

Accounting Policy

Policy Owner: Director, Corporate Strategy and Performance
Contact Person: Manager Finance
Date of Approval: 4 May 2010 – CS06-05/10

Objective

To provide a framework for the financial management of the City of Wanneroo which is clear, transparent and meets statutory obligations.

Statement

1. Responsibilities

The Chief Executive Officer is responsible for the good management of the City's finances and has delegated authority to expend funds from the Municipal, any Reserve or Trust Account. This responsibility may be delegated to the appropriate Director/Manager.

This policy comprises significant accounting policies used predominantly for annual financial reporting purposes and supplementary policies used for day-to-day financial management of the City.

2. Significant Accounting Policies

The significant accounting policies which have been adopted in the preparation of the City's Annual Financial Statements are:-

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards, other mandatory professional reporting requirements and the Local Government Act 1995 and accompanying regulations. The report has to be prepared on the accrual basis under the convention of historical cost accounting.

Compliance with IFRSs

International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by the AASB, being AIFRSs. The financial report of the City complies with IFRSs and interpretations adopted by the International Accounting Standards Board except as follows:-

- AIFRSs include specific provisions relating to not-for-profit entities. These are not included in IFRSs.
- Australian Accounting Standard AAS27 "Financial Reporting by Local Governments" also applies and there is no equivalent standard in IFRSs.

The principal areas of non-compliance with IFRSs include:-

- the recognition of non-reciprocal revenue;
- the definition of value in use for the purposes of estimating the recoverable amount of impaired assets; and
- the offsetting of asset revaluation increments and decrements on a class of asset basis rather than individual asset basis.

Critical Accounting Estimates

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(b) The Local Government Reporting Entity

All Funds through which the City controls resources to carry on its functions have been included in the financial statements forming part of this financial report.

In the process of reporting on the local government as a single unit, all transactions and balances between those Funds (for example, loans and transfers between Funds) have been eliminated.

All monies held in the Trust Fund are excluded from the financial statements, but a separate statement of those monies appears at "Notes To and Forming Part of The Financial Report".

(c) Goods and Services Tax

In accordance with recommended practice, revenues, expenses and assets capitalised are stated net of any GST recoverable. Receivables and payables in the Balance Sheet are stated inclusive of applicable GST.

(d) Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at Bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included as short-term borrowings in current liabilities on the balance sheet.

(e) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

(f) Inventories

General

Inventories are valued at the lower of cost and net realisable value.

Land Held for Resale

Land purchased for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and interest incurred on the financing of that land during its development. Interest and holding charges incurred after development is complete are recognised as expenses.

Revenue arising from the sale of property is recognised in the operating statement as at the time of signing a binding contract of sale.

(g) Fixed Assets

Initial Recognition

All assets are initially recognised at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the City includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.

Revaluation

Certain asset classes may be revalued on a regular basis such that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Those assets carried at a revalued amount, being their fair value of the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses, are to be revalued with sufficient regularity to ensure the carrying amount does not differ materially from that determined using fair value at reporting date.

(h) Depreciation of Non-Current Assets

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the future economic benefits embodied in those assets.

Depreciation for infrastructure assets is calculated from the end of the year in which the asset was completed and brought into account.

Depreciation is recognised on a straight-line basis, using rates which are reviewed each reporting period. Major depreciation periods are:-

Buildings	40 years
Bus Shelters	50 years
Car Parks - sealed	40 years
Computer Hardware	3 years
Computer Software	2 years
Pathways	40 years
Furniture & Equipment	10 years
Heavy Vehicles - 1,201 kg to 4,000 kg	6 years/100,000 km's (45% residual)
Heavy Vehicles - 4,001 kg to 9,000 kg	6 years/200,000 km's (40% residual)
Heavy Vehicles - 9,001 kg to 12,000 kg	8 years/500,000 km's (48% residual)
Heavy Vehicles - Refuse	5 years (20% residual)
Light Vehicles	3 years (60% residual)
Other Plant and Equipment	10 years
Parks & Reserves	50 years
Plant	10 years (50% residual)
Public Accessways	40 years
Reserves/Playground Equipment	10 years
Sealed roads and streets - major re-surfacing	15 years
Sealed roads and streets - original surfacing	40 years
Street Lighting	25 years
Tennis/Basketball Courts	40 years
Underpasses	80 years
Water supply piping & drainage systems	80 years

(i) Investments and Other Financial Assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The City determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

(j) Impairment

In accordance with Australian Accounting Standards the City's assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an estimate of the recoverable amount of the asset is made in accordance with AASB 136 "Impairment of Assets" and appropriate adjustments made.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

(k) Trade and Other Payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the City prior to the end of the financial year that are unpaid and arise when the City becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Employee Benefits

The provisions for employee benefits relates to amounts expected to be paid for long service leave, annual leave, wages and salaries and are calculated as follows:

(i) Wages, Salaries, Annual Leave and Long Service Leave (Short-term Benefits)

The provision for employees' benefits to wages, salaries, annual leave and long service leave expected to be settled within 12 months represents the amount that the City has a present obligation to pay resulting from employees services provided to balance date.

The provision has been calculated at nominal amounts based on remuneration rates the City expects to pay and includes related on-costs.

(ii) Annual Leave and Long Service Leave (Long-term Benefits)

The provision for employees' benefits for annual leave and long service leave expected to be settled more than 12 months from the reporting date represents the present value of the estimated future cash outflows to be made by the employer resulting from the employees service to balance date.

(m) Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

(n) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the City, are classified as finance leases.

Finance leases are capitalised recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are amortised over their estimated useful lives. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(o) Joint Venture

The City's interest in a joint venture has been recognised in the financial statements by including its share of any assets, liabilities, revenues and expenses of the joint venture within the relevant items reported in the statement of financial position and operating statement. Information about the joint venture is to be set out in the "Notes To and Forming Part of The Financial Report".

(p) Rates, Grants, Donations and Other Contributions

Rates, grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions. Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are required to be disclosed in the "Notes To and Forming Part of The Financial Report". That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the City's operation for the current reporting period.

(q) Superannuation

The City contributes to various Superannuation Schemes based on employee's choices and their eligibility.

(r) Interest Rate Risk

The City's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, is considered negligible for all financial instruments other than borrowings. Information on interest rate risk as it applies to borrowings is disclosed in the "Notes To and Forming Part of The Financial Report".

(s) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to and forming part of the financial report.

The City does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the City.

The one major concentration of credit risk within the City is in relation to its cash and cash equivalent deposits which are all with the one financial institution.

The City's credit risk is also managed via its Investment Policy.

(t) Liquidity Risk

The City's liquidity risk is managed via the use of its cash and cash equivalent balances, other financial assets, borrowing and Investment Policy.

(u) Fair Values

The net fair value of assets and liabilities approximate their carrying values. No financial assets and financial liabilities are readily traded on organised markets in standardised form.

Financial assets where the carrying amount exceeds net fair values have not been written down as the City intends to hold these assets to maturity.

The aggregate net fair value and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to and forming part of the financial report.

(v) Rounding Off Figures

All figures shown in the annual financial report, other than a rate in the dollar, are rounded to the nearest dollar.

(w) Comparative Figures

Where required, comparative figures will be adjusted to conform with changes in presentation for the current financial year.

2. Supplementary Accounting Policies

The following policies guide the day-to-day financial management of the City:-

- (a) Accounting within the City is based on a framework of Directorates, Service Units and Responsible Officers.
- (b) Financial Reporting

In accordance with Section 6.4 (2) of the Local Government Act 1995 and Regulation 34 the Local Government (Financial Management) Regulations 1996, the City is required to prepare, each month, a **statement of financial activity** reporting on the sources and applications of funds for the month in question.

The statement is to contain the following detail:-

- (i) annual budget estimates – taking into account any expenditures incurred for an additional purpose under Section 6.8(1)(b) or (c) (ie the “revised budget”);
- (ii) budget estimates to the end of the month to which the statement relates (ie “pro rata” or “rolling” budget);
- (iii) actual amounts of expenditure, revenue and income to the end of the month to which the statement relates (ie actuals);
- (iv) material variances between the comparable amounts in (ii) and (iii) above (which at the Council meeting of 31 October 2006, Council adopted 10% for reporting of these variances); and
- (v) the net current assets at the end of the month to which the statement relates (ie surplus/(deficit) position).

The statement is also to be accompanied by:-

- (i) explanation of the composition of the net current assets, less committed assets and restricted assets;
- (ii) explanation of the material variances; and
- (iii) such other supporting information considered relevant by the City.

For example –

- Debtors listings
- Creditors listings
- Plant reports
- Investment balances
- Operating statement
- Balance sheet
- Ratio analysis
- Summary of Capital Works Program
- etc.....

(c) Capitalisation of Assets

Expenditure of a capital nature is recognised as an asset if the threshold value exceeds \$1,000.

(d) Interest Earned on Reserve Investments

Interest earned from investing monies held in reserves is to be classified as operating revenue and then transferred to the Reserve Account.

(e) Provision for Leave

Council’s liability for annual leave and long service leave entitlements is expensed annually to provision accounts. When annual or long service leave is taken, the expense is charged directly to the relative provision account.

Provisions include appropriate calculations for workers’ compensation and superannuation as required.

(f) Write Offs

When a debt, other than a rates debt, is considered to be irrecoverable, it is to be written off in accordance with the provisions of Section 6.12(1)(c) of the Local Government Act 1995. The cost is to be expensed against the appropriate Service Unit. If a rates debt is considered to be irrecoverable, this is to be reported to Council and written off in accordance with the Section 6.47 of the Local Government Act 1995.

(g) Budget Variations

In order to maintain sound budgetary control the City maintains a revised budget. Budget revisions (or reallocations) are required in a number of circumstances, and should be actioned appropriately, as follows:-

Circumstances

- (a) Where expenditure is required to be incurred for a purpose for which there was no provision in the budget;
- (b) Where grant or other monies are received that necessitate expenditure to be incurred and no provision was included in the budget; or
- (c) Where the budget allocation for a new initiative, the acquisition of an asset or a capital works project is insufficient.

Action

In accordance with Section 6.8 of the Local Government Act 1995, by way of a report and recommendation to the Council seeking authorisation of the expenditure and to endorse the necessary budget variation.

Circumstances

- (a) Where an over-expenditure has occurred, or is likely to occur; or
- (b) Where incomes are expected to fall substantially short of the budget.

Action

By way of an end of month forecast change in consultation with Finance. Such forecast changes should clearly identify whether this is a once off change for the current financial year or if the change will impact on future financial years. This will enable these changes to be properly reflected in the Ten Year Strategic Financial Management Plan.

To facilitate proper accountability requirements, each Director will be presented with a report summarising all forecast changes within their Directorate for their endorsement.

9. Signatories to Accounts

The following officers are signatories to Council's accounts:-

Group A: Chief Executive Officer
Director of Corporate Strategy and Performance

Group B: Coordinator Finance
Senior Management Accountant
Manager Finance

Greater than \$10,000 (two signatures)

Two signatures of Group A, or one signature from Group A with one signature from Group B.

Less than or equal to \$10,000 (one signature):

One signature from either Group A or B

For the purposes of transmitting payments by EFT, the same signatory rules apply with each voucher and that each voucher must be appropriately authorised manually before payment is processed. The actual transmission of the funds by EFT must be authorised by two of the Chief Executive Officer, Director Corporate Strategy and Performance, Manager Finance, Coordinator Finance and Senior Management Accountant using password protected banking software.

In the absence of any of the above signatories for an extended period, the Chief Executive Officer may authorise, in writing, a designated senior officer to act as a signatory to the City's bank accounts.

Responsibility for Implementation

Director, Corporate Strategy and Performance

Versions:	Next Review:	Record No:
1 July 1999		
9 January 2002		
26 April 2005 - GS04-04/05		
28 August 2007 - CS05-08/07	July 2009	892532
May 2010 – CS06-05/10	March 2012	TRIM: 10/1334