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3.2 C-3SAP02 – Significant Accounting Policy

Previous Policy Number – N/A

PART A - Policy

Objective

The objective of this Policy is to detail the accounting policies that form the basis of the Statement of Significant Accounting Policies published in the notes to the Annual Financial Report and the annual Budget of the Shire of Dandaragan (Shire).

Policy Statement

The Annual Financial Report, Budget and monthly financial report will be prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities) and Australian Accounting interpretations, other authoritative pronouncements of Australian Accounting Standards Board, and the Local Government Act 1995 and accompanying regulations.

The Local Government (Financial Management) Regulations 1996 take precedence over Australian Accounting Standards. Regulation 16 prohibits a local government from recognising as assets Crown land that is a public thoroughfare, such as land under roads, and land not owned by but under the control or management of the local government, unless it is a golf course, showground, racecourse or any other sporting or recreational facility of State or regional significance. Consequently, some assets, including land under roads acquired on or after 1 July 2008, have not been recognised in this financial report. This is not in accordance with the requirements of AASB 1051 Land Under Roads paragraph 15 and AASB 116 Property, Plant and Equipment paragraph 7.

Except for cash flow and rate setting information, the report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

Basis of Preparation - Critical Accounting Estimates

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

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

Local Government Reporting Entity

All Funds through which the Shire controls resources to carry out its functions will be included in the Financial Statements forming part of the financial reports (annual, monthly and budget).

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

TRUST FUND

All monies held in the Trust fund are to be excluded from the financial statements.

Rates

Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

Grants, Donations and Other Contributions

Grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions.

Where contributions recognised as revenues during the reporting period are obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in a separate note.

That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operations for the current period.

Investments

Investment revenues will be recognised as they accrue.

Interest Earned on Reserve Investments

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

Land Held for Resale

Land purchased for development and/or resale is valued at cost or net realisable value. An independent market valuation is obtained to revise the value of the land disclosed in the financial statements. Cost includes the cost of acquisition, development and interest incurred on the financing of that land during its development. Interest and holding charges incurred after development is complete are recognised as expenses.

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

Taxation

The Shire will comply with Australian Taxation Office (ATO) applicable taxation laws, including Fringe Benefits Tax (FBT), Goods and Services Tax (GST), Pay as You Go Tax, and Withholding Tax.

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Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

Contingent Liabilities

Contingent liabilities are disclosed as a note to the financial statements where the expected contingent liability is material.

Borrowings

Financial liabilities are recognised at fair value when the Shire becomes a party to the contractual provisions to the instrument.
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.
Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.
Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

Events Occurring After Balance Date

Events occurring after balance date are disclosed as a note to the financial statements where the amount is material.

Reconciliation of Accounts

All account balances disclosed in the financial statements are reconciled to verify their balance and ensure the integrity of the accounts. External evidence or a calculation showing the derived balance support the reconciliation of an account.

The reconciliation must be signed and dated by the employee performing the reconciliation and reviewed by their supervisor. Procedures will ensure major accounts are reconciled at least monthly.

Accounts and Records

The Executive Manager Corporate Services must keep and retain comprehensive and accurate records and accounts for the Shire and will ensure that the financial accounts and records are properly maintained and archived to ensure the Shire complies with applicable laws.

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Payments

Payments made must be in accordance with Regulation 11 of the *Local Government (Financial Management) Regulations 1996*.

A listing of payments made is to be prepared in accordance with Regulations 12 and 13 of the *Local Government (Financial Management) Regulations 1996.*

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and other short term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

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

Procedures are required to be in place to ensure all cash is properly controlled, secure and can be accounted for at all times. Periodically, and at least once each year, holders of cash advances (petty cash and till floats) will be required to certify the balance of these advances.

Fixed Assets

Asset Classes
The Shire will categorise assets in accordance with the following asset classes:

- Land.
- Buildings
- Plant and Equipment
- Furniture and Equipment
- Infrastructure – Roads
- Infrastructure – Footpaths.
- Infrastructure – Drainage.
- Infrastructure – Parks and Reserves
- Infrastructure – Other

Asset Valuation

The fair value of fixed assets is determined within a period of at least three years but no more than five years in accordance with the regulatory framework. At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions.
This process is considered to be in accordance with Local Government (Financial Management) Regulation 17A (2) which requires property, plant and equipment to be shown at fair value.

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same class of asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

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Asset Capitalisation Process

Assets are to be recognised in the Asset Register as an individual asset for the purpose of depreciation if their acquisition or construction has been completed. For most asset classes acquisition or construction are generally completed in the year the items were budgeted and they may be capitalised and depreciated from their purchase or completion date.

For the infrastructure and building asset classes, construction for some projects may extend over financial years. In these cases, expenditure for these projects is recognised as “work in progress” and included in the Asset Register at the end of the financial year but not depreciated. Infrastructure asset class projects which are completed during the financial year are valued and recorded in the Asset Register at the end of the financial year and depreciated.

Asset Capitalisation Thresholds

All purchases of a capital nature will be considered for recognition as an asset if their value exceeds the threshold value guides or their expected benefit to the organisation in terms of value and useful life justifies their inclusion as an asset.

Expenditure on items of equipment under $5,000 is not capitalised. Rather, it is recorded on an asset inventory listing.

Items below the above thresholds may be expensed as operating costs in the year of acquisition and in the case of items which are readily portable, at risk of being stolen and valued between $2,500 (excluding GST) and $5,000 (excluding GST) they will be included in an Excluded Portable and Attractive Assets Register.

Depreciation

The depreciable amount of all fixed assets including buildings but excluding freehold land and vested land, are depreciated on a straight-line basis over the individual asset’s useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:
a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Major depreciation periods used for each class of depreciable asset are:

Buildings	25 - 50 years
Furniture and equipment	5 - 20 years
Plant and equipment	2 - 20 years

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Infrastructure Roads	
Formation – All roads	Perpetual life
Pavement – Thin Surfaced Flexible Rural	100 years
Pavement – Thin Surfaced Flexible Urban	100 years
Pavement – Unsealed Rural	50 years
Pavement – Unsealed Urban	50 years
Surface – Asphalt	100 years
Surface – Brick	60 years
Surface – Chip seal	60 years
Surface – Concrete	100 years
Surface – Slurry Seal	100 years
Infrastructure - Footpaths	
Black Asphalt	36 years
Brick Paving	36 years
Concrete Slabs	36 years
Gravel	12 years
Insitu Concrete	48 years
Red Asphalt	36 years
Sand	12 years
Timber	36 years
Unknown	48 years
Infrastructure - Drainage	60 years
Infrastructure - Other	5 - 80 years
Infrastructure - Parks and reserves	10 - 45 years

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

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

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

Leases

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

Finance leases are capitalised recording an asset and a liability at the lower of the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the lease term.

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Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

Inventory

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Bad Debts

When a debt, other than a rates debt appears to be irrecoverable it is to be written off in accordance with the provisions of Section 6.12 (1) (c) of the *Local Government Act* 1995. The cost is to be expensed against the appropriate Section.

If a rates debt appears to be irrecoverable it is to be reported to Council and written off in accordance with the provisions of Section 6.12 (2) of the *Local Government Act 1995*.

Provision

Short-term employee benefits

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

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

Other long-term employee benefits

The Shire’s obligations for employees’ annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

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

The Shire’s obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Shire does not have an

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unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Provisions

Provisions are recognised when the Shire has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Superannuation

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

Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Shire prior to the end of the financial year that are unpaid and arise when the Shire becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition.

Monthly Financial Reports

Monthly financial reports are to be prepared in such form as the Local Government considers to be appropriate in accordance with section 6.4 of the *Local Government Act 1995* and Regulation 34 of the *Local Government (Financial Management) Regulations 1996*.

Budget Review

A detailed mid-year budget review is to be conducted and reported to Council during the financial year. This is to be reported to Council by the end of March of that financial year.

Annual Financial Reports

In accordance with section 6.4 of the Local Government Act 1995 and Regulation 36 of the *Local Government (Financial Management) Regulations 1996*, the CEO must provide an annual financial report for each financial year. This report must be submitted to the auditor by 30 September after the end of that financial year.

Annual Report

In accordance with sections 5.53 and 5.54 of the *Local Government Act 1995*, the Chief Executive Officer must provide an annual report for each financial year. This report must be accepted by Council no later than 31 December after the end of that financial year.

Annual Budget

The Chief Executive Officer must provide to Council by the 31 August in each financial year an operating and capital budget in accordance with Division 2 of the *Local Government Act 1995*.

Auditors

The appointment of auditors and the conduct of audits are to be in accordance with in Part 7 of the *Local Government Act 1995*.

The accounts and annual financial report of the Local Government will be audited by an approved auditor(s). This will occur each financial year.

The auditor is required to prepare a report by 31 December each year. This report is to be forwarded to the Shire President with copies to the CEO and the relevant Minister.