



MINUTES

Audit Committee Meeting Wednesday, 2 November 2022 at 6:30 PM

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MINUTES

MINUTES OF THE ORDINARY MEETING OF THE AUDIT COMMITTEE HELD IN THE POD,
135 CANNING HIGHWAY, EAST FREMANTLE ON WEDNESDAY 2 NOVEMBER 2022.

1 DECLARATION OF OPENING OF MEETING/ANNOUNCEMENTS OF VISITORS

The Presiding Member opened the meeting at 6.26pm.

2 ACKNOWLEDGEMENT OF COUNTRY

"On behalf of the Council I would like to acknowledge the Whadjuk Nyoongar people as the traditional custodians of the land on which this meeting is taking place and pay my respects to Elders past, present and emerging."

3 RECORD OF ATTENDANCE

3.1 ATTENDANCE

The following members were in attendance:

Cr T Natale Presiding Member
Mayor J O'Neill
Cr A McPhail
Cr K Donovan
Cr A White

The following staff were in attendance:

Mr Gary Tuffin Chief Executive Officer
Mr Peter Kocian Executive Manager, Corporate Services
Mr Phil Garoni Manager, Finance
Mrs Bron Browning Minute Secretary

3.2 APOLOGIES

Cr M Wilson

3.3 APPROVED LEAVE

Ben Arnold

4 MEMORANDUM OF OUTSTANDING BUSINESS

Nil.

5 DISCLOSURES OF INTEREST

Nil.

6 PUBLIC QUESTION TIME

Nil.

7 PRESENTATIONS/DEPUTATIONS

Nil

8 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

8.1 AUDIT COMMITTEE (6 JULY 2022)

OFFICER RECOMMENDATION

Moved Cr McPhail, seconded Cr White

That the minutes of the Audit Committee meeting held on Wednesday, 6 July 2022 be confirmed as a true and correct record of proceedings.

(CARRIED UNANIMOUSLY)

9 ANNOUNCEMENTS BY THE PRESIDING MEMBER

Cr Natale advised he attended the Head of Agencies Agreement meeting on 3 October 2022. Cr Natale stated that he sat at the same table as representatives from the Office of Auditor General and discussed local government audit matters including the level of audit fees.

10 REPORTS

Reports start on the next page

10.1 FINANCIAL AUDIT - MANAGEMENT POSITION PAPERS

| | |
|--------------------------------|--|
| Report Reference Number | ACR-350 |
| Prepared by | Peter Kocian, Executive Manager Corporate Services |
| Supervised by | Gary Tuffin, Chief Executive Officer |
| Meeting date | Wednesday, 2 November 2022 |
| Voting requirements | Simple Majority |
| Documents tabled | Nil |

Attachments

1. Management Consideration of Correction to Prior Year Amounts – SMRC
2. Management Review of Fair Value, RUL's, Residual Values, Depreciation and Impairment of Assets
3. Revenue Recognition – East Fremantle Oval Redevelopment Project – Grant Income

PURPOSE

The purpose of this report is to advise the Committee of Management's position with regards to specific accounting treatments and the impact on the financial statements.

EXECUTIVE SUMMARY

One of the objectives of the Audit Committee is to assess the integrity of external financial reporting, including accounting policies (3.1 of Terms of Reference). As such, three (3) Management Position Papers are presented to the Audit Committee to increase awareness of significant account balances and audit emphasis.

BACKGROUND

Prior to the commencement of the annual final audit, the Office of the Auditor General (OAG) provides the Town with a Planning Summary which is discussed at an entrance meeting. The Planning Summary includes significant risks and audit emphasis and significant account balances identified by OAG, extrapolated below for the 21/22 Audit:

4. Significant risks and other audit issues

Through discussions with your staff and our prior knowledge of your operations, we have identified the following issues and key areas of risk affecting the audit.

| Details of risk / issue | Audit approach |
|---|--|
| <p>Significant projects the Town is undertaking in the current year:</p> <ul style="list-style-type: none"> • East Fremantle oval precinct redevelopment • Planned disposal of assets at 128 & 128a George Street, East Fremantle | <p>We will review management's assessment of the impact of the projects, determine whether, to the extent necessary, the Town's accounting treatment of the events and transactions is correct.</p> |
| <p>The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> • provision for annual and long service leave • fair value and impairment of assets • reasonableness of useful lives of property, plant and equipment and infrastructure • expected credit loss assessment | <p>We will review the method and underlying data that management, and where applicable third parties, use when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations.</p> |
| <p>Accounting for the Town's investment in associate:</p> <ul style="list-style-type: none"> • Southern Metropolitan Regional Council | <p>We will review management's take up of the Town's interest in the associate and ensure this reflects the net investment. In addition, we will review all material disclosures relating to the Town's investment in associate to ensure compliance with the relevant accounting standards.</p> |

OAG's Better Practice Guide recommends that Position Papers should be prepared where there is an event or change to the operating environment, government policy, legislation, business development etc. that impacts the financial statements and for the Audit Committee to be briefed.

3. Anticipating and responding to change: Significant changes to the entity, the reporting framework or the entity's environment that impact on the financial statements are identified, communicated and addressed in a timely manner.

3.1 An event or change to the operating environment, government policy, legislation, business development

- Entities should be alert to any event or change which would impact their financial statements on an ongoing basis, not just at the time the financial statements are being prepared.
- Once a change has been identified as having an impact on the financial statements, an assessment should be undertaken to determine if it is material to the financial statements.
- Position papers and potential adjustments should be prepared. The audit committee and accountable authority should be briefed and approval obtained. The OAG should be consulted early and advised of any material adjustments.

3.2 Change to accounting requirements

- Assign specific responsibility for monitoring, identifying and assessing new and revised requirements. Attendance at CFO forums, member body conferences, professional firm updates and OAG entrance and exit meetings provides an avenue to keep up-to-date with accounting developments relevant to the public sector.
- Where changes to accounting requirements will affect, in a substantive way, the entity's accounting policies and presentation and disclosure in the financial statements, position papers should be prepared outlining the implications of the changes, including how the changes will be implemented. Entities should seek independent accounting advice where appropriate. The OAG should be consulted promptly to obtain early agreement.
- Review the statements at least annually and assess whether the most appropriate accounting policies have been selected and whether presentation can be improved. Accounting policies should only be changed when required by an AAS, or when the changes would result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
- Prepare draft pro-forma statements including accounting policy notes for review and agreement by the OAG well in advance of year-end.
- Brief the accountable authority and audit committee, as required, on any changes that are likely to have significant implications on the financial statements, how these affect the financial performance and position of the entity, and obtain approval of proposed changes, where appropriate.

CONSULTATION

Kelli Small – Consultant
 Office of Auditor General

STATUTORY ENVIRONMENT

The Audit Committee is constituted under the *Local Government Act 1995* and operates under the Terms of Reference approved by Council.

POLICY IMPLICATIONS

There are no Council Policies relevant to this item.

FINANCIAL IMPLICATIONS

There are no financial implications relevant to this item.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

RISK IMPLICATIONS

Risks

| Risk | Risk Likelihood (based on history & with existing controls) | Risk Impact / Consequence | Risk Rating (Prior to Treatment or Control) | Principal Risk Theme | Risk Action Plan (Controls or Treatment proposed) |
|---|--|---------------------------|--|---|--|
| Failure to prepare Position Papers may result in OAG not accepting accounting estimates and treatments, either delaying audit or resulting in a qualified audit report | Likely (4) | Major (4) | High (10-16) | COMPLIANCE Short term non-compliance but with significant regulatory requirements imposed | Accept Officer Recommendation |

Risk Matrix

| Consequence | | Insignificant | Minor | Moderate | Major | Extreme |
|----------------|---|---------------|--------------|--------------|--------------|--------------|
| | | 1 | 2 | 3 | 4 | 5 |
| Almost Certain | 5 | Moderate (5) | High (10) | High (15) | Extreme (20) | Extreme (25) |
| Likely | 4 | Low (4) | Moderate (8) | High (12) | High (16) | Extreme (20) |
| Possible | 3 | Low (3) | Moderate (6) | Moderate (9) | High (12) | High (15) |
| Unlikely | 2 | Low (2) | Low (4) | Moderate (6) | Moderate (8) | High (10) |
| Rare | 1 | Low (1) | Low (2) | Low (3) | Low (4) | Moderate (5) |

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

| | |
|---|-----|
| Risk Rating | 16 |
| Does this item need to be added to the Town's Risk Register | Yes |
| Is a Risk Treatment Plan Required | No |

SITE INSPECTION

Not Applicable.

COMMENT

Three Position Papers have been prepared aligned to the areas of risk and audit emphasis identified by OAG in their Planning Summary:

1. Management Consideration of Correction to Prior Year Amounts – SMRC
2. Management Review of Fair Value, RUL's, Residual Values, Depreciation and Impairment of Assets
3. Revenue Recognition – East Fremantle Oval Redevelopment Project – Grant Income

The Position Papers have been approved by the Executive Manager Corporate Services and submitted to OAG, and subsequently reviewed by their technical team.

The Position Papers are very comprehensive and illustrate the depth of work required to enable audit clearance to be provided in a timely manner. The first two papers will need to be prepared on an annual basis whilst the third paper is specific to the revenue recognition of the \$25m grant from the State Government for the EF Oval Redevelopment Project.

Revenue Recognition – East Fremantle Oval Redevelopment Project

OAG agree with the Town that the income from the \$25m East Fremantle Oval Grant should be accounted for under AASB 1058 capital grant requirements – that is, the income should be recognised as the obligation to construct the asset is satisfied.

However, there is a difference in position between Towns' Management and the OAG with respect to the application of the measure to recognise income (Statement of Comprehensive Income) and deferred income (Statement of Financial Position – capital grant liability).

OAG's technical team have advised that the income to be recognised should be proportional to the total project cost:

i.e. Income to be recognised = (Costs incurred to date/total project cost) x grant amount

This compares to the Town's approach of recognising income based on actual costs incurred.

The difference in the calculation for the 21/22 FY is as follows:

1. OAG - \$928,770 actual expenditure/\$32,500,000 project budget x \$25,000,000 grant = \$714,438 income to be recognized
2. Town - \$928,770 actual expenditure = \$928,770 income to be recognized.

Whilst the variance of \$214,332 is not considered to be material for the 21/22 FY, the difference in approach to measurement will give rise to a material variance in 22/23 FY – see below:

1. OAG - \$13,000,000 budget expenditure/\$32,500,000 project budget x \$25,000,000 grant = \$10,000,000 income to be recognized
2. Town - \$13,000,000 budget expenditure = \$13,000,000 income to be recognized

The Town has provided the following information, subsequent to the Position Paper, to OAG to reaffirm its position:

- It was always intended that the Town would apply State Government Funding to the project first, prior to own source revenue contributions (this cash flow model was negotiated with the State and underpins the payment milestones; it also informed the Town's reserve funding strategy as well as the future draw down date for the loan)
- There are no performance obligations in the Grant Agreement that state that payment milestones are conditional on the Town funding project expenditure on a proportional basis to trigger the next payment
- The Town has provided OAG with an extract of AASB paragraphs 31-36 which states that an entity shall adopt a suitable approach and disclose the methods used to recognize the amount and timing of income arising from Transfers.

Transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

31 An entity shall disclose the opening and closing balances of financial assets arising from transfers to enable an entity to acquire or construct recognisable non-financial assets to be controlled by the entity and the associated liabilities arising from such transfers, if not otherwise separately presented or disclosed. An

entity shall also disclose income recognised in the reporting period arising from the reduction of an associated liability.

32 An entity shall disclose information about its obligations under such transfers, including a description of when the entity typically satisfies its obligations (for example, as the asset is constructed, upon completion of construction or when the asset is acquired).

33 An entity shall disclose an explanation of when it expects to recognise as income any liability for unsatisfied obligations as at the end of the reporting period. An entity may disclose this information in either of the following ways:

- (a) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining obligations; or
- (b) through qualitative information.

34 An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of income arising from transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity. In particular, an entity shall explain the judgements, and changes in the judgements, made in determining the timing of satisfaction of obligations (see paragraphs 35 and 36).

35 For obligations that an entity satisfies over time, an entity shall disclose both of the following:

- (a) the methods used to recognise income (for example, a description of the output methods or input methods used and how those methods are applied); and
- (b) an explanation of why the methods used provide a faithful depiction of the entity's progress toward satisfying its obligations.

36 For obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when it has satisfied its obligations.

Should the Town be required to adopt the accounting treatment advised by OAG, this will result in a \$3m budget deficit in 22/23, as the adopted budget is predicated on \$13m matching income against \$13m project expenditure. This budget deficit will need to be addressed and will be largely corrected by bringing forward the transfer from the East Fremantle Oval Redevelopment Reserve (\$2.2m originally budgeted in 23/24), although this will still leave a budget gap. A future report will be presented to Council discussing this matter.

CONCLUSION

That the Position Papers be received by the Audit Committee. Clarifications are welcome.

10.1 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 010211

OFFICER RECOMMENDATION

Moved Cr Donovan, seconded Cr White

That the Audit Committee receive and endorse the following Position Papers prepared by Management:

- 1. Management Consideration of Correction to Prior Year Amounts – SMRC**
- 2. Management Review of Fair Value, RUL's, Residual Values, Depreciation and Impairment of Assets**
- 3. Revenue Recognition – East Fremantle Oval Redevelopment Project – Grant Income, noting that this accounting treatment has yet to be fully agreed by the Office of the Auditor General.**

(CARRIED UNANIMOUSLY)

REPORT ATTACHMENTS

Attachments start on the next page

Memorandum

To: OAG - Auditor 2021-22
From: Consultant / Executive Manager Corporate Services
Subject: Management Consideration of Correction to Prior Year Amounts - SMRC
Date: 27 September 2022

PURPOSE

The purpose of this position paper is to outline the management consideration of any requirement to restate prior year actuals for the audited information provided by the Southern Metropolitan Regional Council (SMRC) share of associates net profit/(loss) (P&L) and asset value of Investment in Associates.

BACKGROUND

To account for the Town's Investment in Associate (SMRC) the Town utilises the best available information at the time, being the unaudited financial statements provided by the SMRC for each year, unless where available the audited financial statements.

In 2020/21 the Town provided for a share of associates net profit/(loss) of \$260,305 (unaudited) and the carrying value of Investments in Associates (Asset) being \$1,429,853 (unaudited). Upon receiving the information to complete the 2021/22 financial statements, audited financial statements of the SMRC for 2020/21 were provided, showing a share of associates net profit/(loss) of \$275,456 for the Town in 2020/21 and the carrying value of Investments in Associates (Asset) being \$1,445,004 - resulting in a difference of \$15,151 for the 2020/21 financial year values.

The 2021/22 share of associates net profit/(loss) is (\$62,566) with the carrying value of the asset at 30 June 2022 being \$1,382,443. Determined by information provided by the SMRC (unaudited) as at 30 September 2022.

ASSESSMENT

AASB 108 provides for the distinction between the use of accounting estimates and errors in the financial statements.



A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Accounting estimates involve judgements based on the latest available, reliable information. For example estimates may be required for:

- Bad debts;
- Fair value of financial assets or financial liabilities;
- Depreciable Asset information (useful lives);
- Etc.

Changes in accounting estimates

32 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:

- bad debts;
- inventory obsolescence;
- the fair value of financial assets or financial liabilities;
- the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
- warranty obligations.

33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

34 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

35 A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

36 **The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:**

- the period of the change, if the change affects that period only; or
- the period of the change and future periods, if the change affects both.

37 **To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.**

38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.



A change in accounting estimate does not relate to prior periods and is not the correction of an error (108.34). A change in accounting estimate is applied prospectively (108.36).

Accounting errors can also arise when preparing financial statements. Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

AASB 108.42 provides that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery.

Errors

- 41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Australian Accounting Standards if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).
- 42 **Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:**
 - (a) **restating the comparative amounts for the prior period(s) presented in which the error occurred; or**
 - (b) **if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.**

To account for the Town's share of associates net profit/(loss) (P&L) and asset value of Investment in Associates, the information that the Town is relying on at the time of producing its financial statements is the unaudited financial statements of the SMRC as provided by the SMRC.

The SMRC is required by legislation to have their accounts submitted to their auditor no later than 30 September of each year, as does the Town. The timing of the completion of their audit and publishing of their financial statements does not necessarily coincide with the completion of the Town's audit and authorization of issue of the Town's Annual Financial Statements.



Generally, any new developments as a result of the finalisation of the audit of the SMRC are not made available until after the reporting timeframes of the Town.

CONCLUSION

The Town utilises the best information available at the time and makes judgements where required in accounting for estimates to complete its financial statements.

The use of information provided to the Town by the SMRC, being the unaudited financial statements, to determine the value of its share in associates is deemed by management to be the use of an accounting estimate. Changes in accounting estimates are recognised prospectively when the information is made available.

Where the Town has audited information of the SMRC available to it prior to the authorising of issue its financial statements (completion of audit), the Town would take up any material changes in its financial statements for that period – hence to avoid any errors in its statements.

The impact of the change to accounting estimate in 2021/22 presents the share of associates net profit/(loss) of (\$47,415) with the assets carrying value being \$1,382,443 at 30 June 2022.

Prepared By:

Kelli Small

ToEF Consultant

Peter Kocian Digitally signed by Peter Kocian Date: 2022.10.10 17:03:38 +08'00'

Reviewed By:

Peter Kocian

Exec Manager Corporate Services



Memorandum

To: OAG - Auditor 2021-22
From: Consultant / Executive Manager Corporate Services
Subject: Management Review of Fair Value, RULs, Residual Values, Depreciation and Impairment of Assets
Date: June 2022

PURPOSE

The purpose of this position paper is to outline the management consideration and review of the following aspects as required by the Australian Accounting Standards and Local Government (Financial Management) Regulations 1996. The review considers each class of asset with a review being conducted on:

- Useful Life Estimates
- Residual Value Estimates
- Fair Value (where relevant)
- Depreciation Method
- Impairment
- Investment Property (AASB 140)

BACKGROUND

Regulation 17A of the *Local Government (Financial Management) Regulations 1996* states that local governments must revalue a non-financial asset:

- Whenever the local government is of the opinion that the fair value of the asset is likely to be **materially different** from its carrying amount; and
- In any event, within a period of no more than 5 years after the day on which the asset was last valued or revalued.
- A non-financial asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5k.
- The carrying amount of plant and equipment will be measured using the cost model.
- The carrying amount of right of use assets will be measured using the cost model.

AASB 116 requires:



- (116.31) After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.**
- (116.36) If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
- (116.51) The **residual value** and the **useful life** of an asset shall be **reviewed at least at each financial year-end** and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.
- (116.61) The **depreciation method** applied to an asset shall be **reviewed at least at each financial year-end** and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with AASB 108.

The Town has the following Classes of Assets

- Land
- Buildings – Non Specialised – Level 2
- Buildings – Non Specialised – Level 3
- Buildings – Specialised – Level 3
- Infrastructure – Roads
- Infrastructure – Drainage
- Infrastructure – Parks & Ovals
- Infrastructure - Footpaths and Cycleways
- Infrastructure – Car Parks
- Infrastructure – Bus Shelters
- Plant and Equipment
- Furniture and Equipment



ASSESSMENT

Land

There are 12 assets that make up this class. Included within the land assets is LB401 – 128/128A George Street.

This property (LB401) is being re-classified at 30 June 2022 as Assets Held for Sale, it is Councils intention to Auction this property (land and building) on 13 August 2022 (confirmed offer and acceptance at auction).

AASB116.36 requires the entire class to be revalued where an item of PPE is revalued. A revaluation of the Asset Class will be conducted as at 30 June 2022 and prior to reclassification of LB401 to Assets Held for Sale. This is in accordance with AASB, para 18:

18 Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Australian Accounting Standards.

External valuers Griffin Valuation Advisory were engaged to complete the valuation of all land assets at 30 June 2022. The revaluation resulted in a gain of \$1,268,100, posted to the land revaluation reserve. The average percentage increase across all land assets was 20.38%. (LB401 increased from \$1,095,000 to \$1,400,000 – 27.85%)

Land has an unlimited useful life and therefore is not depreciated.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|-------------------|---|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model – prior to Reclassification to Assets Held for Sale for LB401 |
| Class Total Carrying Amount: | \$4,330,900 | \$5,599,000 |
| Last Revaluation Year: | 30 June 2020 | 30 June 2022 |
| Depreciation Method: | Not Depreciated | Not Depreciated |
| Useful Life: | Unlimited | Unlimited |
| Residual Value: | Not Applicable | Not Applicable |

Being Land, management is satisfied that there is no evidence to conclude that the current Useful Life, Depreciation Method, or Residual Value should change for any asset in this class as at 30 June 2022.



Buildings Non-Specialised Level 2

There is one asset in this class being, 128/128A George Street Building (LB223). In determining whether a building is specialised or non-specialised, the Town has applied the following guidance from the NSW Office of Local Government:

2. Buildings

In relation to buildings, questions have been raised regarding the level to which the building should be divided into components when revaluing. When revaluing council owned and controlled buildings, councils should utilise the classifications of "non-specialised buildings" and "specialised buildings". Non-specialised buildings are general purpose or commercial buildings where there is a secondary market and a market value can be determined by appraisal. Specialised buildings are those buildings that are designed for a particular purpose. Where there is no market-based evidence available specialised buildings should be valued at depreciated replacement cost.

This property is being re-classified at 30 June 2022 as Assets Held for Sale, it is Councils intention to Auction this property (land and building) on 13 August 2022. A valuation for the land and building was completed in January 2022, with the building components fair value deemed \$69,948 at 30 June 2022. As there is only one asset in this asset class, this valuation has been relied upon as a fair estimate of the fair value of the building at 30 June 2022, with no material changes since January. As it was a combined valuation (L&B), the value splits in the June 2020 valuation was utilised to calculate the building valuation.

128 George Street is the Town's only non-specialised building that is valued using level 2 inputs – i.e. market approach using recent observable market data. The Town has 4 other non-specialised buildings being the 2 x pre-primary centres, the community learning centre and the infant health centre – all are used for community purposes and are valued using level 3 inputs. The remaining building assets are all specialised and are valued using level 3 inputs.

Due to the differences in approach between a level 2 and a level 3 an increase in valuation attributable to level 2 inputs does not necessarily correlate to an increase in valuation using level 3 inputs.

| As mentioned above - 2020 Revaluation %age split | | Revaluation Amount - June 2020 | % of land and building | Split for Building |
|--|--|--------------------------------|------------------------|--------------------|
| LB223 | 128 GEORGE STREET EAST FREMANTLE - COMMERCIAL BUILDING | 55,500.00 | 4.82% | 69,947.85 |
| LB401 | 128 GEORGE STREET EAST FREMANTLE LAND ONLY | 1,095,000.00 | 95.18% | |
| Total Revaluation Land and Buildings | | 1,150,500.00 | 100.00% | |



A revaluation of the Asset Class (this sole asset) will be conducted prior to reclassification to Assets Held for Sale. This is in accordance with AASB, para 18:



18 Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Australian Accounting Standards.

Management is satisfied that there is no evidence to conclude that the current Useful Life, Depreciation Method, or Residual Value should change as at 30 June 2022.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|-----------------------|---|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model – prior to Reclassification to Assets Held for Sale |
| Class Total Carrying Amount: | \$52,725.06 | \$69,947.85 |
| Last Revaluation Year: | 30 June 2020 | 30 June 2022 |
| Depreciation Method: | Straightline | Straightline |
| Useful Life: | 40 (2.5%) | 40 (2.5%) |
| Residual Value: | Nil | Nil |



Buildings Non-Specialised Level 3

There are 4 assets/asset groups that make up this class; the assets being:

- LB235 - JP McKenzie Pre Primary School - 61 George Street East Fremantle
- LB236 – Glyde In Community Learning Centre - 42 Glyde Street East Fremantle
- LB237 - EH Grey Old Infant Health Clinic Building - 80 Canning Highway East Fremantle
- LB238 - Richmond Early Childhood Centre - Cnr Fraser Street And Osborne Road East Fremantle

In determining whether a building is specialised or non-specialised, the Town has applied the following guidance from the NSW Office of Local Government:

↳ 2. Buildings

In relation to buildings, questions have been raised regarding the level to which the building should be divided into components when revaluing. When revaluing council owned and controlled buildings, councils should utilise the classifications of "non-specialised buildings" and "specialised buildings". Non-specialised buildings are general purpose or commercial buildings where there is a secondary market and a market value can be determined by appraisal.

Specialised buildings are those buildings that are designed for a particular purpose. Where there is no market-based evidence available specialised buildings should be valued at depreciated replacement cost.

An independent Valuation was undertaken by Griffin Valuation Advisory of all land and buildings as at 30 June 2020. As a result, remaining useful lives were reduced on all buildings, resulting in an increase in depreciation rates. The new depreciation rates were updated in Synergysoft to reflect the new RUL's as per the valuation report.

A high level review of this asset class has been completed to enable management to make the judgement as to whether any material changes have occurred since the last revaluation. To conduct the high level review the Town has utilised any of its own data and market information where the information has been obtainable without exhaustive efforts.

Where no new information has been available without extensive effort and cost to the Town, no new information has been assumed and given the last valuation was only 12 months prior, the inputs are deemed as being materially appropriate.

No new information has been achievable to the satisfaction of management to warrant a reliable change in estimates for Fair Value for this asset class.

Management is satisfied that there is no evidence to conclude that the current Useful Life, Depreciation Method, or Residual Value should change as at 30 June 2022.



| | Pre-Assessment | Post-Assessment |
|--------------------------------------|--------------------------|--------------------------|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model |
| Class Total Carrying Amount: | \$509,195.14 | \$509,195.14 |
| Last Revaluation Year: | 30 June 2020 | 30 June 2020 |
| Depreciation Method: | Straight-line | Straight-line |
| Useful Life: | 9-12 years (6.67-11.11%) | 9-12 years (6.67-11.11%) |
| Residual Value: | Nil | Nil |



Buildings Specialised Level 3

There are 47 assets/asset groups that make up this class of specialised buildings.

In determining whether a building is specialised or non-specialised, the Town has applied the following guidance from the NSW Office of Local Government:

↳ 2. Buildings

In relation to buildings, questions have been raised regarding the level to which the building should be divided into components when revaluing. When revaluing council owned and controlled buildings, councils should utilise the classifications of "non-specialised buildings" and "specialised buildings". Non-specialised buildings are general purpose or commercial buildings where there is a secondary market and a market value can be determined by appraisal. Specialised buildings are those buildings that are designed for a particular purpose. Where there is no market-based evidence available specialised buildings should be valued at depreciated replacement cost.

An independent Valuation was undertaken by Griffin Valuation Advisory of all land and buildings as at 30 June 2020. As a result, remaining useful lives were reduced on all buildings, resulting in an increase in depreciation rates. The new depreciation rates were updated in Synergysoft to reflect the new RUL's as per the valuation report.

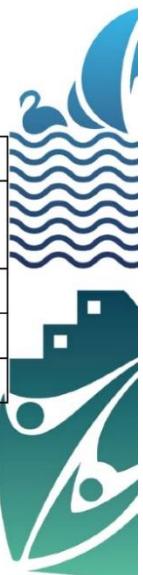
A high level review of this asset class has been completed to enable management to make the judgement as to whether any material changes have occurred since the last revaluation. To conduct the high level review the Town has utilised any of its own data and market information where the information has been obtainable without exhaustive efforts.

Where no new information has been available without extensive effort and cost to the Town, no new information has been assumed and given the last valuation was only 12 months prior, the inputs are deemed as being materially appropriate.

No new information has been achievable to the satisfaction of management to warrant a reliable change in estimates for Fair Value for this asset class.

Management is satisfied that there is no evidence to conclude that the current Useful Life, Depreciation Method, or Residual Value should change as at 30 June 2022.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|-----------------------|------------------------|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model |
| Class Total Carrying Amount: | \$25,174,624.78 | \$25,174,624.78 |
| Last Revaluation Year: | 30 June 2020 | 30 June 2020 |
| Depreciation Method: | Straight-line | Straight-line |



| | | |
|-----------------|------------------------|------------------------|
| Useful Life: | 3-50 years (2%-33.33%) | 3-50 years (2%-33.33%) |
| Residual Value: | Nil | Nil |



Furniture and Equipment

There are 15 assets/asset groups that make up this class. The assets are predominantly IT/Audio Visual Equipment and Office Furniture/Equipment.

AASB 116.60 states that the depreciation method used shall reflect the pattern in which the assets future economic benefits are expected to be consumed. The economic benefit is consumed equally over time and the straight-line method of depreciation remains appropriate.

The following general advice was received in regards to aggregating/grouping assets when determining their capitalization threshold:

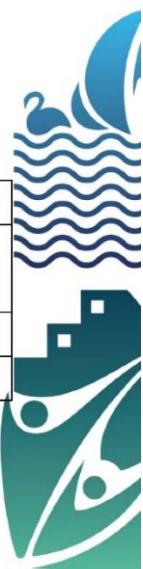
There may be circumstances where agencies should apply the standard asset capitalisation threshold of \$5,000 to the aggregate value of a group or network of assets (a group is a collection of similar assets and a network is a chain of interconnected but dissimilar assets for the provision of one simultaneous service e.g. computer system or office furniture). That is, the cost of individual items (assets) may be below the threshold but collectively the cost of items in the group or network exceeds the threshold. Generally, aggregations of assets should only be considered where they have long useful lives and high aggregate values. It is also relevant to compare patterns of asset consumption (i.e. consumption of future economic benefits embodied in the asset or consumption of service potential) with patterns of asset replacement expenditure to identify whether there is a material periodic difference between depreciation expense and the on-going expensing of acquisitions. Where asset replacement expenditure is both lumpy and significant and depreciation expense is determined using the straight-line method, there may be a case for capitalising the assets. To aggregate assets, the impact must be material in the overall context of an agency's financial statement. The cost benefit of capitalising expenditures in such circumstances must be considered. For example, a general fit-out may involve a material outlay and yield future economic benefits over a long period of time and consequently would generally be capitalised. Although the individual items may be below the capitalisation threshold, the fit-out can be considered a network for capitalisation purposes.

Based on the above, the Town has determined to capitalise its computer hardware replacement (annual 3 year full year replacement program), as well as the FOGO bins (\$247k aggregate).

The Town operates an IT Hardware replacement program on a 3-year basis which is reflective in the useful lives of the assets.

In most instances items are scrapped or the sale price is nominal upon completion of their useful lives. The residual values of the assets within the Furniture and Equipment class is nil, and is deemed insignificant and therefore immaterial in the calculation of the depreciable amount.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|-----------------------|------------------------|
| Measurement after Recognition Model: | Cost Model | Cost Model |
| Class Total Carrying Amount: | 226,710 | \$226,710 |
| Last Revaluation Year: | Not Applicable | Not Applicable |



| | | |
|----------------------|-----------------------------|-----------------------------|
| Depreciation Method: | Straight-line | Straight-line |
| Useful Life: | 3-19 years (5.26% - 33.33%) | 3-19 years (5.26% - 33.33%) |
| Residual Value: | Nil | Nil |

An asset stock take has been completed for all furniture and equipment assets and portable and attractive assets not listed on the asset register.



Plant and Equipment

There are 37 assets/asset groups that make up this class. The assets consist of light fleet, heavy plant and other equipment.

AASB 116.60 states that the depreciation method used shall reflect the pattern in which the assets future economic benefits are expected to be consumed. The economic benefit is consumed equally over time for most vehicles and plant and the straightline method of depreciation remains appropriate.

A review of the plant and equipment useful lives has been completed for the year ended 30 June 2022. The review resulted in a number of plant items having their residual values updated based on renewed estimates and inclusion where previously it may not have been included – where appropriate. Useful lives were still appropriate for each asset.

The application of the revised residual lives have been updated in June 2022 and any changes to the depreciation calculations have been applied prospectively in accordance with AASB108 – change in estimates and effective in the June Depreciation Calculation.

The system has been checked for application, and:

- where the Residual Value is still less than the remaining depreciable amount, the depreciation calculation has been applied prospectively taking into consideration the revised calculation requirements - in accordance with AASB108 – see PE284 below
- where the carrying amount has exceed the revised residual value, the depreciation calculation has been paused - should a later review of residual value change to be lower than carrying value, depreciation calculation will recommence - in accordance with AASB108 - see PEMV269 below

PE284

Depreciation calculation for June has been lowered with the increase to the Residual Value estimate.

| | | | | | Transaction History | Val Amt | Dep Amt | Description |
|--|----------------|--------|------------|--------------|---------------------|---------|---------|-----------------------------|
| | Date Past Year | Period | Trans Type | Reference | | | 333.94 | DEPRECIATION - JUNE 2022 |
| | 08/06/2022 | 21/22 | 11 | Depreciation | DEP-JUN-2022 | | 430.00 | DEPRECIATION JUNE 2022 |
| | 05/05/2022 | 21/22 | 10 | Depreciation | DEP-APR-2022 | | 416.13 | DEPRECIATION APRIL 2022 |
| | 04/04/2022 | 21/22 | 09 | Depreciation | DEP-MARCH-22 | | 430.00 | DEPRECIATION - MARCH 2022 |
| | 09/03/2022 | 21/22 | 08 | Depreciation | DEP-FEB-22 | | 399.39 | DEPRECIATION FEBRUARY 2022 |
| | 03/02/2022 | 21/22 | 07 | Depreciation | DEP-JAN-22 | | 430.00 | DEPRECIATION - JANUARY 2022 |
| | 27/01/2022 | 21/22 | 05 | Depreciation | DEP-NOV-21 | | 416.13 | DEPRECIATION NOVEMBER 2021 |
| | 27/01/2022 | 21/22 | 04 | Depreciation | DEP-OCT-21 | | 430.00 | DEPRECIATION OCTOBER 2021 |
| | 27/01/2022 | 21/22 | 03 | Depreciation | DEP-SEP-21 | | 416.13 | DEPRECIATION SEPTEMBER 2021 |
| | 27/01/2022 | 21/22 | 02 | Depreciation | DEP-AUG-21 | | 430.00 | DEPRECIATION AUGUST 2021 |
| | 27/01/2022 | 21/22 | 01 | Depreciation | DEP-JULY-21 | | 430.00 | DEPRECIATION JULY 2021 |
| | 27/01/2022 | 21/22 | 06 | Depreciation | DEP-DEC-21 | | 430.00 | DEPRECIATION DECEMBER 2021 |
| | 25/06/2021 | 20/21 | 12 | Depreciation | DEP-JUNE-2021 | | 416.13 | DEPRECIATION JUNE 2021 |



PEMV269

No depreciation has been calculated for June as the asset is already fully depreciated based on the change in the estimate of the Residual Value.

| | Date/Post Year | Period | Trans Type | Reference | Transaction History | Val Amt | Des Amt Description |
|--|----------------|--------|------------|--------------|---------------------|---------|-----------------------------|
| | 05/06/2022 | 21/22 | 11 | Depreciation | DEP-MAY 2022 | 445.89 | DEPRECIATION MAY 2022 |
| | 06/05/2022 | 21/22 | 10 | Depreciation | DEP-APR 2022 | 431.50 | DEPRECIATION APRIL 2022 |
| | 04/04/2022 | 21/22 | 09 | Depreciation | DEP-MARCH 2022 | 445.89 | DEPRECIATION-MARCH 2022 |
| | 03/03/2022 | 21/22 | 08 | Depreciation | DEP-FEB 2022 | 402.73 | DEPRECIATION-FEBRUARY 2022 |
| | 03/02/2022 | 21/22 | 07 | Depreciation | DEP-JAN 2022 | 445.89 | DEPRECIATION-JANUARY 2022 |
| | 02/01/2022 | 21/22 | 06 | Depreciation | DEP-DEC 21 | 445.89 | DEPRECIATION-DECEMBER 2021 |
| | 27/01/2022 | 21/22 | 09 | Depreciation | DEP-JULY 21 | 431.50 | DEPRECIATION-JULY 2021 |
| | 27/01/2022 | 21/22 | 04 | Depreciation | DEP-OCT 21 | 445.89 | DEPRECIATION-OCTOBER 2021 |
| | 27/01/2022 | 21/22 | 03 | Depreciation | DEP-SEP 21 | 431.50 | DEPRECIATION-SEPTEMBER 2021 |
| | 27/01/2022 | 21/22 | 02 | Depreciation | DEP-AUG 21 | 445.89 | DEPRECIATION-AUGUST 2021 |
| | 27/01/2022 | 21/22 | 01 | Depreciation | DEP-JULY 21 | 445.89 | DEPRECIATION-JULY 2021 |
| | 25/06/2022 | 20/21 | 12 | Depreciation | DEP-JUNE 2021 | 431.50 | DEPRECIATION-JUNE 2021 |
| | 26/05/2021 | 20/21 | 11 | Depreciation | DEP-MAY 2021 | 445.89 | DEPRECIATION-MAY 2021 |
| | 30/04/2021 | 20/21 | 10 | Depreciation | DEP-APR 2021 | 431.50 | DEPRECIATION-APRIL 2021 |
| | 30/03/2021 | 20/21 | 09 | Depreciation | DEP-MARCH 2021 | 445.89 | DEPRECIATION-MARCH 2021 |
| | 26/02/2021 | 20/21 | 08 | Depreciation | DEP-FEB 2021 | 402.73 | DEPRECIATION-FEBRUARY 2021 |
| | 29/01/2021 | 20/21 | 07 | Depreciation | DEP-JAN 2021 | 445.89 | DEPRECIATION-JANUARY 2021 |
| | 05/01/2021 | 20/21 | 06 | Depreciation | DEP-DEC 2020 | 445.89 | DEPRECIATION-DECEMBER 2020 |

2.1.14 Motor Vehicle Acquisition & Usage Policy

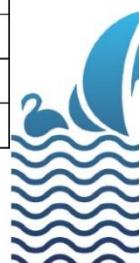
Replacement of vehicles

All vehicles are to be replaced at the optimum period for changeover (see table below) , in order to achieve the lowest possible operating costs for each vehicle and as per the Town's plant and equipment replacement program and budgets.

| |
|---|
| Sedans 2 years or 40,000km |
| Utilities (Petrol) 3 years or 60,000km |
| Utilities (Diesel) 4 years or 80,000km |
| Trucks and heavy plant 3 to 8 years |

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|------------------------|------------------------|
| Measurement after Recognition Model: | Cost Model | Cost Model |
| Class Total Carrying Amount: | \$740,344 (30 June) | \$740,344 (30 June) |
| Last Revaluation Year: | Not Applicable | Not Applicable |
| Depreciation Method: | Straight-line | Straight-line |
| Useful Life: | 2-10 years (10% - 50%) | 2-10 years (10% - 50%) |
| Residual Value: | Various | Various - updated |

An asset stock take has been completed for all plant and equipment assets and portable and attractive assets not listed on the asset register.



Infrastructure – All Classes Comments

Fair Value

AASB 116 requires revaluations to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

All classes of Infrastructure were revalued for Fair Value as at 30 June 2021 – 12 months prior (sufficient regularity).

FM Reg 17A requires all non-current assets that are subsequently measured at Fair Value to be revalued:

- Whenever the local government is of the opinion that the fair value of the asset is likely to be **materially different** from its carrying amount; and
- In any event, within a period of no more than 5 years after the day on which the asset was last valued or revalued.

When reviewing Level 3 inputs, AASB 13.89 states:

- An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (eg an entity-specific synergy).
- An entity need not **undertake exhaustive efforts** to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available.

A high level review of each Infrastructure asset class has been completed to enable management to make the judgement as to whether any material changes to the cost approach and replacement cost inputs have occurred since the last revaluation. To conduct the high level review the Town has utilised any of its own data and market information where the information has been obtainable without exhaustive efforts.

Where no new information has been available without extensive effort and cost to the Town, no new information has been assumed and given the last valuation was only 12 months prior, the inputs are deemed as being materially appropriate.

Obtaining comparable inputs for replacement cost unit rates has not been achievable to the satisfaction of management to warrant a reliable change in estimates.



Residual Value

The use of residual value as it relates to public infrastructure is not applicable for reasons being:

- a) the ordinary meaning of the words needs to be considered in the context of the relevant accounting standard definition, including in conjunction with the definition of useful life;
- b) disposal involves the entity losing control of the asset at the end of its useful life to the entity – the relocation of an asset into another asset or location does not involve any loss of control of the asset by the entity; and
- c) where an entity has control of an asset and intends to continue to consume the future economic benefits embodied in the asset through use, the asset cannot be regarded as having reached the end of its useful life to the entity. In the case of public sector assets held for their current service potential, the useful life is unlikely to end before all the service potential in that asset is substantially consumed, at which time no cost savings from re-use of the asset, or a part thereof, would remain available to the entity.
- d) by nature of the asset being constructed through the use of various materials of which upon the end of its useful life is unlikely to be able to be re-used or on-sold in any market and hence has no residual value.

The reasons above remain consistent and there has been no change in estimates to residual values (nil RV) of infrastructure assets.

Useful Life

Remaining useful life (RUL) is an estimation of the remaining service potential of the asset component based on its condition. The determination of precise physical condition by visual assessment is considered appropriate to determine RUL for valuation purposes, however without extensive and expensive mechanistic or laboratory testing, supported by reliable historic data, the RUL will be an estimation at the network level. For example, visual inspections of drainage is not practicable without the use of extensive and expensive technology and the result is deemed immaterial to the resulting outcomes on RULs.

The pattern of consumption of the asset component needs to be appropriate. Different asset types have varying lifecycles with commonly accepted examples being in a straight line with a uniform loss of value of its lifecycle, or a curve which considers potentially accelerated periods of consumption. For example, many assets will appear and actually be functioning very effectively for most of their lives, but then appear to rapidly deteriorate towards the end of life. Those types of assets might be assessed with average condition rating until nearing end of life.



The RULs for all infrastructure asset classes were reviewed as part of the 2021 Valuation of Infrastructure. Regular/cyclical inspections of infrastructure assets are being incorporated as part of the Town's regular Asset Management practices. In 2021/22 a visual inspection of the asset class – Footpaths and Cycleways was conducted. The results of this are discussed under the relevant header below.

Unless as otherwise identified, the RULs for all infrastructure assets are deemed to be appropriate given the last valuation was conducted only 12 months prior.

Management Improvements to Infrastructure Asset Data

The Town is committed to continuously improving the data quality of its infrastructure assets. The following steps have been identified as significant steps towards achieving better Asset Management practice, as well supporting future valuations and are being progressively implemented as resources and capability become available. The steps and management comments/updates are provided below:

- Asset Register – identify one source of truth for all assets and record in a consolidated asset register. Infrastructure assets are currently held in multiple registers.

This is a large project and systems changes will be required – work is yet to commence on this project.

- Asset ID's – Consistency is difficult to maintain across multiple valuations, when source information/assets are not linked to a unique TEF ID. The importance can become more evident when different valuers assess information from year to year. This can be resolved through a consolidated asset register.

This is a large project and systems changes will be required – work is yet to commence on this project.

- Spatial Information – the development of a GIS database will further support validation of the asset register and ongoing asset audits. This is especially helpful for tracking non-stagnant assets and assets with shorter useful lives, such parks assets. Other AM value can be derived from known drainage locations etc.

The Town does not currently have spatial information or mapping software. This is a significant change to the way the Town would conduct its operations and requires



investment of a new system implementation along with commitment to change management across the organisation – work is yet to commence on this project and is not likely to commence in the short-medium term as it is cost prohibitive.

- Regular Asset Inspections – Cost efficiencies can be realised from conducting large scale/all-encompassing asset inspections on a cycle basis, but it would be more efficient for the Town to implement rolling asset inspection programs for various asset classes. It may be more practical (resources/costs/data usefulness) to perform annual inspections on differing asset classes. Some classes may benefit from more regular audits than others.
 - Drainage inspections were carried out in 2020. The asset inspections identified a significant number of assets previously not recognised, and thus an increase in the overall drainage asset inventory. An additional 182 drainage pipes with varying lengths and dimensions and fifteen drainage pits were identified. The net worth of drainage assets increased proportionately as part of the 2021 valuation of infrastructure. Management has a high level of confidence that no less than 95% of the drainage network has been picked up and accounted for.
 - The Town has commenced regular asset inspections starting with Footpaths and Cycleways. The intention is to undertake a physical footpath inspection every 2 years.
 - Other Infrastructure Asset Classes will be considered for cyclical inspections in the future.
- Gap Analysis – It may be prudent to define the key valuation inputs (asset related fields) and assess the existing gaps in data. This can inform the requirements going forward.

The Town is comfortable with the level of information held for each Infrastructure Asset Class to enable sufficient professional judgement to be applied when considering the valuation inputs. However, for continuous improvement, gap analysis forms part of incorporating all of the proposed improvement actions as stated here.

- Inspection Standards/Manuals – develop condition rating manuals which guide the asset inspection process, define levels of service for the relevant asset classes and specify applicable standards. This creates ongoing consistency and supports scrutiny surrounding condition rating standards and practices.



WALGA has developed various inspection manuals including a "Road Visual Condition Assessment Manual". The Town will consider implementing asset inspection sheets for roads and footpaths subject to resourcing capability.

- Asset Management Practice – further development of organisation wide asset management practice/framework in consultation with finance. This may include further development of AM procedures, processes, work order management etc.

This action will form part of the overall improvement of the organisations asset management. This is a large project in its entirety, however through focusing on implementing the above actions the Town will improve its Asset Management Practices.



Infrastructure – Roads

The Asset system reflects the last valuation in 2021 plus any additions to date. Assets are grouped into their respective component and depreciated on a straight-line basis as follows:

- Subgrade – Not depreciated
- Sealed Pavement – 85-100 years
- Pavement Surface – 30-35 years
- Surface Water Channels - 55-60 years

No new information is available to suggest that the current valuation is materially different to fair value at 30 June 2022. No action taken.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model |
| Class Total Carrying Amount: | \$22,326,443.68 | \$22,326,443.68 |
| Last Revaluation Year: | 30 June 2021 | 30 June 2021 |
| Depreciation Method: | Straight-line | Straight-line |
| Average RUL: | Not Dep. – 100 years (0% - 3.33%) | Not Dep. – 100 years (0% - 3.33%) |
| Residual Value: | Nil | Nil |



Infrastructure – Drainage

The Asset system reflects the last valuation in 2021 plus any additions to date. Assets are grouped into their respective component and depreciated on a straight-line basis as follows:

- Pipe – 80 years
- Pit – 80 years

Drainage inspections were carried out in 2020. The asset inspections identified a significant number of assets previously not recognised, and thus an increase in the overall drainage asset inventory. An additional 182 drainage pipes with varying lengths and dimensions and fifteen drainage pits were identified. The net worth of drainage assets increased proportionately as part of the 2021 valuation of infrastructure. Management has a high level of confidence that no less than 95% of the drainage network has been picked up and accounted for.

Additional Drainage quantities were as follows:

| | 2018 | 2021 | Additional |
|----------------|----------|----------|------------|
| Drainage Pipes | 11,129 m | 12,596 m | 1,467 m |
| Drainage Pits | 689 Qty | 704 Qty | 15 Qty |

No new information is available to suggest that the current valuation is materially different to fair value at 30 June 2022. No action taken.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|-------------------|-------------------|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model |
| Class Total Carrying Amount: | \$4,400,680.02 | \$4,400,680.02 |
| Last Revaluation Year: | 30 June 2021 | 30 June 2021 |
| Depreciation Method: | Straight-line | Straight-line |
| Useful Life: | 80 years (1.25%) | 80 years (1.25%) |
| Residual Value: | Nil | Nil |



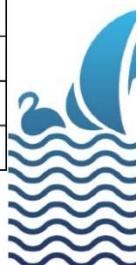
Infrastructure – Parks and Ovals

The Asset system reflects the last valuation in 2021 plus any additions to date. Assets are grouped into their respective component and depreciated on a straight-line basis as follows:

- Parks & Ovals - Bore and Pump – 20 years
- Parks & Ovals – Signage – 15-40 years
- Parks & Ovals – Fence – 25-70 years
- Parks & Ovals – Gate – 15-40 years
- Parks & Ovals - Minor Structure Polygon – 10-70 years
- Parks & Ovals - Playground Polygon – 27 years
- Parks & Ovals - Irrigation – 30-35 years
- Parks & Ovals – Turf – Not Depreciated
- Parks & Ovals - Minor Structure – 20-25 years
- Parks & Ovals – Amenities – 20-25 years
- Parks & Ovals – Bin – 15-20 years
- Parks & Ovals – Lighting – 20 years
- Parks & Ovals - Playground Point - 15-25 years
- Parks & Ovals - Playground Lines – 40-70 years
- Parks & Ovals - Other Improvements – 20-25 years

No new information is available to suggest that the current valuation is materially different to fair value at 30 June 2022. No action taken.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|------------------------|------------------------|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model |
| Class Total Carrying Amount: | \$4,090,750.61 | \$4,090,750.61 |
| Last Revaluation Year: | 30 June 2021 | 30 June 2021 |
| Depreciation Method: | Straight-line | Straight-line |
| Useful Life: | 10-70 years (1.43-10%) | 10-70 years (1.43-10%) |
| Residual Value: | Nil | Nil |



Infrastructure – Footpaths & Cycleways

The Asset system reflects the last valuation in 2021 plus any additions to date. Assets are grouped as Footpaths and depreciated on a straight-line basis as follows:

- Footpaths – 40-80 years

In March 2022 the Town commissioned a data pick up of Footpaths – this involved a full visual inspection of the entire footpath network. Inspection resulted in a pick up of the Town's footpath network totaling 59.646km which is consistent with the data provided to Talis for the previous valuation (59.7km). The average condition rating of the data pick up conducted in 2021/22 is equivalent to that of Talis' report, being between a rating of 2-3. Suggesting there is no material change to the fair value due to the asset volume or condition is required.

3 Infrastructure Asset Classes

Talis was commissioned to provide a valuation for the infrastructure asset class including Assets detailed in Table 3-1:

Table 3-1 Asset Classes for Valuation

| Asset Class/Sub Class | Unit of Measurement | Quantity |
|-----------------------|---------------------|----------|
| Roads | Kilometre | 36.7km |
| Drainage - Pipes | Each | 629 |
| Drainage - Pits | Each | 704 |
| Footpaths | Kilometres | 59.7km |
| Bus Shelters | Each | 30 |
| Car Parks | Each | 17 |
| Park Assets | Each | 1259 |

Source: Talis – 2021 Valuation Report

No new information is available to suggest that the current valuation is materially different to fair value at 30 June 2022. No action taken.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|---------------------------|---------------------------|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model |
| Class Total Carrying Amount: | \$5,624,738.27 | \$5,624,738.27 |
| Last Revaluation Year: | 30 June 2021 | 30 June 2021 |
| Depreciation Method: | Straight-line | Straight-line |
| Useful Life: | 40-80 years (1.3% - 2.5%) | 40-80 years (1.3% - 2.5%) |
| Residual Value: | Nil | Nil |



Infrastructure – Car Parks

The Asset system reflects the last valuation in 2021 plus any additions to date. Assets are grouped into their respective component and depreciated on a straight-line basis as follows:

- Subgrade – Not depreciated
- Sealed Pavement – 85-100 years
- Pavement Surface – 30-35 years
- Surface Water Channels - 55-60 years

No new information is available to suggest that the current valuation is materially different to fair value at 30 June 2022. No action taken.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model |
| Class Total Carrying Amount: | \$2,301,880.64 | \$2,301,880.64 |
| Last Revaluation Year: | 30 June 2021 | 30 June 2021 |
| Depreciation Method: | Straight-line | Straight-line |
| Useful Life: | Not Dep. – 100 years (0% - 3.33%) | Not Dep. – 100 years (0% - 3.33%) |
| Residual Value: | Nil | Nil |



Infrastructure – Bus Shelters

The Asset system reflects the last valuation in 2021 plus any additions to date. Assets are grouped as Bus Shelters and depreciated on a straight-line basis as follows:

- Bus Shelters – 25-30 years

No new information is available to suggest that the current valuation is materially different to fair value at 30 June 2022. No action taken.

| | Pre-Assessment | Post-Assessment |
|--------------------------------------|--------------------------|--------------------------|
| Measurement after Recognition Model: | Revaluation Model | Revaluation Model |
| Class Total Carrying Amount: | \$211,248.21 | \$211,248.21 |
| Last Revaluation Year: | 30 June 2021 | 30 June 2021 |
| Depreciation Method: | Straight-line | Straight-line |
| Useful Life: | 25-30 years (4% - 3.33%) | 25-30 years (4% - 3.33%) |
| Residual Value: | Nil | Nil |



Investment Property

There are no assets that fall under the application of AASB 140. As with prior year assessments the only property that could be assessed as an Investment Property is 128 and 128A George Street. The building envelope of this parcel is being leased to a private party, with the Town deriving an annual rent of circa \$16,500.

Management have however determined this property does not meet the definition of an investment property, and is accounted for under AASB 116 (although for 30 June 2022 is being reclassified to Assets Held for Resale – refer above Land and Buildings):

AASB 140 Paragraph 9.1

In respect of not-for-profit entities, property may be held for service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under AASB 116, for example:

- Property held for strategic purposes; and*
- Property held to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.*

The majority of the property is being used as a public carpark (hard stand area behind building envelope). There is a distinct shortage of parking areas in the George Street Precinct, and the provision of car parking in this area is critical to support small business turnover. The rental return of \$16,500 per annum is incidental, and is used to maintain and provide parking infrastructure in this precinct. As such, the property is held for strategic purposes as the predominant land use is for public purposes.



Impairment

Management has reviewed all indicators of Impairment and is satisfied that there is no indication of impairment loss for any asset as at 30 June 2022. An impairment questionnaire was completed considering internal, external and other indicators as part of this assessment.

IMPAIRMENT REVIEW/QUESTIONNAIRE 2021/22

| Indicator Question | Yes | No | Comments |
|---|--------------------------|-------------------------------------|----------|
| <i>External Indicators</i> | | | |
| Are there observable indications that an asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use? | | | |
| | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| Have any significant changes with an adverse effect on the local government taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the local government operates or in the market to which an asset is dedicated? | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| Have market interest rates or other market rates of return on investments increased during the period; and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially? | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| <i>Internal Indicators</i> | | | |
| Is there any evidence is available of obsolescence or physical damage of an asset? | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| Have any significant changes with an adverse effect on the local government 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? | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| Is there any evidence available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected? | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| <i>Other Indicators</i> | | | |
| Are there any other indicators of impairment not previously considered? | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| <i>If any question has been answered "Yes" and any indication is present - make a formal estimate of recoverable amount. If the recoverable amount is less than the asset's carrying amount, the carrying amount of the asset must be reduced to its recoverable amount.</i> | | | |
| <i>If all questions have been answered "No" - no formal estimate of recoverable amount is required to be made if no indication of an impairment loss is present.</i> | | | |

Peter
Kocian

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Prepared/Reviewed By: Peter Kocian
Exec Manager Corporate Services



Prepared By:

Kelli Small
ToEF Consultant

Peter Kocian Digital signature
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Date: 2022.10.10
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Reviewed By:

Peter Kocian
Exec Manager Corporate Services



OUR REF:
ENQUIRIES:



Memorandum

To: OAG - Auditor 2021-22
From: Consultant / Executive Manager Corporate Services
Subject: Revenue Recognition – East Fremantle Oval Redevelopment Project – Grant Income
Date: 5 October 2022

PURPOSE

The purpose of this position paper is to outline the revenue recognition principles applied to grant income associated with the East Fremantle Oval Redevelopment Project ("the Project").

Contained as an appendix to this paper is the procedure for reconciling the project funding and recognizing the income at the end of each month.

BACKGROUND

In December 2021 the Town entered into a financial assistance agreement ("Agreement") with the Department of Local Government, Sport and Cultural Industries (DLGSC), to contribute funding toward the redevelopment of the East Fremantle Oval. The original Agreement was for DLGSC to contribute \$20,000,000 (\$20m) towards the cost of the project.

Subsequent to a review of the Project costings, a variation to the Agreement was entered into in July 2022 increasing the funding provided by DLGSC to \$25,000,000 (\$25m).

Provided below is an extract of the variation detailing the payment milestones.



DEED OF VARIATION

PARTIES

STATE OF WESTERN AUSTRALIA (State) acting through the Department of Local Government, Sport and Cultural Industries (ABN 14 445 022 107) of 246 Vincent Street, Leederville, WA 6007 (DLGSC)

AND

Town of East Fremantle (ABN 80 052 365 032) of 135 Canning Highway, East Fremantle, WA 6158 (Recipient)

BACKGROUND

- A. The State and the Recipient entered into a Financial Assistance Agreement on 2 December 2021 (Agreement) for the State to provide \$20 million state funding to support the East Fremantle Oval redevelopment (Project).
- B. Due to the current market conditions, the Project's estimated construction costs are expected to rise from \$26.5 million to \$32.5 million. As such, the Recipient requested from the State an additional \$5 million state funding to cover additional expected construction costs.
- C. In response, the Sport and Recreation Minister has approved and endorsed an additional State contribution of \$5 million funding towards the Project, to enable it to proceed in line with the intent of the election commitment and community expectations.
- D. The Parties have agreed to amend the Agreement terms to reflect the additional funding amount and certain other variations as set out in this Deed of Variation (No. 1) (Deed).

(b) In Schedule 4, Item 3.1 (Manner of Payment) under paragraph 'c.', delete the table in its entirety and replace with the following table:

| A Serial | B Milestone | C Instalment Amount |
|-------------|--|------------------------|
| 1 | Execution of this agreement | \$2,500,000 |
| 2 | Awarding of a construction contract | \$8,000,000 |
| 3 | Evidence of commencement of physical works | \$5,000,000 |
| 4 | Evidence of 50% completion | \$9,000,000 |
| 5 | Evidence of practical completion | \$500,000 |

(c) In Schedule 4, Item 4.4 (Project budget), delete the table in its entirety and replace with the following table:

| Project items | Funds under this Agreement (\$) | Other Funding (\$) | Name of Sources of Other Funding | Total Funds (\$) |
|--|---------------------------------|--------------------|----------------------------------|----------------------|
| As detailed in 4.1 Project description | \$25,000,000 | | | \$25,000,000 |
| | | \$7,000,000 | Town of East Fremantle | \$7,000,000 |
| | | \$300,000 | TBC | \$300,000 |
| | | \$200,000 | AFL Facility Fund | \$200,000 |
| TOTALS | \$ 25,000,000 | \$7,500,000 | | \$ 32,500,000 |



The total Project funding is summarised in the table below:

| Project Funding (ex GST) - Cash Received | \$ |
|---|-------------------|
| DLGSC - Financial Assistance Grant | 25,000,000 |
| Town of East Fremantle - Loan Borrowings | 4,800,000 |
| Town of East Fremantle - Sale proceeds George St Property | 1,000,000 |
| Town of East Fremantle - Reserve Funds | 1,450,000 |
| AFL Facilities Fund (WAFFF) | 250,000 |
| Total | 32,500,000 |

The total expenditure budget for the Project is \$32,500,000 and is detailed in the *Town of East Fremantle East Fremantle Oval Redevelopment – Design Development Gateway Report* dated 27 June 2022.



10 ESTIMATED COSTS

10.1 Cost Plan

The endorsed project budget is \$32.5m and this is considered sufficient to deliver a quality outcome in line with the expectations of ToEF and their stakeholders. The Cost Plan has been updated to reflect the current design which has been endorsed by stakeholders and has been developed in line with Gateway comments. The current Cost Plan indicates a cost of \$32.97m and this is provided in Appendix 3.

10.2 Cost Plan Outlook

This Cost Plan has been updated though has a similar outcome to the Cost Plan produced prior to Gateway 2. Whilst the Cost Plan has continued to highlight a potential budget exceedance of \$470k, there has been a drive to maintain all ToEF and stakeholder requirements some of which have resulted in cost increases from the Gateway 1 Cost Plan.

At this stage, having a Cost Plan higher than the budget is not considered an issue as there are opportunities to recover the 1.5% exceedance. Initiatives include:

- Further Value Management opportunities as design continues
- Opportunities through the MTT process in design, buildability, and materials
- PV procurement options
- Operator contributions

At this stage, the exceedance is an outcome of the stage of design and the budget of \$32.5m can be achieved through the initiatives noted above.

10.3 Contingencies

Within the Cost Plan, 5% Construction Contingencies have been maintained though, due to the date of the design, the Design Contingency has been reduced to 3%, maintaining a total contingency allowance of \$2.05m. Design Contingencies will be decreased/removed/allocated once the MTT has progressed through the TPA pricing stage.

10.4 Endorsement Required

Endorsement is sought for the following:

- Progress with the Design Documentation based on Cost Plan actions to reduce to \$32.5m or less

Unless renegotiated with current funding bodies, or new funding is acquired, any expenditure over the Project budget will be the responsibility of the Town of East Fremantle to fund.

Two new accounting standards relevant to revenue recognition for local governments came into effect on 1 July 2019 being:

- AASB 15 *Contracts with Customers*; and
- AASB 1058 *Income of Not-for-Profit Entities*.



ASSESSMENT

AASB 15 Contracts with Customers

AASB 15 Revenue from Contracts with Customers establishes the accounting principles a local government shall apply in relation to the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The core principle is that an entity will recognise revenue at an amount that reflects the consideration entitled in exchange for transferring goods or services to a customer.

AASB 15 provides a comprehensive framework for revenue recognition using the following five-step model:



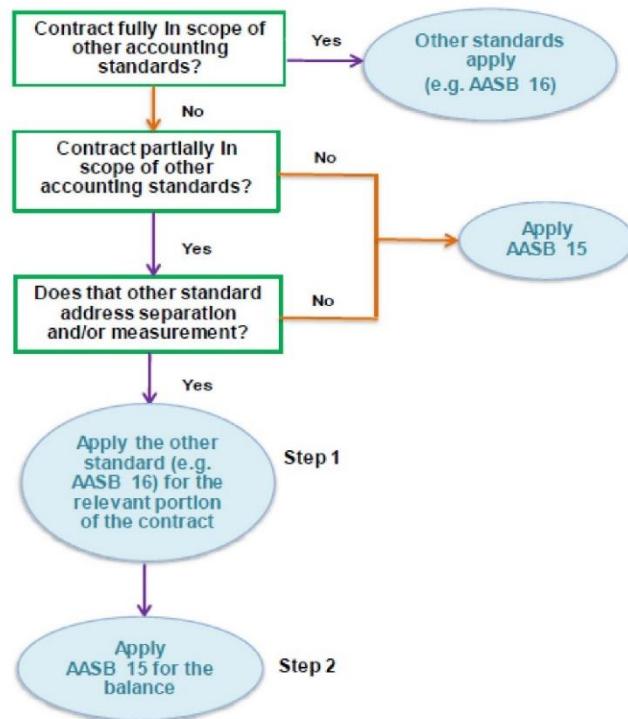
The standard requires a local government to recognise revenue aligned to the transfer of promised goods or services to customers for an amount that reflects the consideration the local government is entitled for those goods or services.

Each contract with a customer needs to be assessed to identify the performance obligations it creates. If there is a mismatch between the timing of performance obligations under a contract and receiving an asset in exchange, for example, cash, or undertaking works and services in advance, then a contract liability or contract asset is created until the performance obligation(s) under the contract are satisfied. Once the performance obligation(s) are satisfied, the associated level of revenue is recognised.

A contract with a customer may partially be in the scope of AASB 15 and partially within the scope of other Standards. In such instances, a local government is required to apply the other standard first, if those standards specify how to separate and/or initially measure one or more parts of the contract. The entity will then apply AASB 15 to the remaining components of the contract.



Decision tree for the application of AASB 15



AASB 1058 Income of Not-for-Profit Entities

AASB 1058 *Income of Not for Profit Entities* applies to local governments and significantly changed income/revenue recognition from its application date.

The purpose of AASB 1058 is to more closely recognise Not for Profit income transactions that are not contracts with customers in accordance with their economic reality. Therefore, AASB 1058 needs to be recognised in conjunction with AASB 15 Revenue from Contracts with Customers.

Local governments often receive a grant to either buy or construct a non-financial asset, such as a building, for their own future use.

A recognisable non-financial asset that is to be controlled by the entity in accordance with AASB 1058.15 is one that:

- a. requires the entity to use that financial asset to acquire or construct a recognisable non-financial asset to identified specifications;
- b. does not require the entity to transfer the non-financial asset to the transferor or other parties; and
- c. occurs under an enforceable agreement.

Financial assets transferred to a local government to construct or acquire a recognisable non-financial asset to be controlled by a local government are recognised initially, in accordance with AASB 9 Financial Instruments, on receipt of the financial asset. Subsequently the non-financial asset is recognised in accordance with AASB 116 on construction or acquisition.

When recognising the asset AASB 1058.9 requires increases in liabilities, decreases in assets and revenue to be recognised in accordance with the relevant accounting standard. The difference between the 'related amount' and the value of the non-financial asset recognised is required to be recognised as a liability by AASB 1058.16 until such time as the local government has satisfied its obligations under the initial transfer of the financial asset. When or as these obligations are satisfied the difference is recognised as income in profit or loss.

Transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

15 A transfer of a financial asset to enable an entity to **acquire or construct a recognisable non-financial asset that is to be controlled by the entity is one that:**

- (a) requires the entity to use that financial asset to acquire or construct a recognisable non-financial asset to identified specifications;
- (b) does not require the entity to transfer the non-financial asset to the transferor or other parties; and
- (c) occurs under an enforceable agreement.

16 An entity shall **recognise a liability for the excess of the initial carrying amount of a financial asset received in a transfer to enable the entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity over any related amounts recognised in accordance with paragraph 9. The entity shall recognise income in profit or loss when (or as) the entity satisfies its obligations under the transfer.**

17 In such circumstances, the transferor has in substance transferred a recognisable non-financial asset to the entity. The entity recognises the financial asset received in accordance with AASB 9 and subsequently recognises the acquired or constructed non-financial asset in accordance with the applicable Australian Accounting Standard (eg AASB 116 for property, plant and equipment). This Standard requires the entity to initially recognise a liability representing the entity's obligation to acquire or construct the non-financial asset and, if applicable, other performance obligations under AASB 15, which involve the transfer of goods or services to other parties. The liability in relation to acquiring or constructing the non-financial asset is initially measured at the carrying amount of the financial asset received from the transferor that is not attributable to related amounts for performance obligations under AASB 15, contributions by owners, etc. The liability is recognised until such time when (or as) the entity satisfies its obligations under the transfer.



Considering which Revenue Standard to Apply

To determine if AASB 15 or AASB 1058 applies requires a two-step process.

Step 1

Local government entities should first determine whether a transaction is a contract with a customer under AASB 15.

To be in scope of AASB 15, there should be:

1. an 'enforceable contract' – i.e. the contract between two or more parties must create enforceable rights and obligations
2. 'sufficiently specific performance obligations' – i.e. the NFP entity's promise to transfer a good or service must be sufficiently specific
3. 'underlying goods or services are not retained by the entity' – i.e. the goods or services will be transferred to the customer or to other parties on behalf of the customer (AASB 1058.1E5) and not retained by the entity for its own use.

If all criteria are met, income is recognised under AASB 15 when (or as) the performance obligations under the contract are satisfied. If any of these criteria are not met, then Step 2 applies.

Step 2

Determine if a volunteer service has been received or there is a significant 'donation' component in the contract. A donation component and thereby a donation transaction exists if:

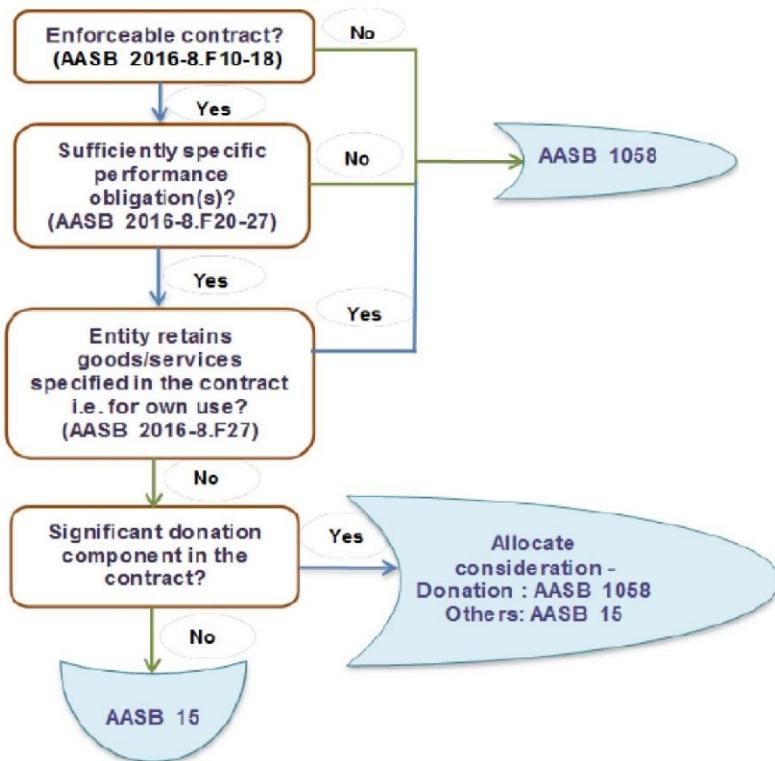
- the consideration to acquire an asset is significantly less than its fair value; and
- the intent is primarily to enable the NFP entity to further its objectives

AASB 1058 applies if NFP entities enter into 'donation' transactions as above or receive volunteer services.

In circumstances where a contract with a customer contains both a donation and non-donation component, the transaction should be allocated between AASB15 and AASB 1058 to ensure appropriate recognition.



Decision tree for which standard to apply



Specific transactions that fall under the scope of AASB 1058 include Transfers received to acquire or construct non-financial assets.

Application to Town of East Fremantle – East Fremantle Oval Redevelopment – DLGSC Financial Assistance Agreement

Below is the application of the above decision tree for which standard to apply for this Project and the Agreement:

1. Is there an enforceable contract?

Yes, the Financial Assistance Agreement was signed by both parties in December 2021, and a subsequent variation to the agreement signed in July 2022.

Yes: Go to Q2

No: AASB 1058

2. Are there sufficiently specific performance obligations?

Yes, the Agreement specifically outlines that the funds are to be utilised for the funding of the redevelopment of the East Fremantle Oval Precinct consistent with the *East Fremantle Oval Precinct Redevelopment Business Plan* and the *East Fremantle Oval Precinct Concept Masterplan*.

3. OBLIGATIONS OF RECIPIENT

3.1 Use of Funding

The Recipient must use the Funding only for the carrying out of the Project in accordance with this Agreement and the Approved Budget and expend such funds by the Completion Date. All such expenditure must be effected in a commercially prudent, sensible and reasonable manner. Furthermore, the Recipient must meet all Milestones in accordance with Schedule 4.

3.2 No Changes

The Recipient must not make any changes to the Project or the Approved Budget without the prior written consent of DLGSC, which consent may be withheld at DLGSC discretion.

3.3 No Endorsement

The Recipient agrees that nothing in this Agreement constitutes an endorsement by DLGSC of any goods or services provided by the Recipient.

3.4 Acknowledgement of DLGSC

(a) Any activity including presentations, publications, signage, articles,

SCHEDULE 4 – PROJECT DETAILS

1. Project

The purpose of the Funding is:

To redevelop the East Fremantle Oval Precinct consistent with the *East Fremantle Oval Precinct Redevelopment Business Plan* and the *East Fremantle Oval Precinct Concept Masterplan*.

Yes: Go to Q3 No: AASB 1058

3. Does the Town of East Fremantle retain the goods/services specified in the contract?

Yes, the land on which the EF Oval precinct sits in a Class A reserve vested to the Town of East Fremantle under management orders and forms part of the land assets of the Town.

The building/s are also assets constructed by the Town of East Fremantle and are and will remain assets of the Town.

Yes: AASB 1058 applies No: Go to Q4

The financial assistance (grant) is a transfer received to acquire or construct non-financial assets

4. Is there a significant donation component within the contract?

Not Applicable as criteria for AASB 1058 met at Q3.

Application of AASB 1058

AASB 1058 requires Financial assets transferred to a local government to construct or acquire a recognisable non-financial asset to be controlled by a local government are recognised initially, in accordance with AASB 9 Financial Instruments, on receipt of the financial asset.

Subsequently the non-financial asset is recognised in accordance with AASB 116 on construction or acquisition.



When recognising the asset AASB 1058.9 requires increases in liabilities, decreases in assets and revenue to be recognised in accordance with the relevant accounting standard. The difference between the 'related amount' and the value of the non-financial asset recognised is required to be recognised as a liability by AASB 1058.16 until such time as the local government has satisfied its obligations under the initial transfer of the financial asset. When or as these obligations are satisfied the difference is recognised as income in profit or loss.

Hence the following entries would be completed in order to apply the criteria of AASB 1058 in relation this Project:

1. When receiving funding from DLGSC (Initial or subsequent progress payments)

Dr Cash
 Cr Liability (Other) - transfers received to acquire or construct non-financial assets

2. Upon performance obligations being met; project expenditure and associated revenue recognition

Dr Capital Expenditure – EF Oval Redevelopment Project (WIP)
 Cr Cash

Dr Liability (Other) - transfers received to acquire or construct non-financial assets
 Cr Capital grants, subsidies and contributions

CONCLUSION

Working through the application of AASB 15 and AASB 1058, and the specifics of the Agreement for the Project, management are satisfied that recognition of the funding provided is to be accounted for in accordance with AASB 1058 Income of Not-for-Profit Entities, as it is a transfer received to acquire or construct a non-financial asset.

The performance obligations of the agreement are met over time as the project is constructed and relevant entries will be made in accordance with an accrual basis of accounting as goods/materials are received (controlled) and services rendered by the Town each period ending.

Management have determined that the financial assistance grant funds (with the exception of milestone 5 - Practical Completion \$500k) will be expended prior to any other funds being needed (ie. Loan borrowings etc), and the first \$24.5m of Project expenditure relates to meeting the performance obligations of the Agreement.

| A Serial | B Milestone | C Instalment Amount |
|-------------|--|------------------------|
| 1 | Execution of this agreement | \$2,500,000 |
| 2 | Awarding of a construction contract | \$8,000,000 |
| 3 | Evidence of commencement of physical works | \$5,000,000 |
| 4 | Evidence of 50% completion | \$9,000,000 |
| 5 | Evidence of practical completion | \$500,000 |

A procedure for the recognition of funds received, reconciliation of the Project expenditure (meeting of performance obligations) and recognition of the revenue at each period end and the subsequent



reconciliation of any liability or asset is provided as an attachment to this paper.

Prepared By:

Kelli Small

ToEF Consultant

Peter Kocian 
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Reviewed By:

Peter Kocian

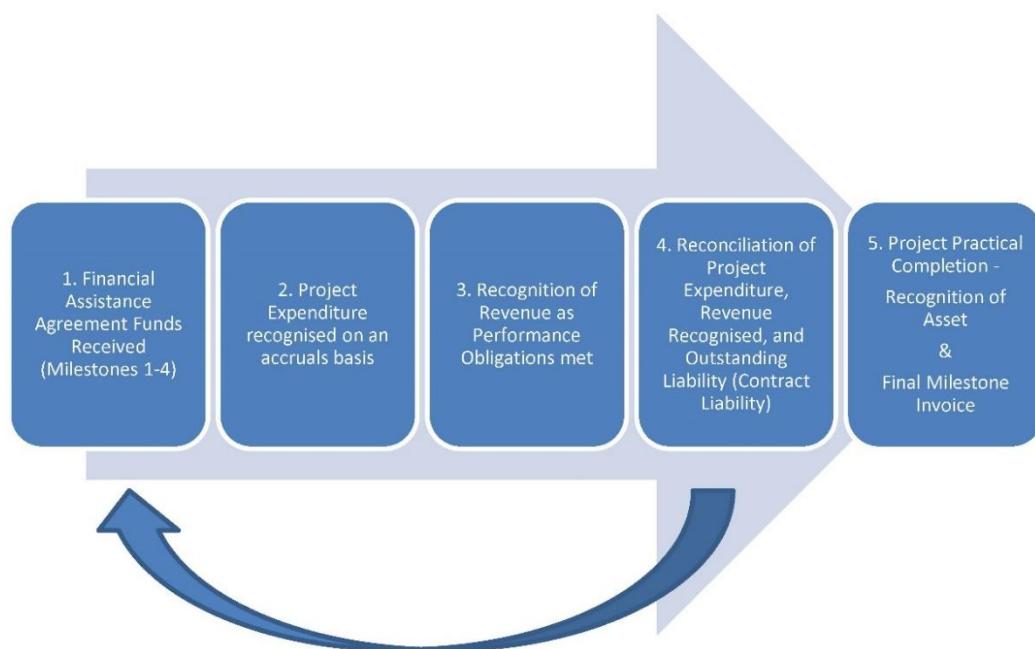
Exec Manager Corporate Services



PROCEDURE – FINANCIAL ASSISTANCE AGREEMENT (EF OVAL) AND RECOGNITION OF REVENUE AND EXPENDITURE

The following procedure outlines the recognition entries required for the capital grant funding received from DLGSC for the East Fremantle Oval Project. For information on the application of accounting standards, please refer to Position Paper 21-22 – Revenue Recognition – East Fremantle Oval Redevelopment Project.

The following diagram provides a pictorial of the steps required:



Step 1. Financial Assistance Agreement Funds Received (Milestones 1-4)

This step will recognise the funds as a liability on the balance sheet in accordance with AASB 1058. Invoices are to be raised in accordance with the Milestones contained within the Agreement.

| A Serial | B Milestone | C Instalment Amount |
|-------------|--|------------------------|
| 1 | Execution of this agreement | \$2,500,000 |
| 2 | Awarding of a construction contract | \$8,000,000 |
| 3 | Evidence of commencement of physical works | \$5,000,000 |
| 4 | Evidence of 50% completion | \$9,000,000 |
| 5 | Evidence of practical completion | \$500,000 |



Step 1.1: Invoice to be raised (Project Manager)

Debtor Invoice Request to be provided to finance for processing in Synergy

Debtor: 300721 Department of Local Government Sport and Cultural Industries

Charge Code: 0096

Qty: 1

Price: Instalment amount plus GST (ie. Instalment 2 = \$8,800,000)

GST Indicator: C

Account: 10020890 - Current Liabilities - Contract Liabilities - East Fremantle Oval

Redevelopment Grant (DLGSC)

Description: Milestone # - Milestone Description (ie. Milestone 2 – Awarding of Construction Contract)

Step 1.2: Process invoice request (Finance Dept.)

Process invoice request in line with Debtor invoicing process within Synergysoft finance system.

Provide PDF invoice to Project Manager.

Step 1.3: Submit invoice to DLGSC (Project Manager)

Project Manager to provide invoice to DLGSC for payment.



2. Project Expenditure recognised on an accruals basis

This step recognises the works/services completed for the period, accounting for it in the project expenditure.

At the end of each reporting period (month), expenditure for the Project is to be recognised on an accruals basis.

Step 2.1: Receive information of project costs completed for period from Project Manager

Where the Project Builder is able to provide a report showing work/services completed for the month within 7 days of month end, utilise these figures for the journal, otherwise the builders cashflow forecast will be relied upon to make the accrual entry.

| BUDGET REPORT Cashflow | | | | | | | | | | | | | | | |
|--|------------------------|-------------------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Report: Monthly Report - July 2022 Date: 29 July 2022 | | | | | | | | | | | | | | | |
| BUDGET ELEMENT | Comments | Oct 21 | Nov 21 | Dec 21 | Jan 22 | Feb 22 | Mar 22 | Apr 22 | May 22 | Jun 22 | Jul 22 | Aug 22 | Sep 22 | Oct 22 | |
| Professional Fees | | | | | | | | | | | | | | | |
| Architect | Caroline | Planned \$ 11,232 | \$ 11,232 | \$ 11,232 | \$ 11,232 | \$ 11,232 | \$ 11,232 | \$ 11,072 | \$ 11,072 | \$ 9,045 | \$ 141,585 | \$ 89,441 | \$ 65,384 | \$ 65,384 | |
| Project Manager | Donald Cant Watts Coke | Planned \$ 11,232 | \$ 11,232 | \$ 11,232 | \$ 11,232 | \$ 11,232 | \$ 11,232 | \$ 11,072 | \$ 11,072 | \$ 9,045 | \$ 141,585 | \$ 89,441 | \$ 65,384 | \$ 65,384 | |
| Client Representative | Pastach Associates | Planned \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | \$ 7,692 | |
| Quantity Surveyor | Donald Cant Watts Coke | Planned \$ 6,000 | \$ 6,000 | \$ 6,000 | \$ 6,000 | \$ 6,000 | \$ 6,000 | \$ 23,768 | \$ 23,768 | \$ 16,000 | \$ 6,000 | \$ 6,000 | \$ 28,423 | \$ 28,423 | |
| Mechanical Engineer | Norman Disney & Young | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 18,349 | \$ 18,349 | \$ 18,119 | \$ 8,665 | \$ 6,742 | \$ 6,742 | \$ 6,742 | |
| Electrical Engineer | Norman Disney & Young | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 20,928 | \$ 20,928 | \$ 4,220 | \$ 10,248 | \$ 10,248 | \$ 10,244 | \$ 10,244 | |
| Hydraulic Engineer | Norman Disney & Young | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,616 | \$ 12,616 | \$ 2,328 | \$ 7,262 | \$ 7,262 | \$ 7,262 | \$ 7,262 | |
| Civil Engineer | Form | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,000 | \$ 4,000 | \$ 2,500 | \$ 5,075 | \$ 4,000 | \$ 6,000 | \$ 6,000 | |
| Structural Engineer | Form | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,600 | \$ 2,600 | \$ 18,000 | \$ 10,000 | \$ 10,000 | \$ 21,260 | \$ 21,260 | |
| Sports Surfaces | SportEng | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 27,710 | \$ 27,710 | \$ 3,560 | \$ 3,330 | \$ 2,238 | \$ 2,238 | \$ 1,590 | |
| Alt Coordinator | Ibc | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 19,692 | \$ 19,692 | \$ 2,178 | \$ 18,290 | \$ 6,120 | \$ - | \$ - | |
| FF&E Advisor | AIM | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,406 | \$ 2,406 | |
| Hospitality | Executive Compass | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Legal | Jackson McDonald | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Geotech Engineer | Douglas Partners | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 8,200 | \$ - | \$ - | \$ - | |
| Total Professional Fees | | Planned \$ 16,824 | \$ 16,824 | \$ 16,824 | \$ 16,824 | \$ 16,824 | \$ 172,298 | \$ 125,795 | \$ 148,254 | \$ 210,568 | \$ 168,196 | \$ 242,357 | \$ 259,487 | \$ 169,626 | |
| FF&E | | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,000 | \$ 9,860 | \$ 12,125 | \$ 20,433 | |
| FF&E | Ibc | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Total FF&E | | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Construction | | | | | | | | | | | | | | | |
| Forward Works | Ibc | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Construction | Ibc | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 264,783 | |
| Total Construction | | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 264,783 | |
| Headworks and Statuary | | | | | | | | | | | | | | | |
| Headworks and Statuary | Ibc | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Total Headworks and Statuary | | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Art | | | | | | | | | | | | | | | |
| Artist | Ibc | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Total Art | | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Contingencies | | | | | | | | | | | | | | | |
| Design Contingency | n/a | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 189,038 | \$ 189,038 | \$ 99,038 | \$ 189,038 | |
| Fee Contingency | n/a | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,630 | \$ 2,630 | \$ 2,630 | \$ 2,630 | |
| Construction Contingency | n/a | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 86,338 | |
| Total Contingencies | | Planned \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 278,306 | |
| TOTAL (ex. GST) | | Planned \$ 16,824 | \$ 16,824 | \$ 16,824 | \$ 16,824 | \$ 16,824 | \$ 172,298 | \$ 125,795 | \$ 148,254 | \$ 210,568 | \$ 168,196 | \$ 242,357 | \$ 259,487 | \$ 169,626 | |
| Total (inc. GST) | | Planned \$ 19,206 | \$ 19,206 | \$ 19,206 | \$ 19,206 | \$ 19,206 | \$ 20,577 | \$ 20,577 | \$ 181,469 | \$ 190,863 | \$ 141,195 | \$ 174,805 | \$ 186,280 | \$ 190,863 | |
| TOTAL (inc. GST) | | Planned \$ 20,017 | \$ 20,017 | \$ 20,017 | \$ 20,017 | \$ 20,017 | \$ 20,577 | \$ 20,577 | \$ 182,037 | \$ 182,037 | \$ 231,024 | \$ 179,002 | \$ 477,365 | \$ 495,491 | \$ 305,104 |
| TOTAL CUMULATIVE (ex. GST) | | Planned \$ 17,385 | \$ 17,385 | \$ 17,385 | \$ 17,385 | \$ 17,385 | \$ 172,298 | \$ 172,298 | \$ 190,863 | \$ 190,863 | \$ 190,863 | \$ 190,863 | \$ 190,863 | \$ 190,863 | |
| Total Cumulative (inc. GST) | | Planned \$ 18,732 | \$ 18,732 | \$ 18,732 | \$ 18,732 | \$ 18,732 | \$ 182,037 | \$ 182,037 | \$ 187,362 | \$ 187,362 | \$ 265,380 | \$ 267,488 | \$ 448,883 | \$ 788,894 | \$ 788,894 |
| Total Cumulative (inc. GST) | | Planned \$ 20,817 | \$ 20,817 | \$ 20,817 | \$ 20,817 | \$ 20,817 | \$ 214,409 | \$ 214,409 | \$ 204,972 | \$ 207,939 | \$ 207,939 | \$ 207,939 | \$ 207,939 | \$ 207,939 | |
| Total Cumulative (inc. GST) | | Actual \$ 12,365 | \$ 24,710 | \$ 37,066 | \$ 49,421 | \$ 153,917 | \$ 207,939 | \$ 208,237 | \$ 493,681 | \$ 654,544 | \$ 654,544 | \$ 654,543 | \$ 654,543 | \$ 654,543 | |

Step 2.2: Prepare Journal workings/General Journal Template

Complete the excel journal template and attached workings for review by Finance Manager or Exec Manager Corporate Services.

Journal entry is to be:

Dr Project expense Code (as this is a Job, a Cost Centre and Element Type is required:

Job – E11738

Cost Centre - 5001

Element Type – 4001

Cr Current Liability – Accrued Expense Account (10001200)

Step 2.3: Complete approved journal in Synergy

Process the approved journal into synergy per the Town's journal processing procedure.

Save journal Batch Transaction Listing and GL Impact with workpapers into Journal Register folder:

Y:\Corporate and Community\FINANCE\JOURNAL REGISTER\22-23

Step 2.4: Complete Reversing Journal for Accrued Expense

The subsequent reversing journal of the accrual is to be completed on the 1st day of the following period – repeat steps 2.2-2.3 with the amended entry:

Dr Current Liability – Accrued Expense Account (10001200)

Cr Project expense Code (E11738.5001.4001)



3. Recognition of Revenue as Performance Obligations met

This step will recognise the grant funds as revenue in the profit and loss as performance obligations are met.

As part of month end procedures, a reconciliation of all contract liability accounts is completed, reviewing the expenditure to date and posting any required revenue recognition journal.

| COA Description | IS Inc/Exp Analysis | Original Budget | Current Budget | YTD Budget, Opening Balance | YTD Actual | Total Actual |
|--|-----------------------------------|------------------|------------------|-----------------------------|---|-----------------------|
| 000110 Cash and Cash Equivalents - Restricted - Unspent Grants Investments | 00 Is Code 00 | \$0.00 | \$0.00 | \$1,809,648.21 | \$6,000,000.00 | \$7,809,648.21 |
| 000201 Current Assets - Cash and Cash Equivalents - Restricted - Unspent Grants | 00 Is Code 00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| | TOTAL CASH | \$0.00 | \$0.00 | \$1,809,648.21 | \$6,000,000.00 | \$7,809,648.21 |
| 000081 Current Liabilities - Riverbank Funding Grant (John Tonkin Foreshore Stabilisation) | 00 Is Code 00 | \$0.00 | \$0.00 | \$0.00 | -\$75,000.00 | \$0.00 |
| 000202 Current Liabilities - Better Bins Kerbside Collection Program (Operating Grant) | 00 Is Code 00 | \$0.00 | \$0.00 | \$0.00 | -\$7,656.31 | \$0.00 |
| 002008 Current Liabilities - Contract Liabilities - Urban Canopy Grant Program | 00 Is Code 00 | \$0.00 | \$0.00 | \$0.00 | -\$24,822.88 | \$0.00 |
| 002008 Current Liabilities - Contract Liabilities - UCP | 00 Is Code 00 | \$0.00 | \$0.00 | \$0.00 | -\$35,209.43 | \$0.00 |
| 002009 Current Liabilities - Contract Liabilities - East Fremantle Oval Redevelopment Grant (DLGSC) | 00 Is Code 00 | \$0.00 | \$0.00 | \$0.00 | -\$126,000.00 | \$115,781.03 |
| 002009 Current Liabilities - Contract Liabilities - Nature Playground Grant (DLGSC) | 00 Is Code 00 | \$0.00 | \$0.00 | \$0.00 | -\$8,000.00 | \$0.00 |
| 002009 Current Liabilities - Contract Liabilities - CHMAP | 00 Is Code 00 | \$0.00 | \$0.00 | \$0.00 | -\$52,000.00 | \$0.00 |
| | TOTAL CONTRACT LIABILITIES | \$0.00 | \$0.00 | \$0.00 | \$1,809,648.21 | \$8,126,722.00 |
| 11160 Non-Operating Grants, Subsidies and Contributions - Other Recreation & Sport - State - EF Oval Redevelopment | 141 Grants & Subsidies - Capital | -\$13,000,000.00 | -\$13,000,000.00 | -\$2,000,000.00 | \$0.00 | \$0.00 |
| E11738 Buildings - East Fremantle Oval Precinct Redevelopment | | \$13,000,000.00 | \$13,000,000.00 | \$2,000,000.00 | \$0.00 | \$298,605.46 |
| | | | | | Amount to be transferred from Contract Liability to Income Account | \$298,605.46 |
| | | | | | | |

The journal to recognise grant revenue from the contract liability account is:

Dr Contract Liability (2089)

Cr Non-Operating Grants, subsidies and Contributions (111160.141)

As this is not an in-depth reconciliation for each project, Step 4 is recommended each month to confirm what has been journalled here is also correct.

4. Reconciliation of Project Expenditure, Revenue Recognised, and Outstanding Liability (Contract Liability)

The Project Statement of Income and Expenditure is required to be audited and submitted to DLGSC with the Annual Report at the end of each financial year. Keeping this up to date regularly will assist with ensuring Steps 1,2 & 3 have been completed correctly and reconciles appropriately as well as assisting in a quick turnaround at year end.

Step 4.1: Prepare Reconciliations and complete Project Income and Expenditure Statement

The Project Reconciliation and Income and Expenditure statement can be found here:

[<Redevelopment\2022-23\DLGSC East Fremantle Oval Redevelopment Reconciliation at 30 June 2023.xlsx>](Y:\Corporate and Community\Grants and Subsidies\DLGSC - East Fremantle Oval</p>
</div>
<div data-bbox=)

To reconcile at the end of each month, bring in the transactions for income (111160), expenditure (E11738), Debtor (300721), Contract Liability Account (2089) into the appropriate tabs.




**TOWN of
EAST FREMANTLE**

STATEMENT OF INCOME AND EXPENDITURE

EAST FREMANTLE OVAL PRECINCT REDEVELOPMENT
BETWEEN

STATE OF WESTERN AUSTRALIA - DEPARTMENT OF LOCAL GOVERNMENT, SPORT AND CULTURAL INDUSTRIES
AND
TOWN OF EAST FREMANTLE

FOR YEAR ENDED 30 JUNE 2022 (as at Month End 30/09/2022)

| | Total Budget | Actual | | | Notes |
|---|-------------------|------------------|----------|------------------|-------|
| | | 21/22 | 22/23 | TOTAL | |
| Income | | | | | |
| Grant Income (ex GST) - Cash Received | | | | | |
| DLGSC - Financial Assistance Grant | 25,000,000 | 2,500,000 | | 2,500,000 | |
| Town of East Fremantle - Loan Borrowings | 4,800,000 | - | | - | |
| Town of East Fremantle - Sale proceeds George St Property | 1,000,000 | | | | |
| Town of East Fremantle - Reserve Funds | 1,450,000 | - | | - | |
| AFL Facilities Fund (WAFFF) | 250,000 | - | | - | |
| Other | - | - | | - | |
| Total Income | 32,500,000 | 2,500,000 | - | 2,500,000 | |
| Expenditure | | | | | |
| Construction | - | 24,987,000 | - | - | |

Inc-Exp Statement 2022-23>> Income 22-23>> 2089 Contract Liab. 22-23 11160 22-23 Debtor 22-23 Exp 22-23>> E11798 22-23 2021- ... + :



Review transactions and ensure that each ledger reconciles and is pulling through to the project income and expenditure statement (Inc-Exp Statement) correctly.

Ensure that Unspent Grant Balance equals the amount in contract liabilities GL account 2089

| STATEMENT OF INCOME AND EXPENDITURE | | | |
|---|-------------------|-------------------|---------------------|
| EAST FREMANTLE OVAL PRECINCT REDEVELOPMENT BETWEEN | | | |
| STATE OF WESTERN AUSTRALIA - DEPARTMENT OF LOCAL GOVERNMENT, SPORT AND CULTURAL INDUSTRIES AND TOWN OF EAST FREMANTLE | | | |
| FOR YEAR ENDED 30 JUNE 2022 (as at Month End 30/09/2022) | | | |
| | Total Budget | Actual 21/22 | Actual 22/23 |
| Income | | | |
| Grant Income (ex GST) - Cash Received | | | |
| DLGSC - Financial Assistance Grant | 25,000,000 | 2,500,000 | 2,500,000 |
| Town of East Fremantle - Loan Borrowings | 4,800,000 | - | - |
| Town of East Fremantle - Sale proceeds George St Property | 1,000,000 | - | - |
| Town of East Fremantle - Reserve Funds | 1,450,000 | - | - |
| AFL Facilities Fund (WAFF) | 250,000 | - | - |
| Other | - | - | - |
| Total Income | 32,500,000 | 2,500,000 | 2,500,000 |
| Expenditure | | | |
| Construction | - | 24,987,000 | - |
| Headworks | - | - | - |
| Design Contingency | - | 2,498,700 | - |
| Construction Contingency | - | 1,374,300 | - |
| Professional Fees | - | 2,900,000 | 928,771 |
| FF&E | - | 500,000 | - |
| Public Art | - | 240,000 | - |
| Escalation | - | - | - |
| Total Expenditure | - | 32,500,000 | 928,771 |
| Net Income / Expenditure | - | 1,571,229 | 1,571,229 |
| Unspent Grant Balance to Contract Liabilities | | | 1,571,229.24 |

Step 4.2: Process any adjusting journals required by step 4.1

If there are any adjustments that need to be made, process the adjusting journals required to ensure the income, expenditure and outstanding contract liability reconcile to the project reconciliation.

Update the Project Reconciliation and Income and Expenditure statement workbook after these have been processed to show all of the transactions and correct balances.



5. Project Practical Completion - Recognition of Asset & Final Milestone Invoice

This step is completed upon practical completion of the project. The final milestone invoice is due upon practical completion (\$500,000 PLUS gst). It will invoice and recognise the final performance obligation being met and recognise the associated grant revenue in the P&L as include recognising the asset in the Fixed Asset Register.

Step 5.1: Invoice to be raised (Project Manager)

Debtor Invoice Request to be provided to finance for processing in Synergy

Debtor: 300721 Department of Local Government Sport and Cultural Industries

Charge Code: 0096

Qty: 1

Price: Instalment amount plus GST (ie. Instalment 5 = \$550,000)

GST Indicator: C

Account: 1I111600.141 - Non-Operating Grants, Subsidies and Contributions - Other

Recreation & Sport - State - EF Oval Redevelopment (Note as the performance

obligation has been met, invoice directly to income account NOT the contract liability account)

Description: Milestone # - Milestone Description (ie. Milestone 5 – Practical Completion of Project)

Step 5.2: Process invoice request (Finance Dept.)

Process invoice request in line with Debtor invoicing process within Synergysoft finance system.

Provide PDF invoice to Project Manager.

Step 5.3: Submit invoice to DLGSC (Project Manager)

Project Manager to provide invoice to DLGSC for payment.

Step 5.4: Add completed capital works to Fixed Asset Register

Refer to the Towns Fixed Asset Additions procedure to process the addition of the EF Oval Project to the Fixed Asset Register.



10.2 DRAFT ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

| | |
|--------------------------------|--|
| Report Reference Number | ACR-346 |
| Prepared by | Peter Kocian, Executive Manager Corporate Services |
| Supervised by | Gary Tiffin, Chief Executive Officer |
| Meeting date | Wednesday, 2 November 2022 |
| Voting requirements | Simple Majority |
| Documents tabled | The Annual Financial Report for the Year Ended 30 June 2022 (as submitted to the Auditors) will be tabled at the meeting |
| Attachments | Nil. |

PURPOSE

The purpose of this report is for the Audit Committee to receive the Annual Financial Report for the year ended 30 June 2022. The Auditor's Report was not received in time for this Committee Meeting and is expected to be issued on the 25 November 2022. The Annual Financial Report is however the final version that was subject to Audit, and therefore material adjustments are unlikely.

EXECUTIVE SUMMARY

Section 6.4 of the *Local Government Act 1995* requires local governments to prepare an annual financial report for the preceding financial year. The financial report is to be prepared and presented in the manner and form prescribed in the *Local Government (Financial Management) Regulations 1996*. Local Governments are required to submit the annual financial report to its auditor by the 30 September.

BACKGROUND

The following audit timetable has been extrapolated from the Audit Planning Summary that was issued by the Office of the Auditor General on 27 June 2022. At the time of preparing this report, audit field work is nearing completion with expected completion on 28 October 2022. The audit process is expected to be finalised in the month of November with the Audit Opinion issued by the 25 November.

Part 7 of the *Local Government Act 1995* deals with matters specific to the conduct of local government audit. Section 7.12A requires that a local government do the following amongst other things:

- Examine the audit report;
- Determine if any matters raised by the audit report, require action to be taken;
- Ensure that appropriate action is taken in respect of those matters;
- Prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters;
- Provide a copy of that report to the Minister within 3 months after the audit report is received by the local government; and
- Within 14 days after a local government gives a report to the Minister, the CEO must publish a copy of the report on the local government's official website.

The Auditors Report will be considered at the first Committee Meeting in 2023, at which time representatives from the Office of Auditor General will be in attendance.

9. Proposed audit schedule

| | Date |
|--|--|
| Audit planning | June 2022 |
| Interim audit | 27 June to 1 July 2022 |
| Interim management letter | By 22 July 2022 |
| Information systems audit | August 2022 |
| Final trial balance | By 30 September 2022 |
| Receipt of annual financial report | By 30 September 2022 |
| Receipt of information for the following certifications Roads to Recovery | By 7 October 2022 |
| • Roads to Recovery • Local Roads and Community Infrastructure Program • Better Bin Plus Certification | |
| Final audit | 3 October to 28 October 2022 |
| Audit opinions issued for the following certifications: | |
| • Roads to Recovery • Local Roads and Community Infrastructure Program • Better Bin Plus Certification | By 31 October 2022 |
| Receipt of clearance on South Metropolitan Regional Council (SMRC) balances | By 31 October 2022* |
| Exit meeting (week ending) | 18 November 2022* |
| Receipt of signed financial statements and management representation letter | 18 November 2022* |
| Audit opinion issued | By 25 November 2022* (within 5 working days of the receipt of signed financial statements and management representation letter) |

*The proposed date is dependent on the SMRC audit progress

CONSULTATION

Office of the Auditor General

STATUTORY ENVIRONMENT

Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* applies to audit in local government.

After the annual financial report has been audited, the CEO is to sign and append to the report a declaration. A copy of the annual financial report is then to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report.

POLICY IMPLICATIONS

The Department of Local Government has published Operational Guideline No. 9 Audit in Local Government that covers the appointment, functions and responsibilities of Audit Committees.

FINANCIAL IMPLICATIONS

The Town accrued expenditure of \$48,000 (Ex GST) in audit fees for 2020/21, being the indicative audit fee previously advised. The 2018/19 Audit Fee, being the first year of audit under OAG, was \$40,184.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

RISK IMPLICATIONS

Risks

| Risk | Risk Likelihood (based on history & with existing controls) | Risk Impact / Consequence | Risk Rating (Prior to Treatment or Control) | Principal Risk Theme | Risk Action Plan (Controls or Treatment proposed) |
|---|---|------------------------------|--|-----------------------|--|
| That the Town receives a qualified audit report | Possible (3) | Moderate (3) | Moderate (5-9) | Reputation/Compliance | Control through robust internal controls and staff development |

Risk Matrix

| Consequence | | Insignificant | Minor | Moderate | Major | Extreme |
|-------------|----------------|---------------|--------------|--------------|--------------|--------------|
| | | 1 | 2 | 3 | 4 | 5 |
| Likelihood | Almost Certain | Moderate (5) | High (10) | High (15) | Extreme (20) | Extreme (25) |
| | Likely | Low (4) | Moderate (8) | High (12) | High (16) | Extreme (20) |
| Possible | 3 | Low (3) | Moderate (6) | Moderate (9) | High (12) | High (15) |
| Unlikely | 2 | Low (2) | Low (4) | Moderate (6) | Moderate (8) | High (10) |
| Rare | 1 | Low (1) | Low (2) | Low (3) | Low (4) | Moderate (5) |

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

| | |
|---|-----|
| Risk Rating | 9 |
| Does this item need to be added to the Town's Risk Register | Yes |
| Is a Risk Treatment Plan Required | No |

SITE INSPECTION

Not Applicable.

COMMENT

The Annual Financial Report of the Town of East Fremantle for the financial year ended 30 June 2022 is based on proper accounts and records to fairly present the financial position of the Town of East Fremantle at 30 June 2022 and the results of the operations for the financial year then ended in accordance with the Local Government Act 1995 and, to the extent they are not inconsistent with the Act, the Australian Accounting Standards.

CONCLUSION

The Audit Committee is requested to receive the tabled Annual Financial Report for the year ended 30 June 2022. Representatives from the Office of the Auditor General will be invited to meet with the Audit Committee in the new year, and there will be an opportunity to discuss the contents of the Annual Financial Report and Auditors Report.

10.2 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 020211

OFFICER RECOMMENDATION

Moved Cr McPhail, seconded Mayor O'Neill

That the Audit Committee recommend Council:

- 1. Receive the Annual Financial Report for the Year Ended 30 June 2022, inclusive of the Independent Auditor's Report which should be available by the December Council Meeting.**
- 2. Request that the Chief Executive Officer submit a copy of the Annual Financial Report, inclusive of the Independent Audit Report, to the Department Chief Executive Officer within 30 days of receipt of the Auditor's Report.**

(CARRIED UNANIMOUSLY)

REPORT ATTACHMENTS

Attachments start on the next page

TOWN OF EAST FREMANTLE
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

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The Town of East Fremantle conducts the operations of a local government with the following community vision:

Inclusive community, balancing growth and lifestyle.

Principal place of business:
135 Canning Highway
East Fremantle 6158

**TOWN OF EAST FREMANTLE
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022**

*Local Government Act 1995
Local Government (Financial Management) Regulations 1996*

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Town of East Fremantle for the financial year ended 30 June 2022 is based on proper accounts and records to present fairly the financial position of the Town of East Fremantle at 30 June 2022 and the results of the operations for the financial year then ended in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Signed on the _____ day of _____ 2022

Chief Executive Officer

Mr. Gary Tuffin
Name of Chief Executive Officer

TOWN OF EAST FREMANTLE
STATEMENT OF COMPREHENSIVE INCOME
BY NATURE OR TYPE
FOR THE YEAR ENDED 30 JUNE 2022

| NOTE | 2022 Actual | 2022 Budget | 2021 Actual |
|--|----------------|------------------|---------------------|
| | \$ | \$ | \$ |
| Revenue | | | |
| Rates | 25(a),2(a) | 8,302,387 | 8,289,211 |
| Operating grants, subsidies and contributions | 2(a) | 1,082,054 | 984,759 |
| Fees and charges | 24(c),2(a) | 1,382,038 | 1,328,630 |
| Interest earnings | 2(a) | 72,311 | 105,000 |
| Other revenue | 2(a) | 215,971 | 165,689 |
| | | 11,054,761 | 10,873,289 |
| | | | 10,630,569 |
| Expenses | | | |
| Employee costs | | (4,436,672) | (4,429,855) |
| Materials and contracts | | (3,510,439) | (3,893,041) |
| Utility charges | | (255,191) | (287,750) |
| Depreciation | 9(a) | (2,071,668) | (2,571,177) |
| Finance costs | 2(b) | (14,220) | (22,500) |
| Insurance | | (197,780) | (215,216) |
| Other expenditure | 2(b) | (798,313) | (775,034) |
| | | (11,284,283) | (12,194,573) |
| | | | (11,539,152) |
| | | (229,522) | (1,321,284) |
| | | | (908,583) |
| Capital grants, subsidies and contributions | 2 | 1,156,549 | 10,317,662 |
| Profit on asset disposals | 9(b) | 32,651 | 148,940 |
| Loss on asset disposals | 9(b) | (4,738) | 0 |
| Fair value adjustments to financial assets at fair value through profit or loss | 4 | 3,997 | 0 |
| Share of net profit of associate accounted for using the equity method | 20 | (47,410) | 0 |
| | | 1,141,049 | 10,466,602 |
| | | | 428,361 |
| Net result for the period | 24(b) | 911,527 | 9,145,318 |
| | | | (480,222) |
| Other comprehensive income for the period | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Changes in asset revaluation surplus | 15 | 1,285,323 | 0 |
| Share of comprehensive income of associates and joint ventures accounted for using the equity method | | 0 | 0 |
| | | | 10,468 |
| Total other comprehensive income for the period | 15 | 1,285,323 | 0 |
| | | | (9,691,934) |
| Total comprehensive income for the period | | 2,196,850 | 9,145,318 |
| | | | (10,172,156) |

This statement is to be read in conjunction with the accompanying notes.

TOWN OF EAST FREMANTLE
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

| | NOTE | 2022 | 2021 |
|--------------------------------------|-------------|-------------------|-------------------|
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 3 | 7,067,665 | 3,711,886 |
| Trade and other receivables | 5 | 252,401 | 294,462 |
| Other assets | 6 | 52,099 | 61,327 |
| Assets classified as held for sale | 6 | 1,442,619 | 0 |
| TOTAL CURRENT ASSETS | | 8,814,784 | 4,067,675 |
| NON-CURRENT ASSETS | | | |
| Trade and other receivables | 5 | 95,847 | 64,586 |
| Other financial assets | 4 | 77,804 | 73,807 |
| Investment in associate | 20(a) | 1,382,443 | 1,429,853 |
| Property, plant and equipment | 7 | 31,855,046 | 32,347,125 |
| Infrastructure | 8 | 38,970,743 | 38,921,827 |
| Right-of-use assets | 10(a) | 238,311 | 276,841 |
| TOTAL NON-CURRENT ASSETS | | 72,620,194 | 73,114,039 |
| TOTAL ASSETS | | 81,434,978 | 77,181,714 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 1,854,813 | 1,192,841 |
| Other liabilities | 12 | 1,801,616 | 328,153 |
| Lease liabilities | 10(b) | 38,617 | 37,499 |
| Borrowings | 13 | 98,204 | 104,343 |
| Employee related provisions | 14 | 718,704 | 667,795 |
| TOTAL CURRENT LIABILITIES | | 4,511,954 | 2,330,631 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | 10(b) | 216,187 | 253,765 |
| Borrowings | 13 | 99,537 | 174,953 |
| Employee related provisions | 14 | 83,117 | 95,032 |
| TOTAL NON-CURRENT LIABILITIES | | 398,841 | 523,750 |
| TOTAL LIABILITIES | | 4,910,795 | 2,854,381 |
| NET ASSETS | | 76,524,183 | 74,327,333 |
| EQUITY | | | |
| Retained surplus | | 33,211,629 | 33,798,518 |
| Reserve accounts | 28 | 2,484,209 | 985,793 |
| Revaluation surplus | 15 | 40,828,345 | 39,543,022 |
| TOTAL EQUITY | | 76,524,183 | 74,327,333 |

This statement is to be read in conjunction with the accompanying notes.

TOWN OF EAST FREMANTLE
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2022

| | NOTE | RETAINED SURPLUS | RESERVE ACCOUNTS | REVALUATION SURPLUS | TOTAL EQUITY |
|---|------|-------------------|------------------|---------------------|-------------------|
| | | \$ | \$ | \$ | \$ |
| Balance as at 1 July 2020 | | 34,273,282 | 991,251 | 49,234,956 | 84,499,489 |
| Comprehensive income for the period | | | | | |
| Net result for the period | | (480,222) | 0 | 0 | (480,222) |
| Other comprehensive income for the period | 15 | 0 | 0 | (9,691,934) | (9,691,934) |
| Total comprehensive income for the period | | (480,222) | 0 | (9,691,934) | (10,172,156) |
| Transfers from reserves | 28 | 746,331 | (746,331) | 0 | 0 |
| Transfers to reserves | 28 | (740,873) | 740,873 | 0 | 0 |
| Balance as at 30 June 2021 | | 33,798,518 | 985,793 | 39,543,022 | 74,327,333 |
| Comprehensive income for the period | | | | | |
| Net result for the period | | 911,527 | 0 | 0 | 911,527 |
| Other comprehensive income for the period | 15 | 0 | 0 | 1,285,323 | 1,285,323 |
| Total comprehensive income for the period | | 911,527 | 0 | 1,285,323 | 2,196,850 |
| Transfers from reserves | 28 | 43,720 | (43,720) | 0 | 0 |
| Transfers to reserves | 28 | (1,542,136) | 1,542,136 | 0 | 0 |
| Balance as at 30 June 2022 | | 33,211,629 | 2,484,209 | 40,828,345 | 76,524,183 |

This statement is to be read in conjunction with the accompanying notes.

**TOWN OF EAST FREMANTLE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2022**

| | NOTE | 2022 Actual | 2022 Budget | 2021 Actual |
|--|-------|----------------|----------------|----------------|
| | | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts | | | | |
| Rates | | 8,360,130 | 8,289,211 | 8,156,430 |
| Operating grants, subsidies and contributions | | 1,085,066 | 962,573 | 1,236,629 |
| Fees and charges | | 1,729,304 | 1,328,630 | 1,509,586 |
| Interest received | | 72,311 | 105,000 | 49,044 |
| Goods and services tax received | | 504,668 | 223,354 | 812,511 |
| Other revenue | | 237,520 | 165,689 | 89,688 |
| | | 11,988,999 | 11,074,457 | 11,853,888 |
| Payments | | | | |
| Employee costs | | (4,402,142) | (4,429,855) | (4,106,243) |
| Materials and contracts | | (3,391,069) | (3,893,041) | (5,308,750) |
| Utility charges | | (255,191) | (287,750) | (318,407) |
| Finance costs | | (14,220) | (22,500) | (19,150) |
| Insurance paid | | (197,780) | (215,216) | (187,201) |
| Goods and services tax paid | | (342,582) | (223,354) | (138,290) |
| Other expenditure | | (770,984) | (775,034) | (692,904) |
| | | (9,373,968) | (9,846,750) | (10,770,945) |
| Net cash provided by (used in) operating activities | 16(b) | 2,615,031 | 1,227,707 | 1,082,943 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Payments for purchase of property, plant & equipment | 7(a) | (1,154,983) | (15,730,400) | (338,794) |
| Payments for construction of infrastructure | 8(a) | (657,402) | (765,064) | (677,628) |
| Non-operating grants, subsidies and contributions | | 2,627,000 | 10,317,662 | 439,760 |
| Proceeds from sale of property, plant & equipment | 9(b) | 66,788 | 240,660 | 18,855 |
| Net cash provided by (used in) investing activities | | 881,403 | (5,937,142) | (557,807) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Repayment of borrowings | 27(a) | (103,104) | (95,160) | (100,821) |
| Payments for principal portion of lease liabilities | 27(d) | (37,551) | (45,000) | (29,367) |
| Proceeds from new borrowings | 27(a) | 0 | 5,000,000 | 0 |
| Net cash provided by (used in) financing activities | | (140,655) | 4,859,840 | (130,188) |
| Net increase (decrease) in cash held | | 3,355,779 | 150,405 | 394,948 |
| Cash at beginning of year | | 3,711,886 | 3,818,502 | 3,316,938 |
| Cash and cash equivalents at the end of the year | 16(a) | 7,067,665 | 3,968,907 | 3,711,886 |

This statement is to be read in conjunction with the accompanying notes.

TOWN OF EAST FREMANTLE
RATE SETTING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2022

| | NOTE | 2022 Actual | 2022 Budget | 2021 Actual |
|--|-------|----------------|----------------|----------------|
| | | \$ | \$ | \$ |
| NET CURRENT ASSETS - At start of financial year - surplus/(deficit) | 26(b) | 893,093 | 689,520 | 226,870 |
| OPERATING ACTIVITIES | | | | |
| Revenue from operating activities (excluding general rate) | | | | |
| Operating grants, subsidies and contributions | | 1,082,054 | 984,759 | 1,167,731 |
| Fees and charges | | 1,382,038 | 1,328,630 | 1,333,141 |
| Interest earnings | | 72,311 | 105,000 | 49,133 |
| Other revenue | | 215,971 | 165,689 | 92,210 |
| Profit on asset disposals | 9(b) | 32,651 | 148,940 | 1,430 |
| Fair value adjustments to financial assets at fair value through profit or loss | | 3,997 | 0 | 2,586 |
| Share of net profit of associates and joint ventures accounted for using the equity method | | (47,410) | 0 | 324,767 |
| | | 2,741,612 | 2,733,018 | 2,970,998 |
| Expenditure from operating activities | | | | |
| Employee costs | | (4,436,672) | (4,429,855) | (4,059,144) |
| Materials and contracts | | (3,510,439) | (3,893,041) | (3,748,551) |
| Utility charges | | (255,191) | (287,750) | (318,407) |
| Depreciation | | (2,071,668) | (2,571,177) | (2,513,795) |
| Finance costs | | (14,220) | (22,500) | (19,150) |
| Insurance | | (197,780) | (215,216) | (187,201) |
| Other expenditure | | (798,313) | (775,034) | (692,904) |
| Loss on asset disposals | 9(b) | (4,738) | 0 | (80,927) |
| Loss on revaluation of non-current assets | | 0 | 0 | 0 |
| Reversal of prior year loss on revaluation of assets | | 0 | 0 | 0 |
| | | (11,289,021) | (12,194,573) | (11,620,079) |
| Non-cash amounts excluded from operating activities | 26(a) | 2,092,869 | 2,422,237 | 2,268,742 |
| Amount attributable to operating activities | | (6,454,540) | (7,039,318) | (6,380,339) |
| INVESTING ACTIVITIES | | | | |
| Non-operating grants, subsidies and contributions | | 1,156,549 | 10,317,662 | 180,505 |
| Proceeds from disposal of assets | 9(b) | 66,788 | 240,660 | 18,855 |
| Purchase of property, plant and equipment | 7(a) | (1,154,983) | (15,730,400) | (338,794) |
| Purchase and construction of infrastructure | 8(a) | (657,402) | (765,064) | (677,628) |
| | | (589,048) | (5,937,142) | (817,062) |
| Amount attributable to investing activities | | (589,048) | (5,937,142) | (817,062) |
| FINANCING ACTIVITIES | | | | |
| Repayment of borrowings | 27(a) | (103,104) | (95,160) | (100,821) |
| Proceeds from borrowings | 27(a) | 0 | 5,000,000 | 0 |
| Payments for principal portion of lease liabilities | 27(d) | (37,551) | (45,000) | (29,367) |
| Transfers to restricted assets (unspent grants) | | 0 | 0 | (316,844) |
| Transfers to reserves (restricted assets) | 28 | (1,542,136) | (2,126,477) | (740,873) |
| Transfers from reserves (restricted assets) | 28 | 43,720 | 1,264,366 | 746,331 |
| Amount attributable to financing activities | | (1,639,071) | 3,997,729 | (441,574) |
| Surplus/(deficit) before imposition of general rates | | (7,789,566) | (8,289,211) | (7,412,105) |
| Total amount raised from general rates | 25(a) | 8,302,387 | 8,289,211 | 7,988,354 |
| Surplus/(deficit) after imposition of general rates | 26(b) | 512,821 | 0 | 576,249 |

This statement is to be read in conjunction with the accompanying notes.

**TOWN OF EAST FREMANTLE
FOR THE YEAR ENDED 30 JUNE 2022
INDEX OF NOTES TO THE FINANCIAL REPORT**

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**TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022**

1. BASIS OF PREPARATION

The financial report comprises general purpose financial statements which have been prepared in accordance with the Local Government Act 1995 and accompanying regulations.

Local Government Act 1995 requirements

Section 6.4(2) of the *Local Government Act 1995* read with the *Local Government (Financial Management) Regulations 1996* prescribe that the financial report be prepared in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards. The Australian Accounting Standards (as they apply to local governments and not-for-profit entities) and Interpretations of the Australian Accounting Standards Board were applied where no inconsistencies exist.

The *Local Government (Financial Management) Regulations 1996* specify that vested land is a right-of-use asset to be measured at cost, and is considered a zero cost concessionary lease. All right-of-use assets under zero cost concessionary leases are measured at zero cost rather than at fair value, except for vested improvements on concessionary land leases such as roads, buildings or other infrastructure which continue to be reported at fair value, as opposed to the vested land which is measured at zero cost. The measurement of vested improvements at fair value is a departure from AASB 16 which would have required the Town to measure any vested improvements at zero cost. Accounting policies which have been adopted in the preparation of this financial report have been consistently applied unless stated otherwise. Except for cash flow and rate setting information, the financial report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

The local government reporting entity

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

All monies held in the Trust Fund are excluded from the financial statements. A separate statement of those monies appears at Note 29 of the financial report.

Judgements and 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.

The balances, transactions and disclosures impacted by accounting estimates are as follows:

- estimated fair value of certain financial assets
- impairment of financial assets
- estimation of fair values of land and buildings, and infrastructure.
- estimation uncertainties made in relation to lease accounting

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

2. REVENUE AND EXPENSES

(a) Revenue

Contracts with customers

Recognition of revenue is dependant on the source of revenue and the associated terms and conditions associated with each source of revenue and recognised as follows:

| Revenue Category | Nature of goods and services | When obligations typically satisfied | Payment terms | Returns/ Refunds/ Warranties | Determination of transaction price | Allocating transaction price | Measuring obligations for returns | Timing of revenue recognition |
|---|---|--------------------------------------|--|---|---|---|--|--|
| Rates - general rates | General rates | Over time | Payment dates adopted by council during the year | None | Adopted by council annually | When taxable event occurs | Not applicable | When rates notice is issued |
| Grant contracts with customers | Community events, minor facilities, research, design, planning evaluation and services | Over time | Fixed terms transfer of funds based on agreed milestones and reporting | Contract obligation if project not complete | Set by mutual agreement with the customer | Based on the progress of works to performance obligations | Returns limited to repayment of transaction price of terms | Output method based on project milestones and/or completion date matched to performance obligations as inputs are shared |
| Grants, subsidies or contributions for the construction of non-financial assets | Construction or acquisition of recognisable non-financial assets to be controlled by the local government | Over time | Fixed terms transfer of funds based on agreed milestones and reporting | Contract obligation if project not complete | Set by mutual agreement with the funding body | Based on the progress of works to performance obligations | Returns limited to repayment of transaction price of terms | Output method based on project milestones and/or completion date matched to performance obligations |
| Grants, subsidies or contributions with no contractual commitments | General appropriations and contributions with no reciprocal commitment | No obligation | Not applicable | Not applicable | Cash received | On receipt of funds | Not applicable | When assets are controlled |
| Fees and charges - licences, registrations, approvals | Building, planning, development and animal having the same nature as a licence regardless of naming. | Single point in time | Full payment prior to issue | None | Set by State legislation or limited by legislation to the cost of provision | Based on timing of issue of the associated rights | No refunds | On payment of the licence, registration approval |
| Fees and charges - pool inspections | Compliance safety check | Single point in time | Equal proportion based on an equal annually fee | None | Set by State legislation | Apportioned equally across the inspection cycle | No refunds | After inspection complete based on a 4 year cycle |
| Fees and charges - other inspections | Regulatory food, health and safety | Single point in time | Full payment prior to inspection | None | Set by State legislation or limited by legislation to the cost of provision | Applied fully on timing of inspection | Not applicable | Revenue recognised after inspection event occurs |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)

| Revenue Category | Nature of goods and services | When obligations typically satisfied | Payment terms | Returns/Refunds/Warranties | Determination of transaction price | Allocating transaction price | Measuring obligations for returns | Timing of revenue recognition |
|---|---|--------------------------------------|--|---|---|--|--|--|
| Fees and charges - waste management collections | Kerbside collection service | Over time | Payment dates adopted by council during the year | None | Adopted by council annually | When taxable event occurs | Not applicable | When rates notice is issued |
| Fees and charges - property hire | Use of halls and facilities | Single point in time | In full in advance | Refund if event cancelled within 7 days | Adopted by council annually | Based on timing of entry to facility | Returns limited to repayment of transaction | On entry or at conclusion of hire |
| Fees and charges for other goods and services | Reinstatements and private works | Single point in time | Payment in full in advance | None | Adopted by council annually | Applied fully based on timing of provision | Not applicable | Output method based on provision of service or completion of works |
| Fees and charges - fines | Fines issued for breaches of local laws | Single point in time | Payment in full within defined time | None | Adopted by council through local law | When taxable event occurs | Not applicable | When fine notice is issued |
| Other revenue - reimbursements | Insurance claims | Single point in time | Payment in arrears for claimable event | None | Set by mutual agreement with the customer | When claim is agreed | Not applicable | When claim is agreed |
| Fees & Charges Mooring Pen Fees | Leasing Mooring Pen | Single point in time | Payment in full in advance | Contract obligation | Adopted by Council annually | Based on timing of entry to facility | Returns limited to repayment of transaction cancellation | On entry or at conclusion of hire |
| Fees & Charges - Property Leases | Leasing of Commercial or Residential Properties | Single point in time | Payment in full in advance | Contract obligation | Adopted by Council annually | Based on timing of entry to facility | Returns limited to repayment of transaction cancellation | On entry or at conclusion of hire |
| Fees & Charges - Commonwealth Home Support Services | Aged Care Services | Single point in time | Payment in arrears for claimable event | None | Adopted by Council annually | Based on timing of provision of service | Not applicable | Output method based on provision of service or completion of works |

Consideration from contracts with customers is included in the transaction price.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

2. REVENUE AND EXPENSES (Continued)

Revenue Recognition

Revenue recognised during the year under each basis of recognition by nature or types of goods or services is provided in the table below:

For the year ended 30 June 2022

| Nature or type | Capital | | | | Total |
|---|--------------------------|---------------------|------------------------|---------------|-------------------|
| | Contracts with customers | grant/contributions | Statutory Requirements | Other | |
| | \$ | \$ | \$ | \$ | \$ |
| Rates | 0 | 0 | 8,302,387 | 0 | 8,302,387 |
| Operating grants, subsidies and contributions | 1,082,054 | 0 | 0 | 0 | 1,082,054 |
| Fees and charges | 843,239 | 0 | 538,799 | 0 | 1,382,038 |
| Interest earnings | 0 | 0 | 52,143 | 20,168 | 72,311 |
| Other revenue | 78,962 | 0 | 137,009 | 0 | 215,971 |
| Capital grants, subsidies and contributions | 0 | 1,156,549 | 0 | 0 | 1,156,549 |
| Total | 2,004,255 | 1,156,549 | 9,030,338 | 20,168 | 12,211,310 |

For the year ended 30 June 2021

| Nature or type | Capital | | | | Total |
|---|--------------------------|---------------------|------------------------|---------------|-------------------|
| | Contracts with customers | grant/contributions | Statutory Requirements | Other | |
| | \$ | \$ | \$ | \$ | \$ |
| Rates | 0 | 0 | 7,988,354 | 0 | 7,988,354 |
| Operating grants, subsidies and contributions | 1,167,731 | 0 | 0 | 0 | 1,167,731 |
| Fees and charges | 1,009,464 | 0 | 323,677 | 0 | 1,333,141 |
| Interest earnings | 4 | 0 | 37,046 | 12,087 | 49,137 |
| Other revenue | 92,210 | 0 | 0 | 0 | 92,210 |
| Capital grants, subsidies and contributions | 0 | 180,505 | 0 | 0 | 180,505 |
| Total | 2,269,409 | 180,505 | 8,349,077 | 12,087 | 10,811,078 |

| Note | 2022 | | 2021 | |
|--|---------|---------|---------|--------|
| | Actual | Budget | Actual | |
| | \$ | \$ | \$ | \$ |
| Interest earnings | | | | |
| Interest on reserve funds | 7,323 | 10,000 | 3,706 | |
| Rates instalment and penalty interest (refer Note 25(c)) | 52,143 | 75,000 | #VALUE! | |
| Other interest earnings | 12,845 | 20,000 | 8,381 | |
| | 72,311 | 105,000 | #VALUE! | |
| (b) Expenses | | | | |
| Auditors remuneration | | | | |
| - Audit of the Annual Financial Report | 49,960 | 55,000 | 43,396 | |
| | 49,960 | 55,000 | 43,396 | |
| Finance costs | | | | |
| Borrowings | 27(a) | 7,146 | 14,500 | 11,172 |
| Lease liabilities | 27(d) | 7,074 | 8,000 | 7,978 |
| | 14,220 | 22,500 | 19,150 | |
| Other expenditure | | | | |
| Sundry expenses | 798,313 | 775,034 | 692,904 | |
| | 798,313 | 775,034 | 692,904 | |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

3. CASH AND CASH EQUIVALENTS

| | |
|--|--|
| Cash at bank and on hand | |
| Term deposits | |
| Total cash and cash equivalents | |
| Held as | |
| - Unrestricted cash and cash equivalents | |
| - Restricted cash - Contract Liabilities from Contracts with Customers | |
| - Restricted cash - Grants for transfers for recognisable Non-Financial Assets | |
| - Restricted cash and cash equivalents (Reserves) | |

| Note | 2022 | 2021 |
|-------|-----------|-----------|
| | \$ | \$ |
| | 3,885,073 | 2,227,221 |
| | 3,182,592 | 1,484,665 |
| 16(a) | 7,067,665 | 3,711,886 |
| | | |
| | 2,781,840 | 2,409,249 |
| | 71,910 | 57,589 |
| | 1,729,706 | 259,255 |
| 16(a) | 2,484,209 | 985,793 |
| | 7,067,665 | 3,711,886 |

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and other short term highly liquid investments with original maturities 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.

Bank overdrafts are reported as short term borrowings in current liabilities in the statement of financial position.

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss of interest.

Restricted financial assets

Restricted financial asset balances are not available for general use by the local government due to externally imposed restrictions. Restrictions are specified in an agreement, contract or legislation. This applies to reserves, unspent grants, subsidies and contributions and unspent loans that have not been fully expended in the manner specified by the contributor, legislation or loan agreement and for which no liability has been recognised.

Details of restrictions on financial assets can be found at Note 16.

4. OTHER FINANCIAL ASSETS

Non-current assets

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss

Units in Local Government House Trust

| | 2022 | 2021 |
|--|--------|--------|
| | \$ | \$ |
| | 77,804 | 73,807 |
| | 77,804 | 73,807 |
| | 77,804 | 73,807 |
| | 77,804 | 73,807 |

SIGNIFICANT ACCOUNTING POLICIES

Other financial assets at amortised cost

The Town classifies financial assets at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cashflows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Fair values of financial assets at amortised cost are not materially different to their carrying amounts, since the interest receivable on those assets is either close to current market rates or the assets are of a short term nature. Non-current financial assets at amortised cost fair values are based on discounted cash flows using current market rates. They are classified as level 2 fair values in the fair value hierarchy (see Note 23 (i)) due to the observable market rates.

Interest received is presented under cashflows from operating activities in the Statement of Cash Flows where it is earned from financial assets that are held for cash management purposes.

Financial assets at fair value through profit and loss

The Town classifies the following financial assets at fair value through profit and loss:

- debt investments which do not qualify for measurement at either amortised cost or fair value through other comprehensive income.
- equity investments which the Town has not elected to recognise fair value gains and losses through other comprehensive income.

Impairment and risk

Information regarding impairment and exposure to risk can be found at Note 21.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

5. TRADE AND OTHER RECEIVABLES

Current

| | Note | 2022 | 2021 |
|--|-------|----------|----------|
| | | \$ | \$ |
| Rates receivable | | 76,390 | 162,223 |
| Trade and other receivables | | 55,012 | 81,861 |
| GST receivable | | 131,356 | 73,736 |
| Allowance for credit losses of trade and other receivables | 21(b) | (19,011) | (26,358) |
| Loan receivables - Clubs | | 3,000 | 3,000 |
| Other receivables | | 5,654 | 0 |
| | | 252,401 | 294,462 |

Non-current

| | | | |
|------------------------------------|--|--------|--------|
| Pensioner's rates and ESL deferred | | 66,925 | 46,586 |
| Loan receivables - Clubs | | 15,000 | 18,000 |
| Other receivables | | 13,922 | 0 |

SIGNIFICANT ACCOUNTING POLICIES

Trade and other receivables

Trade and other receivables include amounts due from ratepayers for unpaid rates and service charges and other amounts due from third parties for grants, contributions, reimbursements, and goods sold and services performed in the ordinary course of business.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value.

Impairment and risk exposure

Information about the impairment of trade receivables and their exposure to credit risk and interest rate risk can be found in Note 21.

Classification and subsequent measurement

Receivables which are generally due for settlement within 30 days except rates receivables which are expected to be collected within 12 months are classified as current assets. All other receivables such as, deferred pensioner rates receivable after the end of the reporting period are classified as non-current assets.

Trade and other receivables are held with the objective to collect the contractual cashflows and therefore the Town measures them subsequently at amortised cost using the effective interest rate method.

Due to the short term nature of current receivables, their carrying amount is considered to be the same as their fair value. Non-current receivables are indexed to inflation, any difference between the face value and fair value is considered immaterial.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

6. OTHER ASSETS

| | 2022 | 2021 |
|---|------------------|---------------|
| | \$ | \$ |
| Other assets - current | | |
| Prepayments | 45,768 | 37,041 |
| Accrued income | 6,331 | 24,286 |
| | 52,099 | 61,327 |
| Non-current assets held for sale | | |
| Land and Buildings - 128 George St | 1,442,619 | 0 |
| | 1,442,619 | 0 |

Land classified as held for sale

Council at its ordinary council meeting held on 21 June 2022 resolved to appoint a selling agent for the disposal of 128 and 128A George Street (Land and Buildings) by way of auction. The auction date was 13 August 2022.

SIGNIFICANT ACCOUNTING POLICIES

Other current assets

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

Non-current assets held for sale

Assets are classified as held for sale where the carrying amount will be recovered through a sale rather than continuing use and the asset is available for immediate sale with a sale being highly probable.

Non-current assets held for sale (Continued)

Non-current assets classified as held for sale are valued at the lower of the carrying amount and fair value less costs to sell.

The fair value of land and buildings was determined using the sales comparison approach using comparable properties in the area. This is a level 2 measurement as per the fair value hierarchy set out in Note 7 (b)(i).

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

7. PROPERTY, PLANT AND EQUIPMENT

(a) Movements in Balances

Movement in the balances of each class of property, plant and equipment between the beginning and the end of the current financial year.

| | Note | Land | Buildings - non-specialised - level 2 | Buildings - non-specialised - Level 3 | Buildings - specialised | Total land and buildings | Furniture and equipment | Plant and equipment | Works in Progress | Total property, plant and equipment |
|--|------|-------------|---------------------------------------|---------------------------------------|-------------------------|--------------------------|-------------------------|---------------------|-------------------|-------------------------------------|
| Balance at 1 July 2020 | | 4,330,900 | 55,500 | 604,000 | 27,320,601 | 32,311,001 | 272,101 | 945,354 | 0 | 33,528,456 |
| Additions | | 0 | 0 | 0 | 34,415 | 34,415 | 85,921 | 204,458 | 14,000 | 338,794 |
| Disposals | | 0 | 0 | 0 | (33,201) | (33,201) | (8,506) | (17,758) | 0 | (59,465) |
| Assets expensed to P+L | | 0 | 0 | 0 | 0 | 0 | 0 | (38,887) | 0 | (38,887) |
| Depreciation | 9(a) | | (1,387) | (47,402) | (1,082,529) | (1,131,318) | (62,213) | (290,160) | | (1,483,691) |
| Transfers | | | | | | 0 | | 61,918 | 0 | 61,918 |
| Balance at 30 June 2021 | | 4,330,900 | 54,113 | 556,598 | 26,239,286 | 31,180,897 | 287,303 | 864,925 | 14,000 | 32,347,125 |
| Comprises: | | | | | | | | | | |
| Gross balance amount at 30 June 2021 | | 4,330,900 | 55,500 | 604,000 | 27,321,815 | 32,312,215 | 390,263 | 1,369,999 | 14,000 | 34,086,477 |
| Accumulated depreciation at 30 June 2021 | | 0 | (1,387) | (47,402) | (1,082,529) | (1,131,318) | (102,960) | (505,074) | 0 | (1,739,352) |
| Balance at 30 June 2021 | | 4,330,900 | 54,113 | 556,598 | 26,239,286 | 31,180,897 | 287,303 | 864,925 | 14,000 | 32,347,125 |
| Additions | | 0 | 0 | 0 | 20,607 | 20,607 | 13,324 | 129,876 | 991,176 | 1,154,983 |
| Disposals | | 0 | 0 | 0 | 0 | 0 | 0 | (38,875) | 0 | (38,875) |
| Revaluation increments / (decrements) transferred to revaluation surplus | | 1,268,100 | 17,223 | 0 | 0 | 1,285,323 | 0 | 0 | 0 | 1,285,323 |
| Revaluation (loss) / reversals transferred to profit or loss | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tr to Assets classified as held for sale | | (1,400,000) | (69,949) | 0 | 0 | (1,469,949) | 0 | 0 | 0 | (1,469,949) |
| Impairment (losses) / reversals | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation | 9(a) | 0 | (1,387) | (47,403) | (1,085,272) | (1,134,062) | (73,917) | (215,582) | 0 | (1,423,561) |
| Transfers | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Balance at 30 June 2022 | | 4,199,000 | 0 | 509,195 | 25,174,621 | 29,882,816 | 226,710 | 740,344 | 1,005,176 | 31,855,046 |
| Comprises: | | | | | | | | | | |
| Gross balance amount at 30 June 2022 | | 4,199,000 | 0 | 604,000 | 27,342,422 | 32,145,422 | 403,587 | 1,416,749 | 1,005,176 | 34,970,934 |
| Accumulated depreciation at 30 June 2022 | | 0 | 0 | (94,805) | (2,167,801) | (2,262,606) | (176,877) | (676,405) | 0 | (3,115,888) |
| Balance at 30 June 2022 | | 4,199,000 | 0 | 509,195 | 25,174,621 | 29,882,816 | 226,710 | 740,344 | 1,005,176 | 31,855,046 |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Carrying Value Measurements

| Asset Class | Fair Value Hierarchy | Valuation Technique | Basis of Valuation | Date of Last Valuation | Inputs Used |
|---------------------------------------|----------------------|--|--------------------------------|------------------------|--|
| (i) Fair Value | | | | | |
| Land and buildings | | | | | |
| Land | Level 2 | Market approach using recent observable market data for similar properties/income approach using discount cash flow methodology. | Independent Registered Valuers | June 2022 | Price per hectare / market borrowing rate. |
| Land | Level 3 | Adjusted market approach using recent observable market data for similar urban fringe properties that are not cleared or developed/income approach using discount cash flow methodology. | Independent Registered Valuers | June 2022 | Adjusted Price per hectare / market borrowing rate. Where there is no comparable sales or income approach to the land assets being valued, the default valuation approach is the Level 3 input, and reflects that the Town has departed from what is deemed to be no longer comparable rates and or values. |
| Buildings - non-specialised - level 2 | Level 2 | Market approach using recent observable market data for similar properties/income approach using discount cash flow methodology. | Independent Registered Valuers | June 2022 | Improvements to land using construction costs and current condition, residual values and remaining useful life assessment. |
| Buildings - non-specialised - level 3 | Level 3 | Improvements to land (in-situ buildings) using cost approach of depreciated replacement cost. | Independent Registered Valuers | June 2020 | Improvements to land (in-situ buildings) using construction costs and current condition, residual values and remaining useful life assessment. |
| Buildings - specialised | Level 3 | Improvements to land (in-situ buildings) using cost approach of depreciated replacement cost. | Independent Registered Valuers | June 2020 | Improvements to land (in-situ buildings) using construction costs and current condition, residual values and remaining useful life assessment. |

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Carrying Value Measurements (Continued)

(ii) Fair value measurements using significant unobservable inputs (Level 3)

For the 2021/22 financial year, the Town reviewed its fair value approach for all land assets. Land assets which are all either public purpose or park & recreation zoned land assets are very rarely traded or sold so there is limited direct market comparable sales evidence. Consistent with the approach of the Landgate Asset Section in WA, when valuing similar types of non-market or traded land assets urban fringe land assets that are typically large parcels of englobo land areas that are not cleared or developed are considered. This information is then used as the typical base rate per hectare or square meter and then adjusted to reflect the specific locality of the land being valued along with its use as cleared public open space or recreation land.

In the case of specific land parcels for the Town of East Fremantle, land assets valued using level 3 inputs are typically small and irregular shaped lots, therefore development potential is limited as well as restricted under the Town Planning Scheme. These land assets are generally parks, drainage sumps and land adjacent to road corridors where the Town holds freehold title.

The review of inputs for the valuation of land assets has resulted in \$289,000 of land assets being transferred from Level 2 to Level 3 within the fair value hierarchy.

The Town's policy for determining any transfers into or out of Level 3 fair value hierarchy is determined at the end of the reporting period.

| | 2022 | |
|---|----------------|-------------------|
| | Land | Buildings |
| Fair value at start of period (L3) | 0 | 26,795,884 |
| Additions | 0 | 20,607 |
| Transfers from/(to) Level 2 | 289,000 | 0 |
| Depreciation | 0 | (1,132,675) |
| Fair value at end of period (L3) | 289,000 | 25,683,816 |

| (iii) Cost | Valuation Technique | Basis of Valuation | Inputs Used |
|--------------------------------|----------------------------|---------------------------|--------------------|
| Furniture and equipment | Cost | Cost | Purchase cost |
| Plant and equipment | Cost | Cost | Purchase cost |

Following a change to Local Government (Financial Management) Regulation 17A, plant and equipment type assets (being plant and equipment and furniture and equipment) are to be measured under the cost model, rather than at fair value. This change was effective from 1 July 2019 and represented a change in accounting policy. Revaluations carried out previously were not reversed as it was deemed fair value approximated cost at the date of change.

Attachment 1

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

8. INFRASTRUCTURE

(a) Movements in Balances

Movement in the balances of each class of infrastructure between the beginning and the end of the current financial year.

| | Note | Infrastructure - roads | Infrastructure - Drainage | Infrastructure - Parks and Ovals | Infrastructure - Footpaths and Cycleways | Infrastructure - Car Parks | Infrastructure - Bus Shelters | Other infrastructure - Work in Progress | Total Infrastructure |
|--|------|------------------------|---------------------------|----------------------------------|--|----------------------------|-------------------------------|---|----------------------|
| Balance at 1 July 2020 | | 31,616,403 | 1,988,254 | 6,115,557 | 5,717,629 | 3,486,730 | 107,375 | 0 | 49,031,948 |
| Additions | | 252,255 | 0 | 255,057 | 170,316 | 0 | 0 | | 677,628 |
| Revaluation increments / (decrements) transferred to revaluation surplus | | (8,633,617) | 2,283,408 | (2,053,127) | (262,876) | (1,152,640) | 116,450 | | (9,702,402) |
| Assets expensed to Profit & Loss | | | | (33,201) | | | | | (33,201) |
| Depreciation | 9(a) | (593,767) | (41,228) | (218,974) | (98,327) | (33,654) | (4,278) | | (990,228) |
| Transfers | | | | (61,918) | | | | | (61,918) |
| Balance at 30 June 2021 | | 22,641,274 | 4,230,434 | 4,003,394 | 5,526,742 | 2,300,436 | 219,547 | 0 | 38,921,827 |
| Comprises: | | | | | | | | | |
| Gross balance at 30 June 2021 | | 22,641,274 | 4,230,434 | 4,101,110 | 5,526,742 | 2,300,436 | 219,547 | 0 | 39,019,543 |
| Accumulated depreciation at 30 June 2021 | | 0 | 0 | (97,716) | 0 | 0 | 0 | 0 | (97,716) |
| Balance at 30 June 2021 | | 22,641,274 | 4,230,434 | 4,003,394 | 5,526,742 | 2,300,436 | 219,547 | 0 | 38,921,827 |
| Additions | | 0 | 223,808 | 204,475 | 184,619 | 29,500 | 0 | 15,000 | 657,402 |
| Depreciation | 9(a) | (314,829) | (63,562) | (117,119) | (86,622) | (28,055) | (8,299) | 0 | (608,486) |
| Balance at 30 June 2022 | | 22,326,445 | 4,400,680 | 4,090,750 | 5,624,739 | 2,301,881 | 211,248 | 15,000 | 38,970,743 |
| Comprises: | | | | | | | | | |
| Gross balance at 30 June 2022 | | 22,641,274 | 4,454,242 | 4,305,585 | 5,711,361 | 2,329,936 | 219,547 | 15,000 | 39,676,945 |
| Accumulated depreciation at 30 June 2022 | | (314,829) | (53,562) | (214,835) | (86,622) | (28,055) | (8,299) | 0 | (706,202) |
| Balance at 30 June 2022 | | 22,326,445 | 4,400,680 | 4,090,750 | 5,624,739 | 2,301,881 | 211,248 | 15,000 | 38,970,743 |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

8. INFRASTRUCTURE (Continued)

(b) Carrying Value Measurements

| Asset Class | Fair Value Hierarchy | Valuation Technique | Basis of Valuation | Date of Last Valuation | Inputs Used |
|--|----------------------|---|----------------------------------|------------------------|---|
| (i) Fair Value | | | | | |
| Infrastructure - roads | Level 3 | Cost approach using depreciated replacement cost. | Independent Registered Valuation | June 2021 | Construction cost and current condition, residual value and remaining useful life assessments (level 3) inputs. |
| Infrastructure - Drainage | Level 3 | Cost approach using depreciated replacement cost. | Independent Registered Valuation | June 2021 | Construction cost and current condition, residual value and remaining useful life assessments (level 3) inputs. |
| Infrastructure - Parks & Ovals | Level 3 | Cost approach using depreciated replacement cost. | Independent Registered Valuation | June 2021 | Construction cost and current condition, residual value and remaining useful life assessments (level 3) inputs. |
| Infrastructure - Footpaths & Cycleways | Level 3 | Cost approach using depreciated replacement cost. | Independent Registered Valuation | June 2021 | Construction cost and current condition, residual value and remaining useful life assessments (level 3) inputs. |
| Infrastructure - Car Parks | Level 3 | Cost approach using depreciated replacement cost. | Independent Registered Valuation | June 2021 | Construction cost and current condition, residual value and remaining useful life assessments (level 3) inputs. |
| Infrastructure - Bus Shelters | Level 3 | Cost approach using depreciated replacement cost. | Independent Registered Valuation | June 2021 | Construction cost and current condition, residual value and remaining useful life assessments (level 3) inputs. |

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

The Town of East Fremantle ('Town') is required to undertake a revaluation of their assets in accordance with the requirements of the *Local Government (Financial Management) Regulations 1996*. During the period there were no changes in the valuation techniques to determine the fair value of infrastructure using level 3 inputs.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

9. FIXED ASSETS

(a) Depreciation

| Note | 2022 Actual | 2022 Budget | 2021 |
|--|----------------|----------------|-----------|
| | | | Actual |
| Buildings - non-specialised - level 2 | 7(a) | 1,387 | 1,388 |
| Buildings - non-specialised - Level 3 | 7(a) | 47,403 | 47,403 |
| Buildings - specialised | 7(a) | 1,085,272 | 1,088,341 |
| Furniture and equipment | 7(a) | 73,917 | 76,519 |
| Plant and equipment | 7(a) | 215,582 | 285,846 |
| Infrastructure - Roads | 8(a) | 314,829 | 612,010 |
| Infrastructure - Drainage | 8(a) | 53,562 | 46,832 |
| Infrastructure - Parks and Ovals | 8(a) | 117,119 | 233,568 |
| Infrastructure - Footpaths and Cycleways | 8(a) | 86,622 | 101,461 |
| Infrastructure - Car Parks | 8(a) | 28,055 | 33,655 |
| Infrastructure - Bus Shelters | 8(a) | 8,299 | 4,278 |
| Right of use assets | 10(a) | 39,621 | 39,876 |
| | | 2,071,668 | 2,571,177 |
| | | | 2,513,795 |

Depreciation rates

Typical estimated useful lives for the different asset classes for the current and prior years are included in the table below:

| Asset Class | Useful life |
|---|------------------------------|
| Buildings | 3 to 50 years |
| Furniture and equipment | 2 to 20 years |
| Plant and equipment | 2 to 20 years |
| Plant and equipment - Motor Vehicles - Light Fleet | 2 to 10 years |
| Plant and equipment - Motor Vehicles - Heavy Fleet | 5 to 10 years |
| Sealed roads, streets and carparks formation (subgrade) | not depreciated |
| Sealed pavement (roads/carparks) | 85 to 100 years |
| Surface (roads/carparks) | 30 to 35 years |
| Kerbing | 60 years |
| Surface water channels (roads/carparks) | 55 to 60 years |
| Footpaths | 40 to 80 years |
| Bus Shelter | 25 to 30 years |
| Drainage - Pit | 80 years |
| Drainage - Pipe | 80 years |
| Right-of-use (river seabed) | Based on the remaining lease |
| Parks and Ovals - minor structure polygon | 10 to 70 years |
| Parks and Ovals - playground polygon | 27 years |
| Parks and Ovals - amenities | 20 to 25 years |
| Parks and Ovals - bin | 15 to 20 years |
| Parks and Ovals - lighting | 20 years |
| Parks and Ovals - playground point | 15 to 25 years |
| Parks and Ovals - playground lines | 40 to 70 years |
| Parks and Ovals - sign | 15 to 40 years |
| Parks and Ovals - fence | 25 to 70 years |
| Parks and Ovals - gate | 15 to 40 years |
| Parks and Ovals - irrigation | 30 to 35 years |
| Parks and Ovals - minor structure | 20 to 25 years |
| Parks and Ovals - other improvements | 20 to 25 years |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

9. FIXED ASSETS (Continued)

(b) Disposals of assets

| | 2022 | | | | 2022 | | | | 2021 | | | |
|----------------------------------|----------|--------|--------|---------|----------|---------|---------|--------|----------|--------|--------|----------|
| | Actual | Actual | 2022 | 2022 | Budget | Budget | 2022 | 2022 | Actual | Actual | 2021 | 2021 |
| | Net Book | Sale | Actual | Actual | Net Book | Sale | Budget | Budget | Net Book | Sale | Actual | Actual |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Infrastructure - Parks and Ovals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 33,201 | 0 | 0 | (33,201) |
| Furniture and equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,506 | 0 | 0 | (8,506) |
| Plant and equipment | 38,875 | 66,788 | 32,651 | (4,738) | 91,720 | 240,660 | 148,940 | 0 | 56,645 | 18,855 | 1,430 | (39,220) |
| | 38,875 | 66,788 | 32,651 | (4,738) | 91,720 | 240,660 | 148,940 | 0 | 98,352 | 18,855 | 1,430 | (80,927) |

The following assets were disposed of during the year.

| | 2022 | | | | 2022 | | | | 2021 | | | |
|-------------------------------------|----------|--------|--------|---------|----------|--------|--------|--------|----------|--------|--------|--------|
| | Actual | Actual | 2022 | 2022 | Budget | Budget | 2022 | 2022 | Actual | Actual | 2021 | 2021 |
| | Net Book | Sale | Actual | Actual | Net Book | Sale | Budget | Budget | Net Book | Sale | Actual | Actual |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Plant and Equipment | | | | | | | | | | | | |
| Recreation and culture | | | | | | | | | | | | |
| PEMV245 - Mitsubishi Fuso Tip Truck | 23,713 | 56,364 | 32,651 | 0 | | | | | | | | |
| PE279 - John Deere Green Gator | 15,162 | 10,424 | 0 | (4,738) | | | | | | | | |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

9. FIXED ASSETS (Continued)

SIGNIFICANT ACCOUNTING POLICIES

Fixed assets

Each class of fixed assets within either property, plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Initial recognition and measurement for assets held at cost

Plant and equipment including furniture and equipment is recognised at cost on acquisition in accordance with *Financial Management Regulation 17A*. Where acquired at no cost the asset is initially recognised at fair value. Assets held at cost are depreciated and assessed for indicators of impairment annually.

Initial recognition and measurement between

mandatory revaluation dates for assets held at fair value

Assets for which the fair value as at the date of acquisition is under \$5,000 are not recognised as an asset in accordance with *Financial Management Regulation 17A* (5). These assets are expensed immediately.

Where multiple individual low value assets are purchased together as part of a larger asset or collectively forming a larger asset exceeding the threshold, the individual assets are recognised as one asset and capitalised.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at zero cost or otherwise significantly less than fair value, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Town includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets that are land, buildings, infrastructure and investment properties acquired between scheduled revaluation dates of the asset class in accordance with the mandatory measurement framework, are recognised at cost and disclosed as being at fair value as management believes cost approximates fair value. They are subject to subsequent revaluation at the next revaluation date in accordance with the mandatory measurement framework.

Revaluation

The fair value of land, buildings, infrastructure and investment properties is determined at least every five years in accordance with the regulatory framework. This includes buildings and infrastructure items which were pre-existing improvements (i.e. vested improvements) on vested land acquired by the Town.

At the end of each period the carrying amount for each asset class is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulation 17A* (2) which requires land, buildings, infrastructure, investment properties and vested improvements to be shown at fair value.

Revaluation (continued)

For property, plant and equipment and infrastructure, increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same class of asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss. Subsequent increases are then recognised in profit or loss to the extent they reverse a net revaluation decrease previously recognised in profit or loss for the same class of asset.

Depreciation

The depreciable amount of all property, plant and equipment and infrastructure, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise.

Depreciation on revaluation

When an item of property, plant and equipment and infrastructure is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- (i) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
- (ii) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

10. LEASES

(a) Right-of-Use Assets

Movement in the balance of each class of right-of-use asset between the beginning and the end of the current financial year.

Balance at 1 July 2020

Adjustments

Depreciation

Balance at 30 June 2021

Adjustments

Depreciation

Balance at 30 June 2022

The following amounts were recognised in the statement of comprehensive income during the period in respect of leases where the entity is the lessee:

Depreciation on right-of-use assets

| Note | Right-of-use assets - Land - Property, Plant and Equipment | Right-of-use assets Total |
|------|--|---------------------------|
| | \$ | \$ |
| | 319,009 | 319,009 |
| | (2,292) | (2,292) |
| | (39,876) | (39,876) |
| | 276,841 | 276,841 |
| | 1,091 | 1,091 |
| | (39,621) | (39,621) |
| | 238,311 | 238,311 |

Interest expense on lease liabilities

Total amount recognised in the statement of comprehensive income

Total cash outflow from leases

| | 2022 Actual | 2021 Actual |
|--|-------------|-------------|
| | \$ | \$ |
| | (39,621) | (39,876) |
| | (7,074) | (7,978) |
| | (46,695) | (47,854) |
| | (44,625) | (37,345) |
| | 38,617 | 37,499 |
| | 216,187 | 253,765 |
| | 254,804 | 291,264 |

Secured liabilities and assets pledged as security

Lease liabilities are effectively secured, as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

SIGNIFICANT ACCOUNTING POLICIES

Leases

At inception of a contract, the Town assesses if the contract contains or is a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, a right-of-use asset is recognised at cost and lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Town uses its incremental borrowing rate.

All contracts that are classified as short-term leases (i.e. a lease with a term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Details of individual lease liabilities required by regulations are provided at Note 27(d).

Right-of-use assets - valuation measurement

Right-of-use assets are measured at cost. This means that all right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost (i.e. not included in the Statement of Financial Position). The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which are reported at fair value.

Refer to Note 9 under revaluation for details on the significant accounting policies applying to vested improvements.

Right-of-use assets - depreciation

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shorter. Where a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects that the Town anticipates to exercise a purchase option, the specific asset is amortised over the useful life of the underlying asset.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

10. LEASES (Continued)

(c) Lessor - Property, Plant and Equipment Subject to Lease

The table below represents a maturity analysis of the undiscounted lease payments to be received after the reporting date.

Less than 1 year

1 to 2 years

2 to 3 years

3 to 4 years

4 to 5 years

> 5 years

| | 2022 Actual | 2021 Actual |
|------------------|------------------------|------------------------|
| | \$ | \$ |
| Less than 1 year | 299,708 | 248,212 |
| 1 to 2 years | 196,067 | 196,602 |
| 2 to 3 years | 181,187 | 154,380 |
| 3 to 4 years | 179,903 | 141,310 |
| 4 to 5 years | 178,521 | 141,310 |
| > 5 years | 1,019,642 | 1,103,419 |
| | 2,055,028 | 1,985,233 |

SIGNIFICANT ACCOUNTING POLICIES

The Town as Lessor

Upon entering into each contract as a lessor, the Town assesses if the lease is a finance or operating lease.

The contract is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases not within this definition are classified as operating leases. Rental income received from operating leases is recognised on a straight-line basis over the term of the specific lease.

Initial direct costs incurred in entering into an operating lease (eg legal cost, cost to setup) are included in the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

When a contract is determined to include lease and non-lease components, the Town applies AASB 15 to allocate the consideration under the contract to each component.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

11. TRADE AND OTHER PAYABLES

Current

Sundry creditors
 Prepaid rates
 Accrued payroll liabilities
 ATO liabilities
 Bonds and deposits held

| | 2022 | 2021 |
|-----------------------------|------------------|------------------|
| | \$ | \$ |
| Sundry creditors | 1,035,605 | 531,241 |
| Prepaid rates | 98,455 | 106,206 |
| Accrued payroll liabilities | 30,976 | 13,841 |
| ATO liabilities | 89,393 | 109,234 |
| Bonds and deposits held | 600,384 | 432,319 |
| | 1,854,813 | 1,192,841 |

SIGNIFICANT ACCOUNTING POLICIES

Financial liabilities

Financial liabilities are initially recognised at fair value when the Town becomes a party to the contractual provisions of the instrument.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Town prior to the end of the financial year that are unpaid and arise when the Town becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Prepaid rates

Prepaid rates are, until the taxable event has occurred (start of the next financial year), refundable at the request of the ratepayer. Rates received in advance are initially recognised as a financial liability. When the taxable event occurs, the financial liability is extinguished and the Town recognises revenue for the prepaid rates that have not been refunded.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

12. OTHER LIABILITIES

Current

Contract Liabilities - Unspent operating grants
 Contract Liabilities - Accrued Income
 Capital grant/contributions liabilities

| | 2022 | 2021 |
|---|------------------|----------------|
| | \$ | \$ |
| Contract Liabilities - Unspent operating grants | 71,910 | 57,589 |
| Contract Liabilities - Accrued Income | 0 | 11,309 |
| Capital grant/contributions liabilities | 1,729,706 | 259,255 |
| | 1,801,616 | 328,153 |

Reconciliation of changes in contract liabilities

Opening balance
 Additions
 Revenue from contract liabilities at the start of the period

| | | |
|--|---------------|---------------|
| Opening balance | 68,898 | 0 |
| Additions | 39,430 | 57,589 |
| Revenue from contract liabilities at the start of the period | (36,418) | 0 |
| | 71,910 | 57,589 |

The Town expects to satisfy the performance obligations from contracts liabilities unsatisfied at the end of the reporting period to be satisfied within the next 12 months.

Reconciliation of changes in capital grant/contribution liabilities

Opening balance
 Additions
 Revenue from capital grant/contributions held as a liability at the start of the period

| | | |
|---|------------------|---------------|
| Opening balance | 259,255 | 0 |
| Additions | 1,698,229 | 11,309 |
| Revenue from capital grant/contributions held as a liability at the start of the period | (227,778) | 0 |
| | 1,729,706 | 11,309 |

Expected satisfaction of capital grant/contribution liabilities

Less than 1 year

1,729,706

11,309

Performance obligations in relation to capital grant/contribution liabilities are satisfied as project milestones are met or completion of construction or acquisition of the asset.

SIGNIFICANT ACCOUNTING POLICIES

Contract liabilities

Contract liabilities represent the Town's obligation to transfer goods or services to a customer for which the Town has received consideration from the customer.

Contract liabilities represent obligations which are not yet satisfied. Contract liabilities are recognised as revenue when the performance obligations in the contract are satisfied.

Capital grant/contribution liabilities

Capital grants are accounted for under AASB1058 Capital Grant Requirements. The revenue is recognised as the obligation to construct the asset is satisfied. Once the performance obligations are satisfied, the associated level of revenue is recognised.

Non-current capital grant/contribution liabilities fair values are based on discounted cash flows of expected cashflows to satisfy the obligations using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy (see Note 23(i)) due to the unobservable inputs, including own credit risk.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

13. BORROWINGS

| | Note | 2022 | | | 2021 | | |
|---------------------------------|-------|---------|-------------|---------|---------|-------------|---------|
| | | Current | Non-current | Total | Current | Non-current | Total |
| Secured | | \$ | \$ | \$ | \$ | \$ | \$ |
| Debentures | | 98,204 | 99,537 | 197,741 | 104,343 | 174,953 | 279,296 |
| Total secured borrowings | 27(a) | 98,204 | 99,537 | 197,741 | 104,343 | 174,953 | 279,296 |

Secured liabilities and assets pledged as security

Debentures, bank overdrafts and bank loans are secured by a floating charge over the assets of the Town of East Fremantle.

The Town of East Fremantle has complied with the financial covenants of its borrowing facilities during the 2022 and 2021 years.

SIGNIFICANT ACCOUNTING POLICIES

Borrowing costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

Fair values of borrowings are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short term nature.

Borrowings fair values are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy (see Note 23(i)) due to the unobservable inputs, including own credit risk.

Risk

Information regarding exposure to risk can be found at Note 21.

Details of individual borrowings required by regulations are provided at Note 27(a).

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

14. EMPLOYEE RELATED PROVISIONS

Employee Related Provisions

Current provisions

Employee benefit provisions

Annual Leave
 Long Service Leave
 Other employee provisions

Non-current provisions

Long Service Leave

| | 2022 | 2021 |
|---------------------------|----------------|----------------|
| | \$ | \$ |
| Annual Leave | 409,658 | 410,691 |
| Long Service Leave | 265,516 | 230,014 |
| Other employee provisions | 43,530 | 27,090 |
| | 718,704 | 667,795 |
| Long Service Leave | 83,117 | 95,032 |
| | 83,117 | 95,032 |
| | 801,821 | 762,827 |

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave and associated on costs for services rendered up to the reporting date and recorded as an expense during the period the services are delivered.

Annual leave liabilities are classified as current, as there is no unconditional right to defer settlement for at least 12 months after the end of the reporting period. Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

Amounts are expected to be settled on the following basis:

Less than 12 months after the reporting date
 More than 12 months from reporting date

| | 2022 | 2021 |
|--|----------------|----------------|
| | \$ | \$ |
| Less than 12 months after the reporting date | 328,917 | 314,593 |
| More than 12 months from reporting date | 472,904 | 448,234 |
| | 801,821 | 762,827 |

SIGNIFICANT ACCOUNTING POLICIES

Employee benefits

The Town's obligations for employees' annual leave, long service leave and other employee leave entitlements are recognised as employee related provisions in the Statement of Financial Position.

Short-term employee benefits

Provision is made for the Town's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Town's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.

Other long-term employee benefits

Long-term employee benefits provisions are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Town's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Town does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

15. REVALUATION SURPLUS

| | 2022 | 2022 | 2022 | Total | 2022 | 2021 | 2021 | 2021 | Total | 2021 |
|--|-----------------|-----------------------|-------------------------|-------------------------|-----------------|-----------------|-----------------------|-------------------------|-------------------------|-----------------|
| | Opening Balance | Revaluation Increment | Revaluation (Decrement) | Movement on Revaluation | Closing Balance | Opening Balance | Revaluation Increment | Revaluation (Decrement) | Movement on Revaluation | Closing Balance |
| Revaluation surplus - Land - freehold land | 3,840,900 | 1,268,100 | 0 | 1,268,100 | 5,109,000 | 3,840,900 | 0 | 0 | 0 | 3,840,900 |
| Revaluation surplus - Buildings - non-specialised - level 2 | 0 | 17,223 | 0 | 17,223 | 17,223 | 0 | 0 | 0 | 0 | 0 |
| Revaluation surplus - Buildings - specialised | 11,158,410 | 0 | 0 | 0 | 11,158,410 | 11,158,410 | 0 | 0 | 0 | 11,158,410 |
| Revaluation surplus - Buildings - non-specialised - Level 3 | 585,380 | 0 | 0 | 0 | 585,380 | 585,380 | 0 | 0 | 0 | 585,380 |
| Revaluation surplus - Plant and equipment | 469,638 | 0 | 0 | 0 | 469,638 | 469,638 | 0 | 0 | 0 | 469,638 |
| Revaluation surplus - Infrastructure - roads | 15,205,424 | 0 | 0 | 0 | 15,205,424 | 23,839,041 | 0 | (8,633,617) | (8,633,617) | 15,205,424 |
| Revaluation surplus - Infrastructure - Drainage | 3,341,189 | 0 | 0 | 0 | 3,341,189 | 1,057,781 | 2,283,408 | 0 | 2,283,408 | 3,341,189 |
| Revaluation surplus - Infrastructure - Parks and Ovals | 1,799,044 | 0 | 0 | 0 | 1,799,044 | 3,852,171 | 0 | (2,053,127) | (2,053,127) | 1,799,044 |
| Revaluation surplus - Infrastructure - Footpaths and Cycleways | 2,331,013 | 0 | 0 | 0 | 2,331,013 | 2,593,889 | 0 | (262,876) | (262,876) | 2,331,013 |
| Revaluation surplus - Infrastructure - Car Parks | 216,407 | 0 | 0 | 0 | 216,407 | 1,369,047 | 0 | (1,152,640) | (1,152,640) | 216,407 |
| Revaluation surplus - Infrastructure - Bus Shelters | 116,450 | 0 | 0 | 0 | 116,450 | 0 | 116,450 | 0 | 116,450 | 116,450 |
| Revaluation surplus - Share of other comprehensive income of investment in associate | 479,167 | 0 | 0 | 0 | 479,167 | 468,699 | 10,468 | 0 | 10,468 | 479,167 |
| | 39,543,022 | 1,285,323 | 0 | 1,285,323 | 40,828,345 | 49,234,956 | 2,410,326 | (12,102,260) | (9,691,934) | 39,543,022 |

Movements on revaluation of property, plant and equipment (including infrastructure) are not able to be reliably attributed to a program as the assets were revalued by class as provided for by AASB 116 Aus 40.1.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

16. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash and cash equivalents, net of outstanding bank overdrafts. Cash at the end of the reporting period is reconciled to the related items in the Statement of Financial Position as follows:

| | Note | 2022 Actual \$ | 2022 Budget \$ | 2021 Actual \$ |
|--|------|------------------------|------------------------|----------------------|
| Cash and cash equivalents | 3 | 7,067,665 | 3,968,907 | 3,711,886 |
| Restrictions | | | | |
| The following classes of financial assets have restrictions imposed by regulations or other externally imposed requirements which limit or direct the purpose for which the resources may be used: | | | | |
| - Cash and cash equivalents | 3 | 2,484,209 2,484,209 | 1,870,090 1,870,090 | 985,793 985,793 |
| The restricted financial assets are a result of the following specific purposes to which the assets may be used: | | | | |
| Restricted reserve accounts | 28 | 2,484,209 | 1,870,090 | 985,793 |
| Total restricted financial assets | | 2,484,209 | 1,870,090 | 985,793 |
| (b) Reconciliation of Net Result to Net Cash Provided By Operating Activities | | | | |
| Net result | | 911,527 | 9,145,318 | (480,222) |
| Non-cash items: | | | | |
| Adjustments to fair value of financial assets at fair value through profit and loss | | (3,997) | 0 | (2,586) |
| Population adjustment to share of SMRC loan liability | | 21,549 | 0 | (2,522) |
| Depreciation/amortisation | | 2,071,668 | 2,571,177 | 2,513,795 |
| (Profit)/loss on sale of asset | | (27,913) | (148,940) | 79,497 |
| Share of net profit of associate accounted for using the equity method | | 47,410 | 0 | (324,767) |
| Impairment loss on recognition of asset held for sale | | 27,329 | 0 | 0 |
| Changes in assets and liabilities: | | | | |
| (Increase)/decrease in trade and other receivables | | 10,800 | 0 | 360,871 |
| (Increase)/decrease in other assets | | 9,229 | 0 | (26,757) |
| Increase/(decrease) in trade and other payables | | 661,972 | 0 | (887,757) |
| Increase/(decrease) in employee related provisions | | 38,994 | 0 | (35,002) |
| Increase/(decrease) in other liabilities | | 1,473,463 | (22,186) | 328,153 |
| Non-operating grants, subsidies and contributions | | (2,627,000) | (10,317,662) | (439,760) |
| Net cash provided by/(used in) operating activities | | 2,615,031 | 1,227,707 | 1,082,943 |
| (c) Undrawn Borrowing Facilities | | | | |
| Credit Standby Arrangements | | | | |
| Bank overdraft limit | | 1,000,000 | | 1,000,000 |
| Bank overdraft at balance date | | 0 | | 0 |
| Credit card limit | | 20,000 | | 20,000 |
| Credit card balance at balance date | | (5,245) | | (2,518) |
| Total amount of credit unused | | 1,014,755 | | 1,017,482 |
| Loan facilities | | | | |
| Loan facilities - current | | 98,204 | | 104,343 |
| Loan facilities - non-current | | 99,537 | | 174,953 |
| Total facilities in use at balance date | | 197,741 | | 279,296 |
| Unused loan facilities at balance date | | 0 | | 0 |

**TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022**

17. CONTINGENT LIABILITIES

(a) Regional Resource Recovery Centre (RRRC) - Lending Facility

The Town is a participant in the RRRC. The project was established through the Southern Metropolitan Regional Council (SMRC) and involved the cities of Canning, Cockburn, Fremantle, Melville and the Town of East Fremantle in the development of a waste processing plant and a recyclable and green waste facility at Canning Vale.

The capital construction of the RRRC facility was funded by borrowings from the Western Australian Treasury Corporation (WATC). A \$40m lending facility was initially set up for this purpose (repayable over a term of 20 years) and this facility has since been extended to a total of \$55m. The SMRC administer the borrowings with the project participants making quarterly contributions equal to the repayment costs of these borrowings.

The Town's estimated share of the project funding is based on population percentages as derived from the Australian Bureau of Statistics census. These are now revised yearly over the life of the lending facility.

As at 30 June 2021, the balance outstanding against the lending facility stood at \$6,629,191 with the Town's share of this liability being \$203,516 (3.07%).

As at 30 June 2022, the balance outstanding against the lending facility stood at \$3,230,389 with the Town's share of this liability being \$98,204 (3.04%).

| | 2022 | 2021 |
|-------------------------|-------------|-------------|
| Liability Share | \$ 98,204 | 203,516 |
| Liability Sharing Ratio | % 3.04 | 3.07 |

The Town has no reason to believe the SMRC would be unable to meet its future obligations in relation to the payment of the loan facility and does not currently expect to make any payments in relation to the loan facility. Should a payment be required there is no possibility of any reimbursement.

(b) Southern Metropolitan Regional Council (SMRC) - Office Project

As a SMRC participant, Council has guaranteed by way of security to the Western Australian Treasury Corporation, a charge over its 'general funds for its' share of any outstanding debenture borrowings provided for the SMRC administration building at 9 Aldous Place Booragoon. This facility has a limit of \$2m.

As at 30 June 2021, the balance outstanding against the lending facility stood at \$1.8m with the Town's share of this liability being \$75,780 (4.21%).

As at 30 June 2022, the balance outstanding against the lending facility stood at \$1.8m with the Town's share of this liability being \$99,537 (5.53%).

| | 2022 | 2021 |
|-------------------------|-------------|-------------|
| Liability Share | \$ 99,537 | 75,780 |
| Liability Sharing Ratio | % 5.53 | 4.21 |

The Town has no reason to believe the SMRC would be unable to meet its future obligations in relation to the payment of the loan facility and does not currently expect to make any payments in relation to the loan facility. Should a payment be required there is no possibility of any reimbursement.

(c) Southern Metropolitan Regional Council (SMRC) - Remediation Costs

The SMRC has made provision for remediation costs (make good provision for lease) in relation to the decommissioning and restoration of the land upon which its operations are based. Since the Town accounts for its share in the SMRC by way of an investment in associate, this provision is inherently included in the Town's share of the net assets of the SMRC. As such, the Town is not required to make any provisions for these remediation costs. Any movement in this provision will be negligible and the Town does not identify any financial risk associated with this provision.

(d) Bank Guarantee

The Town has provided a bank guarantee in favour of the Department of Parks and Wildlife for the amount of \$41,676. The bank guarantee has been issued in accordance with the requirements of the Riverbed lease for the boat pens in the Swan River, East Fremantle.

**TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022**

17. CONTINGENT LIABILITIES (continued)

(e) Possible Contaminated Sites – East Fremantle Yacht Club and Swan Yacht Club

By way of a Management Order the East Fremantle Yacht Club and Swan Yacht Club sites are under the care and control of the Town of East Fremantle. These two sites are not registered on the Contaminated Sites Database, however memorials have been registered (on instruction by the Department of Environment and Conservation) against the land titles under section 58 of the Contaminated Sites Act 2003, with the site classification as 'Possibly Contaminated – Investigation Required'. The two sites were investigated in 2007, as commissioned by the then Swan River Trust (DBCA) and subsequently are not listed as 'Contaminated' on the Department of Water and Environment's Contaminated Sites Database. A memorial is placed on all yacht clubs on the Swan River due to the legacy presence of TBT's (Tributyltin) emanating from poor practices in boat maintenance such as scraping and sanding anti-foul paint combined with poor drainage leading to TBT's in paint flecks washing into the River and trapped in sediment.

TBT's break down naturally over time. The memorial serves the following purposes:

1. to provide advice on how to improve practices in boat maintenance
2. to manage any sediment disturbance such as dredging via license from DBCA

The Town has been advised:

- that the two sites in East Fremantle are low risk and low priority in the view of Department of Water and Environmental Regulation (DWER) – due to the low levels of contaminants and flushing effects of the tides in this part of the River; and
- that there was no need for further investigation unless the Town believed that there were unsafe work practices occurring or unless the Town seeks to have the memorial removed.

The Town has not conducted any further investigations to determine the presence and scope of contamination, or to further assess the risk, and on a risk based approach, the Town has not estimated any potential costs associated with remediation of these sites.

18. CAPITAL COMMITMENTS

| | 2022 | 2021 |
|--|-----------------|---------------|
| | \$ | \$ |
| (a) Capital Expenditure Commitments | | |
| Contracted for: | | |
| - capital expenditure projects (Infrastructure) | 0 | 37,478 |
| - capital expenditure projects (Plant & Equipment) | 1,662,437 | 63,531 |
| - contract liabilities for capital works | 1,698,229 | 259,255 |
| | <hr/> 3,360,666 | <hr/> 360,264 |
| Payable: | | |
| - not later than one year | 3,360,666 | 360,264 |

Capital expenditure projects with committed expenditure outstanding at the end of the current reporting period are:

| | |
|---|-----------|
| Public Art Program | 57,849 |
| East Fremantle Oval Redevelopment Project | 1,604,588 |

The above capital expenditure commitments relate to open purchase orders, whereby work is still currently being undertaken at 30 June 2022 (WIP), or goods and/or services have not been provided to the Town at the end of the reporting period.

Contract liabilities for capital works:

| | |
|---|-----------|
| John Tonkin Foreshore Stabilisation - Riverbank Funding | 75,000 |
| East Fremantle Oval Redevelopment Project - DLGSC | 1,571,229 |
| Nature Playground - DLGSC | 52,000 |

(b) Operating Expenditure Commitments

(i) The Town of East Fremantle is a member of the South West Group which operates under an agreed charter to collaborate on resource sharing and regional advocacy. Payments made to the South West Group are considered as a normal transaction with the Host Council (City of Melville). There is an annual fixed fee payable under the Charter, as detailed below:

| | 2022 | 2021 |
|---------------------------|--------------|--------------|
| | \$ | \$ |
| Payable: | | |
| - not later than one year | 54,131 | 43,179 |
| | <hr/> 54,131 | <hr/> 43,179 |

(ii) The Town of East Fremantle is a member of the Southern Metropolitan Regional Council (SMRC). Under the Establishment Agreement, member local governments are required to provide an annual contribution towards the operating expenses of the SMRC, covering the following activities; Governance, Office Project, Research and Development, Communication and Education.

| | 2022 | 2021 |
|---|---------------|---------------|
| | \$ | \$ |
| Payable: | | |
| - not later than one year | 32,674 | 28,072 |
| - later than one year but not later than five years | 130,698 | 112,288 |
| | <hr/> 163,372 | <hr/> 140,360 |

**TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022**

19. RELATED PARTY TRANSACTIONS

| (a) Elected Member Remuneration | Note | 2022 | 2022 | 2021 |
|--|-------|----------------|----------------|----------------|
| | | Actual | Budget | Actual |
| | | \$ | \$ | \$ |
| Mayor J. O'Neill | | | | |
| Mayor Annual Allowance | | 28,000 | 28,000 | 28,000 |
| Meeting attendance fees | | 25,000 | 25,000 | 25,000 |
| Annual allowance for ICT expenses | | 3,500 | 3,500 | 3,500 |
| | | 56,500 | 56,500 | 56,500 |
| Cr J. Harrington (elected to October 2021) | | | | |
| Deputy Mayor Annual Allowance | | 2,032 | 7,000 | 7,000 |
| Meeting attendance fees | | 4,501 | 15,500 | 15,504 |
| Annual allowance for ICT expenses | | 1,016 | 3,500 | 3,500 |
| | | 7,549 | 26,000 | 26,004 |
| Cr K. Donovan | | | | |
| Meeting attendance fees | | 15,504 | 15,500 | 15,504 |
| Annual allowance for ICT expenses | | 3,500 | 3,500 | 3,500 |
| | | 19,004 | 19,000 | 19,004 |
| Cr A. McPhail | | | | |
| Meeting attendance fees | | 15,504 | 15,500 | 15,504 |
| Annual allowance for ICT expenses | | 3,500 | 3,500 | 3,500 |
| | | 19,004 | 19,000 | 19,004 |
| Cr M. McPhail (elected to October 2021) | | | | |
| Meeting attendance fees | | 2,584 | 15,500 | 15,504 |
| Annual allowance for ICT expenses | | 583 | 3,500 | 3,500 |
| | | 3,167 | 19,000 | 19,004 |
| Cr D. Nardi | | | | |
| Meeting attendance fees | | 15,504 | 15,500 | 15,504 |
| Annual allowance for ICT expenses | | 3,500 | 3,500 | 3,500 |
| | | 19,004 | 19,000 | 19,004 |
| Cr A. Watkins (elected to October 2021) | | | | |
| Meeting attendance fees | | 4,501 | 15,500 | 15,504 |
| Annual allowance for ICT expenses | | 1,016 | 3,500 | 3,500 |
| | | 5,517 | 19,000 | 19,004 |
| Cr C. Collinson | | | | |
| Meeting attendance fees | | 15,504 | 15,500 | 15,504 |
| Annual allowance for ICT expenses | | 3,500 | 3,500 | 3,500 |
| | | 19,004 | 19,000 | 19,004 |
| Cr T. Natale | | | | |
| Deputy Mayor Annual Allowance | | 4,949 | 0 | 0 |
| Meeting attendance fees | | 15,504 | 15,500 | 15,504 |
| Annual allowance for ICT expenses | | 3,500 | 3,500 | 3,500 |
| | | 23,953 | 19,000 | 19,004 |
| Cr L. Mascaro (elected October 2021) | | | | |
| Meeting attendance fees | | 10,961 | 0 | 0 |
| Annual allowance for ICT expenses | | 2,474 | 0 | 0 |
| | | 13,435 | 0 | 0 |
| Cr M. Wilson (elected October 2021) | | | | |
| Meeting attendance fees | | 10,961 | 0 | 0 |
| Annual allowance for ICT expenses | | 2,474 | 0 | 0 |
| | | 13,435 | 0 | 0 |
| Cr A. White (elected October 2021) | | | | |
| Meeting attendance fees | | 10,961 | 0 | 0 |
| Annual allowance for ICT expenses | | 2,474 | 0 | 0 |
| | | 13,435 | 0 | 0 |
| | | 213,007 | 215,500 | 215,532 |
| Fees, expenses and allowances to be paid or reimbursed to elected council members. | | 2022 Actual | 2022 Budget | 2021 Actual |
| | | \$ | \$ | \$ |
| Mayor's annual allowance | | 28,000 | 28,000 | 28,000 |
| Deputy Mayor's annual allowance | | 6,981 | 7,000 | 7,000 |
| Meeting attendance fees | | 146,989 | 149,000 | 149,032 |
| Annual allowance for ICT expenses | | 31,037 | 31,500 | 31,500 |
| | 19(b) | 213,007 | 215,500 | 215,532 |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

19. RELATED PARTY TRANSACTIONS

(b) Key Management Personnel (KMP) Compensation

The total of compensation paid to KMP of the Town during the year are as follows:

| | 2022 Actual | 2021 Actual |
|-------------------------------------|----------------|----------------|
| | \$ | \$ |
| Short-term employee benefits | 635,714 | 578,033 |
| Post-employment benefits | 92,499 | 90,178 |
| Employee - other long-term benefits | 61,395 | 54,022 |
| Employee - termination benefits | 0 | 0 |
| Council member costs | 19(a) 213,007 | 215,532 |
| | 1,002,615 | 937,765 |

Short-term employee benefits

These amounts include all salary and fringe benefits awarded to KMP except for details in respect to fees and benefits paid to council members which may be separately found in the table above.

Post-employment benefits

These amounts are the current-year's cost of the Town's superannuation contributions made during the year.

Other long-term benefits

These amounts represent annual leave and long service leave entitlements accruing during the year.

Termination benefits

These amounts represent termination benefits paid to KMP (Note: may or may not be applicable in any given year).

Council member costs

These amounts represent payments of member fees, expenses, allowances and reimbursements during the year.

(c) Transactions with related parties

Transactions between related parties and the Town are on normal commercial terms and conditions, no more favourable than those available to other parties, unless otherwise stated.

In addition to KMP compensation above the following transactions occurred with related parties:

| | 2022 Actual | 2021 Actual |
|--|----------------|----------------|
| | \$ | \$ |
| Purchase of goods and services | 586,959 | 663,532 |
| Loan Repayments (including interest and guarantee fee) | 111,161 | 111,082 |
| Annual contribution towards operating expenditure | 28,236 | 31,900 |
| | 48,121 | 1,090 |

(d) Related Parties

The Town's main related parties are as follows:

i. Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any council member, are considered key management personnel.

ii. Other Related Parties

An associate person of KMP was employed by the Town under normal employment terms and conditions.

Any entity that is controlled by or over which KMP, or close family members of KMP, have authority and responsibility for planning, directing and controlling the activity of the entity, directly or indirectly, are considered related parties in relation to the Town.

iii. Entities subject to significant influence by the Town

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence.

Significant influence may be gained by share ownership, statute or agreement.

The Town of East Fremantle is a participant in the Canning Vale Regional Resource Recovery Centre (RRRC). The RRRC is controlled by a regional local government established in accordance with the *Local Government Act 1995*. The regional local government, being the Southern Metropolitan Regional Council, consists of four local governments which are participants in the Canning Vale RRRC. Participating local governments are required to contribute an annual fee to cover the capital cost in the establishment of the facility and pay gate fees for each tonne of waste they deliver to the facility to cover the operating costs. Transactions between parties are on normal commercial terms.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

20. INVESTMENT IN ASSOCIATES

(a) Investment in associate

Set out in the table below are the associates of the Town. All associates are measured using the equity method. Western Australia is the principal place of business for all associates.

| Name of entity | % of ownership interest 2022 | % of ownership interest 2021 | 2022 Actual | 2021 Actual |
|--|---------------------------------|---------------------------------|------------------|------------------|
| Southern Metropolitan Regional Council (SMRC) - Existing Undertakings Proportional Equity Share | 5.37% | 4.38% | | |
| Southern Metropolitan Regional Council (SMRC) - Office Accommodation Project Proportional Equity Share | 5.43% | 4.36% | | |
| Southern Metropolitan Regional Council (SMRC) - RRRC Project Proportional Equity Share | 5.36% | 5.35% | | |
| Southern Metropolitan Regional Council (SMRC) - Consolidated | | | 1,382,443 | 1,429,853 |
| Total equity-accounted investments | | | 1,382,443 | 1,429,853 |

(b) Share of Investment in SMRC

The Southern Metropolitan Regional Council (SMRC) is a statutory local government authority established in 1991 by the local governments of Canning, Cockburn, Fremantle, East Fremantle, Kwinana, Melville and Rockingham.

Contractual sharing arrangements exist between the Town and the Southern Metropolitan Regional Council (SMRC), a legal constituted regional local government entity, for the provision of waste services. Control of the SMRC rests with the SMRC Council, which is comprised of a member from each participant Council.

According to clause 8.4 of the Establishment Agreement, a decision to proceed with a project, by project participants, is required to be unanimous. All other decisions of the SMRC require a simple majority, with the exception of decisions requiring an absolute majority in accordance with the *Local Government Act 1995* and the decision to consider a project proposal.

As the Town currently has 33.33% voting rights in the SMRC, it is considered to have significant influence over the SMRC and meets the definition of an associate under AASB 128.3. Investment in the SMRC as an associate is required by AASB 128.16 to be accounted for using the Equity Method.

Member local governments may participate in regional projects that are governed by a Participants Project Agreement. There are two core projects, being:

1. The Regional Resource Recovery Centre (RRRC) Project, and;

2. The Office Accommodation Project

Both projects were established through separate project participants' agreements. In addition to the above two projects, the support activities of the SMRC such as Administrative activities, Education and Marketing, Research and Development, are referred to as Existing Undertakings.

Over the period the following local governments have since withdrawn from the Regional Council: City of Canning in June 2010, City of Rockingham in June 2012, the City of Cockburn in June 2019 and City of Kwinana in June 2021.

(a) Existing Undertakings

The historical annual contributions made by Participants to the Existing Undertakings are used to determine the proportional contribution percentage of each Participant to the Existing Undertakings.

The Town's share as at 30 June 2022:

SMRC Existing Undertakings Proportional Equity Share **5.37%**

(b) Regional Resource Recovery Centre (RRRC) Project

RRRC Project Participants shall make an annual contribution towards the acquisition of any asset of a capital nature required by the Project, plus pay gate fees for each tonne of waste they deliver to the facility to cover the operating costs.

The annual contribution shall be an amount which bears the same proportion to the cost of the acquisition disclosed in the Project Budget for the financial year as the Population of the Project Participant bears to the total of the Populations of all Project Participants.

The capital costs for each participating Local Government member is based on the Australian Bureau of Statistics population statistics. Each project participant will develop equity in the project equal to the relevant proportion of the total capital loan repayments made by that project participant.

The Town's share as at 30 June 2022:

RRRC Project Proportional Equity Share **5.36%**

RRRC - Lending Facility

The Capital construction of the RRRC facility was funded by borrowings from Western Australian Treasury Corporation (WATC).

The lending facility will be fully repaid on 30 June 2023.

The SMRC administer the borrowings with the project participants making quarterly contributions equal to the repayment costs of these borrowings.

The Town guaranteed by way of agreement to its share of the loan liability to the SMRC and the WATC. The Town's estimated share of the project funding is based on population percentages as derived from the Australian Bureau of Statistics census. These are revised yearly over the life of the lending facility.

As at 30 June 2022, the balance outstanding against the lending facility stood at:
 with the Town's share of this liability being:
 using the current cost/profit sharing percentage of:

\$3,230,389
\$98,204
3.04%

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

20. INVESTMENT IN ASSOCIATES (Continued)

(b) Share of Investment in SMRC (Continued)

(c) Office Accommodation Project

The Office Accommodation Project pertains to SMRC's Office located at 9 Aldous Place, Booragoon, Western Australia.

The Town's equity share of the project is based on proportional population.

The Town's share as at 30 June 2022:

Office Accommodation Project Proportional Equity Share

5.43%

Office Accommodation - Lending facility

As a SMRC participant, the Town has guaranteed by way of security to the Western Australian Treasury Corporation, a charge over its' general funds for its' share of any outstanding debenture borrowings provided for the SMRC administration building at 9 Aldous Place Booragoon. This facility has a limit of \$2 million.

As at 30 June 2022, the balance outstanding against the lending facility stood at:

with the Town's share of this liability being:
 using the current cost/profit sharing percentage of:

\$1,800,000

\$99,537

5.53%

Summarised statement of comprehensive income (SMRC)

| | 2022 Actual \$ | 2021 Audited* \$ | 2021 Unaudited** \$ |
|---|----------------------|------------------------|---------------------------|
| Revenue | 17,412,446 | 33,576,555 | |
| Interest income | 20,805 | 37,894 | |
| Interest expense | (543,876) | (702,177) | |
| Depreciation | (4,258,623) | (3,862,654) | |
| Profit/(loss) from continuing operations | (3,743,717) | 3,601,738 | |
| Profit/(loss) for the period | (3,743,717) | 3,601,738 | |
| Other comprehensive income | 758,174 | 240,092 | |
| Total comprehensive income for the period | (2,985,543) | 3,841,830 | |

Summarised statement of financial position (SMRC)

| | | | |
|-------------------------------|------------|------------|------------|
| Current Assets | 18,601,201 | 21,796,742 | 21,290,734 |
| Non-current assets | 32,224,485 | 38,176,952 | 36,487,183 |
| Total assets | 50,825,686 | 59,973,694 | 57,777,917 |
| | | | |
| Current liabilities | 6,310,750 | 8,789,409 | 8,283,402 |
| Total non-current liabilities | 11,236,836 | 14,934,142 | 14,934,143 |
| Total liabilities | 17,547,586 | 23,723,551 | 23,217,545 |

Net assets (SMRC)

| | | | |
|---|-------------|------------|------------|
| Reconciliation to carrying amounts (SMRC) | 33,278,100 | 36,250,143 | 34,560,372 |
| Opening net assets 1 July | 36,250,143 | 32,408,313 | 32,408,313 |
| Profit/(Loss) for the period | (3,743,717) | 3,601,738 | 1,911,967 |
| Other comprehensive income | 758,174 | 240,092 | 240,092 |
| Correction of Error 2020-21 | 13,500 | 0 | 0 |
| Closing net assets 1 July | 33,278,100 | 36,250,143 | 34,560,372 |

Carrying amount at 1 July (ToEF Investment in Associate)

- Share of associates net profit/(loss) for the period
- Change to Accounting Estimate from Prior Year
- Share of associates other comprehensive income arising during the period

Carrying amount at 30 June (Refer to Note 20.(a))

| | | |
|------------------|------------------|------------------|
| 1,429,853 | 1,094,618 | 1,094,618 |
| (103,279) | 264,988 | 249,837 |
| 15,151 | 74,930 | 74,930 |
| 40,718 | 10,468 | 10,468 |
| 1,382,443 | 1,445,004 | 1,429,853 |

* 2021 Actuals have been restated for the purposes of this note only showing the audited results of the SMRC.

**Due to the timing of information received by SMRC and finalising of the Town's financial statements, the Town accounts for unaudited financial information provided by the SMRC (Accounting Estimate). Any changes in the accounting estimate between the audited and unaudited accounts of the SMRC are accounted for in the following financial year.

In 2020/21 the Town provided for a share of associates net profit/(loss) of \$249,837 (unaudited), whereas the audited accounts provided for a share of associates net profit/(loss) of \$264,988. A difference of \$15,151 has been accounted for in the 2021/22 financial year, offset by the 2021/22 share of associates net profit/(loss) of (\$62,561).

The share of associates net profit/(loss) and comprehensive income of (\$47,410) is presented in the 2021/22 financial year.

The asset value of Investments in Associates (SMRC) presented in the 2021 Annual Financial Statements was \$1,429,853 (unaudited) versus the \$1,445,004 audited value presented in this Note. In accordance with AASB 108 - changes in accounting estimates, prior year actuals have not been amended throughout the remainder of the 2021/22 Financial Statements.

SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity over which the Town has the power to participate in the financial and operating policy decisions of the investee but not control or joint control of those policies.

Investments in associates are accounted for using the equity method. The equity method of accounting, is whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Town's share of net assets of the associate. In addition, the Town's share of the profit or loss of the associate is included in the Town's profit or loss.

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

21. FINANCIAL RISK MANAGEMENT

This note explains the Town's exposure to financial risks and how these risks could affect the Town's future financial performance.

| Risk | Exposure arising from | Measurement | Management |
|-------------------------------------|---|-----------------------------------|--|
| Market risk - interest rates | Long term borrowings at variable rates | Sensitivity analysis | Utilise fixed interest rate borrowings |
| Credit risk | Cash and cash equivalents, trade receivables, financial assets and debt investments | Aging analysis Credit analysis | Diversification of bank deposits, credit limits. Investment policy |
| Liquidity risk | Borrowings and other liabilities | Rolling cash flow forecasts | Availability of committed credit lines and borrowing facilities |

The Town does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by the finance area under policies approved by the Council. The finance area identifies, evaluates and manages financial risks in close co-operation with the operating divisions. Council have approved the overall risk management policy and provide policies on specific areas such as investment policy.

(a) Interest rate risk

Cash and cash equivalents

The Town's main interest rate risk arises from cash and cash equivalents with variable interest rates, which exposes the Town to cash flow interest rate risk. Short term overdraft facilities also have variable interest rates however these are repaid within 12 months, reducing the risk level to minimal.

Excess cash and cash equivalents are invested in fixed interest rate term deposits which do not expose the Town to cash flow interest rate risk. Cash and cash equivalents required for working capital are held in variable interest rate accounts and non-interest bearing accounts. Carrying amounts of cash and cash equivalents at the 30 June and the weighted average interest rate across all cash and cash equivalents, term deposits, and Treasury bonds held disclosed as financial assets at amortised cost are reflected in the table below.

| | Weighted Average Interest Rate | Carrying Amounts | Fixed Interest Rate | Variable Interest Rate | Non Interest Bearing |
|---------------------------|---------------------------------------|-------------------------|----------------------------|-------------------------------|-----------------------------|
| | % | \$ | \$ | \$ | \$ |
| 2022 | | | | | |
| Cash and cash equivalents | 1.37% | 7,067,665 | 3,182,592 | 2,402,000 | 1,483,073 |
| 2021 | | | | | |
| Cash and cash equivalents | 0.04% | 3,711,886 | 1,484,665 | 1,818,287 | 408,934 |

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

| | 2022 | 2021 |
|--|-------------|-------------|
| | \$ | \$ |
| Impact of a 1% movement in interest rates on profit and loss and equity* | 24,020 | 18,183 |

* Holding all other variables constant

Borrowings

Borrowings are subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. The Town manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation. The Town does not consider there to be any interest rate risk in relation to borrowings. Details of interest rates applicable to each borrowing may be found at Note 27(a).

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

21. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Trade and Other Receivables

The Town's major receivables comprise rates annual charges and user fees and charges. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The Town manages this risk by monitoring outstanding debt and employing debt recovery policies. It also encourages ratepayers to pay rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of the Town to recover these debts as a secured charge over the land, that is, the land can be sold to recover the debt. Whilst the Town was historically able to charge interest on overdue rates and annual charges at higher than market rates, which further encourage payment.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

The Town applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, rates receivable are separated from other trade receivables due to the difference in payment terms and security for rates receivable.

The expected loss rates are based on the payment profiles of rates and fees and charges over a period of 36 months before 1 July 2021 or 1 July 2022 respectively and the corresponding historical losses experienced within this period. Historical credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors such as the ability of ratepayers and residents to settle the receivables. Housing prices and unemployment rates have been identified as the most relevant factor in repayment rates, and accordingly adjustments are made to the expected credit loss rate based on these factors.

The loss allowance as at 30 June 2022 and 30 June 2021 for rates receivables was determined as follows:

| | Current | More than 1 year past due | Total | Note |
|-----------------------|---------|---------------------------|---------|------|
| 30 June 2022 | | | | |
| Rates receivable | | | | |
| Expected credit loss | 0.00% | 0.00% | | |
| Gross carrying amount | 0 | 76,390 | 76,390 | |
| Loss allowance | 0 | 0 | 0 | 5 |
| 30 June 2021 | | | | |
| Rates receivable | | | | |
| Expected credit loss | 0.00% | 0.00% | | |
| Gross carrying amount | 0 | 162,223 | 162,223 | |
| Loss allowance | 0 | 0 | 0 | 5 |

The loss allowance as at 30 June 2022 and 30 June 2021 for infringement receivables was determined as follows:

| | Current | More than 30 days past due | More than 60 days past due | More than 90 days past due | Total | Note |
|-------------------------|---------|----------------------------|----------------------------|----------------------------|--------|------|
| 30 June 2022 | | | | | | |
| Infringement receivable | | | | | | |
| Expected credit loss | 14.05% | 23.25% | 32.36% | 40.50% | | |
| Gross carrying amount | 4,500 | 3,970 | 3,103 | 40,624 | 52,197 | |
| Loss allowance | 632 | 923 | 1,004 | 16,452 | 19,011 | 5 |
| 30 June 2021 | | | | | | |
| Infringement receivable | | | | | | |
| Expected credit loss | 22.34% | 46.57% | 64.63% | 0.00% | | |
| Gross carrying amount | 30,014 | 16,591 | 18,454 | 0 | 65,059 | |
| Loss allowance | 6,705 | 7,726 | 11,927 | 0 | 26,358 | 5 |

The loss allowance as at 30 June 2022 and 30 June 2021 was determined as follows for trade receivables.

| | Current | More than 30 days past due | More than 60 days past due | More than 90 days past due | Total |
|-----------------------------|---------|----------------------------|----------------------------|----------------------------|--------|
| 30 June 2022 | | | | | |
| Trade and other receivables | | | | | |
| Expected credit loss | 0.00% | 0.00% | 0.00% | 0.00% | |
| Gross carrying amount | 2,815 | 0 | 0 | 0 | 2,815 |
| Loss allowance | 0 | 0 | 0 | 0 | 0 |
| 30 June 2021 | | | | | |
| Trade and other receivables | | | | | |
| Expected credit loss | 0.00% | 0.00% | 0.00% | 0.00% | |
| Gross carrying amount | 10,512 | 226 | 0 | 6,064 | 16,802 |
| Loss allowance | 0 | 0 | 0 | 0 | 0 |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

21. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

The loss allowances for trade receivables reconcile to the opening loss allowances as follows. The Town does not have any Contract Assets and does not recognise ECL on Rates Receivables as detailed above.

| | Rates receivable | | Trade and other receivables | |
|---|------------------|----------------|-----------------------------|----------------|
| | 2022 Actual | 2021 Actual | 2022 Actual | 2021 Actual |
| | \$ | \$ | \$ | \$ |
| Opening loss allowance as at 1 July | 0 | 0 | 26,358 | |
| Increase in loss allowance recognised in profit or loss during the year | 0 | 0 | 0 | 0 |
| Receivables written off during the year as uncollectible | | 0 | (8,328) | |
| Unused amount reversed | 0 | 0 | 981 | 26,358 |
| Closing loss allowance at 30 June | 0 | 0 | 19,011 | 26,358 |

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Town, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(c) Fair Value of Financial Assets and Liabilities

For each class of financial assets and liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits to be compared with its carrying amount.

Fair value is determined as follows:

Cash and Cash Equivalents, Other Financial Assets. Receivables, Payables - estimated to the carrying value which approximates net market value.

Borrowings - long term borrowings are generally discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles. The split between the current portion and non-current portion is \$98,204 current and \$99,537 non-current. These cash flows therefore haven't been discounted as the fair value is considered approximate to the carrying value, with any variance considered negligible.

The Town held the following financial instruments at balance date:

| | Carrying Value 2022 | Fair Value 2022 | Carrying Value 2021 | Fair Value 2021 |
|------------------------------|------------------------|--------------------|------------------------|--------------------|
| Financial Assets | | | | |
| Cash and Cash Equivalents | 7,067,665 | 7,067,665 | 3,711,886 | 3,711,886 |
| Trade and Other Receivables | 348,248 | 348,248 | 359,048 | 359,048 |
| Other Financial Assets | 129,903 | 129,903 | 135,134 | 135,134 |
| | 7,545,816 | 7,545,816 | 4,206,068 | 4,206,068 |
| Financial Liabilities | | | | |
| Trade and Other Payables | 1,854,813 | 1,854,813 | 1,192,841 | 1,192,841 |
| Borrowings | 197,741 | 197,741 | 279,296 | 279,296 |
| Lease Liabilities | 254,804 | 254,804 | 291,264 | 291,264 |
| Other Liabilities | 1,801,616 | 1,801,616 | 328,153 | 328,153 |
| | 4,108,974 | 4,108,974 | 2,091,554 | 2,091,554 |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

21. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk

Payables and borrowings

Payables and borrowings are both subject to liquidity risk – that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. The Town manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can be extended and overdraft facilities drawn upon if required and disclosed in Note 16(c).

The contractual undiscounted cash flows of the Town's payables and borrowings are set out in the liquidity table below. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Due within 1 year | Due between 1 & 5 years | Due after 5 years | Total contractual cash flows | Carrying values |
|--------------------------|----------------------------------|--|----------------------------------|---|----------------------------|
| <u>2022</u> | \$ | \$ | \$ | \$ | \$ |
| Trade and other payables | 1,854,813 | 0 | 0 | 1,854,813 | 1,854,813 |
| Borrowings | 98,204 | 99,537 | 0 | 197,741 | 197,741 |
| Lease liabilities | 44,546 | 178,185 | 51,971 | 274,701 | 254,804 |
| Other Liabilities | 1,801,616 | 0 | 0 | 1,801,616 | 1,801,616 |
| | 3,799,179 | 277,722 | 51,971 | 4,128,871 | 4,108,974 |
| <u>2021</u> | | | | | |
| Trade and other payables | 1,192,841 | 0 | 0 | 1,192,841 | 1,192,841 |
| Borrowings | 104,343 | 174,953 | 0 | 279,296 | 279,296 |
| Lease liabilities | 44,546 | 178,185 | 96,517 | 319,248 | 291,264 |
| Other Liabilities | 328,153 | 0 | 0 | 328,153 | 328,153 |
| | 1,669,883 | 353,138 | 96,517 | 2,119,538 | 2,091,554 |

**TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022**

22. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

An auction for the sale of lots 128 and 128A George Street (land and buildings) was held on 13 August 2022.

The auction resulted in a contract of sale being entered into for both lots totalling \$1.85m excluding GST, with settlement completed on 29 September 2022. The sale is a non-adjusting event for the year ended 30 June 2022 as the lots were sold at auction and the sale price was not known at the reporting date.

The Town is not aware of any other material events occurring after the end of the reporting period that may impact these financial statements.

**TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022**

23. OTHER SIGNIFICANT ACCOUNTING POLICIES

a) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

b) Current and non-current classification

The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Town's operational cycle. In the case of liabilities where the Town does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current or non-current based on the Town's intentions to release for sale.

c) Rounding off figures

All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar. Amounts are presented in Australian Dollars.

d) Comparative figures

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

When the Town applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements that has a material effect on the statement of financial position, an additional (third) Statement of Financial Position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

e) Budget comparative figures

Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the original budget estimate for the relevant item of disclosure.

f) Superannuation

The Town contributes to a number of Superannuation Funds on behalf of employees. All funds to which the Town contributes are defined contribution plans.

g) Fair value of assets and liabilities

Fair value is the price that the Town would receive to sell the asset or would have to pay to transfer a liability, in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

h) Interest earnings

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset measured at amortised cost except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

i) Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurement into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Town selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Town are consistent with one or more of the following valuation approaches:

Market approach

Valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

Income approach

Valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

Cost approach

Valuation techniques that reflect the current replacement cost of the service capacity of an asset.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Town gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

j) Impairment of assets

In accordance with Australian Accounting Standards the Town's cash generating non-specialised 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 impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. AASB 116) whereby any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

For non-cash generating specialised assets that are measured under the revaluation model, such as roads, drains, public buildings and the like, no annual assessment of impairment is required. Rather AASB 116.31 applies and revaluations need only be made with sufficient regularity to ensure the carrying value does not differ materially from that which would be determined using fair value at the end of the reporting period.

k) Initial application of accounting standards

During the current year, no new or revised Australian Accounting Standards and Interpretations were compiled, became mandatory and were applicable to its operations.

New accounting standards for application in future years

The following new accounting standards will have application to local government in future years:

- AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current
- AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments
- AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting Policies or Definition of Accounting Estimates
- AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

It is not expected these standards will have an impact on the financial report.

**TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022**

24. FUNCTION AND ACTIVITY

(a) Service objectives and descriptions

The Towns' operations as disclosed in this financial report encompass the following service orientated functions and activities.

| Objective | Description |
|--|---|
| Governance To provide a decision making process for the efficient allocation of scarce resources. | Includes the activities of members of Council and the administrative support available assisting elected members and ratepayers on matters which do not concern specific council services but are strategic in nature. |
| General purpose funding To collect revenue to allow for the allocation to services. | Rating, general purpose government grants and interest revenue. |
| Law, order, public safety To provide services to ensure bushfire prevention, animal control and community safety. | Supervision and enforcement of various local laws and acts relating to fire prevention, animal control and other aspects of public safety including emergency services. |
| Health To provide an operational framework for environmental and community health. | Inspection of food outlets and their control, food quality testing, pest control, noise control, waste disposal compliance and child health services. |
| Education and welfare To provide assistance to senior citizens welfare and home and community care. | Provision and maintenance of home and community care programs including in home care, senior outings and respite. |
| Housing To assist with housing for staff and the community. | Provision and maintenance of residential rental properties. |
| Community amenities To provide community amenities and other infrastructure as required by the community. | Rubbish collection, recycling and disposal, joint maintenance of SMRC waste management facility, administration of Town Planning Schemes, heritage protection and townscapes, maintenance of urban stormwater drainage and protection of the environment. |
| Recreation and culture To plan, establish and efficiently manage sport and recreation infrastructure and resources which will help the social well being and health and community. | The provision and maintenance of various community infrastructure including public halls, recreation grounds, sports pavillions, playgrounds, parks, gardens, beaches and the joint operation of the City of Fremantle Library. |
| Transport To provide safe, effective and efficient transport infrastructure to the community. | Construction and maintenance of streets, roads, footpaths, depots, cycleways, street trees, parking facilities, traffic control, cleaning and lighting of streets. |
| Economic services To help promote the Town and improve its economic wellbeing. | The regulation and provision of tourism, area promotion activities and building control. |
| Other property and services To monitor and control plant and depot operations, and to provide other property services not included elsewhere. | Private works operation, plant operating costs, depot operations and unclassified property functions. |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

24. FUNCTION AND ACTIVITY (Continued)

(b) Income and expenses

| | 2022 Actual | 2022 Budget | 2021 Actual |
|---|---------------------|---------------------|---------------------|
| | \$ | \$ | \$ |
| Income excluding grants, subsidies and contributions | | | |
| Governance | 25,457 | 25,194 | 11,485 |
| General purpose funding | 8,435,329 | 8,489,211 | 8,122,150 |
| Law, order, public safety | 29,268 | 27,000 | 30,692 |
| Health | 19,320 | 36,420 | 17,847 |
| Education and welfare | 136,835 | 208,290 | 153,666 |
| Housing | 88,042 | 78,500 | 83,451 |
| Community amenities | 200,468 | 191,759 | 207,866 |
| Recreation and culture | 321,388 | 329,747 | 301,592 |
| Transport | 493,038 | 462,010 | 316,921 |
| Economic services | 143,378 | 130,000 | 447,556 |
| Other property and services | 116,832 | 59,339 | 98,395 |
| | 10,009,355 | 10,037,470 | 9,791,621 |
| Grants, subsidies and contributions | | | |
| Governance | 0 | 0 | 0 |
| General purpose funding | 318,011 | 108,828 | 248,432 |
| Law, order, public safety | 0 | 0 | 0 |
| Health | 0 | 0 | 0 |
| Education and welfare | 615,559 | 591,000 | 601,748 |
| Housing | 0 | 0 | 0 |
| Community amenities | 18,599 | 56,076 | 43,554 |
| Recreation and culture | 1,026,470 | 10,253,336 | 239,466 |
| Transport | 259,964 | 293,181 | 215,036 |
| Economic services | 0 | 0 | 0 |
| Other property and services | 0 | 0 | 0 |
| | 2,238,603 | 11,302,421 | 1,348,236 |
| Total Income | 12,247,958 | 21,339,891 | 11,139,857 |
| Expenses | | | |
| Governance | (1,229,792) | (1,308,739) | (1,321,750) |
| General purpose funding | (97,296) | (134,050) | (108,820) |
| Law, order, public safety | (171,463) | (192,744) | (184,664) |
| Health | (220,160) | (210,931) | (213,215) |
| Education and welfare | (1,110,593) | (1,160,391) | (1,034,104) |
| Housing | (41,591) | (40,650) | (41,007) |
| Community amenities | (2,667,571) | (3,010,434) | (2,698,203) |
| Recreation and culture | (2,810,142) | (2,954,981) | (2,918,931) |
| Transport | (2,611,820) | (2,847,092) | (2,768,421) |
| Economic services | (137,074) | (156,050) | (135,276) |
| Other property and services | (238,929) | (178,511) | (195,688) |
| Total expenses | (11,336,431) | (12,194,573) | (11,620,079) |
| Net result for the period | 911,527 | 9,145,318 | (480,222) |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

24. FUNCTION AND ACTIVITY (Continued)

(c) Fees and Charges

| | 2022 Actual | 2022 Budget | 2021 Actual |
|-----------------------------|------------------|------------------|------------------|
| | \$ | \$ | \$ |
| General purpose funding | 60,632 | 95,000 | 84,663 |
| Governance | 1,382 | 0 | 130 |
| Law, order, public safety | 29,268 | 27,000 | 30,691 |
| Health | 19,321 | 21,900 | 17,847 |
| Education and welfare | 136,835 | 167,370 | 152,234 |
| Housing | 88,359 | 77,000 | 82,249 |
| Community amenities | 200,468 | 186,000 | 207,867 |
| Recreation and culture | 278,163 | 261,310 | 275,215 |
| Transport | 356,027 | 325,000 | 316,922 |
| Economic services | 143,198 | 126,800 | 120,805 |
| Other property and services | 68,385 | 41,250 | 44,518 |
| | 1,382,038 | 1,328,630 | 1,333,141 |

(d) Total Assets

| | 2022 | 2021 |
|-----------------------------|-------------------|-------------------|
| | \$ | \$ |
| Governance | 11,277,049 | 10,876,360 |
| General purpose funding | 4,735,822 | 2,961,841 |
| Law, order, public safety | 25,399 | 38,261 |
| Health | 182,968 | 193,786 |
| Education and welfare | 2,272,292 | 2,137,869 |
| Housing | 197,143 | 213,571 |
| Community amenities | 1,992,730 | 2,107,935 |
| Recreation and culture | 21,832,642 | 21,464,434 |
| Transport | 36,327,245 | 35,180,555 |
| Economic services | 95,290 | 35,821 |
| Other property and services | 2,496,398 | 1,971,281 |
| | 81,434,978 | 77,181,714 |

Attachment 1

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

25. RATING INFORMATION

(a) General Rates

| RATE TYPE Rate Description | Basis of valuation | Rate in \$ | Number of Properties | 2021/22 Actual Rateable Value * | 2021/22 Actual Rate Revenue | 2021/22 Actual Interim Rates | 2021/22 Actual Back Rates | 2021/22 Actual Total Revenue | 2021/22 Budget Rate Revenue | 2021/22 Budget Interim Rate | 2021/22 Budget Back Rate | 2021/22 Budget Total Revenue | 2020/21 Actual Total Revenue |
|--|------------------------|---------------|----------------------------|--|--------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| | | | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Residential | Gross rental valuation | 0.076377 | 2,969 | 86,471,538 | 6,573,973 | 20,736 | 1,111 | 6,595,820 | 6,570,499 | 20,000 | 0 | 6,590,499 | 6,363,366 |
| Commercial | Gross rental valuation | 0.113749 | 114 | 11,541,770 | 1,312,822 | 621 | 0 | 1,313,443 | 1,304,450 | 0 | 0 | 1,304,450 | 1,279,790 |
| Sub-Total | | | 3,083 | 98,013,308 | 7,885,795 | 21,357 | 1,111 | 7,909,263 | 7,874,949 | 20,000 | 0 | 7,894,949 | 7,643,156 |
| Minimum payment | | | | | | | | | | | | | |
| Residential | Gross rental valuation | 1.138 | 329 | 4,219,274 | 374,402 | 0 | 0 | 374,402 | 375,540 | 0 | 0 | 375,540 | 368,611 |
| Commercial | Gross rental valuation | 1.702 | 11 | 117,220 | 18,722 | 0 | 0 | 18,722 | 18,722 | 0 | 0 | 18,722 | 19,342 |
| Sub-Total | | | 340 | 4,336,494 | 393,124 | 0 | 0 | 393,124 | 394,262 | 0 | 0 | 394,262 | 368,253 |
| | | | | | | | | | | | | | |
| | | | 3,423 | 102,349,802 | 8,276,919 | 21,357 | 1,111 | 8,302,387 | 8,269,211 | 20,000 | 0 | 8,289,211 | 8,031,409 |
| Concessions on general rates (Refer note 25(b)) | | | | | | | | | 0 | | | 0 | |
| Total amount raised from general rates | | | | | | | | | 8,302,387 | | | 8,289,211 | 7,988,354 |
| * Rateable value is based on the value of properties at the time the rate is raised. | | | | | | | | | | | | | |
| Total Rates | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |

The entire balance of rates revenue has been recognised at a point in time in accordance with AASB 1058 *Income for not-for-profit entities*.

Attachment 1

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

25. RATING INFORMATION (Continued)

(b) Discounts, Incentives, Concessions, & Write-offs

Waivers or Concessions

| <u>Rate or Fee and Charge to which the Waiver or Concession is Granted</u> | <u>Type</u> | <u>Waiver/ Concession</u> | <u>Discount %</u> | <u>Discount \$</u> | <u>2022 Actual</u> | <u>2022 Budget</u> | <u>2021 Actual</u> |
|--|-------------|---------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| GRV Commercial - Sporting Clubs | Rate | Concession | 25.00% | | 0 | 0 | 43,055 |
| | | | | | 0 | 0 | 43,055 |

Total discounts/concessions (Note 25)

| <u>Rate or Fee and Charge to which the Waiver or Concession is Granted</u> | <u>Circumstances in which the Waiver or Concession is Granted and to whom it was available</u> | <u>Objects and reasons of the Waiver or Concession</u> |
|--|--|---|
| GRV Commercial - Sporting Clubs | Where properties are categorised as 'Sporting Clubs - Commercial' | Due to the economic impact arising from social distancing, and the cessation of club activities, the Town provided rate relief for the 2020/21 financial year in accordance with the Rates Concession Policy. |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

25. RATING INFORMATION (Continued)

(c) Interest Charges & Instalments

| Instalment Options | Date Due | Instalment Plan | Instalment Plan | Unpaid Rates |
|-----------------------------|------------|--------------------|--------------------|--------------------|
| | | Admin Charge \$ | Interest Rate % | Interest Rate % |
| Option One | | | | |
| Single full payment | 23/08/2021 | 0.0 | 0.00% | 7.00% |
| Option Two | | | | |
| First instalment | 23/08/2021 | 0.0 | 0.00% | 7.00% |
| Second instalment | 3/01/2022 | 16.5 | 5.50% | 7.00% |
| Option Three | | | | |
| First instalment | 23/08/2021 | 0.0 | 0.00% | 7.00% |
| Second instalment | 25/10/2021 | 16.5 | 5.50% | 7.00% |
| Third instalment | 3/01/2022 | 16.5 | 5.50% | 7.00% |
| Fourth instalment | 28/02/2022 | 16.5 | 5.50% | 7.00% |
| | | | | |
| | | 2022 Actual | 2022 Budget | 2021 Actual |
| | | \$ | \$ | \$ |
| Interest on unpaid rates | | 17,523 | 35,000 | 37,046 |
| Interest on instalment plan | | 34,621 | 40,000 | 0** |
| Charges on instalment plan | | 37,125 | 40,000 | 37,670 |
| | | 89,268 | 115,000 | 74,716 |

** As a COVID19 relief measure, Council resolved not to impose interest on instalments for 20/21

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

26. RATE SETTING STATEMENT INFORMATION

| Note | \$ | 2021/22 | | 2021/22 (1 July 2021) | 2020/21 (30 June 2021) | | | |
|--|-------|---------------------------|--------------------------|--------------------------|---------------------------|--|--|--|
| | | 2021/22 (30 June 2022) | Budget (30 June 2022) | | | | | |
| (a) Non-cash amounts excluded from operating activities | | | | | | | | |
| The following non-cash revenue or expenditure has been excluded from amounts attributable to operating activities within the Rate Setting Statement in accordance with <i>Financial Management Regulation 32</i> . | | | | | | | | |
| Adjustments to operating activities | | | | | | | | |
| Less: Profit on asset disposals | 9(b) | (32,651) | (148,940) | (1,430) | (1,430) | | | |
| Less: Population adjustment to SMRC Loan Balance | | 21,549 | 0 | (2,522) | (2,522) | | | |
| Less: Fair value adjustments to financial assets at fair value through profit and loss | | (3,997) | 0 | (2,586) | (2,586) | | | |
| Less: Share of net profit of associates and joint ventures accounted for using the equity method | | 47,410 | 0 | (324,767) | (324,767) | | | |
| Add: Loss on disposal of assets | 9(b) | 4,738 | 0 | 80,927 | 80,927 | | | |
| Add: Depreciation | 9(a) | 2,071,668 | 2,571,177 | 2,513,795 | 2,513,795 | | | |
| Non-cash movements in non-current assets and liabilities: | | | | | | | | |
| Pensioner deferred rates | | (20,339) | 0 | 6,315 | 6,315 | | | |
| Assets held for sale (Impairment Fair Value less Costs to Sell) | | 27,329 | 0 | 0 | 0 | | | |
| Employee benefit provisions | | (11,915) | 0 | (3,990) | (3,990) | | | |
| Non-current receivables | | (10,923) | 0 | 3,000 | 3,000 | | | |
| Non-cash amounts excluded from operating activities | | 2,092,869 | 2,422,237 | 2,268,742 | 2,268,742 | | | |
| (b) Surplus/(deficit) after imposition of general rates | | | | | | | | |
| The following current assets and liabilities have been excluded from the net current assets used in the Rate Setting Statement in accordance with <i>Financial Management Regulation 32</i> to agree to the surplus/(deficit) after imposition of general rates. | | | | | | | | |
| Adjustments to net current assets | | | | | | | | |
| Less: Reserve accounts | 28 | (2,484,209) | (1,870,090) | (985,793) | (985,793) | | | |
| Less: Restricted cash - contract liabilities | | 0 | 0 | 0 | (316,844) | | | |
| Less: Assets Held for Sale | 6 | (1,442,619) | 0 | 0 | 0 | | | |
| Add: Current liabilities not expected to be cleared at end of year | | | | | | | | |
| - Current portion of borrowings | 13 | 98,204 | 95,160 | 104,343 | 104,343 | | | |
| - Current portion of contract liability | | 0 | 0 | 0 | 0 | | | |
| - Current portion of lease liabilities | 10(b) | 38,617 | 45,000 | 37,499 | 37,499 | | | |
| Total adjustments to net current assets | | (3,790,007) | (1,729,930) | (843,951) | (1,160,795) | | | |
| Net current assets used in the Rate Setting Statement | | | | | | | | |
| Total current assets | | 8,814,784 | 4,649,495 | 4,067,675 | 4,067,675 | | | |
| Less: Total current liabilities | | (4,511,956) | (2,919,565) | (2,330,631) | (2,330,631) | | | |
| Less: Total adjustments to net current assets | | (3,790,007) | (1,729,930) | (843,951) | (1,160,795) | | | |
| Net current assets used in the Rate Setting Statement | | 512,821 | 0 | 893,093 | 576,249 | | | |

The Town has corrected its methodology for the calculation of net current assets, to appropriately account for contract liabilities held as restricted cash.

The Annual Financial Statements for the year ended 30 June 2021 stipulated net current assets of \$576,249 as at 30 June 2021. This has been amended to \$893,093, a variance \$316,844. This amount has been backed out from the Rate Setting Statement as a "Transfer to Restricted Assets" and similarly backed out of the "Adjustment to Net Current Assets" above. Restricted assets or liabilities associated with restricted cash should be excluded from the NCA calculation (i.e. contra amendment)

Attachment 1

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

27. BORROWING AND LEASE LIABILITIES

(a) Borrowings

| Purpose | Note | Actual | | | | | | Budget | | | | | | |
|--|-----------|--------------------------|--------------------------|-------------------------------------|---|---------------------------|--------------------------|-------------------------------------|---|---------------------------|--------------------------|--------------------------|-------------------------------------|---------------------------|
| | | Principal at 1 July 2020 | New Loans During 2020-21 | Principal Repayments During 2020-21 | Population Adjustment to Loan Principal | Principal at 30 June 2021 | New Loans During 2021-22 | Principal Repayments During 2021-22 | Population Adjustment to Loan Principal | Principal at 30 June 2022 | Principal at 1 July 2021 | New Loans During 2021-22 | Principal Repayments During 2021-22 | Principal at 30 June 2022 |
| SMRC - Regional Resource Recovery Centre Loan | | 205,770 | 0 | (100,821) | (1,442) | 203,516 | 0 | (103,104) | (2,208) | 98,204 | 313,145 | 0 | (95,160) | 217,985 |
| SMRC - Administration Building (9 Addis Place, Boodagoon) Loan | | 76,860 | 0 | 0 | (1,080) | 75,780 | 0 | 0 | 23,757 | 99,537 | 48,240 | 0 | 0 | 48,240 |
| East Fremantle Oval Redevelopment | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,000,000 | 0 | 5,000,000 |
| Total Borrowings | 13 | 382,639 | 0 | (100,821) | (2,522) | 279,266 | 0 | (103,104) | 21,549 | 197,741 | 361,395 | 5,000,000 | (95,160) | 5,265,225 |

* Share of SMRC Loan Liability is adjusted annually based on proportional population of member local governments.

There is an obligation between the Town of East Fremantle and the Southern Metropolitan Regional Council (SMRC) to pay its share of the loan liability of the SMRC in respect of the Western Australian Treasury Corporation via the SMRC. A loan payable balance is to be recorded in the financial statements of the Town with the corresponding entry as an investment in associate. This determination is based on the Charge Agreement, with the Town's share of loan payment to SMRC formally established. In the event of default by the SMRC, the Town guarantees to pay its share of loan directly to the Western Australian Treasury Corporation.

Borrowing Interest Repayments

| Purpose | Note | Function and activity | Loan Number | Institution | Interest Rate | Actual for year ending 30 June 2022 | | | Budget for year ending 30 June 2022 | | | Actual for year ending 30 June 2021 | | |
|--|-------------|------------------------|-------------|-------------|---------------|-------------------------------------|--------------------|--------------------|-------------------------------------|--------------|--------------|-------------------------------------|--------------|--------------|
| | | | | | | 30 June 2022 | 30 June 2022 | 30 June 2022 | 30 June 2022 | 30 June 2022 | 30 June 2022 | 30 June 2021 | 30 June 2021 | 30 June 2021 |
| SMRC - Regional Resource Recovery Centre Loan | | Community amenities | Various | WATC | Various | \$ (7,140) | \$ (14,500) | \$ (11,172) | | | | | | |
| SMRC - Administration Building (9 Addis Place, Boodagoon) Loan | | Community amenities | 2-7 | WATC | 0.09% | 0 | 0 | 0 | | | | | | |
| East Fremantle Oval Redevelopment | | Recreation and culture | | | | 0 | 0 | 0 | | | | | | |
| Total Interest Repayments | 2(b) | | | | | \$ (7,146) | \$ (14,500) | \$ (11,172) | | | | | | |

(b) New Borrowings - 2021/22

The Town of East Fremantle did not undertake any new borrowings in the reporting period. Whilst the Town budgeted for a loan of \$5m for the EF Oval Redevelopment Project, funding was not required as the building contract has yet to be awarded.

(c) Unspent Borrowings

The Town of East Fremantle did not have any unspent borrowings as at the reporting date.

(d) Lease Liabilities

| Purpose | Note | Actual | | | | | | Budget | | | | | |
|----------------------------------|--------------|--------------------------|-------------------------------------|----------------|---------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------|--|--|
| | | Principal at 1 July 2020 | Principal Repayments During 2020-21 | CPI Adjustment | Principal at 30 June 2021 | CPI Adjustment | Principal Repayments During 2021-22 | Principal at 30 June 2022 | Principal at 1 July 2021 | Principal Repayments During 2021-22 | Principal at 30 June 2022 | | |
| River seabed (mooring pens) | | 322,923 | (29,387) | (2,292) | 291,264 | 1,081 | (37,551) | 254,804 | 277,923 | (45,000) | 232,923 | | |
| Total Lease Liabilities | 10(b) | 322,923 | (29,387) | (2,292) | 291,264 | 1,081 | (37,551) | 254,804 | 277,923 | (45,000) | 232,923 | | |
| Lease Interest Repayments | | | | | | | | | | | | | |
| Lease | | | | | | | | | | | | | |
| Purpose | Note | Function and activity | Lease Number | Institution | Interest Rate | Actual for year ending 30 June 2022 | Budget for year ending 30 June 2022 | Actual for year ending 30 June 2021 | Budget for year ending 30 June 2021 | Lease Term | | | |
| River seabed (mooring pens) | | Recreation and culture | N/A | Dep. Transport | 2.60% | \$ (7,074) | \$ (8,000) | \$ (7,078) | \$ (8,000) | 56 | | | |
| Total Interest Repayments | 2(b) | | | | | \$ (7,074) | \$ (8,000) | \$ (7,078) | \$ (8,000) | | | | |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

28. RESERVE ACCOUNTS

| | 2022 Actual Opening Balance | 2022 Actual Transfer to | 2022 Actual Transfer (from) | 2022 Actual Closing Balance | 2022 Budget Opening Balance | 2022 Budget | 2022 Budget Transfer to | 2022 Budget Closing Balance | 2021 Actual Opening Balance | 2021 Actual Transfer to | 2021 Actual Transfer (from) | 2021 Actual Closing Balance |
|--|--------------------------------------|-------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|----------------|-------------------------------|--------------------------------------|--------------------------------------|-------------------------------|--------------------------------------|--------------------------------------|
| Restricted by legislation/agreement | | | | | | | | | | | | |
| (a) Non Current Leave Entitlements Reserve | 10,000 | 0 | (10,000) | 0 | 10,000 | 0 | (10,000) | 0 | 10,000 | 0 | 0 | 10,000 |
| (b) Unspent Grants and Restricted Cash Reserve | 0 | 0 | 0 | 0 | 22,186 | 0 | (22,186) | 0 | 0 | 0 | 0 | 0 |
| (c) Vehicle, Plant and Equipment Reserve | 84,127 | 0 | (33,720) | 50,407 | 84,127 | 0 | (84,127) | 0 | 91,627 | 0 | (7,500) | 84,127 |
| (d) Aged Services Reserve | 11,803 | 0 | 0 | 11,803 | 11,803 | 0 | (11,803) | 0 | 176,803 | 0 | (165,000) | 11,803 |
| (e) Strategic Asset Management Reserve | 7,542 | 57,378 | 0 | 64,920 | 7,542 | 57,378 | 0 | 64,920 | 491,048 | 3,645 | (487,152) | 7,542 |
| (f) Arts and Sculpture Reserve | 156,772 | 0 | 0 | 156,772 | 156,772 | 45,000 | (70,000) | 131,772 | 171,772 | 0 | (15,000) | 156,772 |
| (g) Waste Reserve | 0 | 0 | 0 | 0 | 0 | 1,042,250 | (1,042,250) | 0 | 0 | 0 | 0 | 0 |
| (h) Committed Works Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (i) Streetscape Reserve | 75,000 | 0 | 0 | 75,000 | 75,000 | 0 | 0 | 75,000 | 50,000 | 25,000 | 0 | 75,000 |
| (j) Drainage Reserve | 150,000 | 100,000 | 0 | 250,000 | 150,000 | 100,000 | 0 | 250,000 | 0 | 150,000 | 0 | 150,000 |
| (i) East Fremantle Oval Redevelopment Reserve | 298,226 | 777,542 | 0 | 1,076,170 | 298,226 | 400,502 | 0 | 698,730 | 0 | 298,228 | 0 | 298,228 |
| (k) Preston Point Facilities Reserve | 35,821 | 59,469 | 0 | 95,290 | 35,821 | 100,000 | 0 | 135,821 | 0 | 100,000 | (64,178) | 35,821 |
| (l) Foreshore Master Plan Reserve | 0 | 270,000 | 0 | 270,000 | 0 | 100,000 | 0 | 100,000 | 0 | 0 | 0 | 0 |
| (m) Sustainability and Environmental Reserve | 90,000 | 120,337 | 0 | 210,337 | 90,000 | 120,337 | 0 | 210,337 | 0 | 80,000 | 0 | 90,000 |
| (n) Town Planning Reserve | 50,000 | 20,000 | 0 | 70,000 | 50,000 | 0 | 0 | 50,000 | 0 | 50,000 | 0 | 50,000 |
| (o) Business Improvement Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (o) Old Police Station Reserve | 16,500 | 0 | 0 | 16,500 | 16,500 | 24,000 | (24,000) | 16,500 | 0 | 24,000 | (7,500) | 16,500 |
| (p) Payment in Lieu of Parking Reserve | 0 | 137,010 | 0 | 137,010 | 0 | 137,010 | 0 | 137,010 | 0 | 0 | 0 | 0 |
| (q) Payment in Lieu of Public Open Space Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 985,793 | 1,542,136 | (43,720) | 2,484,209 | 1,007,979 | 2,126,477 | (1,284,366) | 1,870,090 | 991,251 | 740,873 | (746,331) | 985,793 |
| | 985,793 | 1,542,136 | (43,720) | 2,484,209 | 1,007,979 | 2,126,477 | (1,284,366) | 1,870,090 | 991,251 | 740,873 | (746,331) | 985,793 |

All reserves are supported by cash and cash equivalents and are restricted within equity as Reserves - cash backed.

In accordance with Council resolutions or adopted budget in relation to each reserve account, the purpose for which the reserves are set aside and their anticipated date of use are as follows:

| Name of Reserve | Anticipated date of use | Purpose of the reserve |
|--|----------------------------|--|
| (a) Non Current Leave Entitlements Reserve | 30-Jun-22 | To fund the non-current liability amount of annual, sick and long service leave entitlements accrued in previous financial years beyond the amount provided ongoing To restrict unspent grants and contributions at end of year. |
| (b) Unspent Grants and Restricted Cash Reserve | ongoing | To support the funding of vehicle, plant and equipment purchases. |
| (c) Vehicle, Plant and Equipment Reserve | ongoing | To retain surplus CHSP program funds for future periods, and to fund all activities and assets relating to the provision of this service. |
| (d) Aged Services Reserve | ongoing | To fund the acquisition of new and renewal of existing Town infrastructure, buildings and other assets. |
| (e) Strategic Asset Management Reserve | ongoing | To provide for the commissioning and purchase of public art works in accordance with the Town's Public Arts Strategy. |
| (f) Arts and Sculpture Reserve | ongoing | To fund and support waste management services, including but not limited to refuse collection, waste management initiatives and programs, infrastructure |
| (g) Waste Reserve | ongoing | To transfer unspent municipal expenditure on specific projects to enable identification of carryover expenditure into the next financial year. |
| (h) Committed Works Reserve | ongoing | To implement Streetscape initiatives including the redevelopment of George Street. |
| (i) Streetscape Reserve | ongoing | To fund drainage asset management requirements. |
| (j) Drainage Reserve | ongoing | To fund all costs associated with the redevelopment of the East Fremantle Oval precinct. |
| (i) East Fremantle Oval Redevelopment Reserve | ongoing | To fund all costs associated with the implementation of the Preston Point Facilities Master Plan. |
| (k) Preston Point Facilities Reserve | ongoing | To fund all costs associated with the implementation of the Foreshore Management Plan. |
| (l) Foreshore Master Plan Reserve | ongoing | To fund sustainability and environmental initiatives as well as support actions/recommendations from the Community Climate Action Plan. |
| (m) Sustainability and Environmental Reserve | ongoing | To fund planning and building works associated with the protection and amenity of the built environment. |
| (n) Town Planning Reserve | ongoing | To fund the implementation of business improvement initiatives including the Town's enterprise resource planning system. |
| (o) Business Improvement Reserve | ongoing | To receive the net income from the Old Police Station for building maintenance and renewal purposes. |
| (o) Old Police Station Reserve | ongoing | To receive and apply funds for payments received in lieu of parking. |
| (p) Payment in Lieu of Parking Reserve | ongoing | To receive payment from developers in lieu of land set aside for public open space, with funds to be applied in accordance with section 154 of the <i>Planning and Development Act 2005</i> . |
| (q) Payment in Lieu of Public Open Space Reserve | ongoing | |

**TOWN OF EAST FREMANTLE
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FOR THE YEAR ENDED 30 JUNE 2022**

29. TRUST FUNDS

Funds held at balance date which are required to be held in trust and which are not included in the financial statements are as follows:

| | 1 July 2021 | Amounts Received | Amounts Transferred to Reserve | 30 June 2022 |
|------------------------|--------------------|-------------------------|---------------------------------------|---------------------|
| | \$ | \$ | \$ | \$ |
| Developer Cash in Lieu | 137,010 | 0 | (137,010) | 0 |
| | 137,010 | 0 | (137,010) | 0 |

During the 2021/22 financial year, Developer Contributions received for cash in lieu of car parking were transferred to the Payment in Lieu of Parking reserve. This is in accordance with the Town's Annual Budget and satisfies the requirement set out in the *Planning and Development (Local Planning Schemes) Regulations 2015*.

**TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022**

30. MAJOR LAND TRANSACTIONS

(a) Details

The Town prepared and advertised a Business Plan in the 2020/21 financial year as per the requirements of section 3.59 of the *Local Government Act 1995*.

The Plan is to replace the ageing East Fremantle Oval infrastructure with an Integrated Community Sport and Leisure Facility and associated precinct.

Project Summary:

- The land is vested with the Town of East Fremantle as A Class Reserve
- Broad scope for requirements to include:
 - Walking tracks around the oval
 - Sports oval
 - Removal of perimeter fence
 - Indoor multi-purpose hall
 - New playgroup facilities
 - Outdoor 1/2 hard court
 - Outdoor adventure playground
 - Enclosed dog exercise area
 - Skate zone
- Improved community facilities including the oval tenant facilities as well as other amenities available for hire to the community.

The timetable is to build and open the proposed facility by early 2024.

(b) Current year transactions

| | 2022 Actual \$ | 2022 Budget \$ | 2021 Actual \$ |
|-----------------------------------|------------------------------|------------------------------|------------------------------|
| Revenue | | | |
| - Non-Operating Grant | 928,771 | 10,000,000 | 0 |
| - Borrowings | 0 | 5,000,000 | 0 |
| Expenditure | | | |
| - Professional Services/Cost Plan | (928,771) | (15,132,000) | 0 |
| | 0 | (132,000) | 0 |

The cost plan details a total project budget of \$32.5m including contingencies, funded as below:

| | |
|--|------------|
| State Government Grant | 25,000,000 |
| AFL Facilities Funding | 200,000 |
| Town of East Fremantle - Transfer from Reserves | 1,300,000 |
| Town of East Fremantle - Part Proceeds from Sale of 128 George | 1,000,000 |
| Town of East Fremantle - Loan Borrowings | 5,000,000 |
| | 32,500,000 |

TOWN OF EAST FREMANTLE
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

30. MAJOR LAND TRANSACTIONS

(c) Expected future cash flows

| | 2022 Actual | 2022/23 Budget | 2023/24 Budget |
|---|------------------|---------------------|---------------------|
| | \$ | \$ | \$ |
| Cash outflows | | | |
| Capital Expenditure - Project Build as per QS Report | (928,771) | (13,000,000) | (17,000,000) |
| Annual Principal and Interest Repayments | 0 | 0 | 0 |
| Operating Expenses | 0 | 0 | 0 |
| | (928,771) | (13,000,000) | (17,000,000) |
| Cash Inflows | | | |
| State Government Grant | 2,500,000 | 13,000,000 | 9,500,000 |
| AFL Facilities Funding | 0 | 0 | 200,000 |
| Town of East Fremantle - Transfer from Reserves | 0 | 0 | 1,300,000 |
| Town of East Fremantle - Part Proceeds from Sale of 128 George Street | 0 | 0 | 1,000,000 |
| Town of East Fremantle - Loan Borrowings | 0 | 0 | 5,000,000 |
| | 2,500,000 | 13,000,000 | 17,000,000 |
| Net cash flows | 1,571,229 | 0 | 0 |

The Business Plan includes the following 10-year cashflow forecast from the operations of the Facility.

Expected financial contribution from the Town for the first 10 years

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|-------------------|-----------------|-------------------|-------------------|-------------------|
| Net Profit | -\$300,792 | \$328,435 | \$95,978 | \$117,258 | \$139,564 |
| Contribution by others | \$180,792 | 0 | 0 | 0 | 0 |
| Finance Repayment | -\$307,947 | -\$307,947 | -\$307,947 | -\$307,947 | -\$307,947 |
| Total forecast payments by TOEF | -\$427,947 | \$20,488 | -\$211,969 | -\$190,689 | -\$168,383 |

| | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|--|-------------------|------------------|------------------|------------------|-----------------|
| Net Profit | \$182,793 | \$208,047 | \$234,480 | \$281,651 | \$330,877 |
| Finance Repayment | -\$307,947 | -\$307,947 | -\$307,947 | -\$310,351 | -\$307,947 |
| Total forecast payments by TOEF | -\$125,154 | -\$99,900 | -\$73,467 | -\$28,700 | \$22,930 |

31. TRADING UNDERTAKINGS AND MAJOR TRADING UNDERTAKINGS

The Town did not undertake any trading undertakings during the reporting period.

10.3 RISK REGISTER

| | |
|--------------------------------|---|
| Report Reference Number | ACR-352 |
| Prepared by | Bron Browning, Manager Corporate Services |
| Supervised by | Peter Kocian, Executive Manager Corporate Services |
| Meeting date | Wednesday, 2 November 2022 |
| Voting requirements | Simple Majority |
| Documents tabled | Nil |
| Attachments | <ol style="list-style-type: none"> 1. Dashboard Report |

PURPOSE

It is recommended that the Audit Committee determine parameters for risks to be captured in the Risk Register, to inform future reporting to the Audit Committee.

EXECUTIVE SUMMARY

The Audit Committee previously requested for the Risk Register to be reformatted to a more conventional Risk Register. This is currently a work in progress, using a 365 Application, and in order to finalise this Register, the Committee is requested to determine risk parameters.

BACKGROUND

The Town had been using a Risk Dashboard Excel Workbook developed by Local Government Insurance Services (Risk Management Team), however, the Audit Committee at its meeting on 22 February 2022 requested that consideration be made to presenting the information in a more concise and user-friendly format.

The Town engaged Smart Office Systems to develop a Risk Register and Contracts Register via a Microsoft 365 application that will enable the creation, management and review of the registers. The first iteration of the Risk Register and Dashboard is attached for the Committee's review.

There are remaining tasks that need to be undertaken to update the currency of the Risk Register:

- This assigned risk owner is to assess the inherent risk rating (prior to the implementation of controls and treatments)
- The assigned risk owner is to assess the effectiveness and adequacy of risk controls and treatments
- The assigned risk owner is to assess the residual risk rating

It is envisaged that the above activities will be completed by the February 2023 Audit Committee meeting.

CONSULTATION

Executive Team

Training is to be provided to the wider organisation on the Town's Risk Management Framework and Risk Register Application.

STATUTORY ENVIRONMENT

Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to review the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal control and

legislative compliance separately or all at the one time, on the provision that each matter is reviewed at least once every three years. The CEO is also required to report the results of that review to Council.

POLICY IMPLICATIONS

Council has adopted Policy 2.2.4 Risk Management.

FINANCIAL IMPLICATIONS

There are no direct financial implications associated with this report as the engagement has been finalised with the consultant.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

RISK IMPLICATIONS

Risks

| Risk | Risk Likelihood (based on history & with existing controls) | Risk Impact / Consequence | Risk Rating (Prior to Treatment or Control) | Principal Risk Theme | Risk Action Plan (Controls or Treatment proposed) |
|--|---|------------------------------|--|--|--|
| That risk controls are not adequate | Possible (3) | Extreme (5) | High (10-16) | SERVICE INTERRUPTION Prolonged interruption of services - additional resources; performance affected <1 month | Control through oversight of high and extreme risks by the Audit Committee... |

Risk Matrix

| Consequence | | Insignificant | Minor | Moderate | Major | Extreme |
|-------------|----------------|---------------|--------------|--------------|--------------|--------------|
| | | 1 | 2 | 3 | 4 | 5 |
| Likelihood | Almost Certain | Moderate (5) | High (10) | High (15) | Extreme (20) | Extreme (25) |
| | Likely | Low (4) | Moderate (8) | High (12) | High (16) | Extreme (20) |
| Possible | 3 | Low (3) | Moderate (6) | Moderate (9) | High (12) | High (15) |
| Unlikely | 2 | Low (2) | Low (4) | Moderate (6) | Moderate (8) | High (10) |
| Rare | 1 | Low (1) | Low (2) | Low (3) | Low (4) | Moderate (5) |

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk

matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

| | |
|--|----|
| Risk Rating | 15 |
| Does this item need to be added to the Town's Risk Register | No |
| Is a Risk Treatment Plan Required | No |

SITE INSPECTION

Not Applicable

COMMENT

Under the Town's Risk Management Framework, the Town has adopted a 3 lines of defense model for the management of risk.

1st Line – all operational areas. Individual Officers are responsible for ensuring that risks within their scope of operations are identified, assessed, managed, monitored and reported. The online Risk Register includes a workflow to ensure that risks are reviewed at Officer level.

2nd Line – Management. The Management team convenes a quarterly risk review meeting to review the Risk Register and the status of risk treatments and controls.

3rd Line – Internal/External Audit (and Audit Committee). The Risk Register is presented to the Audit Committee for review and monitoring. It is recommended that the Audit Committee consider the following risk appetite parameters:

- Any risks with an inherent risk rating of “Low” (4 or less) do not need to be captured in the Risk Register. It is accepted that these Risks are managed at Officer level (1st line of defense) and present a low risk to the Town.
- Any risks with an inherent risk rating of “Moderate” and above (i.e. over 6) are to be recorded in the Risk Register.
- The Audit Committee accepts that Management (2nd line of defense) will monitor and manage risks with an inherent risk rating of “Moderate” and these individual risks will not generally be included in the Risk Register presented to the Audit Committee, unless specifically requested. Information on these risks will be included on the Dashboard Report.
- Any risks with an inherent risk rating of “High” and above (i.e. over 10) or any risk with a likelihood or consequence rating of level 5 are to be presented to the Audit Committee in the itemised Risk Register for review and monitoring.

CONCLUSION

The Audit Committee is requested to receive the Dashboard Report and resolve on a risk appetite statement.

10.3 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 030311

OFFICER RECOMMENDATION

Moved Cr White, seconded Cr Donovan

That the Audit Committee, under the Town's Risk Management Framework, establish the following risk appetite parameters:

- Any risks with an inherent risk rating of "Low" (4 or less) do not need to be captured in the Risk Register. It is accepted that these Risks are managed at Officer level (1st line of defense) and present a low risk to the Town.
- Any risks with an inherent risk rating of "Moderate" and above (i.e. over 6) are to be recorded in the Risk Register.
- The Audit Committee accepts that Management (2nd line of defense) will monitor and manage risks with an inherent risk rating of "Moderate" and these individual risks will not generally be included in the Risk Register presented to the Audit Committee, unless specifically requested. Information on these risks will be included on the Dashboard Report.
- Any risks with an inherent risk rating of "High" and above (i.e. over 10) or any risk with a likelihood or consequence rating of level 5 are to be presented to the Audit Committee in the itemised Risk Register for review and monitoring.

(CARRIED UNANIMOUSLY)

Comment – The Chair indicated that the Audit Committee are happy to receive Page 1 of the Risk Dashboard as a standing attachment as well as an itemised listing of the risk register for all risks with an inherent risk rating of 10 and above.

REPORT ATTACHMENTS

Attachments start on the next page

Attachment -1



Click on a risk title to view and edit the risk details in the Risk Management App

| Risk | Processing Status | Risk Manager | Risk Owner | Business Area | Review Due Date |
|---|---------------------------|---------------|--------------|--------------------|-----------------------|
| A cyber criminal could post offensive materials on Town websites to cause reputational damage or access sensitive information for inappropriate use | Risk reviewed and current | Bron Browning | Peter Kocian | Corporate Services | Sunday, July 09, 2023 |
| Animal Contamination | Risk reviewed and current | Bron Browning | Peter Kocian | Rangers | Sunday, July 09, 2023 |
| Bond payments are incorrectly receipted | Risk reviewed and current | Bron Browning | Peter Kocian | Corporate Services | Sunday, July 09, 2023 |
| Building power fault or utility provider fault results in loss of power to server room | Risk reviewed and current | Bron Browning | Peter Kocian | Corporate Services | Sunday, July 09, 2023 |

Risk review schedule by risk profile

● Draft ● Inherent risk assessment required ● Risk reviewed and current

Collapse All

Aug 2022 Sep 2022 Oct 2022 Nov 2022 Dec 2022 Jan 2023 Feb 2023 Mar 2023 Apr 2023 May 2023 Jun 2023 Jul 2023 Aug 2023 Sep 2023

| Information Systems | |
|---|---------------|
| <i>A cyber criminal could post offensive materials...</i> | Bron Browning |
| <i>Building power fault or utility provider fault resu...</i> | Bron Browning |
| <i>Disgruntled employees</i> | Peter Kocian |
| <i>Hardware failure of server infrastructure hoste...</i> | Bron Browning |
| <i>Inadequate IT incident and Disaster Recovery ...</i> | Bron Browning |
| <i>Lack of process and training</i> | Bron Browning |
| <i>Malicious attacker exploiting a users credential...</i> | Bron Browning |
| <i>Malicious attacker exploiting a website or hosti...</i> | Bron Browning |
| <i>Outdated software components could lead to a...</i> | Bron Browning |
| <i>Primary dataset of backup could be compromi...</i> | Bron Browning |
| <i>The use of insecure wireless protocols or unpa...</i> | Bron Browning |
| <i>Virus and Malware distributed by removable m...</i> | Bron Browning |
| <i>Criminals can impersonate business represent...</i> | P |
| <i>Unauthorised person steals a laptop and gains...</i> | P |
| Facilities, Venues & Events Management | |
| <i>Bond payments are incorrectly receipted</i> | Bron Browning |

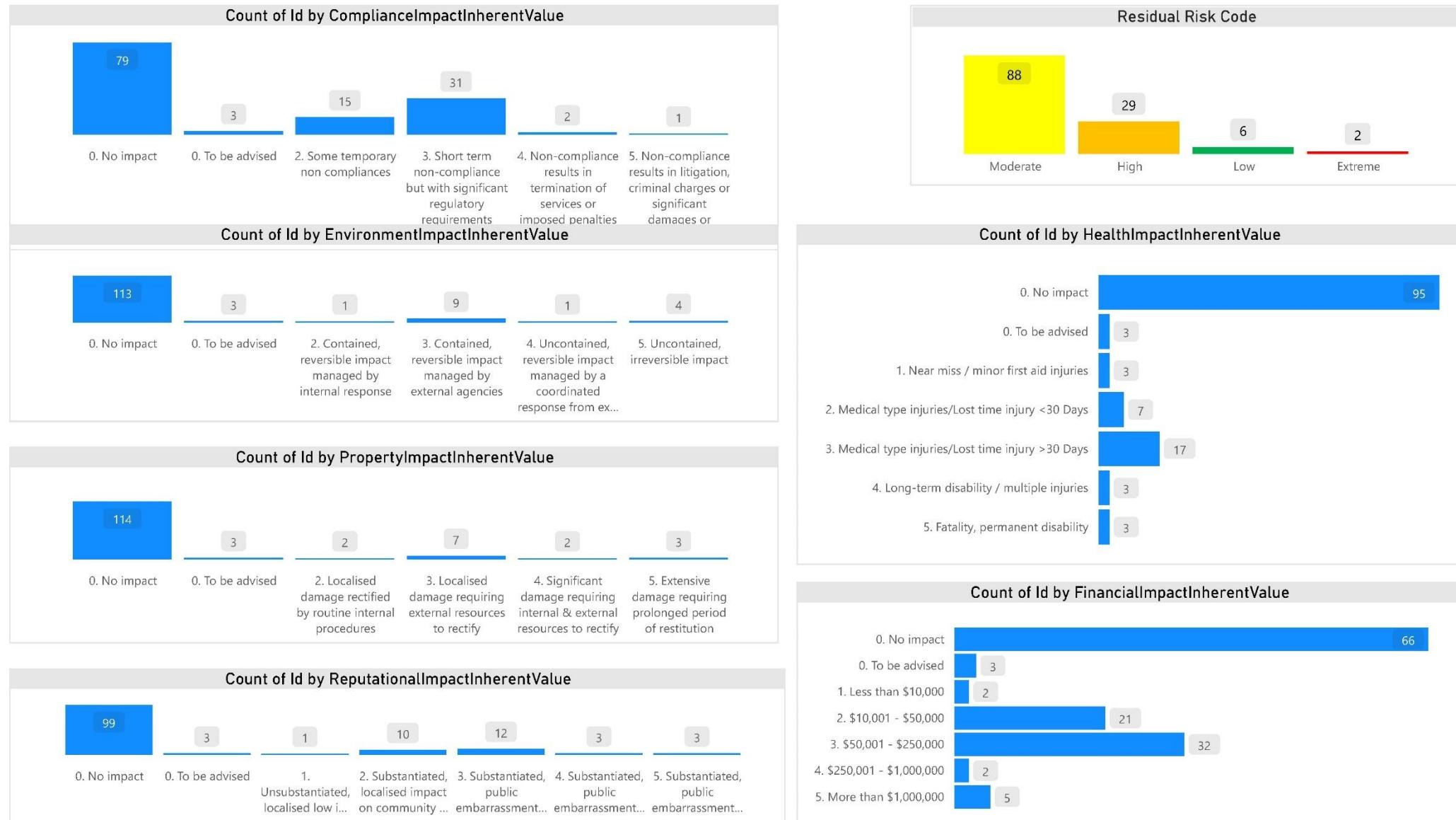
Attachment -1



Attachment -1



Attachment -1



10.4 INFORMATION SYSTEMS AUDIT (CONFIDENTIAL)

| | |
|--------------------------------|--|
| Report Reference Number | ACR-348 |
| Prepared by | Peter Kocian, Executive Manager Corporate Services |
| Supervised by | Garry Tiffin, Chief Executive Officer |
| Meeting date | Wednesday, 2 November 2022 |
| Voting requirements | Simple Majority |
| Documents tabled | Nil |
| Attachments | <ol style="list-style-type: none"> 1. Capability Maturity Assessment – 2022 2. Capability Maturity Assessment – 2019 3. Management Letter – 2022 4. Management Letter - 2019 |

PURPOSE

The Audit Committee is requested to receive the findings from the Information Systems Audit as detailed in the attachments, with key findings from the management letter to be incorporated into the Audit Committee Status Report for monitoring.

EXECUTIVE SUMMARY

The Office of the Auditor General recently performed an Information Systems Audit of the Town of East Fremantle. The previous (and inaugural Audit) was conducted in 2019 and serves as a baseline, hence information from this Audit has been re-presented.

The following is a summary of the audit methodology, which was discussed at the last Audit Committee Meeting:

Scope: the audit focused on:

- Policies and procedures – The entity should ensure that they have appropriate policies and procedures in place for key areas such as IT risk management, information security, business continuity and change control.
- Management of IT risks - The entity need to ensure that IT risks are identified, assessed and treated within appropriate timeframes and that these practices become a core part of business activities.
- Information security - The entity should ensure good security practices are implemented, up-to-date and regularly tested and enforced for key computer systems. Agencies must conduct ongoing reviews for user access to systems to ensure they are appropriate at all times.
- Business continuity - The entity should have a business continuity plan, a disaster recovery plan and an incident response plan. These plans should be tested on a periodic basis.
- Change control - change control processes should be well developed and consistently followed for changes to computer systems. All changes should be subject to thorough planning and impact assessment to minimise the likelihood of problems. Change control documentation should be current, and approved changes formally tracked.
- Physical security – The entity should develop and implement physical and environmental control mechanisms to prevent unauthorised access or accidental damage to computing infrastructure and systems.

Approach: as follows:

- Determine whether appropriate controls are in place;
- Prepare and execute test plans to obtain assurance of the operation of controls,
- Review appropriate documentation,
- Evaluate the effectiveness of the controls.
- Internal vulnerability scans of Finance, HR systems and key operational systems identified.

Focused Audit: in addition to the above, a focus audit was performed against the ISO 27002:2015 standard.

The testing focused on the International Security Standard 27002 (A/NZS ISO/IEC 27002: 2015). The standard sets out controls to ensure computer systems are designed, configured and managed to preserve the confidentiality, integrity and availability of information. A gap analysis of the entity's controls against the standard was performed.

Results from these audits are published in the attachments and will form part of the Office of Auditor General's Annual Information Systems Audit Report to Parliament.

BACKGROUND

On 24 August 2017, amendments to the *Local Government Act 1995* were passed by State Parliament that enables the Auditor General to audit Council finances and performance. The reforms will change the way local government audits are conducted.

The Information Systems Audit is likely to be undertaken every three years and will dovetail into the financial audit.

CONSULTATION

Office of Auditor General

STATUTORY ENVIRONMENT

Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* addresses the situation of audit. In relation to the duties of the local government with respect to audits –

- a. *the local government is to do everything in its power to –*
 - i. *assist the auditor to conduct an audit and carry out his or her other duties under the Act; and*
 - ii. *ensure that audits are conducted successfully and expeditiously;*
- b. *a local government is to meet with its auditor at least once in every year;*
- c. *a local government is to examine the report of the auditor and is to –*
 - i. *determine if any matters raised require action to be taken by the local government; and*
 - ii. *ensure that appropriate action is taken in respect of those matters;*
- d. *local government is to –*
 - i. *prepare a report on any actions taken in respect of any matters raised in the report of the auditor; and*
 - ii. *forward a copy of that report to the Minister by the end of the next financial year, or six months after the last report prepared by the auditor is received by the local government, whichever is the latest in time.*

POLICY IMPLICATIONS

There are no Council Policies relevant to this item.

FINANCIAL IMPLICATIONS

There are costs associated with actioning findings from the Information Systems Audit. The following are examples of costs for remedial work arising from the 2019 Audit:

- Focus Quote QU-5782G (previously presented to the Audit Committee) \$16,337
- ICT Policy Document Library \$7,381
- Nessus Vulnerability Scan and Remedial Actions \$2,871
- Review of Strategic ICT Plan, DR Plan and IT Security Policy \$5,000 (est)
- Implementation of DUO Multi Factor Authentication \$3,000 (est)
- Installation of FOB access to Computer Room and Records Room \$5,000 (est)
- Cyber Awareness Training Set-Up \$907

An initial quote has been obtained from Focus for the implementation of the 2022 Audit findings amounting to \$XX. The Town will seek a quote for penetration testing and this activity will be considered by the Committee at a future meeting.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

RISK IMPLICATIONS

Risks

| Risk | Risk Likelihood (based on history & with existing controls) | Risk Impact / Consequence | Risk Rating (Prior to Treatment or Control) | Principal Risk Theme | Risk Action Plan (Controls or Treatment proposed) |
|--|--|------------------------------|--|-------------------------|--|
| That key findings from the IS Audit are not actioned | Possible (3) | Moderate (3) | Moderate (5-9) | Service Interruption | Control through Audit Committee monitoring and ensuring adequate budget allocation |

Risk Matrix

| Consequence | | Insignificant | Minor | Moderate | Major | Extreme |
|-------------|----------------|---------------|--------------|--------------|--------------|--------------|
| | | 1 | 2 | 3 | 4 | 5 |
| Likelihood | Almost Certain | Moderate (5) | High (10) | High (15) | Extreme (20) | Extreme (25) |
| | Likely | Low (4) | Moderate (8) | High (12) | High (16) | Extreme (20) |
| Possible | 3 | Low (3) | Moderate (6) | Moderate (9) | High (12) | High (15) |
| Unlikely | 2 | Low (2) | Low (4) | Moderate (6) | Moderate (8) | High (10) |
| Rare | 1 | Low (1) | Low (2) | Low (3) | Low (4) | Moderate (5) |

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

| | |
|--|-----|
| Risk Rating | 9 |
| Does this item need to be added to the Town's Risk Register | Yes |
| Is a Risk Treatment Plan Required | No |

SITE INSPECTION

COMMENT

The following table identifies the index of findings from the Information Systems Audit and their respective risk ratings. The findings will be incorporated into the Audit Committee Status Report and reported to each meeting for monitoring.

| INDEX OF FINDINGS | RATING | | |
|---|--------------------|-----------------|--------------|
| | Significant | Moderate | Minor |
| Findings identified in the current audit | | | |
| 1. Application Security Management | | ✓ | |
| 2. Email Authentication | | ✓ | |
| 3. HR Security | | ✓ | |
| 4. Data Loss Prevention | | ✓ | |
| 5. Classification of Information | | | ✓ |
| 6. Removal of User Access Rights | | | ✓ |
| 7. Endpoint Security | | | ✓ |
| 8. Remote Access Controls | | | ✓ |
| 9. Cyber Security Incident Planning | | | ✓ |
| Matters outstanding from prior audits | | | |
| 10. Management of Technical Vulnerabilities | | ✓ | |

It needs to be noted that some of the above items will require significant resource effort, and hence the 30 June 2023 has been nominated as the completion date for most items. The Town has a limited ICT budget, and any expenditures related to the implementation of the above controls will be captured and reported against each activity.

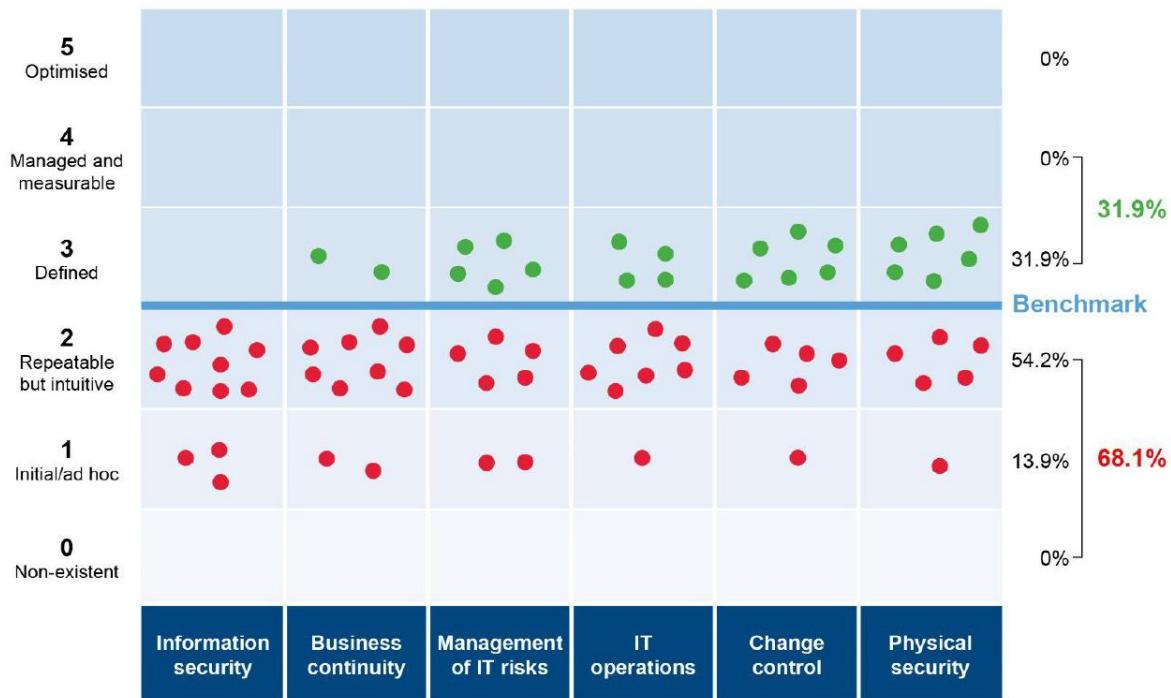
The Town's IT Provider, Focus Networks, has been requested to provide a quote to address the various OAG improvement findings identified above.

It is pleasing to note from the Capability Maturity Model that the Town has achieved a maturity level of at least 2 ("Repeatable") across the ten (10) categories, which is a marked improvement from the 2019 assessment. I have included extracts from OAG's IS Audit Report 2022 of LG Entities and IS Audit Report 2021 of State Government Entities below. There are a couple of apparent observations from these charts:

- State Government Entities overall have a higher level of maturity

- The Town's results are not dissimilar to other LGs (based on the sample size) including larger local governments

LG Entities:

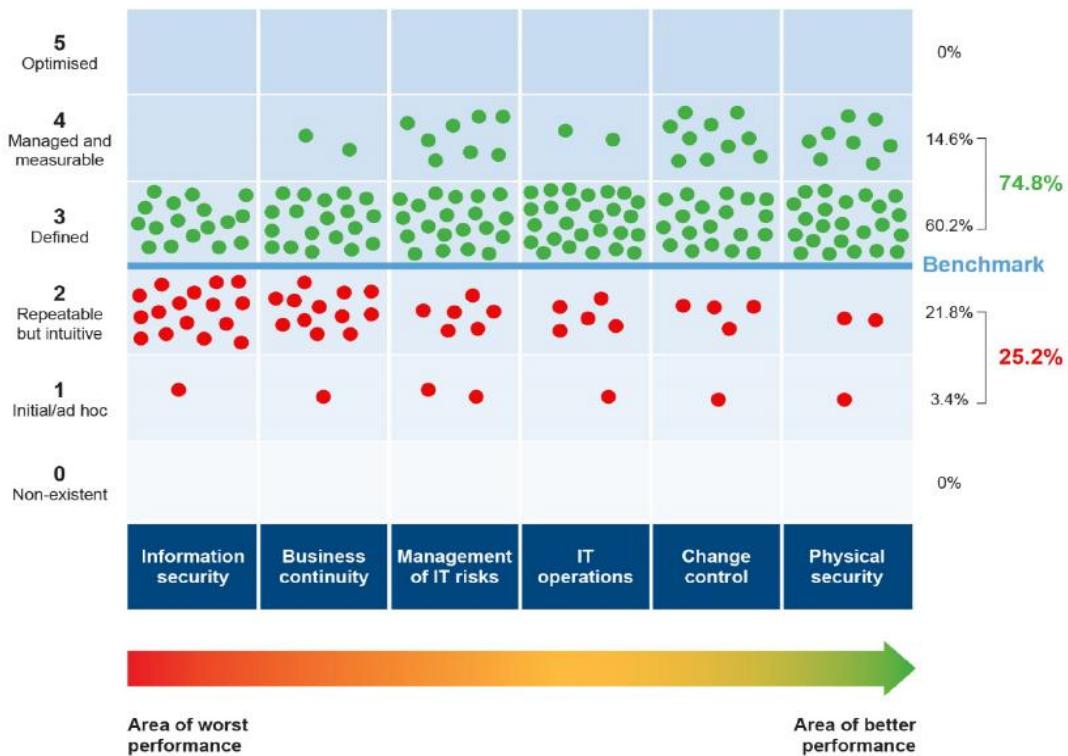


Source: OAG

Figure 4: 2020-21 capability maturity model assessment results

State Entities:

Figure 4 shows the results of our capability assessments across the 6 control categories.



Source: OAG

CONCLUSION

The Audit Committee should satisfy itself that the Town's performance in relation to the 2022 Information Systems Audit is acceptable and within the parameters of the Risk Framework.

10.4 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 040311

OFFICER RECOMMENDATION

Moved Cr McPhail, seconded Cr Donovan

That the Audit Committee recommend Council:

1. **Receive the findings from the 2022 Information Systems Audit and note that the key findings will be incorporated into the Audit Committee Status Report for ongoing monitoring.**

(CARRIED UNANIMOUSLY)

REPORT ATTACHMENTS

Attachments start on the next page

Attachment -1

Confidential Attachment

Attachment -2

Confidential Attachment

Attachment -3

Confidential Attachment

Attachment -4

Confidential Attachment

10.5 AUDIT COMMITTEE STATUS REPORT

| | |
|--------------------------------|---|
| Report Reference Number | ACR-354 |
| Prepared by | Peter Kocian, Executive Manager Corporate Services |
| Supervised by | Gary Tiffin, Chief Executive Officer |
| Meeting date | Wednesday, 2 November 2022 |
| Voting requirements | Simple Majority |
| Documents tabled | Nil |
| Attachments | |
| | 1. Consolidated Status Report 2. Contracts Register Snapshot |

PURPOSE

It is recommended that the Audit Committee receive a status report on all outstanding matters raised in external audit reports, financial management reviews, performance audits, internal audit reports and any other review relevant to the Audit Committee's Terms of Reference.

EXECUTIVE SUMMARY

A status report has been prepared reporting against identified issues with respect to audit, risk management, internal controls, procurement matters and legislative compliance. The status report is not an exhaustive listing and will become a living document and updated as issues are identified. It is presented to the Audit Committee to assist in their role to report to Council and provide advice and recommendations on matters relevant to its terms of reference.

BACKGROUND

The Department of Local Government has published an Operational Guideline on Audit in Local Government. Appendix 3 of this Guideline lists several matters that should be presented to an Audit Committee for review and monitoring:

Risk Management:

- Reviewing whether the local government has an effective risk management system;
- Reviewing whether the local government has a current and effective business continuity plan;
- Reviewing areas of potential non-compliance with legislation, regulations and standards and local governments policies;
- Reviewing the following; litigation and claims, misconduct, and significant business risks;
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local governments internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied.

Internal Control Systems:

- Separation of roles and functions, processing and authorisation;
- Control of approval of documents, letters and financial records;
- Limit of direct physical access to assets and records;
- Control of computer applications and information system standards;
- Regular maintenance and review of financial control accounts and trial balances;
- Comparison and analysis of financial results with budgeted amounts;
- Report, review and approval of financial payments and reconciliations;
- Comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Obtaining assurance that adverse trends are identified and review managements plans to deal with these;
- Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- Considering the internal auditors role in assessing compliance and ethics risks in their plan;
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements.

CONSULTATION

Executive Leadership Team
Manager Corporate Services

STATUTORY ENVIRONMENT

Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to review the appropriateness and effectiveness of a local governments systems and procedures in relation to risk management, internal control and legislative compliance separately or all at the one time, on the provision that each matter is reviewed at least once every three years. The CEO is also required to report the results of that review to Council.

POLICY IMPLICATIONS

There are no Council Policies relevant to this matter.

FINANCIAL IMPLICATIONS

There are no direct financial implications stemming from the Officer's Recommendation. However, should the Audit Committee request independent assurance that controls have been implemented, then 3rd party costs will be incurred.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance
5.1 Strengthen organisational accountability and transparency
5.3 Strive for excellence in leadership and governance

RISK IMPLICATIONS

Risks

| Risk | Risk Likelihood (based on history & with existing controls) | Risk Impact / Consequence | Risk Rating (Prior to Treatment or Control) | Principal Risk Theme | Risk Action Plan (Controls or Treatment proposed) |
|---|---|------------------------------|--|---|--|
| That key audit findings are not actioned within a timely manner | Possible (3) | Moderate (3) | Moderate (5-9) | COMPLIANCE Some temporary non-compliance | Control through oversight by the Audit Committee and ensuring adequate budget allocation for resourcing. |

Risk Matrix

| Consequence | | Insignificant | Minor | Moderate | Major | Extreme |
|----------------|---|---------------|--------------|--------------|--------------|--------------|
| | | 1 | 2 | 3 | 4 | 5 |
| Almost Certain | 5 | Moderate (5) | High (10) | High (15) | Extreme (20) | Extreme (25) |
| Likely | 4 | Low (4) | Moderate (8) | High (12) | High (16) | Extreme (20) |
| Possible | 3 | Low (3) | Moderate (6) | Moderate (9) | High (12) | High (15) |
| Unlikely | 2 | Low (2) | Low (4) | Moderate (6) | Moderate (8) | High (10) |
| Rare | 1 | Low (1) | Low (2) | Low (3) | Low (4) | Moderate (5) |

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

| | |
|---|-----|
| Risk Rating | 9 |
| Does this item need to be added to the Town's Risk Register | Yes |
| Is a Risk Treatment Plan Required | No |

SITE INSPECTION

Not Applicable.

COMMENT

The consolidated status report has been updated with management comment. There was a total of 69 audit findings in the original status report that predominantly arose from the external audit, general computer control audit, financial management review and audit reg 17 reviews completed in 2019. All items that were marked as complete from the prior status report have been hidden within the document, leaving only those findings as incomplete or ongoing, with updated comment. Note that audit findings from the 2022 Information Systems Audit have yet to be added into the status report.

| Risk Category | No. Active Findings | Underway | Not Commenced |
|---------------|---------------------|----------|---------------|
| High | 2 | 2 | 0 |
| Medium | 2 | 2 | 0 |
| Low | 1 | 1 | 0 |
| | 5 | 5 | 0 |

CONCLUSION

The Audit Committee should satisfy itself that the Town's performance in relation to completion against the Consolidated Status Report is acceptable and within the parameters of the Risk Framework.

10.5 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 050311

OFFICER RECOMMENDATION

Moved Cr White, seconded Mayor O'Neill

That the Audit Committee receives the Consolidated Status Report on items relevant to its Terms of Reference.

(CARRIED UNANIMOUSLY)

REPORT ATTACHMENTS

Attachments start on the next page

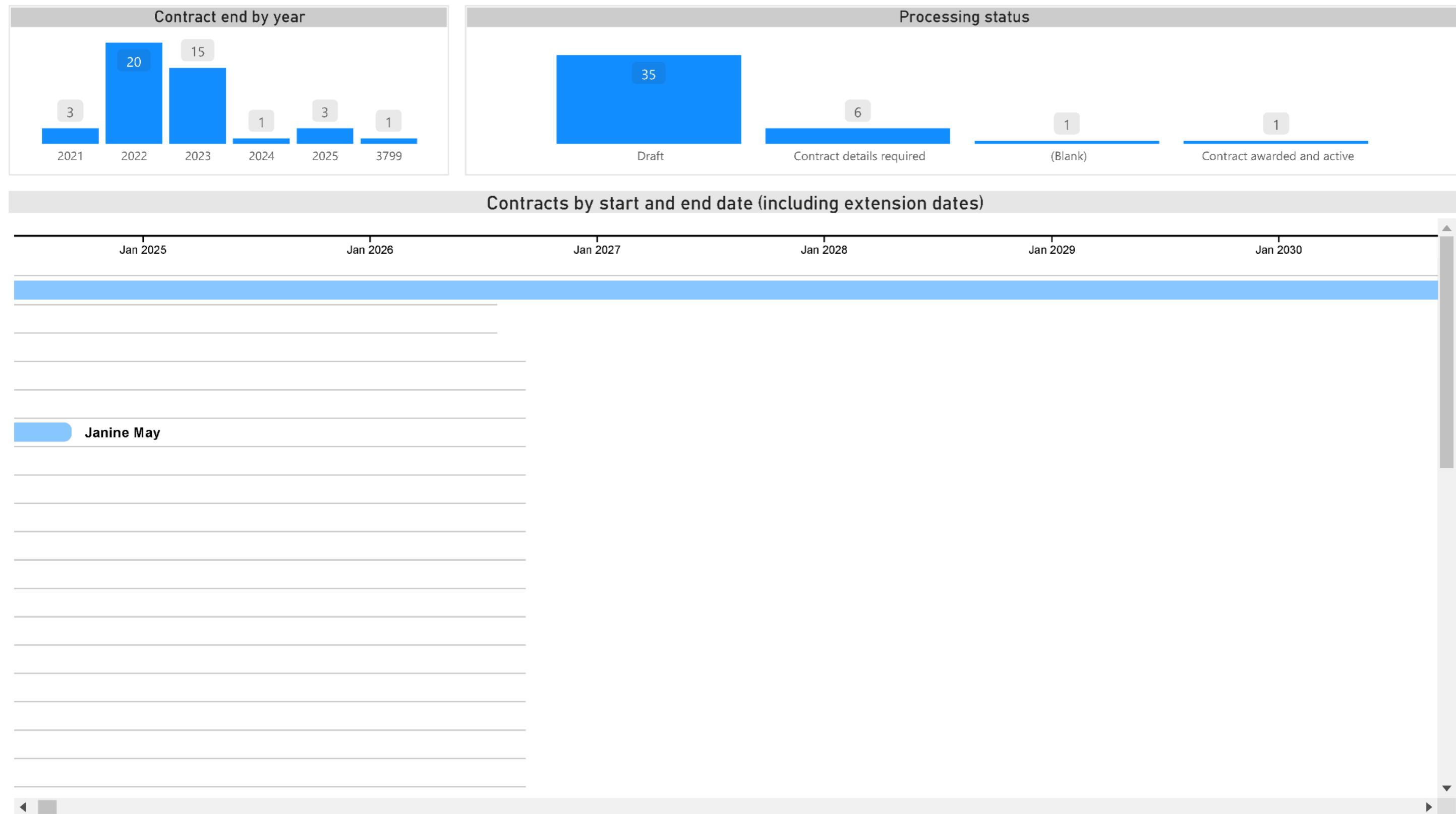
Town of East Fremantle - Risk Assessment

| Audit Finding | Risk Assessment Category | Risk Identified | Date of initial risk identification | Source of Audit Finding (FMR/Audit Reg 17/GCC Audit/Audit Management Letter/Internal | Likelihood | Strategic Consequences | Operational Consequences | Combined Consequence | Maximum Rating | Likelihood rating | Risk Category | Action Required | Mitigation and Management Strategy (Possible Future Controls) | Responsible Officer | Progress Update |
|---------------|---|---|---|--|------------|------------------------|--------------------------|----------------------|----------------|-------------------|---------------|-----------------------------|---|---------------------|---|
| 59 | Risk Issue and Failure Modes | Through our limited testing, we noted several instances where evidence of correspondence on employee files to support the current rate of pay applied through the payroll varied from the information recorded on employee files. | Failure to identify risks or adequately treat identified risks. | 1/12/2019 FMR/Audit Reg 17 Review - December 2019 | Possible | Moderate | Moderate | | | Medium | Medium | Planned action required | Undertake a review of all personnel to reconcile documentation relating to conditions of employment, remuneration, roles and responsibilities. | Office of CEO | Completed- An audit of all pay rates occurred with the remuneration review undertaken in June, with new pay rates effective from the first pay period in July. |
| 60 | Develop Contract Register and Contract Management System | | | 1/12/2019 FMR/Audit Reg 17 Review - December 2019 | Unlikely | Major | Moderate | | Underway | High | High | Prioritised action required | A review of vital records has commenced. | Corporate Services | Completed. Online Contract Register is now live. Training has been completed with all internal stakeholders. Sample Contract Register provided with this report. |
| 61 | Privileged Access Rights | Increased risk of unauthorised access to, or modification of the Town's IT systems and information | | 1/12/2019 2019 GCC Audit | Possible | Moderate | Moderate | Moderate | 3 | 3 | Medium | Planned action required | | Corporate Services | Completed. The Town underwent a 2022 Information System Audit and all audit findings from the 2019 Audit (with the exception of Technical Vulnerabilities) have been closed and confirmed by the IS Auditors. |
| 62 | Unauthorised Network Devices | Without appropriate controls in place to restrict the use of unauthorised devices on the network, there is an increased risk that they could be used to attack internal systems. | | 1/12/2019 2019 GCC Audit | Possible | Moderate | Moderate | Moderate | 3 | 3 | Medium | Planned action required | The recently implemented 802.1X / RADIUS authentication for wireless networks at all sites, will be extended to wired / network switches at all sites. Non-Windows devices that do not support this function will be locked down to MAC addresses. | Corporate Services | Completed. The Town underwent a 2022 Information System Audit and all audit findings from the 2019 Audit (with the exception of Technical Vulnerabilities) have been closed and confirmed by the IS Auditors. |
| 63 | Process for amending or changing procedures are not formalised. This creates opportunities for unilateral undocumented changes to procedures and a breakdown in key controls. | Failure to identify risks or adequately treat identified risks. | | 1/12/2019 2019 GCC Audit | Possible | Major | Major | | | High | High | Prioritised action required | Establish a process for the development, review, amendment and authorisation of procedures, checklists and other internal control documentation, throughout the organisation to assist with managing changes to procedures. | Corporate Services | Completed. The Town underwent a 2022 Information System Audit and all audit findings from the 2019 Audit (with the exception of Technical Vulnerabilities) have been closed and confirmed by the IS Auditors. |
| 64 | Planned staff training needs for employees are currently identified and recorded in a training matrix. Further value from this initiative can be added through refining the current matrix toward a more formal required staff training structure, applied throughout the organisation. | Internal control or compliance breach. | | 1/12/2019 FMR/Audit Reg 17 Review - December 2019 | Possible | Moderate | Moderate | | | Medium | Medium | Planned action required | Refine the current staff training matrix to identify staff training needs relevant to their role, ensuring it is co-ordinated across the organisation and monitors currency of required licences and qualifications. | Office of CEO | Training Matrix has been implemented for all business units and is being maintained by a responsible Officer in each area. |
| 65 | Workflow diagrams have not been compiled for undocumented procedures. | Breakdown of internal controls. Controls reliant on the capability and honesty of staff. | | 1/12/2019 FMR/Audit Reg 17 Review - December 2019 | Possible | Major | Major | | | Medium | Medium | Planned action required | In conjunction with, or as an alternative to, the development of documented procedures and checklists, update and development of workflow process diagrams may assist in clearly identifying controls and processes to be followed where procedures or checklists do not exist. | Whole Entity | 72 processes have been mapped. 15 processes under review. |
| 66 | Contractors' insurances are not always assessed prior to award of contracts in all cases. Reliance is placed on contract managers to ensure copies of insurances are provided. | Lack of probity. Financial loss. Breakdown in internal controls. | | 1/12/2019 FMR/Audit Reg 17 Review - December 2019 | Likely | Major | Major | Major | 4 | 4 | High | Prioritised action required | To help ensure all contractors have the relevant licences and have adequate insurance cover for the works they undertake for the Town, procedures should be developed, and records maintained to ensure copies of contractor's insurances are held on file. | Operations | A Register of Contractor Insurance has been developed. |

Town of East Fremantle - Risk Assessment

| Audit Finding | Risk Assessment Category Risk Identified | Risk Identified | Date of initial risk identification | Source of Audit Finding (FMR/Audit Reg 17/GCC Audit/Audit Management Letter/Internal Letter) | Likelihood | Strategic Consequences | Operational Consequences | Combined Consequence | Maximum Rating | Likelihood rating | Risk Category | Action Required | Responsible Officer Progress Update | | |
|---------------|--|---|-------------------------------------|--|------------|------------------------|--------------------------|----------------------|----------------|-------------------|---------------|-----------------------------|--|---------------------|---|
| | | | | | | | | | | | | | Responsible Officer | Progress Update | |
| 67 | Review the Municipal Heritage Inventory | | 1/12/2019 | FMR/Audit Reg 17 Review - December 2019 | Rare | Moderate | Minor | Moderate | 3 | 1 | Low | Planned action required | Scheduled in the Corporate Business Plan for 2021/22 | Regulatory Services | Heritage Consultancy: Heritage Local Heritage Survey, Review of Proposed Heritage Areas, and Update and Creation of Place Record Forms. The Town received grant (half funding) funding from the Department of Planning, Land and Heritage. The Town has accepted a quotation by Hocking Heritage + Architects consultants and have been appointed to undertake/ complete above works. Draft provided to the Town. Significant errors and inaccuracies were identified with the presented work. Consultants currently undertaking works to update the draft. Due for completion July/ August 2022. |
| 68 | Creditors invoices are processed and entered only at the time where a routine creditors payment run is scheduled resulting in month end creditor balances being nil in certain months. | Lack of probity, Fraud risk, Internal control or compliance breach. Financial loss. | 1/12/2019 | 2019 Audit Management Letter | Possible | Major | Major | | | | High | Prioritised action required | Supplier invoices should be processed in a timely fashion and entered through the Town's ERP system as soon as practicable after receipt to provide a more accurate representation of the Town's liabilities at any given time. | Corporate Services | Invoices are filed according to their payment date being 7 days, 14 days, 28 days or greater. This process is currently under review. The AP process has been mapped and will be converted into a Visio Flowchart (Control Weakness still exists - process change needs to occur - will be improved on implementation of Share Point - late payment or omitted payment risk is low as follow-up would be instigated by the creditor). |
| 69 | Information Risk | Register to track and record information risk does not exist | 1/12/2019 | 2019 GCC Audit | Possible | Moderate | Moderate | | | | Medium | Planned action required | The Town will create an Information Risk Management Register, which will be presented to the Audit Committee as a standing item. The 12 key findings in the GCC Management Letter will form the basis of this Register, which will be continually updated based on management assessment as well as the key findings from future internal/external audit work. | Corporate Services | This Audit Finding has been superseded by a finding in the 2022 IS Audit - the Town is required to prepare an Information Classification Policy. |





10.6 2023 MEETING SCHEDULE AND AUDIT WORK PLAN

| | |
|--------------------------------|---|
| Report Reference Number | ACR-367 |
| Prepared by | Peter Kocian, Executive Manager Corporate Services |
| Supervised by | Gary Tiffin, Chief Executive Officer |
| Meeting date | Wednesday, 2 November 2022 |
| Voting requirements | Simple Majority |
| Documents tabled | Nil |
| Attachments | <ol style="list-style-type: none"> 1. Endorsed Work Plan (2019-2022) |

PURPOSE

The Audit Committee is requested to endorse the proposed work plan and meeting schedule for the 2023 calendar year.

EXECUTIVE SUMMARY

The Audit Committee endorsed the attached Work Plan at its November 2021 Meeting. It is recommended that the Audit Committee meet 3 times in the 2023 calendar year (4th Wednesday of the month), with the suggested work plan as follows:

| Month | Activity |
|----------|---|
| February | <ul style="list-style-type: none"> • Compliance Audit Return • Audit Report, Management Letter and Annual Meeting with Auditor • Mid-Year Budget Review • Presentation of the Financial Management and Audit Regulation 17 Review |
| July | <ul style="list-style-type: none"> • Risk Register (Standing Item) • Update on Implementation of IS Audit Findings • Audit of Purchase Requisitions over \$5k • Status Report (Standing Item) |
| November | <ul style="list-style-type: none"> • Risk Register (Standing Item) • Draft Annual Financial Statements • Interim Audit – Management Letter • Status Report (Standing Item) |

BACKGROUND

The Department of Local Government has prepared operational guidelines on audit in local government. The guidelines outline audit requirements including the establishment of an audit committee and key functions.

The Guidelines define the role of the Audit committee “to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability”.

The Guidelines also state that the Audit committee needs to form an opinion of the local governments internal audit requirements and recommend a course of action that ensures that any internal audit processes adopted are appropriate, accountable and transparent.

Legislative Audit Framework:

The *Local Government Act 1995*, *Local Government (Audit) Regulations 1996* and *Local Government (Financial Management) Regulations 1996* detail the statutory requirements with respect to audit of local government. The following reporting requirements to the audit committee are mandatory:

| Item | Requirements | Legislation |
|---|--|---|
| External Audit Report | The Auditor is to provide a report (annually) giving an opinion on the financial position of the local government and the results of the operations of the local government. Where it is considered by the auditor appropriate to do so, the audit is to prepare a management report to accompany the auditor's report. | Regulation 10 of the <i>Local Government (Audit) Regulations 1996</i> |
| Compliance Audit Return | Local Governments are required to complete a statutory compliance return (Compliance Audit Return) annually and have the return adopted by Council. The return is a checklist of a local government's compliance with the requirements of the Act and its Regulations, concentrating on areas of compliance considered 'high risk'. The audit committee is to review the Compliance Audit Return and report to the Council the results of that review. | Regulation 14 of the <i>Local Government (Audit) Regulations 1996</i> |
| Risk Management/Internal Controls/Legislative Framework | The CEO is to review the appropriateness and effectiveness of a local government's and procedures in relation to risk management, internal control and legislative compliance at least once every three years and report to the audit committee the results of that review. | Regulation 17 of the <i>Local Government (Audit) Regulations 1996</i> |
| Financial Management Review | The CEO is to review the appropriateness and effectiveness of the financial management systems and procedures of the local government at least once every three years and report to the audit committee the results of that review. | Regulation 5 of the <i>Local Government (Financial Management) Regulations 1996</i> |

External Audit Framework:

Pursuant to section 7.2 of the *Local Government Act 1995*, the accounts and annual financial report of a local government for each financial year are required to be audited. The Act and Regulations prescribe the scope of the

external audit of the annual financial statements of the local government. The operational guidelines also include a minimum standard audit specification.

The critical matters for audit are:

- Revenue – rates revenue, government grants, fees and charges
- Expenditure – salaries and wages, depreciation, materials and contract expense, insurance
- Current Assets – bank and short-term assets, receivables, inventory
- Non-Current Assets – property, plant, furniture and equipment, infrastructure and depreciation
- Liabilities – creditors and accruals, loan borrowings, provision for annual and long service leave entitlements
- Reserve Funds
- Contingent Liabilities
- Capital Commitments
- Accounting Policies
- Cash Flow Statement
- Financial Ratios

Internal Audit Framework:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the effectiveness of risk management, control, and governance processes. Establishing a formal internal audit function is not a legislative requirement but the development of appropriate internal controls will enhance risk management processes. The internal audit function can either be resourced internally or contracted out.

All internal audit reports must be referred to the Audit Committee for consideration. Internal auditor's activities should typically include the following:

- Examination of financial and operating information that includes detailed testing of transactions, balances and procedures;
- A risk assessment with the intention of minimizing exposure to all forms of risk on the local government;
- A review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
- A review of compliance with management policies and directives and any other internal requirements;
- Review of the annual Compliance Audit Return;
- Assist in the CEOs biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance.

The internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day to day management of local government activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility.

CONSULTATION

Chief Executive Officer
Office of the Auditor General
Manager Corporate Services

STATUTORY ENVIRONMENT

The local government audit framework is governed by the *Local Government Act 1995* and Regulations including the *Local Government (Administration) Regulations 1996*, *Local Government (Audit) Regulations 1996*, *Local Government (Financial Management) Regulations 1996* and *Local Government (Functions and General) Regulations 1996*.

Regulation 12 of the *Local Government (Administration) Regulations 1996* requires a local government to give local public notice of the dates on which and the time and place at which Council and Committee Meetings are to be held in the next 12 months.

POLICY IMPLICATIONS

Council has adopted an Internal Audit Charter, which outlines various objectives with respect to internal audit activities.

FINANCIAL IMPLICATIONS

Each year, Council approves an annual budget ranging between \$10,000 - \$25,000 for internal audit activities.

STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

RISK IMPLICATIONS

Risks

| Risk | Risk Likelihood (based on history & with existing controls) | Risk Impact / Consequence | Risk Rating (Prior to Treatment or Control) | Principal Risk Theme | Risk Action Plan (Controls or Treatment proposed) |
|--|---|------------------------------|--|---|--|
| Lack of resourcing to support an Internal Audit function | Possible (3) | Moderate (3) | Moderate (5-9) | COMPLIANCE Short term non-compliance but with significant regulatory requirements imposed | Manage by ensuring adequate budget allocation |

Risk Matrix

| Consequence | | Insignificant | Minor | Moderate | Major | Extreme |
|----------------|---|---------------|--------------|--------------|--------------|--------------|
| | | 1 | 2 | 3 | 4 | 5 |
| Almost Certain | 5 | Moderate (5) | High (10) | High (15) | Extreme (20) | Extreme (25) |
| Likely | 4 | Low (4) | Moderate (8) | High (12) | High (16) | Extreme (20) |
| Possible | 3 | Low (3) | Moderate (6) | Moderate (9) | High (12) | High (15) |
| Unlikely | 2 | Low (2) | Low (4) | Moderate (6) | Moderate (8) | High (10) |
| Rare | 1 | Low (1) | Low (2) | Low (3) | Low (4) | Moderate (5) |

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

RISK RATING

| | |
|--|----|
| Risk Rating | 9 |
| Does this item need to be added to the Town's Risk Register | No |
| Is a Risk Treatment Plan Required | No |

SITE INSPECTION

Not Applicable

COMMENT

The Audit Committee Terms of Reference requires the Audit Committee to meet at least three times per year, with the dates to be set each year by Council, with authority to convene additional meetings, as circumstances require.

Clause 6.7 of the Terms of Reference also requires the Audit Committee to develop a forward meeting schedule that includes the dates, location, and proposed work plan for each meeting for the forthcoming year, that cover all the responsibilities outlined. These responsibilities include:

- Risk Management
- Business Continuity
- Internal Control
- Review of Annual Financial Statements
- Internal/external performance audits

Regulation 6 of the *Local Government (Financial Management) Regulations 1996* states that:

“A local government is to ensure that an employee to whom is delegated responsibility for the day-to-day accounting or financial management operations of a local government is not also delegated the responsibility for –

- (a) conducting an internal audit; or
- (b) reviewing the discharge of duties by that employee,

or for managing, directing or supervising a person who carries out a function referred to in paragraph (a) or (b).

So, functionally the performance of the internal audit function should be independent to the finance team. This is however problematic given the Town's size and structure, which is highlighted by the fact that the majority of audit work plan in the last 3 years has been performed by the finance team. Of relevance, the Select Committee into Local Government recommended, as part of the recent review of the Local Government Act, that the Government give active consideration to facilitating, through the Department of Local Government, Sport and Cultural Industries, a shared internal audit service for the Local Government sector, particularly to assist small and medium councils.

Financial Management, Risk Management, Legislative Compliance and Internal Controls Systems Review

The Town undertook a Request for Quote for the provision of the above services. Moore Australia was the successful respondent. The engagement kicked off in October, with field work to be completed in November. The final report will be delivered to the Chief Executive Officer in December. The scope does include a presentation to the Audit Committee on findings, with the presentation proposed for the February 2023 Audit Committee Meeting.

Compliance Audit Return

The Audit Committee has previously discussed the merits of an independent party reviewing the Compliance Audit Return to provide an assurance as to the accuracy of the return. Quotes are being sought for this independent review, and subject to price and availability, this work may be scheduled in January, with the Compliance Audit Return to be presented to the February 2023 Audit Committee Meeting.

CONCLUSION

Given the above constraints, a moderate work plan has been recommended for the 2023 calendar year, which is reflective of resourcing capacity.

10.6 OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

Committee Resolution 060311

OFFICER RECOMMENDATION

Moved Cr McPhail, seconded Cr Donovan

That the Audit Committee recommend Council approve the following meeting schedule and work plan for the 2023 Calendar Year:

| Date (@ 6.00pm) | Activity |
|----------------------------|---|
| Thursday 1 March 2023 | <ul style="list-style-type: none"> • Compliance Audit Return • Audit Report, Management Letter and Annual Meeting with Auditor • Mid-Year Budget Review • Presentation of the Financial Management and Audit Regulation 17 Review |
| Wednesday 26 July 2023 | <ul style="list-style-type: none"> • Risk Register (Standing Item) • Update on Implementation of IS Audit Findings • Audit of Purchase Requisitions over \$5k • Status Report (Standing Item) |
| Wednesday 22 November 2023 | <ul style="list-style-type: none"> • Risk Register (Standing Item) • Draft Annual Financial Statements • Interim Audit – Management Letter • Status Report (Standing Item) |
| | <u>(CARRIED UNANIMOUSLY)</u> |

REPORT ATTACHMENTS

Attachments start on the next page

Attachment -1

REPORT 11.2

ATTACHMENT 1

Town of East Fremantle - 4 year Internal Audit Work Plan

| Activity | Frequency | Risk Identified | Person Performing the Task | Consequence Rating | Likelihood Rating | 2019 | | | 2020 | | | 2021 | | | 2022 | | |
|--|-------------------|---|--|--------------------|-------------------|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | | | | | Risk Category | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Quarter 1 | Quarter 2 | Quarter 3 |
| Compliance Audit Return | Annually | Breach of Legislation | The Audit Committee. The Audit Committee do provide a niche service to review the OAG and verify the responses, and this might be a service that the Audit Committee may wish to consider? Previous cost estimate circa \$10k. | 2 | 2 | Low | | | | | | | | | | | |
| Procurement Process Review | As required | Inadequate Probity of Tender Processes | The WALGA Procurement Team completed an independent review of the Town's Tender processes in 2018 | 4 | 2 | Moderate | | | | | | | | | | | |
| Review of Credit Card Policy | Every 2 - 3 years | Misappropriation of funds/breakdown in controls | Manager Finance | 4 | 1 | Low | | | | | | | | | | | |
| Establishment of Supplier Payments Policy and General Conditions of Contract for the Supply of Goods and Services under a Purchase Order | One-off | Late payment to suppliers | Executive Manager Corporate Services | 2 | 2 | Low | | | | | | | | | | | |
| Review of Investment Policy (Divestments) | Every 2 - 3 years | Not optimising return on investment | Executive Manager Corporate Services | 2 | 2 | Low | | | | | | | | | | | |
| Receipt of Annual Financial Report | Annually | The Auditors Report is not received by the Statutory deadline of 31 December (s7.9 LGA) due to inadequate audit preparation | Executive Manager Corporate Services | 4 | 3 | High | | | | | | | | | | | |
| Information Systems Audit (Performance Audit OAG) | Every 3 years | The Town's General Computer Controls are inadequate impacting business continuity and and security of information | OAG last performed a General Computer Control Audit in 2018. The Town has been advised that this audit may occur every 3 years as part of the financial audit | 5 | 3 | High | | | | | | | | | | | |
| Review of Financial Management and Risk and Internal Control Systems | Every 3 years | More Stephens last performed this independent review in December 2018. Next review due November 2022. Estimated cost \$20k | | 3 | 3 | Moderate | | | | | | | | | | | |
| Mid Year Budget Review | Annually | Inadequate oversight of financial management resulting in material variances | Manager Finance/Executive Manager Corporate Services | 3 | 3 | Moderate | | | | | | | | | | | |
| Review of Significant Accounting Policies | Annually | Annual Budget and Annual Financial Report is not consistent with Significant Accounting Policies | Manager Finance | 3 | 3 | Moderate | | | | | | | | | | | |
| Audit of all purchase requisitions over \$5k for compliance with Purchasing Policy | Annually | Non-compliance with Purchasing Policy | Senior Finance Officer/Manager Finance | 3 | 3 | Moderate | | | | | | | | | | | |
| Application of New Accounting Standards | Annually | The application of new accounting standards may impact the net profit or loss of the Town | Manager Finance | 2 | 2 | Low | | | | | | | | | | | |
| Review of Controls pertaining to Payroll and the new Payroll Module | One-off | Payroll fraud | Senior Finance Officer/Manager Finance | 3 | 1 | Moderate | | | | | | | | | | | |
| Review of HR On-Boarding/Off-Boarding Process | Every 2 - 3 years | Inadequate controls regarding access to IT systems and custody of portable items | Coordinator Corporate Services/HR | 4 | 2 | Moderate | | | | | | | | | | | |
| Self Audit against Auditor General's Report "Timely Payment of Suppliers" | Every 2 years | Late payment to suppliers | Senior Finance Officer | 2 | 2 | Low | | | | | | | | | | | |
| Independent Review of Structure of Risk Register and evaluation of implementation of Risk Treatments | Every 4 years | Failure to implement risk treatments resulting in greater likelihood | Recommended that this be outsourced to an external risk consultant. Estimated cost \$8k | 4 | 3 | High | | | | | | | | | | | |

11 MATTERS BEHIND CLOSED DOORS

12 CLOSURE OF MEETING

Meeting closed at 7.33pm.

*I hereby certify that the Minutes of the ordinary meeting of the Audit Committee of the Town of East Fremantle, held on **2 November 2022**, Minute Book reference 1 to 12. were confirmed at the meeting of the Council on*

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Presiding Member