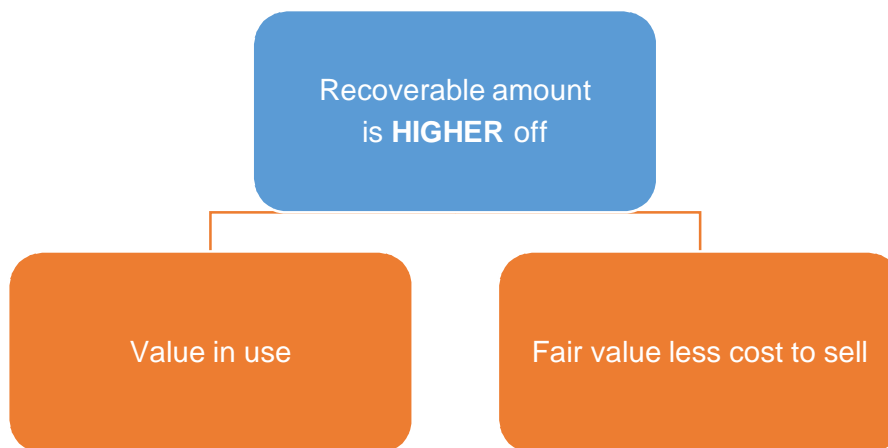
The fair value less cost to sell is obtained from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less cost of disposal.

In the municipality's environment infrastructure assets are not sold and therefore a reliable estimate of infrastructure asset's fair value cannot be obtained. The recoverable service amount of infrastructure assets will be the depreciated replacement cost.

Fair value less cost to sell is obtained from the following sources:

- Selling prices in any sale agreements of the asset or of similar assets;
- If there is an active market the prices is obtained from the market. Sources could include the internet and/or newspapers.

9. RECOVERABLE AMOUNT



9.1 Value in use

Value in use of cash-generated assets is the present value of future cash flows expected to derive from the continued use of an asset and from its disposal at the end of its useful life.

9.2 Estimated future cash flows

Prior year and current year actual cash flows as well as next year's budgeted cash flows are used as a baseline for determining the estimated future cash flows.

These cash flows are then adjusted to determine estimated future cash flows. The following are examples of data taken into consideration in determining these future cash flows:

- Risks associated with the asset
- Any contracts in place for the asset such as rental contracts
- Consumer data such as quantity of consumers and average consumer rate
- Growth of consumer base in the municipal area
- Average new connections a year
- Financial ratios

9.3 Discount rate

The discount rate reflects the current market assessment of time value of money and the risks associated with the asset. The accounting standards require the rate to be a pre-tax rate however as the Municipality does not pay tax this has no implication on the discount rate.

The CPI inflation rate at reporting date is used as the rate that reflects current market assessment of time value of money. This rate is obtained from the Stats SA website <http://statssa.gov.za/cpi>

All risks associated with the asset are adjusted in the estimated future cash flows and therefore the CPI rate requires no adjusted for risks associated with the asset.

9.4 Fair value less cost to sell

The fair value less cost to sell is obtained from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less cost of disposal.

Fair value less cost to sell is obtained from the following sources:

- Selling prices in any sale agreements of the asset or of similar assets;
- If there is an active market the prices is obtained from the market. Sources could include the internet and/or newspapers.

10. **METHODOLOGY FOR REASSESSMENT OF REMAINING USEFUL LIFE**

At each reporting date the assets are physically verified, a condition grade and utilisation grade is assigned to each asset. The remaining useful lives are reassessed based on these condition and utilisation grades.

The assessment of remaining useful life is performed on a facility level, therefore the condition and utilisation grade is on a facility level. However if components making up at least 30% of the total cost of the facility show any of the indicators listed below then the components in the facility will be assessed individually.

10.1 **Indicators for individual assessment**

When any of the following indicators exist on components making up at least 30% of the total cost of a facility then the components of the facility will be individually assessed.

- Is there any indicators of impairment; or
- Had the components been replaced during the reporting period; or
- Had there been major repairs during the reporting period

10.2 **Condition grades**

Grade	Description	Detail description
5	Excellent	New, sound structure or appearance that is well maintained. Continue with normal planned maintenance.
4	Good	Performance acceptable with minor deterioration visible. Normal planned maintenance continues.
3	Fair	Some evidence of deterioration. Minor maintenance may be required.
2	Poor	Significant deterioration in structure or appearance. Major repairs or upgrade is required.
1	Very poor / scrap	Not functional, unusable, fully deteriorated. Needs reconstruction, replacement or disposal.

10.3 **Utilization grades**

Grade	Description	Detail description
5	Not used	Substantially below norms
4	Under used	Moderately below norms
3	Normal use	Within norms
2	At capacity	Moderately exceeds norms
1	Overloaded	Substantially exceeds norms

10.4 Combined grade

The condition grade and the utilisation grade are added to obtain a combined grade. This combined grade is then used to calculate a newly assessed remaining useful life.

Combined grade	Estimated remaining useful life
9 or 10	100% of expected useful life
7 or 8	80% of expected useful life
5 or 6	60% of expected useful life
3 or 4	30% of expected useful life
1 or 2	10% of expected useful life

11. REVIEW OF METHODOLOGY

In terms of section 17(1)(e) of the MFMA polices must be reviewed on an annual basis and the review policy tabled to Council for approval as part of the budget process.

Section:	Chief Financial Officer
Current review date:	
Previous review date:	

12. APPROVAL & IMPLEMENTATION OF METHODOLOGY

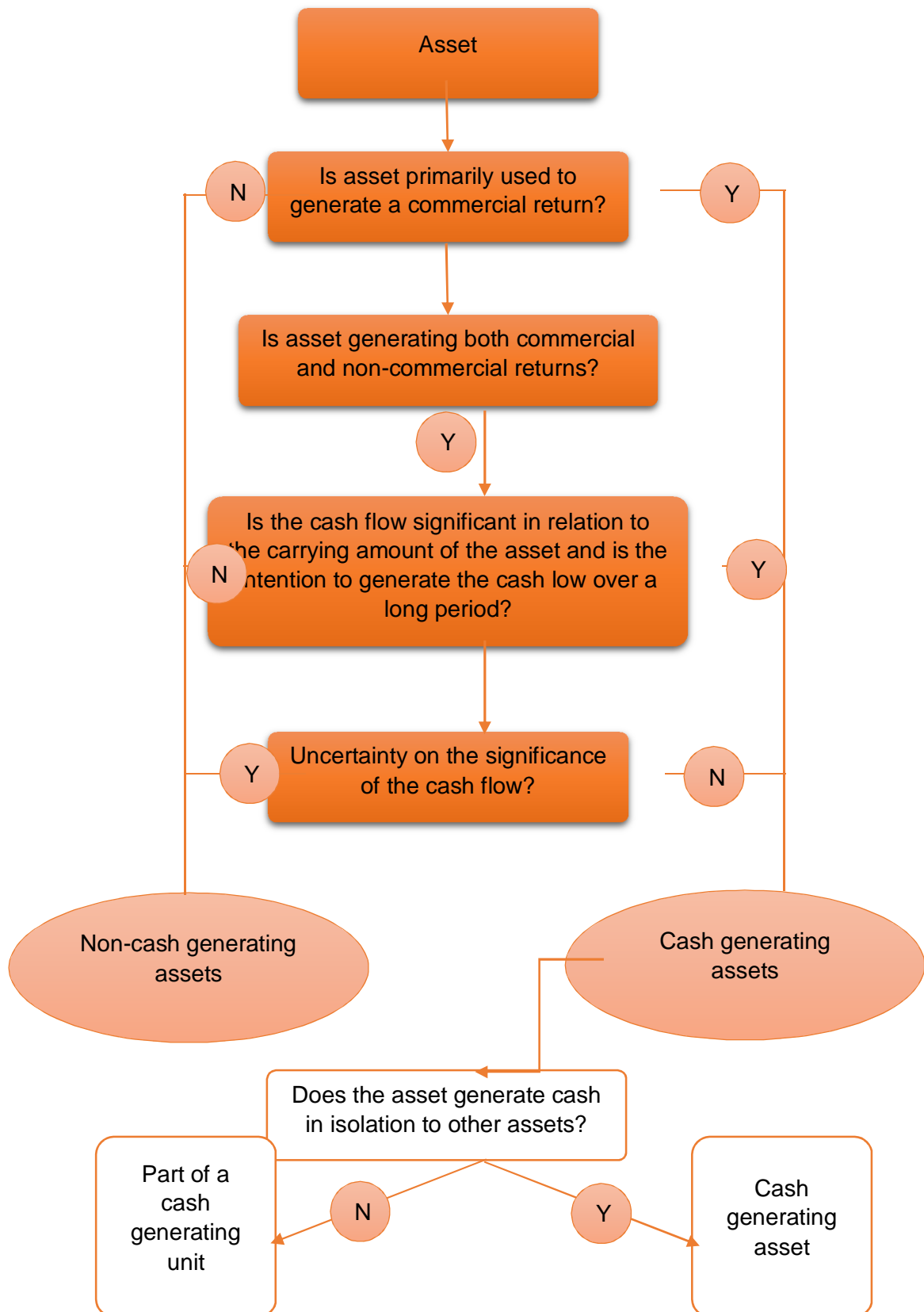
This methodology shall be implemented once approved by council.

Section:	Chief Financial Officer
Approval date by council:	

13. SOURCE

- GRAP 17 property, plant and equipment issued March 2012.
- GRAP 21 impairment of non-cash generating assets issued March 2009.
- GRAP 26 impairment of cash generating assets issued March 2009.
- FAQ issued May 2014.
- National Treasury Accounting Guidelines GRAP 17 property, plant and equipment.
- National Treasury Accounting Guidelines GRAP 21 impairment of non-cash generating assets.
- National Treasury Accounting Guidelines GRAP 26 impairment of cash generating assets.

Annexure A – Decision tree between cash and non-cash generating assets



Annexure B – Examples

Example 1: Calculation of depreciated replacement cost

Impairment indicators showed that asset 02569, a Mr Chairman high back chair features, swivel & tilt mechanism and black nylon base, should be tested for impairment. The municipality bought a similar chair from Cecil Nurse in February for R1 500 excluding VAT. Asset 02569 as at 30 June shows on the asset register:

- Carrying value of R300,
- RUL of 2 years and
- EUL was 12 years.

Depreciated replacement cost is calculated as follows:

$$R1\ 500 \times 2/12 = R250$$

Impairment is calculated as:

$$R300 - R250 = R50$$

Impairment loss of R50 will be recognised.

Example 2: Calculation of remaining useful life

At reporting date (30 June 2014) a physical verification of all assets was performed at reporting date. The Kruger Dam water treatment works facility was assessed at facility level and found:

- Condition assessment to be good as the plant is in working order and only routine maintenance is required
- Utilisation level was assessed to be normal

During the financial year no major repairs were performed on the plant and during the verification process not impairment indicators were identified.

Calculation of estimated remaining useful life

Description	Grade
Condition – Good	4
Utilisation – Normal	3
Combined grade	7

Based on the combined grade the remaining useful life at the start of the financial year is 70% of the expected useful life (EUL).

As per the asset register at 1 July 2013 the facility detail was as follows:

Component	Carrying value	EUL in months
External facilities	R8 125 125	240
Civil structure	R780 215	240
Mechanical equipment	R1 256 458	84
Metal work	R520 000	120
Electrical equipment	R296 326	60
Pipe-work	R259 111	144
Total	R11 237 235	

The RUL at 1 July 2013 will be reassessed as follows:

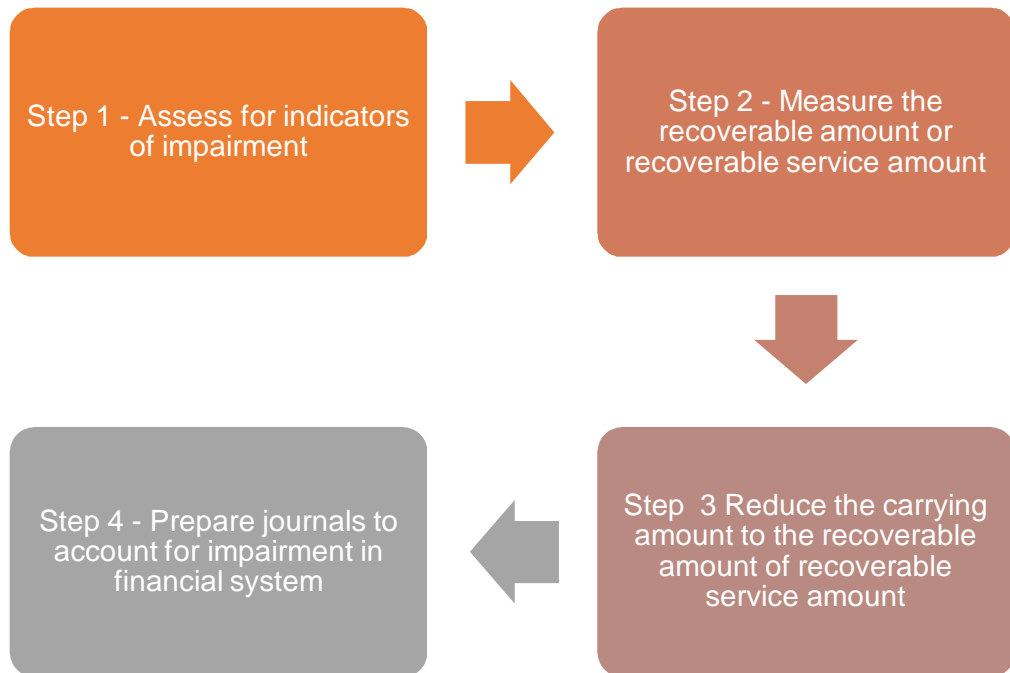
Component	EUL	Adjustment	Reassessed RUL
External facilities	240	70%	168
Civil structure	240	70%	168
Mechanical equipment	84	70%	59 *
Metal work	120	70%	84
Electrical equipment	60	70%	42
Pipe-work	144	70%	101 *

* - Reassessed RUL is always rounded the nearest full month

Depreciation for the year ended 30 June 2014 will be:

Component	Carrying value	RUL at 30 Jun 2013	Depreciation 2014
External facilities	R8 125 125	168 months	R580
Civil structure	R780 215	168 months	R55
Mechanical equipment	R1 256 458	59 months	R255
Metal work	R520 000	84 months	R74
Electrical equipment	R296 326	42 months	R84
Pipe-work	R259 111	101 months	R30
	R11 237 235		R1 081

Work procedure – Impairment



Work procedure – Review of RUL

