

# AGENDA

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

### **Disclaimer**

The purpose of this Council meeting is to discuss and, where possible, make resolutions about items appearing on the agenda.

Whilst Council has the power to resolve such items and may in fact, appear to have done so at the meeting, no person should rely on or act on the basis of such decision or on any advice or information provided by a member or officer, or on the content of any discussion occurring, during the course of the meeting. Persons should be aware that the provisions of the Local Government Act 1995 (section 5.25 (e)) establish procedures for revocation or rescission of a Council decision. No person should rely on the decisions made by Council until formal advice of the Council decision is received by that person.

The Town of East Fremantle expressly disclaims liability for any loss or damage suffered by any person as a result of relying on or acting on the basis of any resolution of Council, or any advice or information provided by a member or officer, or the content of any discussion occurring, during the course of the Council meeting.

### **Copyright**

The Town wishes to advise that any plans or documents contained within this Agenda may be subject to copyright law provisions (Copyright Act 1968, as amended) and that the express permission of the copyright owner(s) should be sought prior to their reproduction.

## Procedure for Deputations, Presentations and Public Question Time at Council Meetings

Council thanks you for your participation in Council Meetings and trusts that your input will be beneficial to all parties. Council has a high regard for community input where possible, in its decision making processes.

<p><b>Deputations</b></p> <p>A formal process where members of the community request permission to address Council or Committee on an issue.</p>	<p><b>Presentations</b></p> <p>An occasion where awards or gifts may be accepted by the Council on behalf of the community, when the Council makes a presentation to a worthy recipient or when agencies may present a proposal that will impact on the Local Government.</p>
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### Procedures for Deputations

The Council allows for members of the public to make a deputation to Council on an issue related to Local Government business.

Notice of deputations need to be received **by 5pm on the day before the meeting** and agreed to by the Presiding Member. Please contact Executive Support Services via telephone on 9339 9339 or email [admin@eastfremantle.wa.gov.au](mailto:admin@eastfremantle.wa.gov.au) to arrange your deputation.

Where a deputation has been agreed to, during the meeting the Presiding Member will call upon the relevant person(s) to come forward and address Council.

A Deputation invited to attend a Council meeting:

- (a) is not to exceed five (5) persons, only two (2) of whom may address the Council, although others may respond to specific questions from Members;
- (b) is not to address the Council for a period exceeding ten (10) minutes without the agreement of the Council; and
- (c) additional members of the deputation may be allowed to speak with the agreement of the Presiding Member.

Council is unlikely to take any action on the matter discussed during the deputation without first considering an officer's report on that subject in a later Council agenda.

### Procedure for Presentations

Notice of presentations being accepted by Council on behalf of the community, or agencies presenting a proposal, need to be received by **5pm on the day before the meeting** and agreed to by the Presiding Member. Please contact Executive Support Services via telephone on 9339 9339 or email [admin@eastfremantle.wa.gov.au](mailto:admin@eastfremantle.wa.gov.au) to arrange your presentation.

Where the Council is making a presentation to a worthy recipient, the recipient will be advised in advance and asked to attend the Council meeting to receive the award.

All presentations will be received/awarded by the Mayor or an appropriate Councillor.

### **Procedure for Public Question Time**

The Council extends a warm welcome to you in attending any meeting of the Council. Council is committed to involving the public in its decision making processes whenever possible, and the ability to ask questions during 'Public Question Time' is of critical importance in pursuing this public participation objective.

Council (as required by the *Local Government Act 1995*) sets aside a period of 'Public Question Time' to enable a member of the public to put up to three (3) questions to Council. Questions should only relate to the business of Council and should not be a statement or personal opinion. Upon receipt of a question from a member of the public, the Mayor may either answer the question or direct it to a Councillor or an Officer to answer, or it will be taken on notice.

Having regard for the requirements and principles of Council, the following procedures will be applied in accordance with the ***Town of East Fremantle Local Government (Council Meetings) Local Law 2016***:

1. Public Questions Time will be limited to fifteen (15) minutes.
2. Public Question Time will be conducted at an Ordinary Meeting of Council immediately following "Responses to Previous Public Questions Taken on Notice".
3. Each member of the public asking a question will be limited to two (2) minutes to ask their question(s).
4. Questions will be limited to three (3) per person.
5. Please state your name and address, and then ask your question.
6. Questions should be submitted to the Chief Executive Officer in writing by **5pm on the day before the meeting and be signed by the author**. This allows for an informed response to be given at the meeting.
7. Questions that have not been submitted in writing by 5pm on the day before the meeting will be responded to if they are straightforward.
8. If any question requires further research prior to an answer being given, the Presiding Member will indicate that the "question will be taken on notice" and a response will be forwarded to the member of the public following the necessary research being undertaken.
9. Where a member of the public provided written questions then the Presiding Member may elect for the questions to be responded to as normal business correspondence.
10. A summary of the question and the answer will be recorded in the minutes of the Council meeting at which the question was asked.

**During the meeting, no member of the public may interrupt the meetings proceedings or enter into conversation.**

**Members of the public shall ensure that their mobile telephone and/or audible pager is not switched on or used during any meeting of the Council.**

**Members of the public are hereby advised that use of any electronic, visual or audio recording device or instrument to record proceedings of the Council is not permitted without the permission of the Presiding Member.**

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## NOTICE OF MEETING

Elected Members

An Ordinary Meeting of the Audit Committee will be held on 2 November 2022 at 6:30 PM in the Council Chamber, 135 Canning Highway, East Fremantle and your attendance is requested.



GARY TUFFIN  
Chief Executive Officer  
**28 October 2022**

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# AGENDA

## 1 DECLARATION OF OPENING OF MEETING/ANNOUNCEMENTS OF VISITORS

## 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

### 3.2 APOLOGIES

### 3.3 APPROVED LEAVE

Ben Arnold

## 4 MEMORANDUM OF OUTSTANDING BUSINESS

## 5 DISCLOSURES OF INTEREST

6 PUBLIC QUESTION TIME

7 PRESENTATIONS/DEPUTATIONS

8 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

8.1 AUDIT COMMITTEE (6 JULY 2022)

**OFFICER RECOMMENDATION**

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

9 ANNOUNCEMENTS BY THE PRESIDING MEMBER

10 REPORTS

Reports start on the next page

## 10.1 FINANCIAL AUDIT - MANAGEMENT POSITION PAPERS

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

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### 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.

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### 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.

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### 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"> <li>• East Fremantle oval precinct redevelopment</li> <li>• Planned disposal of assets at 128 &amp; 128a George Street, East Fremantle</li> </ul>	<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"> <li>• provision for annual and long service leave</li> <li>• fair value and impairment of assets</li> <li>• reasonableness of useful lives of property, plant and equipment and infrastructure</li> <li>• expected credit loss assessment</li> </ul>	<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"> <li>• Southern Metropolitan Regional Council</li> </ul>	<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>
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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.

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CONSULTATION

Kelli Small – Consultant  
Office of Auditor General

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STATUTORY ENVIRONMENT

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

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POLICY IMPLICATIONS

There are no Council Policies relevant to this item.

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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 \ Likelihood		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

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**SITE INSPECTION**

Not Applicable.

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**COMMENT**

Three Positions 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.  $\text{Income to be recognised} = (\text{Costs incurred to date} / \text{total project cost}) \times \text{grant amount}$

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 -  $\$928,770 \text{ actual expenditure} / \$32,500,000 \text{ project budget} \times \$25,000,000 \text{ grant} = \$714,438 \text{ income to be recognized}$
2. Town -  $\$928,770 \text{ actual expenditure} = \$928,770 \text{ income to be recognized.}$

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 -  $\$13,000,000 \text{ budget expenditure} / \$32,500,000 \text{ project budget} \times \$25,000,000 \text{ grant} = \$10,000,000 \text{ income to be recognized}$
2. Town -  $\$13,000,000 \text{ budget expenditure} = \$13,000,000 \text{ income to be recognized}$

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.

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#### **CONCLUSION**

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

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CHOOSE AN ITEM. OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

**Committee Resolution** Choose an item. Click or tap to enter a date.

**OFFICER RECOMMENDATION**

**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.**

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**REPORT ATTACHMENTS**

Attachments start on the next page

OUR REF:  
ENQUIRIES:



## 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

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### 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:
- (a) bad debts;
  - (b) inventory obsolescence;
  - (c) the fair value of financial assets or financial liabilities;
  - (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
  - (e) 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:**
- (a) the period of the change, if the change affects that period only; or
  - (b) 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**

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- 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'

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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:** Management Review of Fair Value, RULs, Residual Values, Depreciation and Impairment of Assets  
**Date:** June 2022

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### 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:

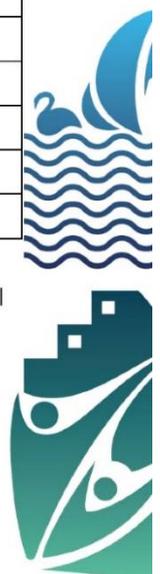
- 18 Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Australian Accounting Standards.

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.

	<b>Pre-Assessment</b>	<b>Post-Assessment</b>
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.

<i>As mentioned above - 2020 Revaluation %age split</i>		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%	
<b>Total Revaluation Land and Buildings</b>		<b>1,150,500.00</b>	<b>100.00%</b>	



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.

	<b>Pre-Assessment</b>	<b>Post-Assessment</b>
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.



	<b>Pre-Assessment</b>	<b>Post-Assessment</b>
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 Synergyssoft to reflect the new RUL's as per the valuation report.

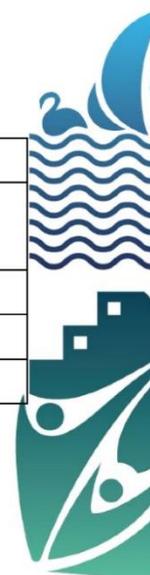
A high level review of this asset class has been completed to enable management to make the judgement as to whether any material changes have occurred since the last revaluation. To conduct the high level review the Town has utilised any of its own data and market information where the information has 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.

	<b>Pre-Assessment</b>	<b>Post-Assessment</b>
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.

	<b>Pre-Assessment</b>	<b>Post-Assessment</b>
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							
Date	Post Year	Period	Trans Type	Reference	Val Avail	Dep Avail	Description
18/08/2022	21/22	12	Depreciation	DEP JUNE 2022		333.94	DEPRECIATION - JUNE 2022
09/06/2022	21/22	11	Depreciation	DEP MAY 2022		430.00	DEPRECIATION MAY 2022
08/05/2022	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		388.39	DEPRECIATION FEBRUARY 2022
09/02/2022	21/22	07	Depreciation	DEP - JAN 22		430.00	DEPRECIATION - JANUARY 2022
27/01/2022	21/22	06	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.

Transaction History						
Date Post Year	Period	Trans Type	Reference	Val Amt	Dep Amt	Description
05/05/2022	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 22	445.89	DEPRECIATION - MARCH 2022
05/03/2022	21/22	08	Depreciation	DEP - FEB 22	402.73	DEPRECIATION FEBRUARY 2022
03/02/2022	21/22	07	Depreciation	DEP - JAN 22	445.89	DEPRECIATION - JANUARY 2022
27/01/2022	21/22	06	Depreciation	DEP DEC 21	445.89	DEPRECIATION DECEMBER 2021
27/01/2022	21/22	05	Depreciation	DEP NOV 21	431.50	DEPRECIATION NOVEMBER 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
25/06/2021	20/21	12	Depreciation	DEP JUNE 2021	431.50	DEPRECIATION JUNE 2021
23/05/2021	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
23/01/2021	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.

<i>Sedans 2 years or 40,000km</i>
<i>Utilities (Petrol) 3 years or 60,000km</i>
<i>Utilities (Diesel) 4 years or 80,000km</i>
<i>Trucks and heavy plant 3 to 8 years</i>

	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.

	<b>Pre-Assessment</b>	<b>Post-Assessment</b>
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:

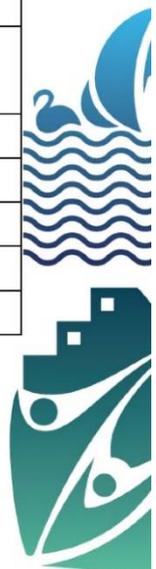
Table 3-1 Asset Classes for Valuation

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.

	<b>Pre-Assessment</b>	<b>Post-Assessment</b>
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.

	<b>Pre-Assessment</b>	<b>Post-Assessment</b>
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
<b>External Indicators</b>			
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"/>	
<b>Internal Indicators</b>			
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"/>	
<b>Other Indicators</b>			
Are there any other indicators of impairment not previously considered?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
<p><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></p> <p><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></p>			

**Peter Kocian**  
Digitally signed by Peter Kocian  
 Date: 2022.08.10 16:07:36 +08'00'

Prepared/Reviewed By: Peter Kocian  
 Exec Manager Corporate Services



*Prepared By:*

Kelli Small

ToEF Consultant

**Peter**  
**Kocian**

Digitally signed  
by Peter Kocian  
Date:  
2022.10.10  
09:06:41 +08'00'

*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

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### 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
<b>TOTALS</b>	<b>\$ 25,000,000</b>	<b>\$7,500,000</b>		<b>\$ 32,500,000</b>



The total Project funding is summarised in the table below:

<i>Project Funding (ex GST) - Cash Received</i>	\$
<b>DLGSC - Financial Assistance Grant</b>	<b>25,000,000</b>
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
<b>Total</b>	<b>32,500,000</b>

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 Documentations based on Cost Plan actions to reduce to \$32.5m or less

#### Updated Budget/Cost Breakdown

Item	Budget <sup>1</sup>	Gateway 2 <sup>1</sup>	DD Cost Plan <sup>2</sup>	Variance to Budget
Construction	\$ 24,987,000	\$ 24,760,464	\$ 25,205,110	\$ (218,110)
Headworks	\$ 0	\$ 293,000	\$ 296,500	\$ (296,500)
Design Contingency	\$ 2,498,700	\$ 1,237,523	\$ 756,153	\$ 1,742,547
Construction Contingency	\$ 1,374,300	\$ 1,299,399	\$ 1,298,063	\$ 76,237
Professional fees	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000	\$ 0
FF&E	\$ 500,000	\$ 1,000,000	\$ 1,000,000	\$ (500,000)
Public Art	\$ 240,000	\$ 240,000	\$ 240,000	\$ 0
Escalation	\$ 0	\$ 1,260,532	\$ 1,273,217	\$ (1,273,217)
<b>TOTAL</b>	<b>\$ 32,600,000</b>	<b>\$ 32,971,218</b>	<b>\$ 32,988,043</b>	<b>\$ (488,043)</b>

<sup>1</sup>Estimated breakdown based on \$32.5m

<sup>1</sup> DCWC Cost Plan dated 10 May 2022 (Gateway 2) - Superseded

<sup>2</sup> DCWC Cost Plan dated 27 June 2022 (Appendix 3)

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:



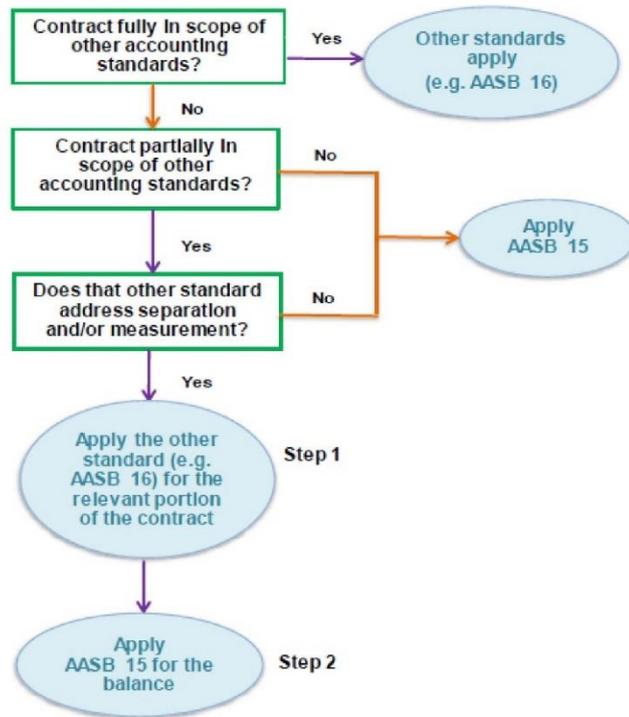
The standard requires a local government to recognise revenue aligned to the transfer of promised goods or services to customers for an amount that reflects the consideration the local government is entitled for those goods or services.

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.IE5) 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:

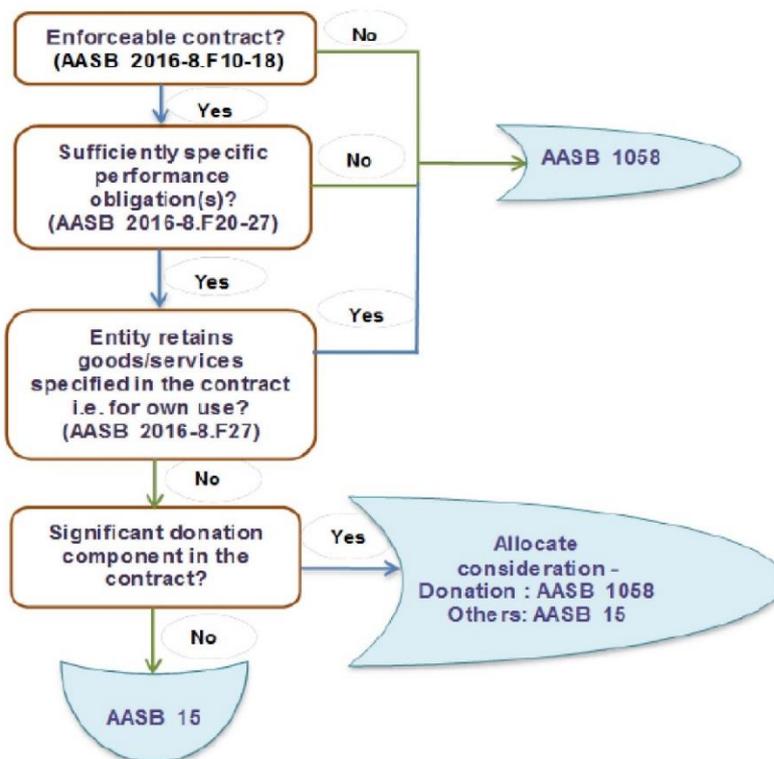
- the consideration to acquire an asset is significantly less than its fair value; and
- the intent is primarily to enable the NFP entity to further its objectives

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**

Digitally signed  
by Peter Kocian  
Date: 2022.10.10  
16:56:12 +08:00

*Reviewed By:*

Peter Kocian

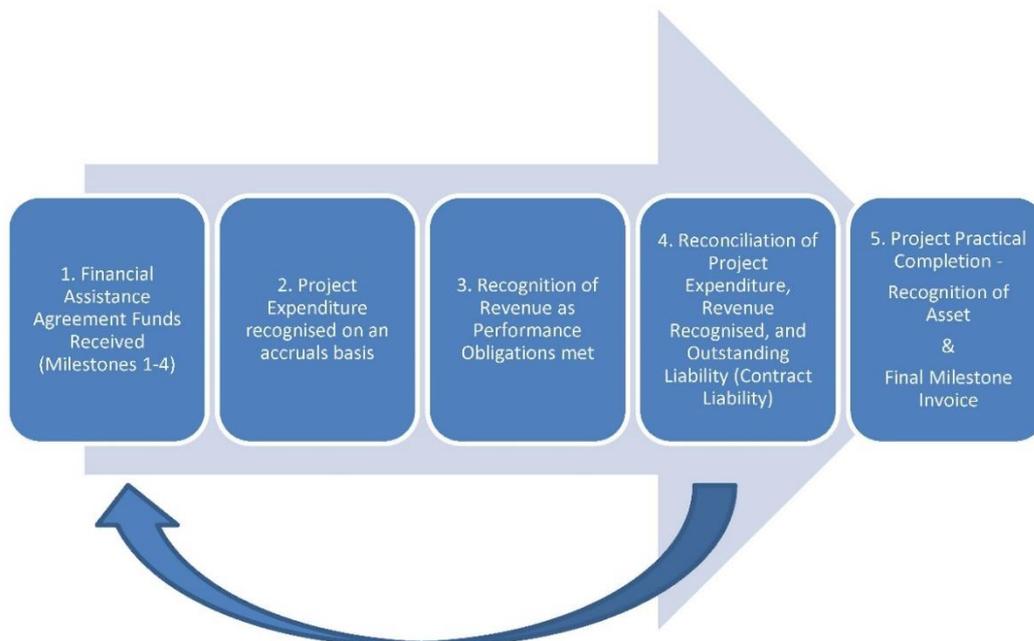
Exec Manager Corporate Services



**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  
Town of East Fremantle  
East Fremantle Oval Redevelopment

Report: Monthly Report July 2022  
Date: 29 July 2022

PROJECT ELEMENTS	Component	Col 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sept 22	Oct 22
<b>Professional Fees</b>														
Architect	Carabener	Planned	\$ -	\$ -	\$ -	\$ 31,810	\$ 64,388	\$ 34,257	\$ 83,243	\$ 141,882	\$ 83,441	\$ 69,984	\$ 65,884	\$ 85,884
		Actual	\$ -	\$ -	\$ -	\$ 31,810	\$ 64,388	\$ 34,257	\$ 83,243	\$ 141,882	\$ 83,441	\$ 69,984	\$ 65,884	\$ 85,884
Project Manager	Donald Cant Watts Conke	Planned	\$ 11,232	\$ 11,232	\$ 11,232	\$ 11,232	\$ 11,272	\$ 11,272	\$ 9,048	\$ 9,048	\$ 9,048	\$ 12,288	\$ 12,288	\$ 12,288
		Actual	\$ 11,232	\$ 11,232	\$ 11,232	\$ 11,232	\$ 11,272	\$ 11,272	\$ 9,048	\$ 9,048	\$ 9,048	\$ 12,288	\$ 12,288	\$ 12,288
Client Representative	Pastich Associates	Planned	\$ 7,892	\$ 7,892	\$ 7,892	\$ 7,892	\$ 7,892	\$ 7,892	\$ 7,892	\$ 7,892	\$ 7,892	\$ 7,892	\$ 7,892	\$ 7,892
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Quantity Surveyor	Donald Cant Watts Conke	Planned	\$ -	\$ -	\$ -	\$ -	\$ 6,900	\$ -	\$ 22,760	\$ 10,000	\$ 6,000	\$ -	\$ 28,828	\$ 28,828
		Actual	\$ -	\$ -	\$ -	\$ -	\$ 6,900	\$ -	\$ 22,760	\$ 10,000	\$ 6,000	\$ -	\$ 28,828	\$ 28,828
Mechanical Engineer	Norman Disney & Young	Planned	\$ -	\$ -	\$ -	\$ -	\$ 18,269	\$ 18,269	\$ 1,818	\$ 5,660	\$ 4,742	\$ -	\$ 1,041	\$ 1,041
		Actual	\$ -	\$ -	\$ -	\$ -	\$ 18,269	\$ 18,269	\$ 1,818	\$ 5,660	\$ 4,742	\$ -	\$ 1,041	\$ 1,041
Electrical Engineer	Norman Disney & Young	Planned	\$ -	\$ -	\$ -	\$ -	\$ 20,928	\$ 20,928	\$ 2,239	\$ 10,248	\$ 10,248	\$ 10,248	\$ 10,248	\$ 1,739
		Actual	\$ -	\$ -	\$ -	\$ -	\$ 20,928	\$ 20,928	\$ 2,239	\$ 10,248	\$ 10,248	\$ 10,248	\$ 10,248	\$ 1,739
Hydraulic Engineer	Norman Disney & Young	Planned	\$ -	\$ -	\$ -	\$ -	\$ 12,610	\$ 12,610	\$ 2,328	\$ 7,202	\$ 7,202	\$ 7,202	\$ 7,202	\$ 1,819
		Actual	\$ -	\$ -	\$ -	\$ -	\$ 12,610	\$ 12,610	\$ 2,328	\$ 7,202	\$ 7,202	\$ 7,202	\$ 7,202	\$ 1,819
Civil Engineer	Forth	Planned	\$ -	\$ -	\$ -	\$ -	\$ 4,000	\$ 2,800	\$ 8,078	\$ 4,000	\$ 6,000	\$ 8,880	\$ 12,128	\$ 20,633
		Actual	\$ -	\$ -	\$ -	\$ -	\$ 4,000	\$ 2,800	\$ 8,078	\$ 4,000	\$ 6,000	\$ 8,880	\$ 12,128	\$ 20,633
Structural Engineer	Forth	Planned	\$ -	\$ -	\$ -	\$ -	\$ 2,800	\$ 18,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 16,600	\$ 21,260	\$ 21,260
		Actual	\$ -	\$ -	\$ -	\$ -	\$ 2,800	\$ 18,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 16,600	\$ 21,260	\$ 21,260
Sports Surfaces	Sporting	Planned	\$ -	\$ -	\$ -	\$ 27,910	\$ 27,910	\$ 9,560	\$ 9,560	\$ 2,238	\$ 2,238	\$ -	\$ -	\$ 1,590
		Actual	\$ -	\$ -	\$ -	\$ 19,682	\$ 2,128	\$ -	\$ 19,260	\$ -	\$ 6,120	\$ -	\$ -	\$ 1,590
Art Coordinator	Ibc	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,400
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,400
FF&E Advisor	AMI	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hospitality	Executive Compass	Planned	\$ -	\$ -	\$ -	\$ -	\$ 1,800	\$ 6,000	\$ -	\$ 1,426	\$ 2,388	\$ 2,388	\$ 2,388	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ 1,800	\$ 6,000	\$ -	\$ 1,426	\$ 2,388	\$ 2,388	\$ 2,388	\$ -
Legal	Jackson McDonald	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,000	\$ 75,000	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,000	\$ 75,000	\$ -
Geotech Engineer	Douglas Partners	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,250	\$ -	\$ -	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,250	\$ -	\$ -	\$ -
<b>Total Professional Fees</b>		Planned	\$ 18,824	\$ 18,824	\$ 18,824	\$ 188,144	\$ 178,288	\$ 120,788	\$ 148,054	\$ 210,688	\$ 183,288	\$ 342,887	\$ 359,887	\$ 488,888
		Actual	\$ 11,232	\$ 11,232	\$ 11,232	\$ 122,824	\$ 88,188	\$ 82,128	\$ 141,186	\$ 174,888	\$ 188,288	\$ -	\$ -	\$ -
<b>FF&amp;E</b>														
FF&E	Ibc	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total FF&amp;E</b>		Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Construction</b>														
Forward Works	Ibc	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction	Ibc	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264,793
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264,793
<b>Total Construction</b>		Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264,793
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264,793
<b>Headworks and Statutory</b>														
Headworks and Statutory	Ibc	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Headworks and Statutory</b>		Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Art</b>														
Art	Ibc	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Art</b>		Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Contingencies</b>														
Design Contingency	n/a	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 189,238	\$ 189,238	\$ 189,238
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fee Contingency	n/a	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,430	\$ 2,430	\$ 2,430
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction Contingency	n/a	Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,534
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,534
<b>Total Contingencies</b>		Planned	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 191,668	\$ 191,668	\$ 191,668
		Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 191,668
<b>TOTAL (excl. GST)</b>		Planned	\$ 18,824	\$ 18,824	\$ 18,824	\$ 188,144	\$ 178,288	\$ 120,788	\$ 148,054	\$ 210,688	\$ 183,288	\$ 342,887	\$ 359,887	\$ 488,888
		Actual	\$ 11,232	\$ 11,232	\$ 11,232	\$ 122,824	\$ 88,188	\$ 82,128	\$ 141,186	\$ 174,888	\$ 188,288	\$ -	\$ -	\$ -
<b>TOTAL (incl. GST)</b>		Planned	\$ 20,917	\$ 20,917	\$ 20,917	\$ 181,869	\$ 190,823	\$ 132,057	\$ 162,037	\$ 231,824	\$ 199,000	\$ 477,869	\$ 495,491	\$ 658,704
		Actual	\$ 12,366	\$ 12,366	\$ 12,366	\$ 134,656	\$ 99,919	\$ 92,945	\$ 155,916	\$ 192,000	\$ 200,000	\$ -	\$ -	\$ -
<b>TOTAL CUMULATIVE (excl. GST)</b>		Planned	\$ 18,824	\$ 37,648	\$ 56,472	\$ 184,917	\$ 363,148	\$ 483,936	\$ 632,000	\$ 842,688	\$ 1,025,976	\$ 1,368,863	\$ 1,718,750	\$ 2,207,638
		Actual	\$ 11,232	\$ 22,464	\$ 33,696	\$ 145,856	\$ 234,044	\$ 316,172	\$ 457,358	\$ 632,246	\$ 820,534	\$ 1,008,822	\$ 1,298,114	\$ 1,589,908
<b>TOTAL CUMULATIVE (incl. GST)</b>		Planned	\$ 20,917	\$ 41,834	\$ 62,751	\$ 216,781	\$ 407,635	\$ 539,693	\$ 701,730	\$ 933,512	\$ 1,175,300	\$ 1,527,169	\$ 1,929,037	\$ 2,588,342
		Actual	\$ 12,366	\$ 24,730	\$ 37,096	\$ 149,421	\$ 234,044	\$ 318,119	\$ 460,275	\$ 642,246	\$ 832,534	\$ 1,020,822	\$ 1,310,114	\$ 1,601,508

**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





**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	IE	Inc/Exp Analysis	Original Budget	Current Budget	YTD Budget	Opening Balance	YTD Actual	Total Actual
000116	Cash and Cash Equivalents - Restricted - Unspent Grants Investments	00	ie Code 00	\$0.00	\$0.00	\$0.00	\$1,809,648.21	\$6,000,000.00	\$7,809,648.21
000261	Current Assets - Cash and Cash Equivalents - Restricted - Unspent Grants	00	ie Code 00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	<b>TOTAL CASH</b>			<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$1,809,648.21</b>	<b>\$6,000,000.00</b>	<b>\$7,809,648.21</b>
002081	Current Liabilities - Riverbank Funding Grant (John Tonkin Foreshore Stabilisation)	00	ie Code 00	\$0.00	\$0.00	\$0.00	-\$75,000.00	\$0.00	-\$75,000.00
002082	Current Liabilities - Better Bins Kerbside Collection Program (Operating Grant)	00	ie Code 00	\$0.00	\$0.00	\$0.00	-\$7,656.31	\$0.00	-\$7,656.31
002086	Current Liabilities - Contract Liabilities - Urban Canopy Grant Program	00	ie Code 00	\$0.00	\$0.00	\$0.00	-\$34,822.88	\$0.00	-\$34,822.88
002089	Current Liabilities - Contract Liabilities - URCP	00	ie Code 00	\$0.00	\$0.00	\$0.00	-\$39,509.03	\$126,272.00	-\$15,741.03
002089	Current Liabilities - Contract Liabilities - East Fremantle Oval Redevelopment Grant (DLGSC)	00	ie Code 00	\$0.00	\$0.00	\$0.00	-\$5,771,229.24	-\$8,000,000.00	-\$9,571,229.24
002090	Current Liabilities - Contract Liabilities - Nature Playground Grant (DLGSC)	00	ie Code 00	\$0.00	\$0.00	\$0.00	-\$52,000.00	\$0.00	-\$52,000.00
002091	Current Liabilities - Contract Liabilities - CHRMAP	00	ie Code 00	\$0.00	\$0.00	\$0.00	-\$39,430.75	\$0.00	-\$39,430.75
	<b>TOTAL CONTRACT LIABILITIES</b>			<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>-\$1,809,648.21</b>	<b>-\$8,126,272.00</b>	<b>-\$9,935,920.21</b>
E12943	Infrastructure - Footpaths - Renewal - Petros St (Vicar Ton - Preston Point Rd)			\$68,000.00	\$68,000.00	\$17,000.00	\$0.00	\$0.00	\$0.00
	** note that the Petros St project is funded 50% from LDCP with the remaining 50% from DLGSC								
	<b>Amount to be transferred from Contract Liability to Income Account</b>							<b>\$0.00</b>	
I11160	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	\$0.00
E11738	Buildings - East Fremantle Oval Precinct Redevelopment			\$13,000,000.00	\$13,000,000.00	\$2,000,000.00	\$0.00	\$798,606.46	\$798,606.46
	<b>Amount to be transferred from Contract Liability to Income Account</b>							<b>\$798,606.46</b>	

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

Dr Contract Liability (2089)  
 Cr Non-Operating Grants, subsidies and Contributions (I11160.141)

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:

<Y:\Corporate and Community\Grants and Subsidies\DLGSC - East Fremantle Oval Redevelopment\2022-23\DLGSC East Fremantle Oval Redevelopment Reconciliation at 30 June 2023.xlsx>

To reconcile at the end of each month, bring in the transactions for income (I11160), 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		TOTAL	Notes
		21/22	22/23		
<b>Income</b>					
<i>Grant Income (ex GST) - Cash Received</i>					
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	-	-		-	
<b>Total Income</b>	<b>32,500,000</b>	<b>2,500,000</b>	<b>-</b>	<b>2,500,000</b>	
<b>Expenditure</b>					
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>> | E11738 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

<b>STATEMENT OF INCOME AND EXPENDITURE</b>				
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	TOTAL
<b>Income</b>				
<i>Grant Income (ex GST) - Cash Received</i>				
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	-	-		-
<b>Total Income</b>	<b>32,500,000</b>	<b>2,500,000</b>	<b>-</b>	<b>2,500,000</b>
<b>Expenditure</b>				
Construction	- 24,987,000	-		-
Headworks	-	-		-
Design Contingency	- 2,498,700	-		-
Construction Contingency	- 1,374,300	-		-
Professional Fees	- 2,900,000	- 928,771		- 928,771
FF&E	- 500,000	-		-
Public Art	- 240,000	-		-
Escalation	-	-		-
<b>Total Expenditure</b>	<b>- 32,500,000</b>	<b>- 928,771</b>	<b>-</b>	<b>- 928,771</b>
<b>Net Income / Expenditure</b>	<b>-</b>	<b>1,571,229</b>	<b>-</b>	<b>1,571,229</b>
<b>Unspent Grant Balance to Contract Liabilities</b>				<b>1,571,229.24</b>

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: 11111600.141 - 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

<b>Report Reference Number</b>	ACR-346
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Meeting date</b>	Wednesday, 2 November 2022
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	The Annual Financial Report for the Year Ended 30 June 2022 (as submitted to the Auditors) will be tabled at the meeting
<b>Attachments</b>	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 <ul style="list-style-type: none"> <li>• Roads to Recovery</li> <li>• Local Roads and Community Infrastructure Program</li> <li>• Better Bin Plus Certification</li> </ul>	By 7 October 2022
Final audit	3 October to 28 October 2022
Audit opinions issued for the following certifications: <ul style="list-style-type: none"> <li>• Roads to Recovery</li> <li>• Local Roads and Community Infrastructure Program</li> <li>• Better Bin Plus Certification</li> </ul>	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

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### CONSULTATION

Office of the Auditor General

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### 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.

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### 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.

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### 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	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.

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## 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.

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## 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.

---

## CHOOSE AN ITEM. OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

**Committee Resolution** Choose an item. Click or tap to enter a date.

### OFFICER RECOMMENDATION

**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.**

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## REPORT ATTACHMENTS

Attachments start on the next page

### 10.3 RISK REGISTER

<b>Report Reference Number</b>	ACR-352
<b>Prepared by</b>	Bron Browning, Manager Corporate Services
<b>Supervised by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Meeting date</b>	Wednesday, 2 November 2022
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	
	1. Dashboard Report

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#### 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.

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#### 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.

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#### 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.

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#### CONSULTATION

Executive Team

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

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#### 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**

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	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.

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**RISK RATING**

<b>Risk Rating</b>	15
<b>Does this item need to be added to the Town’s Risk Register</b>	No
<b>Is a Risk Treatment Plan Required</b>	No

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**SITE INSPECTION**

Not Applicable

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**COMMENT**

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

1<sup>st</sup> 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.

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

3<sup>rd</sup> Line – 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 (1<sup>st</sup> 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 (2<sup>nd</sup> 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 (3<sup>rd</sup> line of defense) 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.

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CHOOSE AN ITEM. OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

**Committee Resolution** Choose an item. Click or tap to enter a date.

**OFFICER RECOMMENDATION**

**That the Audit Committee, as the 3<sup>rd</sup> line of defense 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 (1<sup>st</sup> 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 (2<sup>nd</sup> 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 (3<sup>rd</sup> line of defense) in the itemised Risk Register for review and monitoring.

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**REPORT ATTACHMENTS**

Attachments start on the next page

Attachment -1

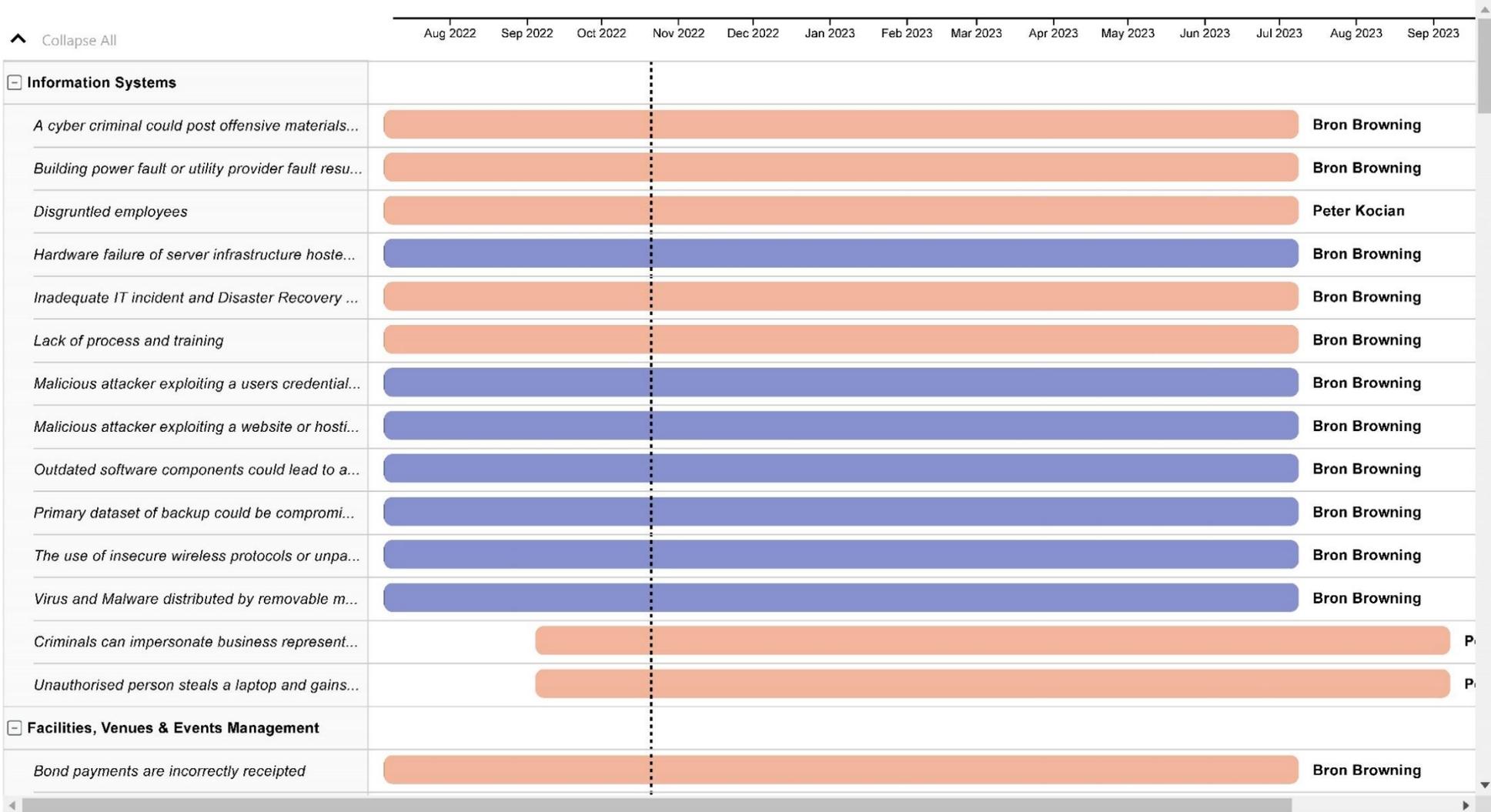


Click on a risk title to view and edit the risk details in the Risk Management App

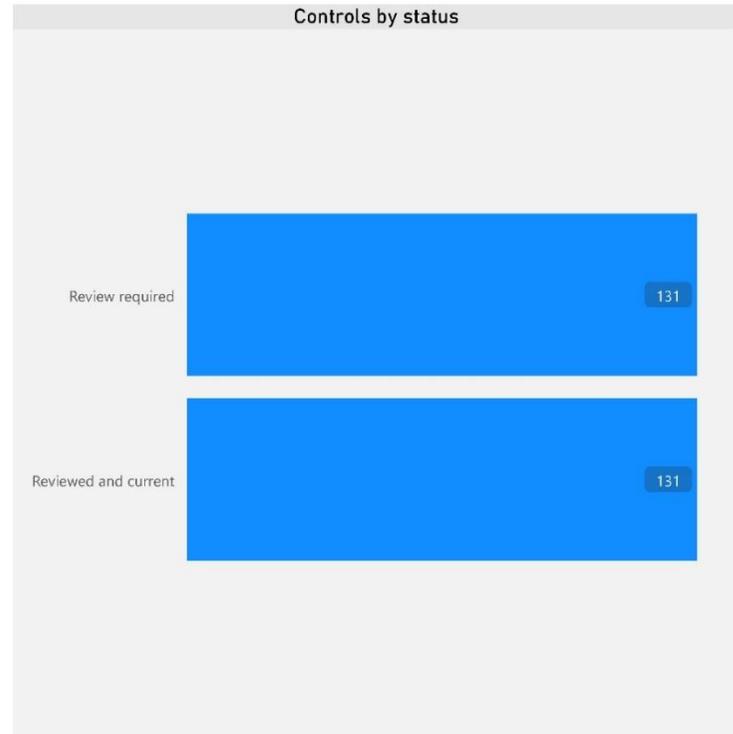
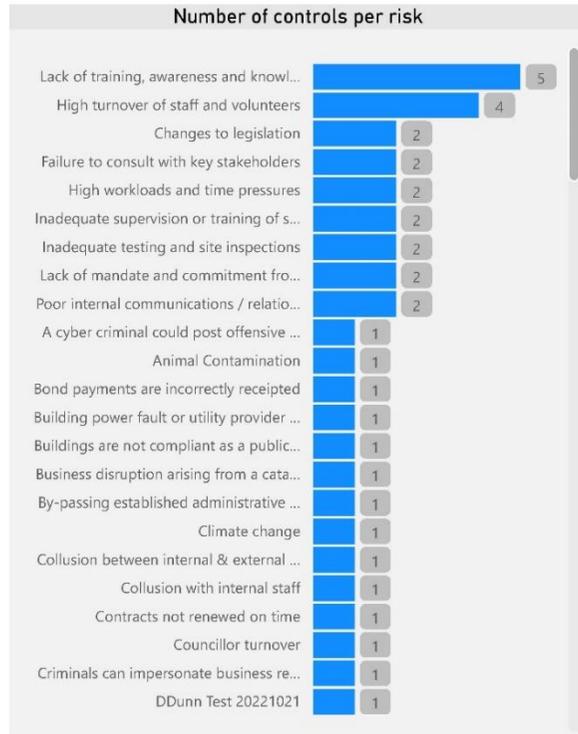
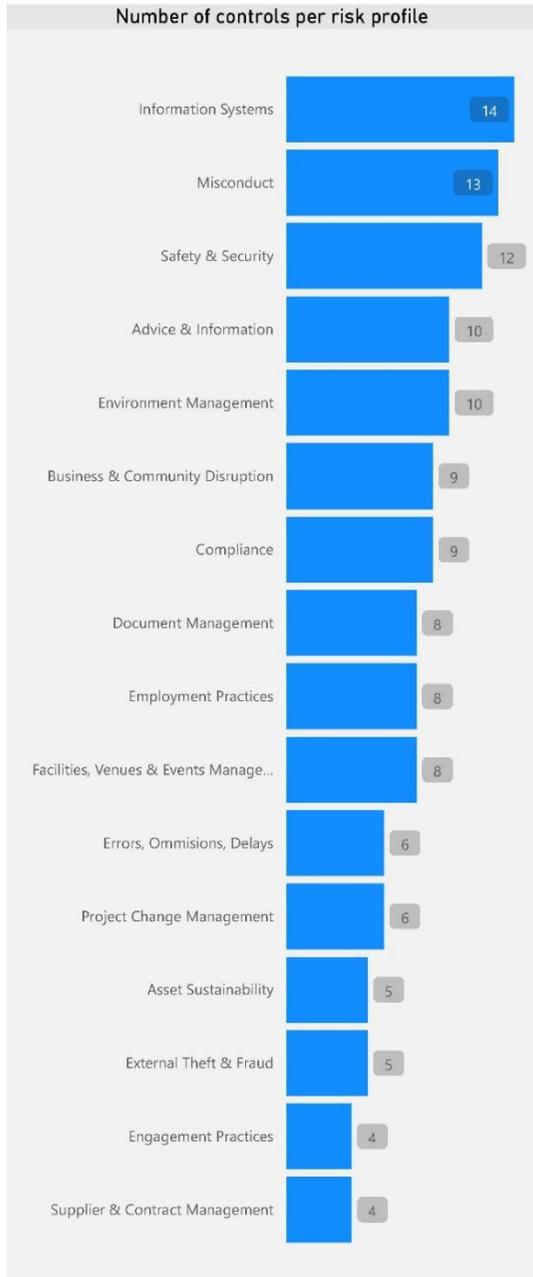
Risk	Processing Status	Risk Manager	Risk Owner	Business Area	Review Due Date
<a href="#">A cyber criminal could post offensive materials on Town websites to cause reputational damage or access sensitive information for inappropriate use</a>	Risk reviewed and current	Bron Browning	Peter Kocian	Corporate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



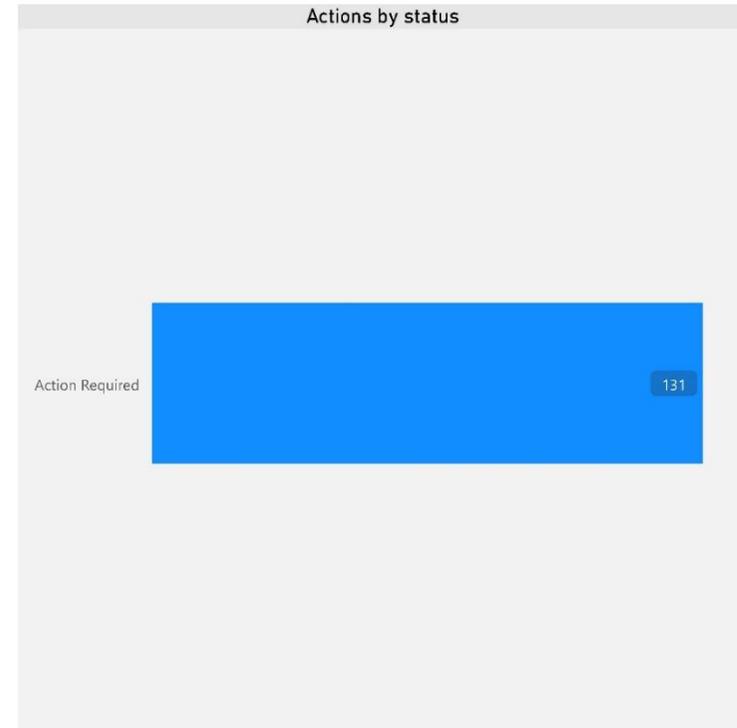
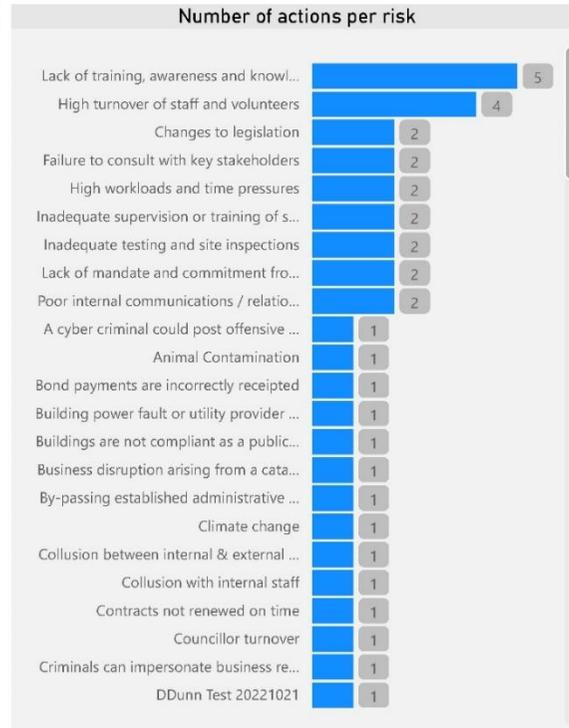
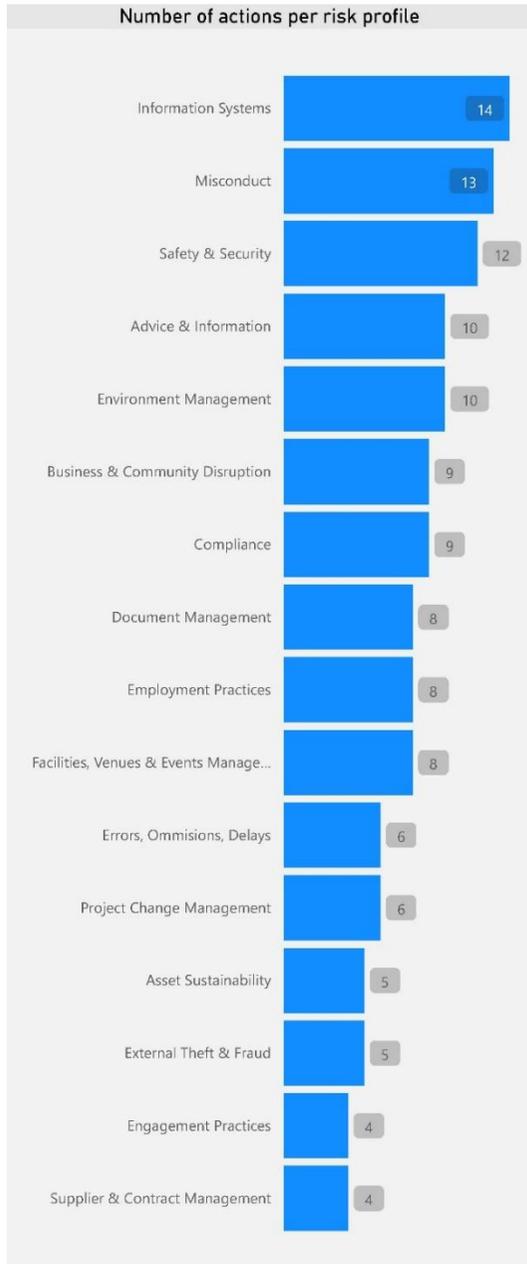
Attachment -1



### Controls

Title	ControlRatingValue	ReviewedBy.Name	DA
3-4 year laptop replacement program	Adequate: some scope for improvement	Bron Browning	S
5 year capital works plan	Not assessed		S
5 year capital works plan	Not assessed		S
5 year capital works plan	Not assessed		S
5 year statutory review of Record Keeping Plan	Not assessed		S
Access to staff training and professional development	Not assessed		S
Access to staff training and professional development	Not assessed		S
Access to staff training and professional development	Not assessed		S
Access to staff training and professional development	Not assessed		S
Accounts Payable processing including peer review	Not assessed		S
Accreditation for the use of all plant and equipment	Not assessed		S
Adequate document management system to enable research	Not assessed		S
Adoption of Local Planning Strategy	Not assessed		S
All DER classifications (contaminated sites) are placed on file	Not assessed		S
All DER classifications (contaminated sites) are placed on file	Not assessed		S
All off-site assets to include an assessment of statutory requirements	Not assessed		S

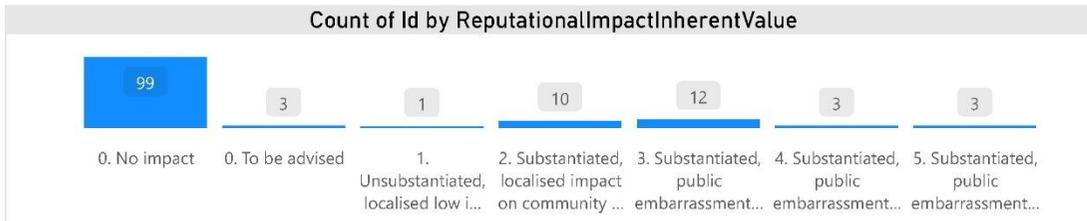
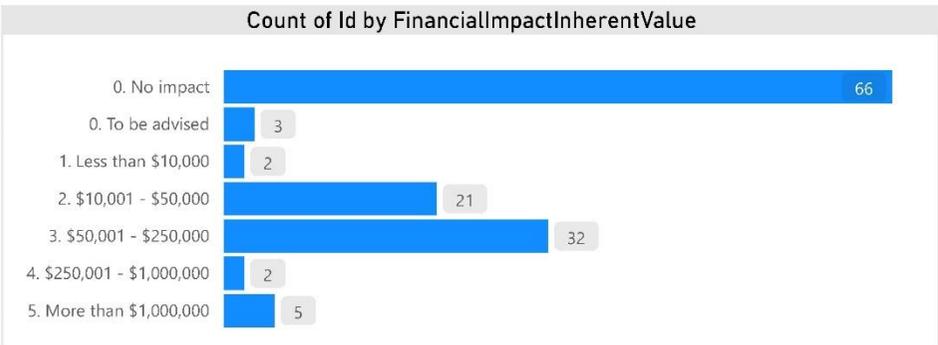
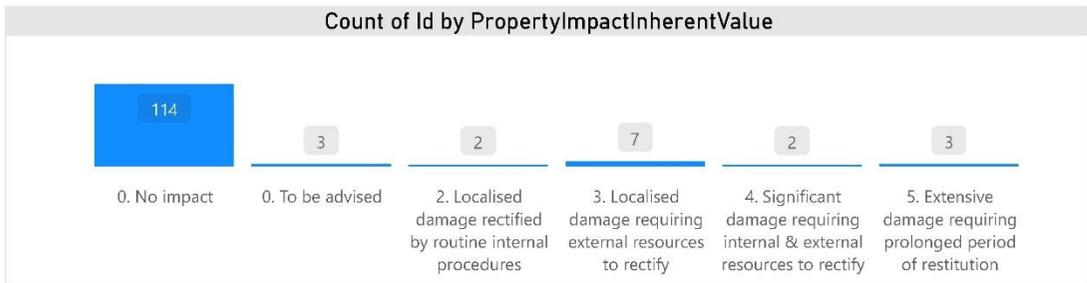
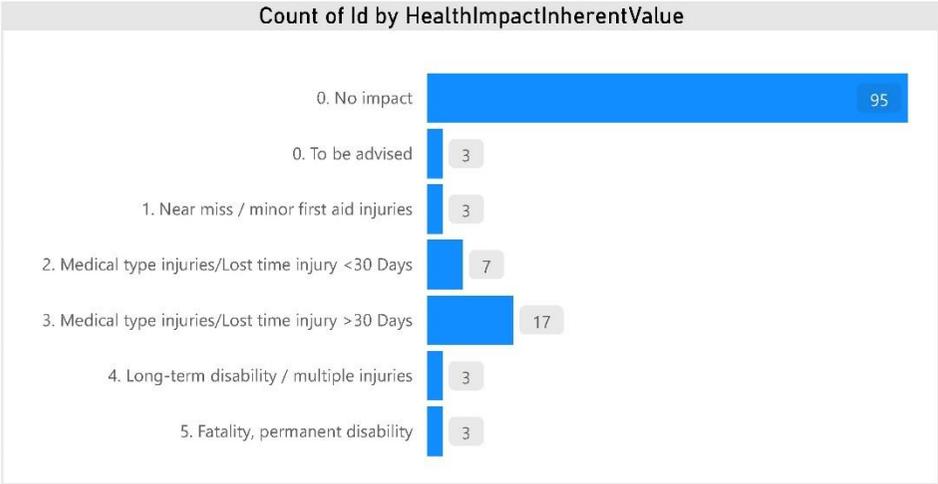
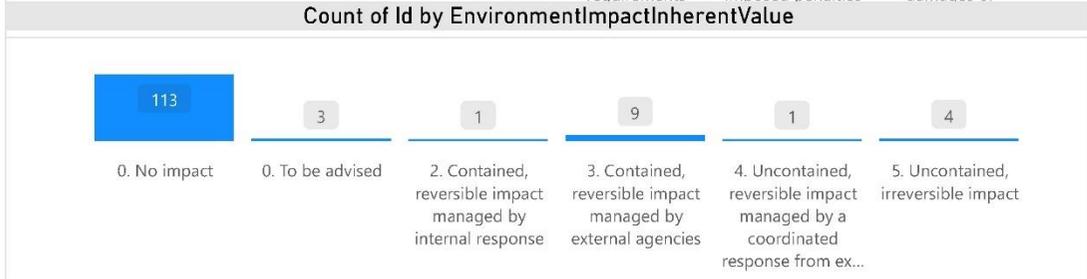
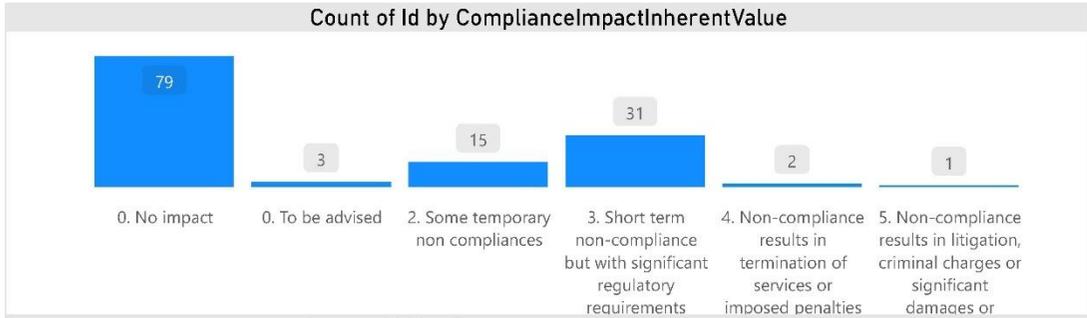
Attachment -1



Actions

Title	ProcessingStatusValue	AssignedTo.Name	DueDate
Accreditation for the use of all plant and equipment	Action Required	Bron Browning	Friday, August 12, 2022
Adoption of Local Planning Strategy	Action Required	Bron Browning	Friday, August 12, 2022
Annual benchmarking against WALGA Remuneration Survey	Action Required	Bron Browning	Friday, August 12, 2022
Annual Budget for Legal Services	Action Required	Bron Browning	Friday, August 12, 2022
Annual Budget for purchase of combustible dog bags	Action Required	Bron Browning	Friday, August 12, 2022
Annual building inspections undertaken by the Environmental Health Officer	Action Required	Bron Browning	Friday, August 12, 2022
Annual Business Continuity Exercise	Action Required	Bron Browning	Friday, August 12, 2022
Annual Communications Budget allocated	Action Required	Bron Browning	Friday, August 12, 2022
Annual Condition Assessments of Roads and Footpaths (Inspection Sheets)	Action Required	Bron Browning	Friday, August 12, 2022
Annual Cyber Awareness Training	Action Required	Bron Browning	Friday, August 12, 2022
Annual Funding allocated to Environmental and Sustainability Reserve	Action Required	Bron Browning	Friday, August 12, 2022
Annual Funding allocated to Environmental and Sustainability Reserved	Action Required	Bron Browning	Friday, August 12, 2022
Annual Information Security Awareness Training	Action Required	Bron Browning	Friday, August 12, 2022
Annual inspections of RCDs	Action Required	Bron Browning	Friday, August 12, 2022

Attachment -1



**10.4 INFORMATION SYSTEMS AUDIT (CONFIDENTIAL)**

(Confidential Report)

## 10.5 AUDIT COMMITTEE STATUS REPORT

<b>Report Reference Number</b>	ACR-354
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Meeting date</b>	Wednesday, 2 November 2022
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	
	<ol style="list-style-type: none"> <li>1. Consolidated Status Report</li> <li>2. Contracts Register Snapshot</li> </ol>

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### 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.

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### 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.

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#### CONSULTATION

Executive Leadership Team  
Manager Corporate Services

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#### 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.

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#### POLICY IMPLICATIONS

There are no Council Policies relevant to this matter.

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#### 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 3<sup>rd</sup> party costs will be incurred.

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#### STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance  
5.1 Strengthen organisational accountability and transparency  
5.3 Strive for excellence in leadership and governance

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#### 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	
Likelihood	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

<b>Risk Rating</b>	9
<b>Does this item need to be added to the Town’s Risk Register</b>	Yes
<b>Is a Risk Treatment Plan Required</b>	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
	<b>5</b>	<b>5</b>	<b>0</b>

---

**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.

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**CHOOSE AN ITEM. OFFICER RECOMMENDATION / COMMITTEE RESOLUTION**

**Committee Resolution** Choose an item. Click or tap to enter a date.

**OFFICER RECOMMENDATION**

**That the Audit Committee receives the Consolidated Status Report on items relevant to its Terms of Reference.**

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**REPORT ATTACHMENTS**

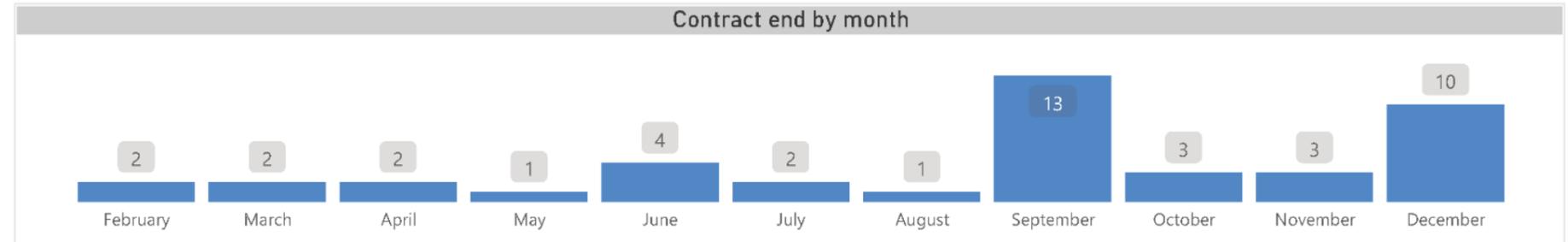
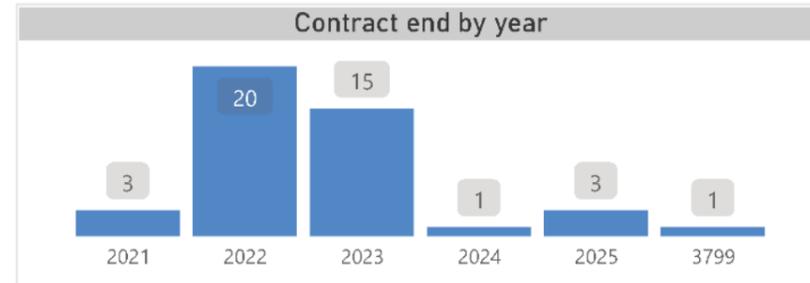
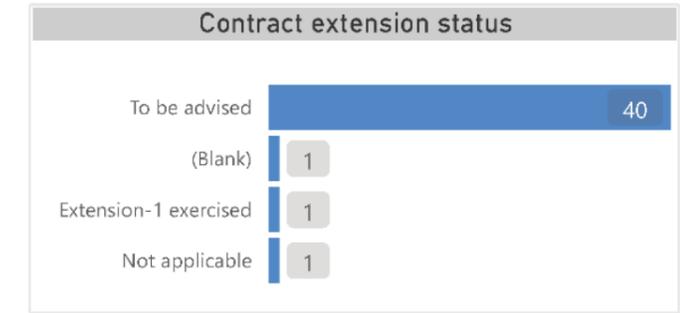
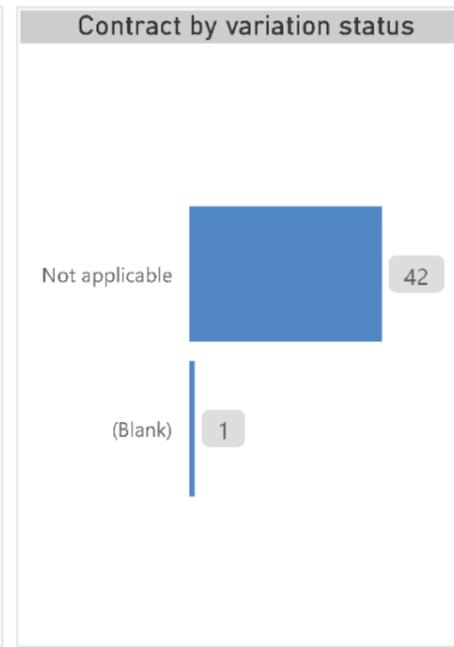
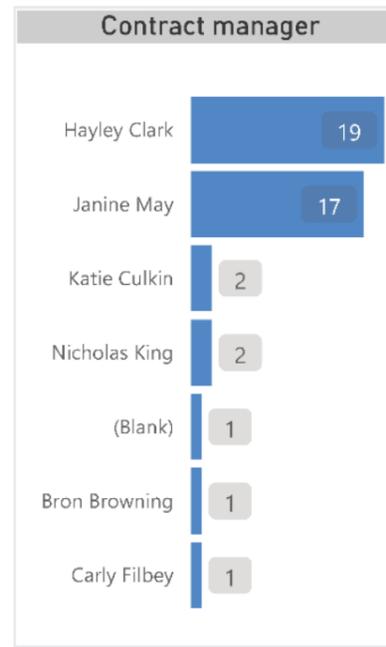
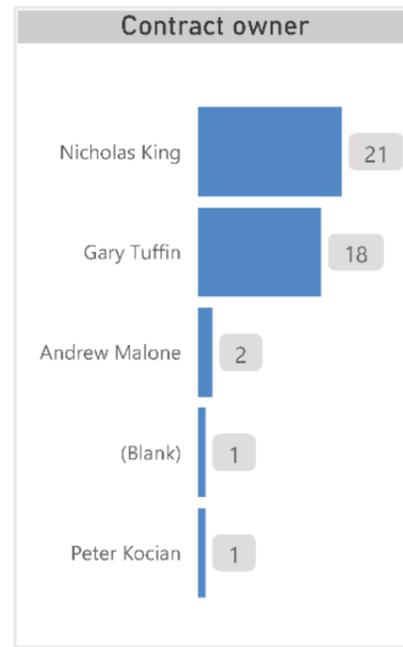
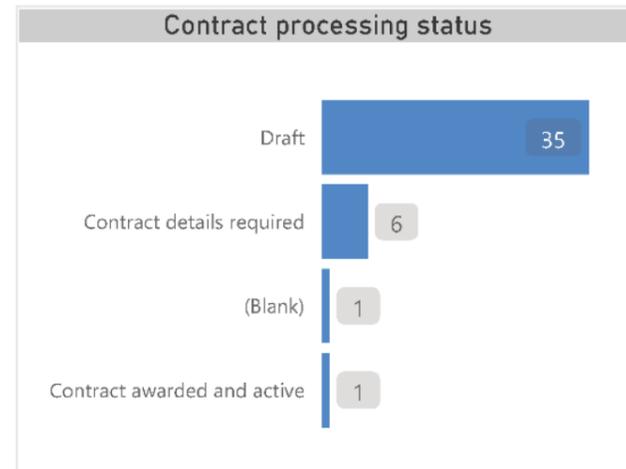
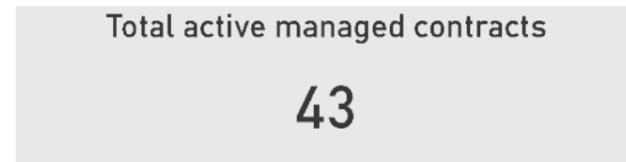
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Town of East Fremantle - Risk Assessment

Audit Finding	Risk Assessment Category Risk Issue and Failure Modes	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	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	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	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 implement 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	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	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	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

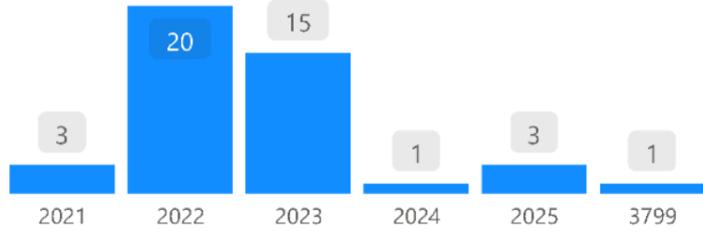
Audit Finding	Risk Assessment Category Risk Issue and Failure Modes	Risk Identified	Date of initial risk identification	Source of Audit Finding (FMR/Audit Reg 17/GCC Audit/Audit Management Letter/Internal)	Likelihood	Strategic Consequences	Operational Consequences	Combined Consequence	Maximum Rating	Likelihood rating	Risk Category	Action Required	Mitigation and Management Strategy (Possible Future Controls)	Responsible Officer	Progress Update
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 covered 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.



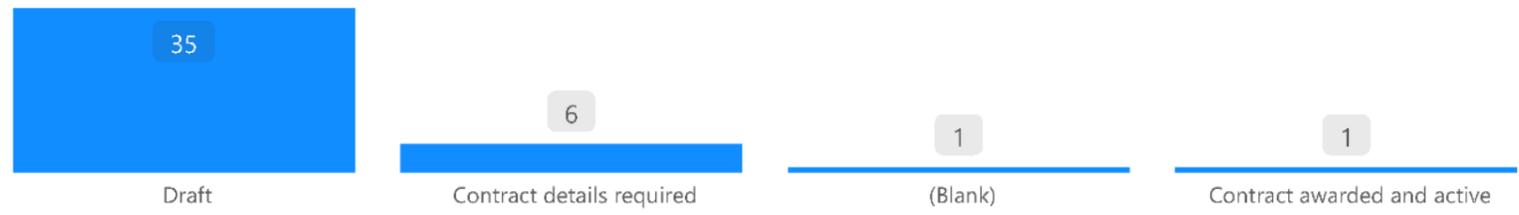
**Contract details (click on a contract name to view or edit the details in the SharePoint application)**

Name	Contract Owner	Contract Manager	Start Date	InitialExpiryDate	Extensions Status	End Date with Extensions	Variation Status	Base Contract Value	Total Value with Variations
<a href="#">RFQ05 202122 Field of Play Design Services East Fremantle Oval Precinct Redevelopment Project</a>	Gary Tuffin	Janine May	November 2021	November 2021	To be advised	November 2021	Not applicable	\$21,760	21,760.00
<a href="#">RFQ03 202122 Silas Street Drainage Upgrade</a>	Nicholas King	Hayley Clark	September 2021	December 2021	To be advised	December 2021	Not applicable	\$54,500	54,500.43
<a href="#">RFT06 202122 Minor Asphalt Services</a>	Nicholas King	Hayley Clark	December 2021	December 2021	To be advised	December 2021	Not applicable	\$0	0.00
<a href="#">RFQ09 202122 Locke Crescent drainage upgrade works</a>	Nicholas King	Hayley Clark	December 2021	March 2022	To be advised	March 2022	Not applicable	\$85,352	85,351.50
<a href="#">RFQ10 202122 Gill Street footpath upgrade works</a>	Nicholas King	Hayley Clark	December 2021	March 2022	To be advised	March 2022	Not applicable	\$68,860	68,860.00
<a href="#">RFQ18 202122 Swan Yacht club - River wall construction works</a>	Nicholas King	Hayley Clark	March 2022	April 2022	To be advised	April 2022	Not applicable	\$75,000	75,000.00
<a href="#">RFQ02 202122 Local Commercial Centre Assessment and Strategy</a>	Andrew Malone	Katie Culkin	October 2021	April 2022	To be advised	April 2022	Not applicable	\$39,990	39,990.00

### Contract end by year



### Processing status



### Contracts by start and end date (including extension dates)

Start Date	End Date	Count
Jan 2025	Jan 2026	3
Jan 2026	Jan 2027	20
Jan 2027	Jan 2028	15
Jan 2028	Jan 2029	1
Jan 2029	Jan 2030	3
Jan 2030	Jan 2031	1

Janine May

10.6 2023 MEETING SCHEDULE AND AUDIT WORK PLAN

<b>Report Reference Number</b>	ACR-367
<b>Prepared by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Supervised by</b>	Gary Tuffin, Chief Executive Officer
<b>Meeting date</b>	Wednesday, 2 November 2022
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil
<b>Attachments</b>	

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 (4<sup>th</sup> Wednesday of the month), with the suggested work plan as follows:

Month	Activity
February	<ul style="list-style-type: none"> <li>• Compliance Audit Return</li> <li>• Audit Report, Management Letter and Annual Meeting with Auditor</li> <li>• Mid-Year Budget Review</li> <li>• Presentation of the Financial Management and Audit Regulation 17 Review</li> </ul>
July	<ul style="list-style-type: none"> <li>• Risk Register (Standing Item)</li> <li>• Update on Implementation of IS Audit Findings</li> <li>• Audit of Purchase Requisitions over \$5k</li> <li>• Status Report (Standing Item)</li> </ul>
November	<ul style="list-style-type: none"> <li>• Risk Register (Standing Item)</li> <li>• Draft Annual Financial Statements</li> <li>• Interim Audit – Management Letter</li> <li>• Status Report (Standing Item)</li> </ul>

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 governments 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 review the appropriateness and effectiveness of the financial management systems and procedures of the local government at least once every years and reports 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	
Likelihood	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

<b>Risk Rating</b>	9
<b>Does this item need to be added to the Town’s Risk Register</b>	No
<b>Is a Risk Treatment Plan Required</b>	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.

**CHOOSE AN ITEM. OFFICER RECOMMENDATION / COMMITTEE RESOLUTION**

<b>Committee Resolution</b> Choose an item. Click or tap to enter a date.	
<b>OFFICER RECOMMENDATION</b>	
That the Audit Committee recommend Council approve the following meeting schedule and work plan for the 2023 Calendar Year:	
Month (4 <sup>th</sup> Wednesday @ 6.00pm)	Activity
February	<ul style="list-style-type: none"> <li>• Compliance Audit Return</li> <li>• Audit Report, Management Letter and Annual Meeting with Auditor</li> <li>• Mid-Year Budget Review</li> <li>• Presentation of the Financial Management and Audit Regulation 17 Review</li> </ul>
July	<ul style="list-style-type: none"> <li>• Risk Register (Standing Item)</li> <li>• Update on Implementation of IS Audit Findings</li> <li>• Audit of Purchase Requisitions over \$5k</li> <li>• Status Report (Standing Item)</li> </ul>
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**REPORT ATTACHMENTS**

Attachments start on the next page

REPORT 11.2

ATTACHMENT 1

Town of East Fremantle - 4 year Internal Audit Work Plan

Activity	Frequency	Risk Identified	Person Performing the Task	Compliance Rating	Likelihood Rating	Risk Category	2019		2020		2021		2022	
							Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Compliance Audit Return	Annually	Breach of Legislation	EA/Governance Coordinator. Legal firms do provide a niche service to review the CAR 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 (s79 LGA) due to inadequate audit preparation	Executive Manager Corporate Services	4	3	High								
Information Systems Audit (Performance Audit OAD)	Every 3 years	The Towns General Computer Controls are inadequate impacting business continuity 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	That key findings from the FMR/Rig 17 Review are not actioned resulting in control weaknesses	Moore Stephens last performed this independent review in December 2016. 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 requirements 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