



City of Nedlands

Agenda

Audit and Risk Committee Meeting

6 October 2011

ATTENTION

This Agenda has yet to be dealt with by the Committee.

The Administration Recommendations, shown at the beginning of each item, have yet to be considered by the Committee and are not to be interpreted as being the position of either the Committee or Council.

The Minutes of the meeting held to discuss this Agenda should be read to ascertain the decision of the Committee.

Before acting on any recommendation of the Committee a check must also be made in the Ordinary Council Minutes following the Committee Meeting to ensure that Council did not make a decision at variance to the Committee Recommendation.

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City of Nedlands

Notice of a meeting of the Audit and Risk Committee to be held in the Committee Room at 71 Stirling Highway, Nedlands Building on Thursday 6 October at 6 pm.

Dear Committee member

The next meeting of the Audit and Risk Committee will be held on Thursday 6 October 2011 in the Committee Room at 71 Stirling Highway, Nedlands commencing at 6 pm.

Mike Cole
Director Corporate services
27 September 2011

Audit and Risk Committee Agenda

Declaration of Opening

The Presiding Member will declare the meeting open at 6 pm and will draw attention to the disclaimer below.

(NOTE: Council at its meeting on 30 August 2004 resolved that should the meeting time reach 11.00 p.m. the meeting is to consider an adjournment motion to reconvene the next day).

Present and Apologies and Leave Of Absence (Previously Approved)

Leave of Absence Nil.
(Previously Approved)

Apologies Nil as at distribution of this agenda.

Disclaimer

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In particular and without derogating in any way from the broad disclaimer above, in any discussion regarding any planning application or application for a licence, any

statement or intimation of approval made by a member or officer of the City of Nedlands during the course of any meeting is not intended to be and is not to be taken as notice of approval from the City of Nedlands. The City of Nedlands warns that anyone who has any application lodged with the City of Nedlands must obtain and should only rely on written confirmation of the outcome of the application, and any conditions attaching to the decision made by the City of Nedlands in respect of the application.

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1. Public Question Time

A member of the public wishing to ask a question should register that interest by notification in writing to the CEO in advance, setting out the text or substance of the question. Questions tabled at the meeting may be unable to be answered due to the requirement for technical research and will therefore be answered direct afterwards.

Questions must relate to a matter contained within the agenda of this meeting.

2. Addresses By Members of the Public (only for items listed on the agenda)

Addresses by members of the public who have completed Public Address Session Forms will be invited to be made at this point.

3. Disclosures of Financial Interest

The Presiding Member to remind Councillors and Staff of the requirements of Section 5.65 of the *Local Government Act* to disclose any interest during the meeting when the matter is discussed.

A declaration under this section requires that the nature of the interest must be disclosed. Consequently a member who has made a declaration must not preside, participate in, or be present during any discussion or decision making procedure relating to the matter the subject of the declaration.

However, other members may allow participation of the declarant if the member further discloses the extent of the interest. Any such declarant who wishes to participate in the meeting on the matter, shall leave the meeting, after making their declaration and request to participate, while

other members consider and decide upon whether the interest is trivial or insignificant or is common to a significant number of electors or ratepayers.

4. Disclosures of Interests Affecting Impartiality

The Presiding Member to remind Councillors and Staff of the requirements of Council's Code of Conduct in accordance with Section 5.103 of the *Local Government Act*.

Councillors and staff are required, in addition to declaring any financial interests to declare any interest that may affect their impartiality in considering a matter. This declaration does not restrict any right to participate in or be present during the decision-making procedure.

The following pro forma declaration is provided to assist in making the disclosure.

"With regard to the matter in item x..... I disclose that I have an association with the applicant (or person seeking a decision). As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly."

The member or employee is encouraged to disclose the nature of the association.

5. Declarations by Members That They Have Not Given Due Consideration to Papers

Members who have not read the business papers to make declarations at this point.

6. Confirmation of Minutes

6.1 Audit and Risk Committee Meeting 19 July 2011

The minutes of the Audit and Risk Committee held 19 July 2011 are to be confirmed.

7. Items for Discussion

Note: Regulation 11(da) of the *Local Government (Administration) Regulations 1996* requires written reasons for each decision made at the meeting that is significantly different from the relevant written recommendation of a committee or an employee as defined in section 5.70, but not a decision to only note the matter or to return the recommendation for further consideration.

7.1 Internal Audit Report - Financial Report for the year ended 30 June 2011

Applicant	City of Nedlands
Owner	City of Nedlands
Officer	Rajah Senathirajah – Manager Finance
Director	Michael Cole - Director Corporate Services
Director Signature	
File ref.	FIN/008/22
Previous Item No's	Nil
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the <i>Local Government Act (1995)</i> .

Purpose

To receive the Audited Financial Report for the year ended 30 June 2011, including the Auditor's report.

Recommendation to Committee

Council:

1. in accordance with the provisions of *Section 5.54 of the Local Government Act 1995*, accepts the Financial Report of the City of Nedlands for the Year ended 30 June 2011 comprising:
 - a. the Financial Report
 - b. the Auditor's Report; and
2. refers the Financial Report for the year ended 30 June 2011 to the Annual General Meeting of Electors for the City of Nedlands.

Strategic Plan

KFA 5: Governance

- 5.4 Monitor and review business processes, systems, structure and policies to ensure effective service delivery and organisational performance.
- 5.9 Identify, manage and seek to minimise risk.

Background

Section 5.53 of the Local Government Act 1995 requires that a Local Government is to prepare an Annual Report for each financial year. The Annual Report is to contain a report from the Mayor, a report from

the Chief Executive Officer, the Financial Report for the Financial Year, the Auditor's Report for the Financial Year, a number of other matters in relation to principal activities and such other information as may be prescribed.

Once received Council is then required by *Section 5.27 of the Local Government Act of 1995* to hold a General Meeting of Electors once every financial year to discuss the contents of the Annual Report for the previous financial year and any other general business.

Proposal Detail

Attached is the Financial Report for the year ended 30 June 2011 comprising the Financial Report and Auditor's Report.

The Financial Report comprising the Accounts for the year ended 30 June 2011 was completed and submitted to Council's Auditor Macri Partners who completed their audit in September 2011.

Financial Performance

In terms of Financial Performance the City completed the year with an operating surplus of \$464,287. This compares with a budgeted operating deficit of \$1,438,400. The Operating Statement includes all operating revenues and expenses, both cash and non-cash, as well as grants and contributions for acquisition of assets. In terms of setting its rates Council does not budget to raise rates to recover the non-cash costs of depreciation but does budget to generate sufficient operating revenue to fund its capital works program.

There were several significant factors contributing to the favourable variation of actual to budget. The operating revenues, excluding contributions for capital acquisitions, were better than budget by \$1,226,049. The operating expenses show savings of \$533,026. Grants and contributions received for capital acquisitions, together with net profit on asset disposals, were better than budget by \$143,611.

The significant reasons for the variances are:

Revenue

1. Operating Grants and Contributions show an improvement over Budget of \$503,334 (29.5%). The main contributor to this variance is the recognition of contribution for public open space of \$328,600 received a few years ago and recorded as a liability. The receipt of the first instalment of the WA Grants Commission grant for 2011/12 in late June made up the balance of the variance.
2. Fees and charges raised were better than budget by \$136,652 (2.3%) due mainly to more development approvals / building

permits being issued for building works, and more than anticipated parking infringements being issued.

3. The City achieved \$174,140 more from investment of funds surplus to its immediate requirements. This was due to a combination of rates being levied earlier (due to the adoption of the Budget in June), better than anticipated interest rates and efficient management of cashflows.
4. Other revenue is \$342,458 better than Budget, mainly due to the receipt of claims for damages incurred from the hail storm the previous financial year, and reimbursement of expenses incurred in connection with the Regional Transition Group exercise.

Operating Expenses

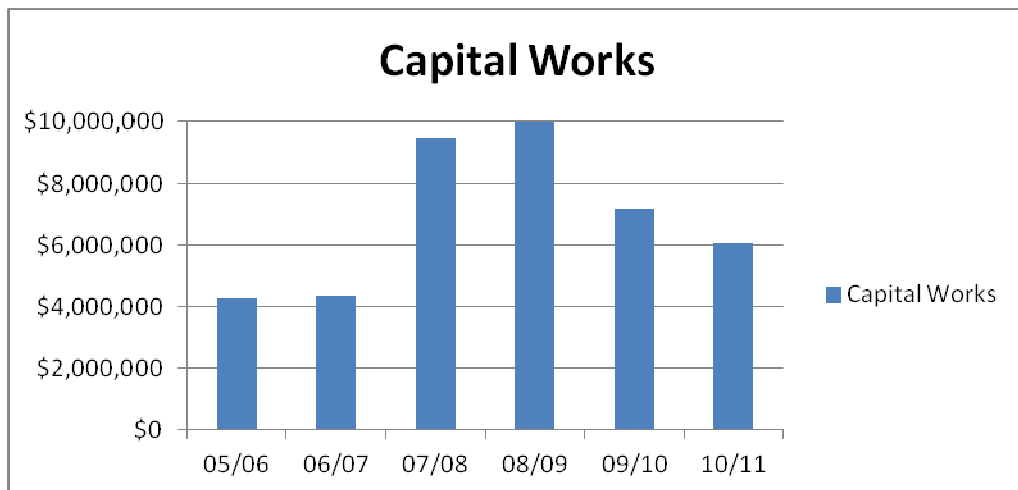
1. The operating expenses for the year were \$26,036,474 as compared to the Budget of \$26,569,500, an overall improvement of 2 %.
2. Most of the operating expenses were close to budget, with the bulk of the savings coming in the purchase of materials and services (\$856,817). The impact of this was reduced by an increase in depreciation charges of \$120,975, and an increase of \$133,104 (1.6%) in employee costs.

Capital Works

During the financial year the City spent \$6.07 million in carrying out its capital works program. The major share of the funds, \$4.88 million, was utilised in improving infrastructure assets – buildings, roads, drainage, parks and gardens.

The budget for the year was \$7.64 million. Budgeted work that has been carried forward to the following year include Maisonettes refurbishment (\$180,000), Adams Road (\$200,000), Dalkeith Road (\$150,000), Beecham Road Retaining Wall \$370,000), Broadway /Stirling Highway improvement (\$200,000), Traffic Flow Improvements (\$70,000), and Greenway Development (\$38,000).

Of the total funds expended, \$1.18 million was from grants and contributions and \$2.0 million was from new borrowings. The balance was made up of operating surplus, sale of plant and depreciation written back.



Revaluation of Assets

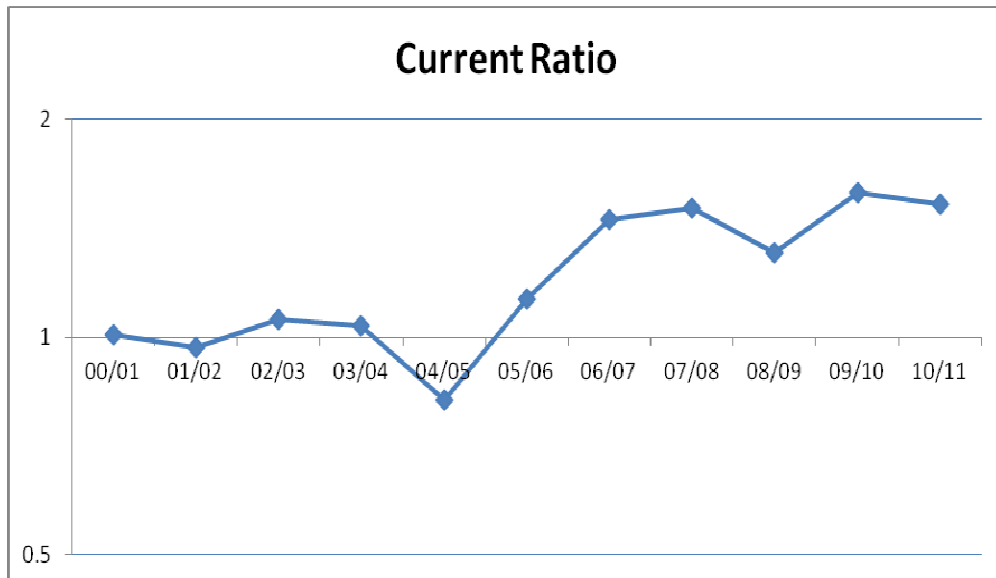
The City's Accounting Policy, as well as the Australian Accounting Standards, requires certain asset classes to be revalued on a regular basis such that the carrying values in the books are not materially different from fair value. Towards the end of 2010/11 financial year the City appointed independent consultants to assess the fair value of the City's land and buildings. Their recommendation has been accepted and the relevant asset records amended effective 30 June 2011. The impact of the revaluation is the recognition of \$21,683,357 as Other Comprehensive Income for the year, and a corresponding increase in the Asset Revaluation Reserves in the Statement of Financial Position as at 30 June 2011.

It is to be noted that the revaluation does not have any impact on the cash position of the City.

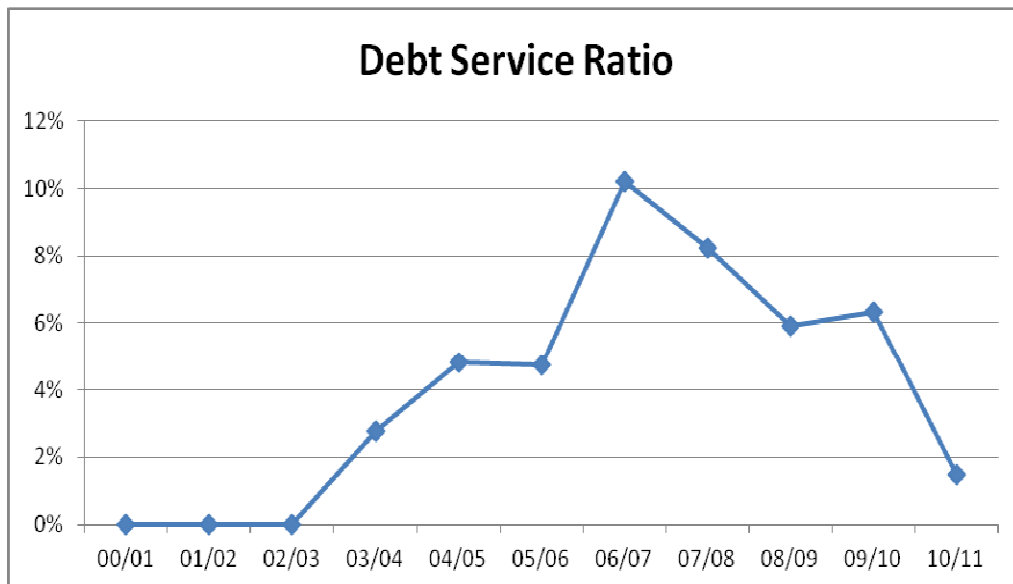
Financial Performance Indicators

The Financial Ratios in Note 18 to the accounts give an overview of the financial performance of the City in 2010/11 compared with the previous two years. Three of the key indicators are charted below, for the past 10 years.

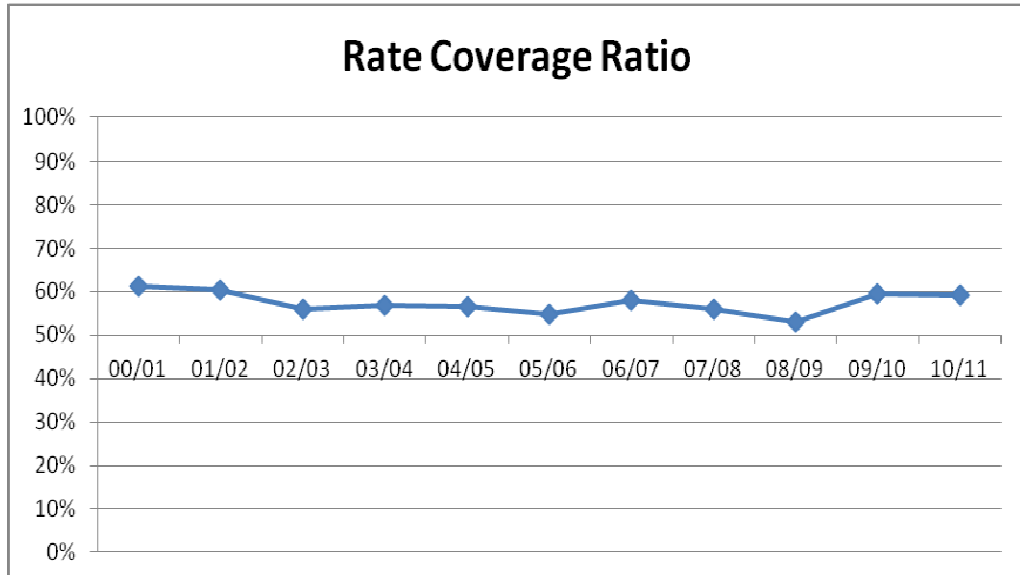
Current Ratio - The Current Ratio is a liquidity ratio which indicates the ability of the City to meet its short-term financial obligations out of unrestricted current assets. A ratio greater than 1.00 is preferred. The chart shows that the City has had good liquidity levels of 1.31 to 1.59 over the past 5 years.



Debt Service Ratio - The Debt Service Ratio measures the capacity of the City to service its debt (principal and interest, as they become due) out of its available operating revenue. Lending institutions generally prefer debt service ratios of local governments to be not more than 10.5 %. The City's debt service ratio, which had been approximately 6 % for the previous two years, dropped to 1.5% in 2010/11 as there was no principal repayment required that year for the loan drawn down the previous financial year. The ratio will increase in 2011/12 with principal repayments of approximately \$900,000.



Rate Coverage Ratio - This ratio is a measure of the City's dependence on rate revenue to fund its operations. The higher the ratio, the less dependent a local government is on grants and external sources to fund its operations. A ratio in the 50% to 60% range is considered healthy for medium sized local governments without a major source of user-pay fee revenue. The City's Rate Coverage Ratio has continued to be in the 50% to 60% range in 2010/11.



Audit Report

The City's Auditor, Macri Partners, has given a standard form unqualified Audit Report for 2010/11.

Consultation

Not applicable.

Legislation

Sections 5.27, 5.29, 5.53 and 5.54 of the Local Government Act 1995 respectively deal with the requirement for a General Meeting of Electors each financial year and the requirement for an Annual Report.

Budget/Financial Implications

As outlined in the Report.

Risk Management

Not applicable.

Conclusion

That the committee recommend to Council the acceptance of the Financial Report for the City of Nedlands for the year ended 30 June 2011 comprising the Financial Report and the Auditor's Report.

Attachments

1. Financial Report for the year ended 30 June 2011.

CITY OF NEDLANDS
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

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CITY OF NEDLANDS

FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2011

**LOCAL GOVERNMENT ACT 1995
LOCAL GOVERNMENT (FINANCIAL MANAGEMENT) REGULATIONS 1996**

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the City of Nedlands being the annual financial report and supporting notes and other information for the financial year ended 30th June 2011 are in my opinion properly drawn up to present fairly the financial position of the City of Nedlands at 30th June 2011 and the results of the operations for the financial year then ended in accordance with the Australian Accounting Standards and comply with the provisions of the Local Government Act 1995 and the regulations under that Act.

Signed on the 13 day of SEPTEMBER 2011



Graham Foster
Chief Executive Officer

CITY OF NEDLANDS
STATEMENT OF COMPREHENSIVE INCOME
BY NATURE OR TYPE
FOR THE YEAR ENDED 30TH JUNE 2011

	NOTE	2011 \$	2011 Budget \$	2010 \$
REVENUE				
Rates	22	15,437,483	15,405,600	14,151,678
Operating Grants, Subsidies and Contributions	28	2,209,034	1,705,700	1,982,430
Fees and Charges	27	5,981,652	5,845,000	5,710,051
Service Charges	24	-	-	932,004
Interest Earnings	2(a)	1,055,723	844,000	718,309
Other Revenue		498,358	155,900	289,287
		<u>25,182,249</u>	<u>23,956,200</u>	<u>23,783,759</u>
EXPENSES				
Employee Costs		(8,525,104)	(8,392,000)	(7,890,853)
Materials and Contracts		(10,061,983)	(10,918,800)	(10,267,120)
Utility Charges		(694,691)	(666,500)	(544,436)
Depreciation on Non-Current Assets	2(a)	(5,667,375)	(5,546,400)	(3,216,889)
Interest Expenses	2(a)	(255,576)	(268,700)	(188,314)
Insurance Expenses		(291,474)	(306,500)	(168,519)
Other Expenditure		(540,271)	(470,600)	(397,599)
		<u>(26,036,474)</u>	<u>(26,569,500)</u>	<u>(22,673,729)</u>
		(854,225)	(2,613,300)	1,110,030
Non-Operating Grants, Subsidies and Contributions	28	1,184,449	1,144,900	1,733,467
Profit on Asset Disposals	20	145,769	69,000	98,321
Loss on Asset Disposal	20	(11,707)	(39,000)	(9,604)
NET RESULT				
		464,287	(1,438,400)	2,932,213
Other Comprehensive Income				
Changes on Revaluation of Non-Current Assets		21,683,357	-	41,093,672
Total Other Comprehensive Income				
		<u>21,683,357</u>	<u>-</u>	<u>41,093,672</u>
TOTAL COMPREHENSIVE INCOME				
		<u>22,147,644</u>	<u>(1,438,400)</u>	<u>44,025,885</u>

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

CITY OF NEDLANDS
STATEMENT OF COMPREHENSIVE INCOME
BY PROGRAM
FOR THE YEAR ENDED 30TH JUNE 2011

	NOTE	2011	2011 Budget	2010
		\$	\$	\$
REVENUE				
Governance		503,124	148,500	302,778
General Purpose Funding		17,286,517	16,876,100	16,575,899
Law, Order, Public Safety		51,636	49,000	219,624
Health		64,408	80,000	2,490
Education and Welfare		1,220,627	1,221,600	1,201,276
Community Amenities		3,947,839	3,907,400	3,642,338
Recreation and Culture		1,000,774	657,000	677,710
Transport		374,342	282,400	129,527
Economic Services		718,490	727,600	1,017,012
Other Property and Services		14,492	12,000	15,105
	2 (a)	25,182,249	23,961,600	23,783,759
EXPENSES EXCLUDING FINANCE COSTS				
Governance		(1,597,520)	(1,660,700)	(1,755,398)
General Purpose Funding		(467,075)	(445,100)	(359,456)
Law, Order, Public Safety		(804,761)	(849,100)	(778,098)
Health		(195,082)	(237,400)	(250,245)
Education and Welfare		(2,228,963)	(2,363,300)	(2,130,840)
Community Amenities		(4,365,197)	(4,691,900)	(4,261,738)
Recreation & Culture		(6,559,503)	(6,826,800)	(5,858,567)
Transport		(5,705,847)	(5,585,500)	(3,291,253)
Economic Services		(3,013,785)	(2,947,000)	(2,847,485)
Other Property and Services		(843,165)	(699,400)	(952,336)
	2 (a)	(25,780,898)	(26,306,200)	(22,485,416)
FINANCE COSTS				
Transport		(272)	-	(1,359)
General Purpose Funding		(255,304)	(268,700)	(186,955)
	2 (a)	(255,576)	(268,700)	(188,314)
NON-OPERATING GRANTS, SUBSIDIES AND CONTRIBUTIONS				
Recreation & Culture		9,223	-	160,000
Economic Services		-	-	55,000
Education & Welfare		-	-	28,648
Transport		1,175,226	1,144,900	1,489,819
		1,184,449	1,144,900	1,733,467
PROFIT/(LOSS) ON DISPOSAL OF ASSETS				
Profit		145,769	69,000	98,321
Loss		(11,707)	(39,000)	(9,604)
		134,063	30,000	88,717
NET RESULT		464,287	(1,438,400)	2,932,213
Other Comprehensive Income				
Changes on Revaluation of Non-Current Assets		21,683,357	-	41,093,672
Total Other Comprehensive Income		21,683,357	-	41,093,672
TOTAL COMPREHENSIVE INCOME		22,147,644	(1,438,400)	44,025,885

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

**CITY OF NEDLANDS
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2011**

	NOTE	2011 \$	2010 \$
CURRENT ASSETS			
Cash and Cash Equivalents	3	11,649,263	10,027,708
Trade and Other Receivables	4	954,182	822,397
Inventories	5	12,539	17,083
TOTAL CURRENT ASSETS		12,615,984	10,867,188
NON-CURRENT ASSETS			
Other Receivables	4	261,190	313,488
Property, Plant and Equipment	6	56,108,872	33,562,969
Infrastructure	7	85,461,277	86,278,304
TOTAL NON-CURRENT ASSETS		141,831,339	120,154,761
TOTAL ASSETS		154,447,323	131,021,949
CURRENT LIABILITIES			
Trade and Other Payables	8	2,904,545	3,620,637
Borrowings	9	917,010	135,474
Provisions	10	1,251,732	1,172,233
TOTAL CURRENT LIABILITIES		5,073,287	4,928,344
NON-CURRENT LIABILITIES			
Borrowings	9	5,049,549	3,966,560
Provisions	10	160,291	110,494
TOTAL NON-CURRENT LIABILITIES		5,209,840	4,077,054
TOTAL LIABILITIES		10,283,127	9,005,398
NET ASSETS		144,164,196	122,016,552
EQUITY			
Retained Surplus		59,122,960	59,816,711
Reserves - Cash Backed	11	4,928,860	3,770,822
Reserves - Asset Revaluation	12	80,112,376	58,429,019
TOTAL EQUITY		144,164,196	122,016,552

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

**CITY OF NEDLANDS
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2011**

	NOTE	RETAINED SURPLUS \$	RESERVES CASH BACKED \$	ASSET REVALUATION RESERVE \$	TOTAL EQUITY \$
Balance as at 1 July 2009		56,252,673	4,402,647	17,335,347	77,990,667
Net Result		2,932,213	-	-	2,932,213
Total Other Comprehensive Income		-	-	41,093,672	41,093,672
Reserve Transfers		631,825	(631,825)	-	-
Balance as at 30 June 2010		59,816,711	3,770,822	58,429,019	122,016,552
Net Result		464,287	-	-	464,287
Total Other Comprehensive Income		-	-	21,683,357	21,683,357
Reserve Transfers		(1,158,038)	1,158,038	-	-
Balance as at 30 June 2011		<u>59,122,960</u>	<u>4,928,860</u>	<u>80,112,376</u>	<u>144,164,196</u>

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

**CITY OF NEDLANDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2011**

	NOTE	2011	2011	2010
		\$	Budget	\$
		\$	\$	\$
Cash Flows From Operating Activities				
Receipts				
Rates		15,489,781	15,405,600	14,120,197
Operating Grants, Subsidies and Contributions		1,880,434	1,705,700	1,982,430
Fees and Charges		5,912,565	5,845,000	5,878,537
Service Charges		-	-	932,004
Interest Earnings		1,055,723	844,000	718,309
Goods and Services Tax		-	-	-
Other Revenue		448,748	155,900	289,287
		<u>24,787,251</u>	<u>23,956,200</u>	<u>23,920,764</u>
Payments				
Employee Costs		(8,382,752)	(8,392,000)	(7,806,287)
Materials and Contracts		(10,395,321)	(10,918,800)	(9,687,554)
Utility Charges		(694,691)	(666,500)	(544,436)
Insurance Expenses		(291,474)	(268,700)	(168,519)
Interest expenses		(301,602)	(306,500)	(188,314)
Goods and Services Tax		(29,718)	-	(6,214)
Other Expenditure		(540,271)	(470,600)	(397,599)
		<u>(20,635,829)</u>	<u>(21,023,100)</u>	<u>(18,798,923)</u>
Net Cash Provided By (Used In) Operating Activities	13(b)	<u>4,151,422</u>	<u>2,933,100</u>	<u>5,121,841</u>
Cash Flows from Investing Activities				
Payments for Purchase of Property, Plant & Equipment		(2,557,845)	(2,421,300)	(1,375,494)
Payments for Construction of Infrastructure		(3,514,447)	(5,321,800)	(5,824,543)
Non-Operating Grants, Subsidies and Contributions used for the Development of Assets		1,184,449	1,144,900	1,492,267
Proceeds from Sale of Plant & Equipment		<u>493,450</u>	<u>299,100</u>	<u>361,444</u>
Net Cash Provided By (Used In) Investing Activities		<u>(4,394,393)</u>	<u>(6,299,100)</u>	<u>(5,346,326)</u>
Cash Flows from Financing Activities				
Repayment of Debentures		(127,971)	(165,200)	(1,306,444)
Repayment of Finance Leases		(7,504)	-	(13,975)
Proceeds from New Debentures		<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Net Cash Provided By (Used In) Financing Activities		<u>1,864,525</u>	<u>1,834,800</u>	<u>679,581</u>
Net Increase (Decrease) in Cash Held		1,621,555	(1,531,200)	455,096
Cash at Beginning of Year		10,027,708	10,027,700	9,572,611
Cash and Cash Equivalents at the End of the Year	13(a)	<u><u>11,649,263</u></u>	<u><u>8,496,500</u></u>	<u><u>10,027,708</u></u>

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

**CITY OF NEDLANDS
RATE SETTING STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2011**

	2011	2011 Budget
	\$	\$
REVENUE		
Governance	503,124	148,500
General Purpose Funding	1,849,034	1,470,500
Law, Order, Public Safety	51,636	49,000
Health	64,408	80,000
Education and Welfare	1,220,627	1,221,600
Community Amenities	3,947,839	3,907,400
Recreation and Culture	681,397	657,000
Transport	1,549,568	1,427,300
Economic Services	718,490	727,600
Other Property and Services	14,492	12,000
	<u>10,600,615</u>	<u>9,700,900</u>
EXPENSES		
Governance	(1,597,520)	(1,660,700)
General Purpose Funding	(722,582)	(713,800)
Law, Order, Public Safety	(804,761)	(849,100)
Health	(195,082)	(237,400)
Education and Welfare	(2,228,963)	(2,363,300)
Community Amenities	(4,365,197)	(4,691,900)
Recreation & Culture	(6,559,503)	(6,826,800)
Transport	(5,706,119)	(5,585,500)
Economic Services	(3,013,785)	(2,947,000)
Other Property and Services	(843,165)	(699,400)
	<u>(26,036,677)</u>	<u>(26,574,900)</u>
Net Operating Result Excluding Rates	(15,436,062)	(16,874,000)
Adjustments for Cash Budget Requirements:		
Non-Cash Expenditure and Revenue		
Movement in Accrued Interest	11,412	-
Movement in Deferred Pensioner Rates (Non-Current)	52,298	-
Movement in Accrued Salaries and Wages	13,056	-
Movement in Employee Benefit Provisions	79,499	-
Depreciation and Amortisation on Assets	5,667,375	5,546,400
Capital Expenditure and Revenue		
Purchase Land and Buildings	(1,364,134)	(1,424,800)
Purchase Infrastructure Assets - Roads	(2,720,892)	(4,494,600)
Purchase Infrastructure Assets - Parks	(793,555)	(827,200)
Purchase Plant and Equipment	(980,599)	(683,500)
Purchase Furniture and Equipment	(213,113)	(213,000)
Purchase of Investments		
Proceeds from Disposal of Assets	493,450	299,100
Repayment of Debentures	(135,475)	(165,200)
Proceeds from New Debentures	2,000,000	2,000,000
Self-Supporting Loan Principal Income		
Transfers to Reserves (Restricted Assets)	(1,873,038)	(727,000)
Transfers from Reserves (Restricted Assets)	715,000	716,100
ADD Estimated Surplus/(Deficit) July 1 B/Fwd	2,303,497	2,303,500
LESS Estimated Surplus/(Deficit) June 30 C/Fwd	3,256,202	836,700
Amount Required to be Raised from Rates	<u>(15,437,483)</u>	<u>(15,405,600)</u>

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

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

The financial report is a general purpose financial statement which has been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the local Government Act 1995 and accompanying regulations.

The report has also been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of the selected non-current assets, financial assets and liabilities.

Critical Accounting Estimates

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

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

(b) The Local Government Reporting Entity

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

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

All monies held in the Trust Fund are excluded from the financial statements, but a separate statement of those monies appears at Note 19 to these financial statements.

(c) Goods and Services Tax

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

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at bank, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

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

(e) Trade and Other Receivables

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Inventories

General

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.

Land Held for Resale

Land purchased for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, borrowing costs and holding costs until Finance costs and holding charges incurred after development is completed are expensed.

Revenue arising from the sale of property is recognised in the statement of comprehensive income as at the time of signing an unconditional contract of sale.

Land held for resale is classified as current except where it is held as non-current based on Council's intention to release for sale.

(g) Fixed Assets

Each class of fixed assets is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation or impairment losses.

Initial Recognition

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

Revaluation

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

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed Assets (Continued)

Land under Roads

In Western Australia, all land under roads is Crown Land, the responsibility for managing which, is vested in the local government.

Effective as at 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in Australian Accounting Standard AASB1051 - Land Under Roads and the fact Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

Whilst such treatment is inconsistent with the requirements of AASB 1051, Local Government (Financial Management) Regulation 4(2) provides, in the event of such an inconsistency, the Local Government (Financial Management) Regulations prevail.

Consequently, any land under roads acquired on or after 1 July 2008 is not included as an asset of the Council.

Depreciation of Non-Current Assets

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

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time the asset is completed and held ready for use.

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

Buildings	50 years
Furniture and Equipment	4 to 10 years
Plant and Equipment	5 to 15 years
Sealed roads and streets	
formation	not depreciated
pavement	50 years
seal	
- bituminous seals	20 years
- asphalt surfaces	20 years
Gravel roads	
formation	not depreciated
pavement	50 years
gravel sheet	12 years
Formed roads (unsealed)	
formation	not depreciated
pavement	50 years
Footpaths - slab	20 years
Sewerage piping	100 years
Water supply piping and drainage systems	75 years

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed Assets (Continued)

Depreciation of Non-Current Assets (Continued)

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. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

Capitalisation Threshold

Expenditure on items of equipment under \$500 is not capitalised. Rather, it is recorded on an asset inventory listing.

(h) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Council commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or at cost.

Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (a) the amount in which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount
- (d) less any reduction for impairment.

The effective interest rate method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

- (i) Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial Instruments (Continued)

Amortised cost is calculated as: (Continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period (classified as non-current assets).

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturities and fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity.

Held-to-maturity financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period (classified as current assets).

If the Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period (classified as current assets).

(v) Financial liabilities

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

Impairment

At the end of each reporting period, the Council assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial Instruments (Continued)

(i) Estimation of Fair Value

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Council uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

(j) Impairment

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

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

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

For non-cash generating assets such as roads, drains, public buildings and the like, value in use is represented by the depreciated replacement cost of the asset.

(k) Trade and Other Payables

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Employee Benefits

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

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

The provision for employees' benefits to wages, salaries, annual leave and long service leave expected to be settled within 12 months represents the amount the Council has a present obligation to pay resulting from employees services provided to reporting date. The provision has been calculated at nominal amounts based on remuneration rates the Council expects to pay and includes related on-costs.

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

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match as closely as possible, the estimated future cash outflows. Where the Council does not have the unconditional right to defer settlement beyond 12 months, the liability is recognised as a current liability.

(m) Borrowing Costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset.

(n) Provisions

Provisions are recognised when:

- a) the Council has a present legal or constructive obligation as a result of past events;
- b) for which it is probable that an outflow of economic benefits will result to settle the obligation; and
- c) 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.

Provisions are not recognised for future operationg losses.

(o) 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 Council, are classified as finance leases. Finance leases are capitalised recording an asset and a liability equal to the present

Finance leases are capitalised recording an asset and a liability at the lower amounts equal to 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.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Joint Venture

The Council's interest in a joint venture has been recognised in the financial statements by including its share of any assets, liabilities, revenues and expenses of the joint venture within the appropriate line items of the financial statement. The Council has no joint ventures.

(q) Rates, Grants, Donations and Other Contributions

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

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 2(c). 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 operation for the current reporting period.

(r) Superannuation

The Council contributes to a number of superannuation funds on behalf of employees.

(s) Current and Non-Current Classification

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle. In the case of liabilities where the Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current even if not expected to be realised in the next 12 months except for land held for resale where it is held as non-current based on Council's intentions to release for sale.

(t) Rounding Off Figures

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

(u) Comparative Figures

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

(v) Budget Comparative Figures

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

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) New Accounting Standards and Interpretations for Application in Future Periods

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Council for the annual reporting period ending 30 June 2011.

Council's assessment of these new standards and interpretation is set out below:

	Title and Topic	Issued	Applicable (*)	Impact
(i)	AASB 9 – Financial Instruments	December 2009	01 January 2013	Nil – The objective of this Standard is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Given the nature of the financial assets of the Council, it is not anticipated the standard will have any material effect.
(ii)	AASB 124 – Related Party Disclosures	December 2009	01 January 2011	Nil – It is not anticipated the Council will have any related parties as defined by the Standard.
(iii)	AASB 1053 - Application of Tiers of Australian Accounting Standards	June 2010	01 July 2013	Nil - Due to its nature and statutory requirements the Council will be deemed a Tier 1 entity and will continue to prepare general purpose financial statements.
(iv)	AASB 2009 -12 Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	December 2009	01 January 2011	Nil – The revisions embodied in this standard relate to standards which do not apply to local government (ie AASB8) or are largely editorial in nature and will have minimal effect (if any) on the accounting practices of the Council.
(v)	AASB 2009– 11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	December 2009	01 January 2013	Nil – The revisions embodied in this standard give effect to the consequential changes arising from the issuance of AASB 9 which is not anticipated to have any material effect on the Council (refer (i) above).
(vi)	AASB 2010 - 2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050, & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]	June 2010	01 July 2013	Nil - None of these amendments will have any effect on the financial report as the standard does not apply in the case of general purpose financial statements.
(vii)	AASB 2010 - 4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, 7, 101, 134, and Interpretation 13]	June 2010	01 January 2011	Nil - The revisions are part of the AASB's annual improvement project to help ensure consistency with presentation, recognition and measurement criteria of IFRSs. It is not anticipated these will have any effect on the Council.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) New Accounting Standards and Interpretations for Application in Future Periods (Continued)

	Title and Topic	Issued	Applicable (*)	Impact
(viii)	AASB 2010 - 5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	October 2010	01 January 2011	Nil - The revisions embodied in this standard are largely editorial in nature or relate to standards not applicable to the Council and will have minimal effect (if any) on the accounting practices of the Council.
(ix)	AASB 2010 - 6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets [AASB 1 & 7]	November 2010	01 July 2011	Nil - The revisions embodied in this standard amend disclosures required on transfers of financial assets. The Council is not expected to have any qualifying transfers.
(x)	AASB 2010 – 7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	December 2010	01 January 2013	Nil – The revisions embodied in this standard give effect to the consequential changes arising from the issuance of AASB 9 which is not anticipated to have any material effect on the Council (refer (i) above).
(xi)	AASB 2010 - 8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets [AASB 1 & 7]	December 2010	01 January 2012	Nil - None of these amendments will have any effect on the financial report as none of the topics are relevant to the operations of the Council.
	AASB 2010 - 9 Amendments to Australian Accounting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1]	December 2010	01 July 2011	Nil - None of these amendments will have any effect on the financial report as none of the topics are relevant to the operations of the Council.
	AASB 2009– 14 Amendments to Australian Interpretations – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]	December 2009	01 January 2011	Nil - None of these amendments will have any effect on the financial report as none of the topics are relevant to the operations of the Council.
	AASB 2010 - 10 Further Amendments to Australian Accounting Standards - Removal of Fixed Dates for First-time Adopters [AASB 2009 - 11 & 2010 - 7]	December 2010	01 January 2013	Nil - None of these amendments will have any effect on the financial report as none of the topics are relevant to the operations of the Council.

Notes:

(*) Applicable to reporting periods commencing on or after the given date.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Adoption of New and Revised Accounting Standards

During the current year, the Council adopted all of the new and revised Australian Accounting Standards and Interpretations which became mandatory and which were applicable to its operations.

These new and revised standards were:

AASB 2009 - 5
AASB 2009 - 8
AASB 2009 - 10
AASB 2009 - 13
AASB 2010 - 1
AASB 2010 - 3

Interpretation 19

The standards adopted had a minimal effect on the accounting and reporting practices of the Council as they were either largely editorial in nature, were revisions to help ensure consistency with presentation, recognition and measurement criteria of IFRSs or related to topics not relevant to operations.

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

2. REVENUE AND EXPENSES

2011

2010

\$

\$

(a) Net Result

The Net Result includes:

(i) Charging as an Expense:

Auditors Remuneration

- Audit

17,140

15,550

Depreciation

Buildings

378,309

364,031

Furniture and Equipment

306,425

335,368

Plant and Equipment

651,178

599,966

Roads

3,306,904

1,092,904

Footpaths

392,573

370,677

Drainage

194,170

74,204

Street Furniture

-

11,906

Parks, Gardens and Reserves

437,816

367,833

5,667,375

3,216,889

Interest Expenses (Finance Costs)

Debentures & HP interest

255,576

188,314

255,576

188,314

(ii) Crediting as Revenue:

2011

**2011
Budget**

2010

\$

\$

\$

Interest Earnings

Investments

- Reserve Funds

230,212

210,000

209,429

- Other Funds

653,928

500,000

382,049

Other Interest Revenue (Refer Note 26)

171,583

134,000

126,830

1,055,723

844,000

718,309

**CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
STATEMENT BY CHIEF EXECUTIVE OFFICER**

2. REVENUE AND EXPENSES (Continued)

(b) Statement of Objective

In order to discharge its responsibilities to the community, the City of Nedlands has developed operational and financial objectives. These objectives have been established both on an overall basis and for each of its broad activities/programs.

Council operations as disclosed in this report encompass the following service orientated activities/programs:

GOVERNANCE

Objective: To provide a decision making process for the efficient allocation of scarce resources.

Activities: Includes the activities of members of council, the administrative support available to the council for the provision of governance of the district, and corporate services.

GENERAL PURPOSE FUNDING

Objective: To collect revenue to allow for the provision of services.

Activities: Rates, general purpose government grants, and interest revenue.

LAW, ORDER, PUBLIC SAFETY

Objective: To provide services to help ensure a safer and environmentally conscious community.

Activities: Supervision and enforcement of various local laws relating to fire prevention, animal control and protection of the environment and other aspects of public safety including emergency services.

HEALTH

Objective: To provide services that will ensure a healthy environment.

Activities: Regulation and monitoring of food premises, and management of pest control.

EDUCATION AND WELFARE

Objective: To provide services that will assist the elderly to enjoy meaningful, independent living and child care services

Activities: Home and Community Care (HACC) services, Meals on Wheels, Seniors' activities and Occasional Child Care services.

COMMUNITY AMENITIES

Objective: To provide services required by the community.

Activities: Rubbish collection services, operation of rubbish disposal sites, litter control, construction and maintenance of urban storm water drains, protection of the environment and administration of town planning schemes, cemetery and public conveniences.

2. REVENUE AND EXPENSES (Continued)

(b) Statement of Objective (Continued)

RECREATION AND CULTURE

Objective: To establish and effectively manage infrastructure and resources which will help the social well being of the community.

Activities: Maintenance of public halls, civic centre, beaches, recreation centres and various sporting facilities. Provision and maintenance of parks, gardens and playgrounds. Operation of library, and facilitating of cultural activities.

TRANSPORT

Objective: To provide safe, effective and efficient transport services to the community.

Activities: Construction and maintenance of roads, streets, footpaths, depots, cycleways, parking facilities and traffic control. Cleaning of streets and maintenance of street trees, street lighting, drainage etc. Control of parking and enforcement of parking local laws.

ECONOMIC SERVICES

Objective: To help promote the City and it's economic wellbeing.

Activities: Maintenance of the City's buildings and natural areas. Building control.

OTHER PROPERTY AND SERVICES

Objective: To monitor and control council's overheads operating accounts.

Activities: Private works operation, plant repair and operation costs and infrastructure services

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

2. REVENUE AND EXPENSES (Continued)

(c) Conditions Over Grants/Contributions

Grant/Contribution	Function/ Activity	Opening Balance (*) 01/07/09 \$	Received (+) 2009/10 \$	Expended (#) 2009/10 \$	Closing Balance (*) 30/06/10 \$	Received (+) 2010/11 \$	Expended (#) 2010/11 \$	Closing Balance 30/06/11 \$
Community Development	Grants Operation					34,046	29,546	4,500
Natural Areas			269,834	(234,804)	35,030	103,948	134,219	4,759
Office of Crime Prevention	Graffiti Software					15,386	-	15,386
Swan River Trust	River wall					250,000	-	250,000
Total		-	269,834	(234,804)	35,030	403,380	163,765	274,645

Notes:

(*) - Grants/contributions recognised as revenue in a previous reporting period which were not expended at the close of the previous reporting period.

(+) - New grants/contributions which were recognised as revenues during the reporting period and which had not yet been fully expended in the manner specified by the contributor.

(#) - Grants/contributions which had been recognised as revenues in a previous reporting period or received in the current reporting period and which were expended in the current reporting period in the manner specified by the contributor.

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

	2011 \$	2010 \$
3. CASH AND CASH EQUIVALENTS		
Unrestricted	5,022,545	4,701,945
Restricted	6,626,718	5,325,763
	<u>11,649,263</u>	<u>10,027,708</u>
The following restrictions have been imposed by regulations or other externally imposed requirements:		
Plant Replacement Reserve	207,488	197,130
City Development Reserve	1,405,918	1,387,206
North St Reserve	1,014,393	638,357
Welfare Reserve	370,047	348,131
Services Reserve	1,137,417	268,218
Insurance Reserve	48,843	46,179
Waste Management Infrastructure Reserve	131,942	124,066
Building Replacement Reserve	512,405	666,886
Swanbourne Reserve	100,407	94,649
Adelma Account	101,481	
Provision for Long Service Leave	160,291	110,494
Bonds and Deposits	1,161,440	1,444,447
Unspent Grants	274,645	
	<u>6,626,718</u>	<u>5,325,763</u>
4. TRADE AND OTHER RECEIVABLES		
Current		
Rates Outstanding	218,220	315,970
Sundry Debtors	497,199	297,408
Less: Provision for Doubtful Debts	(11,473)	(16,983)
Other Receivables	32,982	38,465
GST Receivable	217,255	187,537
	<u>954,182</u>	<u>822,397</u>
Non-Current		
Rates Outstanding - Pensioners	261,190	313,488
	<u>261,190</u>	<u>313,488</u>
5. INVENTORIES		
Current		
Fuel and Oil	12,539	17,083
	<u>12,539</u>	<u>17,083</u>

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

	2011	2010
	\$	\$
6. PROPERTY, PLANT AND EQUIPMENT		
Land - Independent Valuation	29,344,000	16,990,000
Less: Accumulated Depreciation	<u>-</u>	<u>-</u>
	29,344,000	16,990,000
Buildings - Independent Valuation	22,690,000	14,744,013
Less: Accumulated Depreciation	<u>-</u>	<u>(2,337,747)</u>
	22,690,000	12,406,265
Furniture and Equipment - Cost	3,604,793	3,467,745
Less: Accumulated Depreciation	<u>(2,797,564)</u>	<u>(2,563,391)</u>
	807,229	904,354
Plant and Equipment - Cost	5,289,887	5,141,763
Less: Accumulated Depreciation	<u>(2,022,245)</u>	<u>(1,879,414)</u>
	3,267,643	3,262,349
	<u><u>56,108,872</u></u>	<u><u>33,562,969</u></u>

The valuations for land and buildings were carried out by Mr. Martin McEneaney (Licensed Valuer No. 44551) on 30 June 2011.

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

6a. PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements in Carrying Amounts

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

	Land	Buildings	Furniture & Equipment	Plant & Equipment	Total
	\$	\$	\$	\$	\$
Balance as at the beginning of the year	16,990,000	12,406,265	904,355	3,262,350	33,562,970
Additions	-	1,364,134	213,113	980,599	2,557,845
(Disposals)	-	-	(3,814)	(355,575)	(359,389)
Revaluation - Increments	12,354,000	9,297,909	-	31,447	21,683,356
Depreciation (Expense)	-	(378,308)	(306,425)	(651,178)	(1,335,911)
Carrying amount at the end of year	<u>29,344,000</u>	<u>22,690,000</u>	<u>807,229</u>	<u>3,267,643</u>	<u>56,108,872</u>

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

	2011	2010
	\$	\$
7. INFRASTRUCTURE		
Roads - Independent Valuation	67,965,325	66,000,000
Less Accumulated Depreciation	<u>(3,300,000)</u>	<u>-</u>
	64,665,325	66,000,000
 Footpaths - Cost	 8,343,155	 7,851,458
Less Accumulated Depreciation	<u>(2,048,422)</u>	<u>(1,655,848)</u>
	6,294,734	6,195,610
 Drainage - Independent Valuation	 7,048,341	 6,795,951
Less Accumulated Depreciation	<u>(194,170)</u>	<u>-</u>
	6,854,171	6,795,951
 Parks - Cost	 7,254,839	 6,461,284
Less Accumulated Depreciation	<u>(1,443,680)</u>	<u>(1,120,616)</u>
	5,811,159	5,340,668
 Reticulation - Cost	 2,295,040	 2,295,040
Less Accumulated Depreciation	<u>(678,814)</u>	<u>(564,062)</u>
	1,616,226	1,730,978
 Street Furniture - Cost	 240,836	 133,936
Less Accumulated Depreciation	<u>(117,832)</u>	<u>(133,936)</u>
	123,005	-
 Rights of Ways - Cost	 159,987	 159,987
Less Accumulated Depreciation	<u>(63,328)</u>	<u>(56,424)</u>
	96,658	103,563
 Sub-Total	 85,461,277	 86,166,770
 Work-in-Progress	 <u>-</u>	 <u>111,525</u>
 Grand Total	 <u><u>85,461,277</u></u>	 <u><u>86,278,304</u></u>

Council has adopted a policy of re-valuing with sufficient regularity to ensure the carrying amount of each road asset is fairly stated at reporting date. The independent valuation was last carried out at 30 June 2010.

This policy also accords with AASB 116.

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

7a. INFRASTRUCTURE (Continued)

Movements in Carrying Amounts

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

	Roads \$	Footpaths \$	Drainage \$	Parks and Ovals \$	Reticulation \$	Street Furniture \$	Right of Ways	Work-in Progress	Total \$
Balance at the beginning of the year	66,000,000	6,195,610	6,795,951	5,340,668	1,730,978	-	103,563	111,525	86,278,304
Additions	1,965,325	491,697	252,391	793,555	-	123,005	-	(111,525)	3,514,447
Revaluation - Increments	-	-	-	-	-	-	-	-	-
Depreciation (Expense)	(3,300,000)	(392,573)	(194,170)	(323,064)	(114,752)	-	(6,904)	-	(4,331,463)
Carrying amount at the end of year	<u>64,665,325</u>	<u>6,294,734</u>	<u>6,854,172</u>	<u>5,811,159</u>	<u>1,616,226</u>	<u>123,005</u>	<u>96,659</u>	<u>-</u>	<u>85,461,277</u>

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

	2011	2010
	\$	\$
8. TRADE AND OTHER PAYABLES		
Current		
Sundry Creditors	1,314,200	1,271,028
Bonds and Deposits	1,161,440	1,444,447
Accrued Interest on Debentures	144,055	633,369
Accrued Salaries and Wages	284,850	271,794
	<u>2,904,545</u>	<u>3,620,637</u>
9. LONG-TERM BORROWINGS		
Current		
Secured by Floating Charge		
Debentures	917,010	127,972
HP Loan	-	7,502
	<u>917,010</u>	<u>135,474</u>
Non-Current		
Secured by Floating Charge		
Debentures	5,049,549	3,966,560
HP Loan	-	-
	<u>5,049,549</u>	<u>3,966,560</u>
Additional detail on borrowings is provided in Note 21.		
10. PROVISIONS		
Current		
Provision for Annual Leave	670,632	648,805
Provision for Long Service Leave	581,100	523,428
	<u>1,251,732</u>	<u>1,172,233</u>
Non-Current		
Provision for Long Service Leave	160,291	110,494
	<u>160,291</u>	<u>110,494</u>

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

	2011	2011 Budget	2010
	\$	\$	\$
11. RESERVES - CASH BACKED			
(a) Plant Replacement Reserve			
Opening Balance	197,130	197,117	141,917
Amount Set Aside / Transfer to Reserve	410,358	372,605	55,213
Amount Used / Transfer from Reserve	(400,000)	(400,000)	-
	<u>207,488</u>	<u>169,722</u>	<u>197,130</u>
(b) City Development Reserve			
Opening Balance	1,387,205	1,390,364	1,388,390
Amount Set Aside / Transfer to Reserve	83,713	83,423	65,355
Amount Used / Transfer from Reserve	(65,000)	(66,100)	(66,540)
	<u>1,405,918</u>	<u>1,407,687</u>	<u>1,387,205</u>
(c) North Street Reserve			
Opening Balance	638,356	645,294	882,802
Amount Set Aside / Transfer to Reserve	376,037	38,722	35,554
Amount Used / Transfer from Reserve	-	-	(280,000)
	<u>1,014,393</u>	<u>684,016</u>	<u>638,356</u>
(d) Welfare Reserve			
Opening Balance	348,130	350,356	401,895
Amount Set Aside / Transfer to Reserve	21,917	22,914	16,235
Amount Used / Transfer from Reserve	-	-	(70,000)
	<u>370,047</u>	<u>373,270</u>	<u>348,130</u>
(e) Services Reserve			
Opening Balance	268,218	271,733	628,633
Amount Set Aside / Transfer to Reserve	919,199	148,952	23,585
Amount Used / Transfer from Reserve	(50,000)	(50,000)	(384,000)
	<u>1,137,417</u>	<u>370,685</u>	<u>268,218</u>
(g) Insurance Reserve			
Opening Balance	46,179	45,924	43,724
Amount Set Aside / Transfer to Reserve	2,664	2,755	2,455
Amount Used / Transfer from Reserve	-	-	-
	<u>48,843</u>	<u>48,679</u>	<u>46,179</u>
(i) Waste Management Infrastructure Reserve			
Opening Balance	124,066	124,130	118,030
Amount Set Aside / Transfer to Reserve	7,876	7,448	6,036
Amount Used / Transfer from Reserve	-	-	-
	<u>131,942</u>	<u>131,578</u>	<u>124,066</u>
(j) Building Replacement Reserve			
Opening Balance	666,886	670,580	675,214
Amount Set Aside / Transfer to Reserve	45,519	25,240	32,672
Amount Used / Transfer from Reserve	(200,000)	(200,000)	(41,000)
	<u>512,405</u>	<u>495,820</u>	<u>666,886</u>
(l) Swanbourne Reserve			
Opening Balance	94,650	94,588	-
Amount Set Aside / Transfer to Reserve	5,757	5,675	94,650
Amount Used / Transfer from Reserve	-	-	-
	<u>100,407</u>	<u>100,263</u>	<u>94,650</u>
TOTAL CASH BACKED RESERVES	<u><u>4,928,861</u></u>	<u><u>3,781,720</u></u>	<u><u>3,770,820</u></u>

**CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011**

11. RESERVES - CASH BACKED (Continued)

All of the reserve accounts are supported by money held in financial institutions and match the amounts shown as restricted cash of this financial report.

In accordance with council resolutions in relation to each reserve account, the purpose for which the funds are set aside are as follows:

Plant Replacement Reserve

To provide for the replacement of Council's plant and equipment so that the cost is spread over a number of years. The use of funds in this reserve is ongoing.

City Development Reserve

To fund the improvement of Property, Plant and Equipment. The use of funds in this reserve is ongoing.

North Street Reserve

To fund the operational and capital costs of community facilities in Mt Claremont, community and recreation facilities in Swanbourne and infrastructure generally. Use of this reserve is ongoing.

Welfare Reserve

To fund the operational and capital costs of welfare services. The use of funds in this reserve is ongoing.

Services Reserve

To provide funds for the purchase of land for parking areas, streets, depots etc. town planning schemes, valuation and legal expenses, items of works of an urgent nature such as drainage, street works, provision of street lighting and buildings maintenance. The use of funds in this reserve is ongoing.

Swanbourne Reserve

Set-up during the year with proceeds of the insurance claim arising from the fire of Council property in Swanbourne, for future development in that suburb.

Insurance Reserve

To cover any excess that may arise from having a performance based workers compensation premium.

Waste Management Infrastructure Reserve

To provide for the replacement of Council's Rubbish Bin stock so that the cost is spread over a number of years. The use of funds in this reserve is ongoing.

Building Replacement Reserve

To fund the upgrade and/or replacement of Council's buildings. The use of this reserve is ongoing.

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

	2011	2010
	\$	\$
12. RESERVES - ASSET REVALUATION		
Asset revaluation reserves have arisen on revaluation of the following classes of non-current assets:		
Revaluations prior to 30th June 2009	17,335,347	17,335,347
(a) Land		
Opening balance	-	-
Revaluation Increment	12,354,000	-
Revaluation Decrement	-	-
	<u>12,354,000</u>	<u>-</u>
(b) Buildings		
Opening balance	-	-
Revaluation Increment	9,297,909	-
Revaluation Decrement	-	-
	<u>9,297,909</u>	<u>-</u>
(c) Plant & Equipment		
Opening Balance	-	-
Revaluation Increment	31,447	-
Revaluation Decrement	-	-
	<u>31,447</u>	<u>-</u>
(d) Roads		
Opening Balance	39,126,980	-
Revaluation Increment	-	39,126,980
Revaluation Decrement	-	-
	<u>39,126,980</u>	<u>39,126,980</u>
(e) Drainage		
Opening Balance	1,966,692	-
Revaluation Increment	-	1,966,692
Revaluation Decrement	-	-
	<u>1,966,692</u>	<u>1,966,692</u>
TOTAL ASSET REVALUATION RESERVES	<u><u>80,112,375</u></u>	<u><u>58,429,019</u></u>

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

13. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash and cash equivalents, net of outstanding bank overdrafts. Cash at the end of the reporting period is reconciled to the related items in the statement of financial position as follows:

	2011	2011	2010
	\$	Budget	\$
	\$	\$	\$
Cash and Cash Equivalents	<u>11,649,263</u>	<u>8,496,500</u>	<u>10,027,708</u>

(b) Reconciliation of Net Cash Provided By Operating Activities to Net Result

Net Result	464,287	(1,438,400)	2,932,213
Depreciation	5,667,375	5,546,400	3,216,889
(Profit)/Loss on Sale of Asset	(134,063)	(30,000)	(88,717)
(Increase)/Decrease in Receivables	(79,487)	100,000	130,780
(Increase)/Decrease in Inventories	4,544	-	(1,202)
Increase/(Decrease) in Payables	(716,081)	(150,000)	413,995
Increase/(Decrease) in Employee Provisions	129,296	50,000	10,150
Grants/Contributions for the Development of Assets	(1,184,449)	(1,144,900)	(1,492,267)
Net Cash from Operating Activities	<u>4,151,422</u>	<u>2,933,100</u>	<u>5,121,841</u>

(c) Undrawn Borrowing Facilities
Credit Standby Arrangements

Bank Overdraft limit	500,000	500,000	500,000
Bank Overdraft at Balance Date	-	-	-
Credit Card limit	25,000	25,000	25,000
Credit Card Balance at Balance Date	8,281	6,000	2,567
Total Amount of Credit Unused	<u>533,281</u>	<u>531,000</u>	<u>527,567</u>

Loan Facilities

Loan Facilities - Current	917,010	917,000	135,474
Loan Facilities - Non-Current	5,049,549	4,858,900	3,966,560
Total Facilities in Use at Balance Date	<u>5,966,559</u>	<u>5,775,900</u>	<u>4,102,034</u>

Unused Loan Facilities at Balance Date	<u>-</u>	<u>-</u>	<u>-</u>
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CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

	2011 \$	2010 \$
14. CONTINGENT LIABILITIES		
No claims outstanding.		
15. CAPITAL AND LEASING COMMITMENTS		
(a) Finance Lease Commitments		
Nil		
(b) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the accounts.		
Payable:		
- not later than one year	90,038	27,440
- later than one year but not later than five years	96,918	39,243
- later than five years	-	-
	<u>186,956</u>	<u>66,683</u>
(c) Capital Expenditure Commitments		
Contracted for:		
- capital expenditure projects	215,413	466,000
Payable:		
- not later than one year	215,413	466,000
The capital expenditure project outstanding at the end of the current reporting period represents the renovation of the Maisonettes and the upgrade of Peace Memorial Rose Garden.		

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

	2011	2010
	\$	\$
16. JOINT VENTURE		
The City has not entered into any joint venture agreements.		
17. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY		
Governance	32,161,188	18,170,494
General Purpose Funding	-	-
Law, Order, Public Safety	1,422,326	1,235,334
Health	621,478	683,587
Education and Welfare	2,899,752	1,336,454
Community Amenities	82,429	19,631
Recreation and Culture	21,735,033	15,552,152
Transport	81,578,610	82,080,831
Economic Services	20,332	313,152
Other Property and Services	13,926,174	11,630,314
	<u>154,447,323</u>	<u>131,021,949</u>

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

	2011	2010	2009
18. FINANCIAL RATIOS			
Current Ratio	1.53 : 1.0	1.59 : 1.0	1.31 : 1.0
Untied Cash to Unpaid Trade Creditors Ratio	3.82 : 1.0	2.47 : 1.0	3.66 : 1.0
Debt Ratio	6.7%	6.9%	9.2%
Debt Service Ratio	1.5%	6.3%	5.9%
Gross Debt to Revenue Ratio	23.6%	17.2%	14.8%
Gross Debt to			
Economically Realisable Assets Ratio	8.6%	9.2%	7.6%
Rate Coverage Ratio	59.1%	59.3%	52.9%
Outstanding Rates Ratio	1.4%	2.2%	1.9%
(excluding Deferred Rates)			

The above ratios are calculated as follows:

Current Ratio	$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$
Untied Cash to Unpaid Trade Creditors Ratio	$\frac{\text{untied cash}}{\text{unpaid trade creditors}}$
Debt Ratio	$\frac{\text{total liabilities}}{\text{total assets}}$
Debt Service Ratio	$\frac{\text{debt service cost}}{\text{available operating revenue}}$
Gross Debt to Revenue Ratio	$\frac{\text{gross debt}}{\text{total revenue}}$
Gross Debt to	
Economically Realisable Assets Ratio	$\frac{\text{gross debt}}{\text{economically realisable assets}}$
Rate Coverage Ratio	$\frac{\text{net rate revenue}}{\text{operating revenue}}$
Outstanding Rates Ratio	$\frac{\text{rates outstanding}}{\text{rates collectable}}$

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

19. TRUST FUNDS

Funds held at balance date over which the Shire has no control and which are not included in the financial statements are as follows:

	Balance 1 July 2010 \$	Amounts Received \$	Amounts Paid \$	Balance 30 June 2011 \$
Unclaimed Monies	20,777	30	(1,375)	19,432
Charity donation by staff	4,280	3,577	(1,146)	6,711
	<u>25,057</u>			<u>-</u>
				<u>26,143</u>

20. DISPOSALS OF ASSETS - 2010/11 FINANCIAL YEAR

The following assets were disposed of during the year.

	Net Book Value		Sale Price		Profit (Loss)	
	Actual \$	Budget \$	Actual \$	Budget \$	Actual \$	Budget \$
Plant & Equipment	355,575	260,100	493,450	299,100	137,875	39,000
Furniture & Equipment	3,812	9,000	-	-	(3,812)	(9,000)
	<u>359,387</u>	<u>269,100</u>	<u>493,450</u>	<u>299,100</u>	<u>134,063</u>	<u>30,000</u>

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

21. INFORMATION ON BORROWINGS

(a) Repayments - Debentures

Particulars	Principal \$	New Loans \$	Principal Repayments		Principal 30/06/2011		Interest Repayments	
			Actual \$	Budget \$	Actual \$	Budget \$	Actual \$	Budget \$
Community Amenities								
New Bin Stock - Loan 178**	658,105		60,469	61,300	597,636	597,700	37,851	38,700
Roads Infrastructure - Loan 179**	1,436,426		67,502	67,500	1,368,924	1,368,900	85,605	86,100
Buildings & Roads - Loan 180**	2,000,000		-	154,300	2,000,000	1,845,700	116,933	112,700
Building & Infrastructure - Loan 181**		2,000,000	-	36,400	2,000,000	1,963,600	14,915	31,200
	4,094,531	2,000,000	127,971	319,500	5,966,560	5,775,900	255,304	268,700

** Repayments for loans 178, 179, 180 and 181 are financed from general purpose revenue.

(b) New Debentures - 2010/11

Particulars/Purpose	Amount Borrowed		Institution	Loan Type	Term (Years)	Total Interest & Charges \$	Interest Rate %	Amount Used		Balance Unspent \$
	Actual \$	Budget \$						Actual \$	Budget \$	
Building & Infrastructure - Loan 181	2,000,000	2,000,000	WA Treasury	Fixed Interest, Principal & Interest Payment	10 years	674,419	5.91 % pa	2,000,000	2,000,000	-

(c) Unspent Debentures

Council had no unspent debenture funds as at 30th June 2011.

(d) Overdraft

Council has not utilised an overdraft facility during the financial year although an overdraft facility of \$500,000 with the National Australia Bank

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

22. RATING INFORMATION - 2010/11 FINANCIAL YEAR

RATE TYPE	Rate in \$	Number of Properties	Rateable Value \$	Rate Revenue \$	Interim Rates \$	Back Rates \$	Total Revenue \$	Budget Rate Revenue \$	Budget Interim Rate \$	Budget Back Rate \$	Budget Total Revenue \$
Differential General Rate							-				-
GRV - Residential	0	5,653	199,299,277	10,778,104	70,362		10,848,466	10,709,200	(148,000)	-	10,561,200
GRV - Non Residential	0	366	28,615,157	2,153,577	35,232		2,188,809	2,156,600	-		2,156,600
							-				-
Sub-Totals		6,019	227,914,434	12,931,681	105,594	-	13,037,275	12,865,800	(148,000)	-	12,717,800
Minimum Rates	Minimum \$										
GRV - Residential	992	2,248	31,402,718	2,230,016	(30,661)		-				-
GRV - Non Residential	1,348	148	1,619,208	199,504	1,348		2,199,355	2,245,100	(15,400)	-	2,229,700
							200,852	199,500	-		199,500
							-				-
Sub-Totals		2,396	33,021,926	2,429,520	(29,313)	-	2,400,207	2,444,600	(15,400)	-	2,429,200
Specified Area Rate (refer note 23)							15,437,483				15,147,000
Discounts (refer note 25)							15,437,483				15,147,000
Totals							15,437,483				15,147,000

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

23. SPECIFIED AREA RATE - 2010/11 FINANCIAL YEAR

The City of Nedlands did not levy any Special Area Rate in 2010/11 year.

24. SERVICE CHARGES - 2010/11 FINANCIAL YEAR

The City did not levy any Service Charges in 2010/11 year.

25. DISCOUNTS, INCENTIVES, CONCESSIONS, & WRITE-OFFS - 2010/11 FINANCIAL YEAR

There were no discounts, incentives, concessions or write-offs during the 2010/11 financial year.

26. INTEREST AND INSTALMENT CHARGES- 2010/11 FINANCIAL YEAR

	Interest Rate %	Admin. Charge \$	Revenue \$	Budgeted Revenue \$
Interest on Unpaid Rates	11.00%		54,668	40,000
ESL Interest Income			23,411	3,000
Interest on Instalments Plan	5.00%		76,543	75,000
Deferred Rates Interest			16,962	16,000
Total Interest Charge			171,583	134,000
Charges on Instalment Plan		18	40,344	38,000
Total Instalment Charge			40,344	38,000

Ratepayers had the option of paying rates in four equal instalments, due on 17th August 2010, 18th October 2010, 20th December 2010 and 21st February 2011. Administration charges and interest applied for the final three instalments.

27. FEES & CHARGES	2011 \$	2010 \$
Governance	74,844	106,068
General Purpose Funding	56,662	37,590
Law, Order, Public Safety	34,311	34,619
Health	63,542	2,490
Education and Welfare	349,794	363,539
Community Amenities	3,913,581	3,562,746
Recreation and Culture	567,091	529,841
Transport	318,480	244,265
Economic Services	588,855	813,788
Other Property and Services	14,492	15,105
	5,981,652	5,710,051

There were no changes during the year to the amount of the fees or charges detailed in the original budget.

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

28. GRANT REVENUE

Grants, subsidies and contributions are included as operating revenues in the Statement of Comprehensive Income:

By Nature and Type:	2011	2010
	\$	\$
Operating Grants, Subsidies and Contributions	2,209,034	1,982,430
Non-Operating Grants, Subsidies and Contributions	<u>1,184,449</u>	<u>1,733,467</u>
	<u>3,393,483</u>	<u>3,715,897</u>
By Program:		
Governance	-	74,139
General Purpose Funding	736,444	729,158
Law, Order, Public Safety	17,222	-
Education and Welfare	933,247	865,083
Community Amenities	103,948	-
Recreation and Culture	375,920	253,677
Transport	1,226,702	1,540,222
Economic Services	-	253,618
	<u>3,393,483</u>	<u>3,715,897</u>

29. ELECTED MEMBERS REMUNERATION

	2011	2011	2010
	\$	Budget	\$
The following fees, expenses and allowances were paid to council members and/or the president.			
Meeting Fees	98,447	98,000	97,947
Mayor's Allowance	39,730	39,500	41,711
Deputy Mayor's Allowance	9,930	9,900	9,579
Information Technology Allowance	10,394	10,100	8,444
Travelling Expenses	300	-	291
Telecommunications Allowance	<u>12,147</u>	<u>11,700</u>	<u>9,758</u>
	<u>170,948</u>	<u>169,200</u>	<u>167,730</u>

30. EMPLOYEE NUMBERS

	2011	2010
The number of full-time equivalent employees at balance date	<u>139</u>	<u>130</u>

31. MAJOR LAND TRANSACTIONS

The City did not undertake any major land transaction during the 2010/11 financial year.

32. TRADING UNDERTAKINGS AND MAJOR TRADING UNDERTAKINGS

The City did not participate in any trading undertakings or major trading undertakings during the 2010/11 financial year.

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

33. FINANCIAL RISK MANAGEMENT

Council's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to

Financial risk management is carried out by the finance area under policies approved by the Council.

The Council held the following financial instruments at balance date:

	Carrying Value		Fair Value	
	2011	2010	2011	2010
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	11,649,263	10,027,708	11,649,263	10,027,708
Receivables	1,215,372	1,135,885	1,215,372	1,135,885
	<u>12,864,635</u>	<u>11,163,593</u>	<u>12,864,635</u>	<u>11,163,593</u>
Financial Liabilities				
Payables	2,904,545	3,620,637	2,904,545	3,620,637
Borrowings	5,966,559	4,102,034	4,218,769	3,386,329
	<u>8,871,104</u>	<u>7,722,671</u>	<u>7,123,314</u>	<u>7,006,966</u>

Fair value is determined as follows:

- Cash and Cash Equivalents, Receivables, Payables - estimated to the carrying value which approximates net market value.
- Borrowings - estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles.

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

33. FINANCIAL RISK MANAGEMENT (Continued)

(a) Cash and Cash Equivalents

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The finance manages the cash and investments portfolio with the assistance of independent advisers (where applicable). Council has an investment policy and the policy is subject to review by Council. An Investment Report is provided to Council on a monthly basis setting out the make-up and performance of the portfolio.

The major risk associated with investments is price risk – the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments of their issuers or factors affecting similar instruments traded in a market.

Cash and investments are also subject to interest rate risk – the risk that movements in interest rates could affect returns.

Another risk associated with cash and investments is credit risk – the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to Council.

Council manages these risks by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees. Council also seeks advice from independent advisers (where applicable) before placing any cash and investments.

	2011	2010
	\$	\$
Impact of a 2% (*) movement in interest rates on cash and investments:		
- Equity	233,000	200,600
- Statement of Comprehensive Income	233,000	200,600

Notes:

(*) Sensitivity percentages based on management's expectation of future possible market movements. Recent market volatility has seen large market movements for certain types of investments.

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

33. FINANCIAL RISK MANAGEMENT (Continued)

(b) Receivables

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

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

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

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subject to a re-negotiation of repayment terms.

The profile of the Council's credit risk at balance date was:

	2011	2010
Percentage of Outstanding Rates and Annual Charges		
- Excluding Deferred Pensioners	1.41%	2.23%
- Including Deferred Pensioners	3.11%	4.45%
Percentage of Other Receivables		
- Current	88.77%	85.05%
- Overdue	11.23%	14.95%

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

33. FINANCIAL RISK MANAGEMENT (Continued)

(c) Payables

Borrowings

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

The contractual undiscounted cash flows of Council's Payables and Borrowings are set out in the Liquidity Sensitivity Table below:

	Due within 1 year \$	Due between 1 & 5 years \$	Due after 5 years \$	Total contractual cash flows \$	Carrying values \$
2011					
Payables	2,904,545	-	-	2,904,545	2,904,545
Borrowings	1,253,389	3,549,030	2,816,362	7,618,781	5,966,560
	<u>4,157,934</u>	<u>3,549,030</u>	<u>2,816,362</u>	<u>10,523,326</u>	<u>8,871,105</u>
2010					
Payables	3,620,637	-	-	3,620,637	3,620,637
Borrowings	378,482	3,211,521	1,732,828	5,322,831	4,102,034
	<u>3,999,119</u>	<u>3,211,521</u>	<u>1,732,828</u>	<u>8,943,468</u>	<u>7,722,671</u>

CITY OF NEDLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011

33. FINANCIAL RISK MANAGEMENT (Continued)

(c) Payables

Borrowings (Continued)

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs. Council manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation.

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

	<1 year \$	>1<2 years \$	>2<3 years \$	>3<4 years \$	>4<5 years \$	>5 years \$	Total \$	Weighted Average Effective Interest Rate %
<u>Year Ended 30 June 2011</u>								
Payables								
Borrowings								
Fixed Rate								
Debentures	-	-	2,000,000	-	-	3,966,560	5,966,560	5.91%
Weighted Average Effective Interest Rate			5.78%			5.97%		
<u>Year Ended 30 June 2010</u>								
Payables								
Borrowings	7,503	-	-	-	-	-	7,503	9.64%
Fixed Rate								
Debentures	-	-	-	2,000,000	-	2,094,531	4,094,531	5.91%
Weighted Average Effective Interest Rate	9.64%			5.78%		6.03%		

INDEPENDENT AUDITOR'S REPORT

TO: RATEPAYERS OF CITY OF NEDLANDS

We have audited the financial report of the City of Nedlands, which comprises the Statement of Financial Position as at 30 June 2011 and the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year ended on that date and a summary of significant accounting policies and other explanatory notes.

Council's Responsibility for the Financial Report

Council is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. Our audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with the relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Auditor's Opinion

In our opinion, the financial report of the City of Nedlands:

- (i) gives a true and fair view of the financial position of the City of Nedlands as at 30 June 2011 and of its financial performance for the year ended on that date; and
- (ii) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards (including the Australian Accounting Interpretations).

Statutory Compliance

We did not during the course of our audit become aware of any instances where the Council did not comply with the requirements of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).


MACRI PARTNERS
CERTIFIED PRACTISING ACCOUNTANTS
28 THOROGOOD STREET
BURSWOOD WA 6100


A MACRI
PARTNER

PERTH
DATED THIS 13th DAY OF SEPTEMBER 2011.



7.2 Investment Strategy 2011/12

Applicant	City of Nedlands
Owner	City of Nedlands
Officer	Rajah Senathirajah – Manager Finance
Director	Michael Cole - Director Corporate Services
Director Signature	
File ref.	FIN/071-06
Previous Item No's	Nil
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the <i>Local Government Act (1995)</i> .

Purpose

To consider the Investment Strategy for 2011/12

Recommendation to Committee

Committee

1. Notes the requirement to Invest the funds surplus to its immediate needs as per Council's Policy, with financial institutions having a credit rating of Long Term A and Short Term A-1 or better.
2. Agrees to the following financial institutions with which the City of Nedlands will be investing its funds:

National Australia Bank
 ANZ
 Westpac
 St George
 Sunway
 AMP Bank Ltd
 Bankwest
 Commonwealth Bank
 Macquarie Bank Ltd
 Rabobank Australia
 ING Bank (Australia)

3. Notes that the Guarantee by the Commonwealth Government for the first \$1.0 million in a financial institution will not apply to any investments made after 12 October 2011. The Government has announced that a new ceiling of \$250,000 will apply from 1 February 2012.

Strategic Plan

KFA 5: Governance

5.1 Manage the City's resources in a sustainable and responsible manner.

This report is to obtain Council approval for the Investment Strategy to be adopted by the officers in investing funds surplus to immediate needs in accordance with the Council's investment Policy.

Background

Council Policy Investment of Council Funds, last reviewed in October 2010, stipulates that funds surplus to Council's immediate requirements are to be invested in accordance with the *Local Government Act 1995 and the Policy*.

The Policy further states that investments may be placed with banks having a credit rating of at least A (long term) / A1 (short term), as rated by Standard and Poors, or for short terms with other financial institutions authorised by the Chief Executive Officer. The amount invested with any one institution is not to exceed 30% of average annual funds invested.

A report is provided to Council each month detailing the investments and their respective yields.

Proposal Detail

As a consequence of the global credit crisis in 2008, the Australian Government legislated in October 2008 to guarantee all deposits with Banks and other ADIs (Authorised Deposit-taking Institutions) supervised by the Australian Prudential Regulation Authority (APRA). The guarantee is automatic and free of charges for deposits of any entity totalling up to \$1 million with any one institution. This guarantee of up to \$1 million will not apply after 12 October 2011. The Government has announced that a new guarantee scheme will be in place from 1 February 2012, with a ceiling of \$250,000 for deposits with any one institution.

It is noted that the ability to obtain Government guarantee for large deposits (above \$1 million) by paying a guarantee fee was withdrawn from 31 March 2010, as the Government felt that there was no longer a need for the guarantee. The announcement of the reduction in the ceiling to \$250,000 further reflects the stability of the Australian banking system.

In view of the above developments, it is recommended that the City of Nedlands moves back from the two-year short term investment strategy adopted in November 2009 to the City's Investment Policy, which was last reviewed in October 2010.

The following banks have the minimum Standard & Poors credit ratings stipulated in the Policy, and it is recommended that the City's investments be restricted to them:

BANK	LONG TERM RATING	SHORT TERM RATING
National Australia Bank	AA	A-1+
Westpac	AA	A-1+
Commonwealth Bank	AA	A-1+
ANZ	AA	A-1+
Sunway	A+	A-1
St George	AA	A-1+
ING Bank (Australia)	A+	A-1
Macquarie Bank Ltd	A	A-1
Rabobank Australia	AAA	A-1+
AMP Bank Ltd	A	A-1
Bankwest	AA	A-1+

Consultation

Not applicable.

Legislation

Satisfies Clause 6.14 of the Local Government Act 1995 and the prudent person requirement of the Trustees Act 1962.

Budget / Financial Implications

The 2011/12 Budget estimates that the City will earn approximately \$760,000 from its investments. The recommended strategy will facilitate the City achieving the budgeted earnings.

Risk Management

There are two main risks associated with the investments, being credit risk and interest risk. The credit risk will be managed by spreading the investments across the different financial institutions, and closely monitoring the credit ratings of each institution to ensure that they meet the requirements stipulated in the Council Policy. The interest risk is managed by evaluating the yield offered by the various institutions each time funds are available to be placed, and choosing an option that will give the best earning without compromising on the credit risk considerations.

Conclusion

The City invests its surplus funds in interest bearing term deposits, adopting the investment strategy stated above until the strategy is varied by Council.

Attachments

Nil

7.3 Internal Audit Report – Fixed Assets – Record Keeping

Applicant	City of Nedlands
Owner	City of Nedlands
Officer	Rajah Senathirajah – Manager Finance
Director	Michael Cole - Director Corporate Services
Director Signature	
File ref.	FIN/006-05
Previous Item No's	Nil
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the <i>Local Government Act (1995)</i> .

Recommendation to Committee

Committee receives the internal audit report on Fixed Assets Record Keeping.

Purpose

The purpose of this report is to receive the Internal Audit report from Grant Thornton on Fixed Assets – Record Keeping.

Strategic Plan

KFA 5: Governance

- 5.4 Monitor and review business processes, systems, structure and policies to ensure effective service delivery and organisational performance.
- 5.9 Identify, manage and seek to minimise risk.

Background

The City of Nedlands has engaged the services of Grant Thornton to conduct the Audit Plan for 2009/2010. This assignment relates to Fixed Assets - Record Keeping.

Proposal Detail

The objectives of the internal audit were:

- To evaluate the adequacy and effectiveness of controls surrounding the record keeping of its fixed assets;
- To Evaluate the accuracy and completeness of the Fixed Assets register; and
- To determine compliance with external requirements and internal policies, procedures and guidelines.

The scope of the engagement included:

- Assessment of the adequacy and effectiveness of the controls surrounding the record keeping of fixed assets;
- Review of the City's compliance with external requirements and internal policies, procedures and guidelines;
- Sample based testing to evaluate compliance with external and internal policies, procedures and guidelines, as they relate to the recording of fixed assets, stocktake and asset classification and identification; and
- Provision of appropriate recommendations for any in scope matters identified.

Five (5) issues were identified during this Audit. The issue raised, recommendation and management response are summarised as follows:

Issue 1: Inaccurate fixed asset register – Good business practice suggest that the Fixed Asset Register should be accurate and complete. Discussions with management revealed that whilst the Corporate Services Division was responsible for the maintenance of the City's fixed asset register each division also maintained a sub asset register. Our review of the City's fixed asset register and divisional sub asset registers noted that they did not reconcile.

Recommendations

1. That the City require its divisions to communicate any changes to its fixed assets to the corporate Services Division.
2. Management should perform a periodic reconciliation of the City's divisions sub asset register and the Fixed Asset Register to determine its accuracy and completeness.

Management Response

The Assets Officer in Finance relies on the custodians of the assets to promptly communicate and disposal or damage of assets in their charge. This process needs to be documented. The use of formal sub-registers, linked to the Fixed Assets register, needs to be investigated.

Management Action

Formalise the process for communicating disposals/charge to assets. Investigate the establishment of formal asset sub-register linked to the Fixed Asset Register.

Responsible Officer: Asset Officer in Finance Business Unit

Action Date: 31 December 2011.

Issue 2: Fixed assets identification and classification not clearly communicated – Good business practice suggests that those elements that constitute fixed assets should be defined. Discussion with staff revealed that the definition and classification of a fixed asset was not

clear. Review of the fixed assets Register revealed that it contained a large number of low value assets which appeared to have a useful life under 12 months.

Recommendation

1. That the City's develop a policy and guidelines with regards to purchases made to enable appropriate classification and treatment.
2. Once the policy and guidelines have been approved by the Executive, that the City communicates the document to its staff and monitors classification of purchases.

Management Response

Management relies on the relevant clauses of the Significant Policies stated in the City's budget, adopted each year by Council, for the classification of a non-consumable purchase to be included in the City's Asset Register. Until this financial year the City had used \$500 as the base line for capitalising assets. This value is increased to \$1,000 from 1 July 2011.

Management Action

A stand-alone Policy be developed for recognition of assets and this Policy be communicated to all relevant staff.

Responsible Officer: Manager, Finance

Action Date: 30 November 2011.

Issue 3: No documented internal stocktake procedures – Good business practice suggest that an organisation should have documented stocktake procedures. Discussions with management revealed that the City did not have documented procedures over its stocktake activities.

Recommendation

1. That the City considers developing a stocktake procedure that details how a stocktake should be conducted, the frequency by which they are to be performed and the treatment of any identified variances.
2. That the City communicates the stocktake procedures and its requirements to the responsible officers.

Management Response

Agree with the Auditor's recommendations

Management Action

Implement the recommendations.

Responsible Officer: Manager, Finance

Action Date: 30 November 2011.

Issue 4: Portable and attractive asset register – Good business practice suggest that an organisation ensure that appropriate measures are taken to protect assets with minor value that are portable and attractive. Discussion with division management revealed that the City does not maintain a portable and attractive asset register.

Recommendations

1. Consideration should be given for each of the City's divisions to have a responsible officer to maintain a portable and attractive asset register to be used to monitor the asset's identification, location and custodianship.
2. Consideration should be given to include the portable and attractive assets as part of the stock take of its assets.

Management Response

Portable assets have uniquely numbered labels identifying them as being the property of the City. These assets are assigned to the various Business Units. However, Management agrees that the Auditor's recommendations will further enhance the safe keeping of the portable assets.

Management Action

Conduct physical stock take of these assets at least once each year, as recommended. Sub-registers to be maintained for each Division.

Responsible Officer: Assets Officer in the Finance Business Unit together with designated officers in each Division.

Action Date: 31 December 2011.

Issue 5: Periodic valuations requirements for major fixed assets – Good business practice suggest that valuation of defined asset classes be periodically reviewed. Discussion revealed that the City undertook ad-hoc valuations however, a requirement does not exist in for a periodic valuation of those fixed assets classes such as land, buildings and roadways to ensure values are accurately reflected on the Fixed Asset Register.

Recommendation

1. Where feasible, that the City investigates and classifies those assets that may require re-valuation.
2. That the City implements a policy to ensure that periodical review of the asset class value is undertaken and subsequently make any necessary adjustments to the respective values within the Fixed Assets register.

Management Response

Management is guided by the relevant Accounting Standard (AASB 116) as to the revaluation of fixed assets. The Standard states that the assets “..are to be revalued with sufficient regularity...”, and further clarifies that annual revaluations “..are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.” (*Clauses 31 to 34.*)

The roads and drainage were revalued by independent valuers in June 2010, and the Buildings and land are currently (June 2011) being revalued. Footpaths are scheduled to be revalued next financial year. Plant and equipment are subject to a replacement program, as are IT equipment. Management does not consider it necessary to revalue these within the two to five years they are held by the City.

Management Action

Revalue footpaths in 2012

Responsible Officer: Manager, Finance

Action Date: May 2012

Consultation

Administration has now formally considered the issues raised by Grant Thornton and provided appropriate responses.

Legislation

Regulation 5 of the Local Government (Financial Management) Regulations 1996 requires the Chief Executive Officer to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews.

Budget/Financial Implications

Budget:

Funds are included in the Budget to undertake internal audits.

Within current approved budget: Yes ☒ No ☐

Requires further budget consideration: Yes ☐ No ☒

Financial:

There are no financial implications arising from this report.

Risk Management

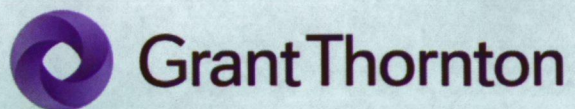
This report identifies items associated with Fixed Assets Record Keeping, and identified appropriate action.

Conclusion

The issues identified in this report have been addressed by the City of Nedlands. It is recommended the Committee receive the report.

Attachments

1. Internal Audit Report – Fixed Assets – Record Keeping



CITY OF NEDLANDS	
DIVISION	
Document #	
File #	20 JUL 2011
Redirect	
Action	
Enclosed	ACK NRN OTHER

RECEIVED

Cam Ansell
Director
T +61 8 9480 2000
E cam.ansell@au.gt.com

City of Nedlands

Fixed Assets – Record Keeping
20 July 2011



Grant Thornton

Private and Confidential

Mr Michael Cole
Director, Corporate Services
City of Nedlands
71 Stirling Hwy
NEDLANDS WA 6009

20 July 2011

Dear Mr Cole

INTERNAL AUDIT – FIXED ASSETS - RECORD KEEPING

I refer to the Audit Strategy Statement dated 24 May 2011, which outlined the scope of the internal audit of the City of Nedlands' fixed asset record keeping processes.

The matters raised in this report came to our attention during the course of our review. Testing was conducted on a sample basis over a specific period of time. Therefore our report provides assurance regarding the operation effectiveness of the actual controls tested. However, the possibility exists that our report may not include all weaknesses that exist or improvements that may be made where these relate to controls not tested as part of this review.

Management is responsible for maintaining adequate controls over all levels of operations. The City of Nedlands should therefore not rely solely on our report to identify all weaknesses that may exist. Our comments should be read in the context of the scope of our work as detailed in the Audit Strategy Statement. Suggestions for improvement should be assessed by the City of Nedlands to their full commercial impact before they are implemented.

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We would like to thank City of Nedlands' personnel for their assistance during this review. Should you have any queries please do not hesitate to contact me on 9480 2000.

Yours faithfully

C GANSERLL
DIRECTOR

Enclosure

Glossary

City	City of Nedlands
LGA	Local Government Act 1995
IT	Information Technology

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Section 1

Executive summary

1. Executive summary

2. Findings

Executive Summary

Overview	The State Records Act 2000, Local Government Act 1995 and General Disposal Authority for Local Government Records 1999 provide mandates and requirements by which the City of Nedlands (the “City”) is required to maintain accurate and complete records of information that is relevant to the City’s functions and activities. The Corporate Services Division is responsible for the maintenance of the Fixed Asset Register in accordance with external requirements and internal policies, procedures and guidelines.
Objective	The objectives of the internal audit were: • To evaluate the adequacy and effectiveness of controls surrounding the record keeping of its fixed assets; • To evaluate the accuracy and completeness of the Fixed Asset Register; and • To determine compliance with external requirements and internal policies, procedures and guidelines.
Link to Risk Assessment	The fixed asset record keeping process subject to this internal audit were associated with the following risks: • Fixed assets may not properly recorded; and • Improper depreciation or amortisation of fixed assets.
Scope	The scope of the engagement included: • Assessment of the adequacy and effectiveness of the controls surrounding the record keeping of fixed assets; • Review of the City’s compliance with external requirements and internal policies, procedures and guidelines; • Sample based testing to evaluate compliance with external and internal policies, procedures and guidelines, as they relate to the recording of fixed assets, stocktake and asset classification and identification; and • Provision of appropriate recommendations for any in scope matters identified.
Methodology	The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing and included the undertaking of a desktop review, sample testing, and the conducting of interviews and site visits.

Executive Summary (Cont.)

Auditors Opinion	In our opinion, based on the interviews and evidence obtained, except for the matters identified, the City has adequate and effective controls in place surrounding the record keeping of its fixed assets.
Overall Management Comment	Overall satisfied there are adequate and effective controls in place surrounding the record keeping of its fixed assets. In addition to the above, under the State Government 's Integrated Planning and Reporting Framework (IPRF), an Asset Management Framework and Guidelines have been recently released. The City will be undertaking a significant review of asset management practices over the coming months in line with the timeframes of the IPRF.

Rajah Senathirajah
Manager, Finance

Michael Cole
Director, Corporate Services

Section 2

Findings

1. Executive summary

2. Findings

Findings

1. Inaccurate fixed asset register

Criteria	Risk Rating	Effect
Good business practice suggest that the Fixed Asset Register should be accurate and complete.	MODERATE	The City's Fixed Asset Register may not be accurate.
Condition		Recommendation
Discussions with management revealed that whilst the Corporate Services Division was responsible for the maintenance of the City's fixed asset register each division also maintained a sub asset register. Our review of the City's fixed asset register and divisional sub asset registers noted that they did not reconcile.		1. That the City require its divisions to communicate any changes to its fixed assets to the Corporate Services Division
Sample based testing of assets revealed the following exceptions were between the sub registers and the Fixed Asset Register:		2. Management should perform a periodic reconciliation of the City's divisions sub asset registers and the Fixed Asset Register to determine its accuracy and completeness.
- Asset numbers 10180, 51251, 51261 and 10029 had been disposed and removed from the relevant sub asset register however review of the Fixed Asset Register revealed that those assets were recorded as assets of the City; and - Asset number 30876 was observed to have a negative balance.		Management Comment
		The Asset Officer in Finance relies on the custodians of the assets to promptly communicate any disposal or damage of assets in their charge. This process needs to be documented. The use of formal sub-registers, linked to the Fixed Assets Register, needs to be investigated.
		Management Action
		Formalise the process for communicating disposals/changes to assets. Investigate the establishment of formal asset sub-registers linked to the Fixed Asset Register.
		Responsible Officer
		Asset Officer in Finance Business Unit
Cause		Action Date
1. Disposal of fixed assets was not communicated to the Corporate Services Division.		31 December 2011
2. Periodic reconciliation was not performed to confirm accuracy and completeness between the sub asset register and Fixed Asset Register.		

Findings

2. Fixed assets identification and classification not clearly communicated

Criteria	Risk Rating	Recommendation
Good business practice suggest that those elements that constitute a fixed asset should be defined.	MEDIUM	1. That the City develop a policy and guidelines with regards to purchases made to enable appropriate classification and treatment.
Condition		2. Once the policy and guidelines have been approved by the Executive, that the City communicates the documents to its staff and monitors classification of purchases.
Discussion with staff revealed that the definition and classification of a fixed asset was not clear.		Management Comment
Review of the Fixed Asset Register revealed that it contained a large number of low value assets which appeared to have a useful life under 12 months.		Management relies on the relevant clauses of the Significant Accounting Policies stated in the City's budget , adopted each year by Council, for the classification of a non-consumable purchase to be included in the City's Asset Register. Until this financial year the City had used \$500 as the base line for capitalising assets. This value is increased to \$1,000 from 1 July 2011.
The Corporate Services Accountant indicated that they had developed an Asset Procedure that detailed the elements for which an acquisition is required to meet prior to it being classified as an asset and recorded on the City's Fixed Asset Register. However, the document had not been presented to the Executive for ratification.		Management Action
Cause		A stand-alone Policy be developed for recognition of assets and this Policy be communicated to all relevant staff.
Management did not consider the documentation of identification and classification of fixed assets as a priority.		Responsible Officer
Effect		Manager, Finance
Fixed Asset Register may contain acquisitions that do not meet what the City considers to be an asset.		Action Date
		30 November 2011

Findings

3. No documented internal stocktake procedures

Criteria	Risk Rating	Recommendation
Good business practice suggest that an organisation should have documented stocktake procedures.	MEDIUM	1. That the City considers developing a stocktake procedure that details how a stocktake should be conducted, the frequency by which they are to be performed and the treatment of any identified variances.
Condition		2. That the City communicates the stocktake procedures and its requirements to the responsible officers.
Discussions with management revealed that the City did not have documented procedures over its stocktake activities.		Management Comment
Whilst the City performed ad-hoc audits, our review noted that;		Agree with the Auditor's recommendations.
- the inventory check of fixed assets methodology utilised during the conduct of the audits was not consistent; and - there was no schedule for the requirement for each division to undertake a stock take.		Management Action
Enquires made revealed that only two division had undertaken a stock take in the last two years.		Implement the recommendations.
Cause		Responsible Officer
The City did not consider the requirement to undertake a regular cycle to conduct a stock take.		Manager, Finance
Effect		Action Date
- Fixed Assets damaged, lost or misappropriated may not be identified by the City. - Fixed Assets Register may not be accurate and complete.		30 November 2011

Findings

4. Portable and attractive asset register

Criteria	Risk Rating	Recommendation
Good business practice suggest that an organisation ensure that appropriate measures are taken to protect assets with minor value that are portable and attractive.	MEDIUM	1. Consideration should be given for each of the City's divisions to have a responsible officer to maintain a portable and attractive asset register to be used to monitor the asset's identification, location and custodianship.
Condition		2. Consideration should be given to include the portable and attractive assets as part of the stock take of its assets.
Discussion with division management revealed that the City does not maintain a portable and attractive asset register.		
Enquiries revealed that the City owned portable attractive fixed assets but some departments did not have visibility as to their location or custodians. Currently the portable and attractive items are captured within the Fixed Asset Register.		Management Comment
Further, inspection of the IT Hardware Asset list identified that a number of assets such as DVD players and laptops had been allocated. However the register did not record the asset custodian to enable tracking and monitoring of the movement of the portable and attractive assets.		Portable assets have a uniquely numbered labels identifying them as being the property of the City. These assets are assigned to the various Business Units. However, Management agrees that the Auditor's recommendations will further enhance the safe keeping of the portable assets.
Cause		Management Action
The City had not identified the requirement for a portable and attractive asset register.		Conduct physical stock take of these assets at least once each year, as recommended. Sub-registers to be maintained for each Division.
Effect		Responsible Officer
1. Fixed assets may be misappropriated. 2. Assets may be reassigned without knowledge of the City.		Assets Officer in the Finance Business Unit together with designated officers in each Division.
		Action Date
		31 December 2011

5 Periodic valuations requirements for major fixed assets

Criteria	Risk Rating	Recommendation
Good business practice suggest that valuation of defined asset classes be periodically reviewed.	MEDIUM	1. Where feasible, that the City investigates and classifies those assets that may require re-valuation.
Condition		2. That the City implements a policy to ensure that periodical review of the asset class value is undertaken and subsequently make any necessary adjustments to the respective values within the Fixed Asset Register.
Discussion revealed that the City undertook ad-hoc valuations however, a requirement does not exist in for a periodic valuation of those fixed assets classes such as land, buildings and roadways to ensure values are accurately reflected on the Fixed Asset Register.		Management Comment
Review of the Fixed Asset Register and identified property valuations for asset number 21012 and 11001 were conducted approximately 8 years ago in 2003.		Management is guided by the relevant Accounting Standard (<i>AASB 116</i>) as to the revaluation of fixed assets. The Standard states that the assets “..are to be revalued with sufficient regularity...”, and further clarifies that annual revaluations “..are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.” (<i>Clauses 31 to 34.</i>)
The value of land and buildings have encountered significant changes within this period.		The roads and drainage were revalued by independent valuers in June 2010, and the Buildings and land are currently (June 2011) being revalued. Footpaths are scheduled to be revalued next financial year. Plant and equipment are subject to a replacement program, as are IT equipment. Management does not consider it necessary to revalue these within the two to five years they are held by the City.
Cause		Management Action
The City had not documented the process for a regular periodic review of its asset class.		Revalue footpaths in 2012.
Effect		Responsible Officer
1. The value of certain categories of the City’s fixed assets may not accurately reflected.		Manager, Engineering
2. Outdated valuations could impact on maintenance and insurance cost planning.		Action Date
		May 2012

Appendices

- A. Scope
- B. Methodology
- C. Risk Rating of Audit Findings
- D. Inherent Limitations
- E. Audit Evidence
- F. Personnel Who Assisted with the Audit

A. Scope

For clarity in terms of the deliverables, set out below were the matters concerning the scope of the internal audit:

Scope Inclusions
• Assessed the adequacy and effectiveness of the controls surrounding the record keeping activity of fixed assets; • Reviewed the City's compliance with external and internal policies, procedures and guidelines; • Sample based testing evaluated compliance with external and internal policies, procedures and guidelines as they relate to the recording of fixed assets, stocktake and asset classification and identification; and • Provision of appropriate recommendations for any in scope matters identified.
Scope Period
The period under view was 1 July 2010 to 30 April 2011.
Scope Exclusions
Strategic business advice in relation to the implementation of any best practice or audit recommendations.

B. Methodology

The approach for the audit was as follows:

Familiarisation, Planning
- Reviewed the State Records Act 2000; - Reviewed the Local Government Act 1995; - Reviewed the General Disposal Authority for Local Government Records 1999; and - Reviewed the City's policies, procedures and guidelines as they related to the record keeping of fixed assets.
Fieldwork
- Conducted meetings with the City's management to obtain an understanding of the policies, procedures and guidelines pertaining to the record keeping activity of fixed assets; - Examined and documented the relevant processes used by City staff in respect to the record keeping activity of fixed assets; - Assessed the adequacy and effectiveness of the controls surrounding the record keeping process of fixed assets; - Examined the accuracy and completeness of the Fixed Asset Register; and - Selected and obtained relevant samples to evaluate compliance with the documented external and internal policies, processes and guidelines.
Reporting
- Formulated conclusions on the adequacy and effectiveness of controls over record keeping of fixed assets; and - Developed appropriate recommendations for matters identified through the review.

C. Risk Rating of Audit Findings

Findings resulting from our internal audit have been rated in accordance with the risk ratings as detailed below

Risk Rating	Risk Description
Extreme	Major strategic risk of high impact which threatens the organisation's objective and should be addressed immediately.
High	Significant strategic risk should be addressed as a matter of high priority. Controls are deficient or ineffective and require attention.
Moderate	The risk has limited strategic impact but it is of sufficient concern and should be addressed as soon as possible.
Medium	The risk has minimal operational and strategic impact but exposure in the identified areas is undesirable.
Low	Inconsequential impact. The risk is not a primary concern but opportunity to improve the systems and processes that should be addressed as a matter of course.

D. Inherent Limitations

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. An internal audit is not designed to detect all weaknesses in control procedures or all compliance failures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of the sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure or its compliance.

Any projection of the evaluation of control and compliance procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The internal audit findings expressed in this report have been formed on the above basis.

E. Audit Evidence

The following documents and information were examined as part of this review.

Documents Examined
Reviewed the Local Government Act 1995
Local Government (Function and General) Regulations 1996
Procedure for Disposal of Assets and Other Materials
City of Nedlands Council Policy Manual
Built Facility Asset Management Policy
Technical Services Report , City of Nedlands 2009
City of Nedlands Drainage Network Valuation
City of Nedlands Asset Register
City of Nedlands Abestos Register
City of Nedlands Property Inventory Register
City of Nedlands Hardware Asset List
City of Nedlands Plant Lifecycle 2012-12
City of Nedlands Parks Assets Audit, GHD
Vehicle Policy Driver Entitlements

F. Personnel Who Assisted with the Audit

The following City of Nedlands' personnel assisted with the audit:

Contact Persons
Andrew Dickson – A/Manager, Parks
Alex MacArthur – Workshop Coordinator
Bianca Jones – Graduate Accountant
Heather Ricketts – Infrastructure Asset Officer
Matthew Deal – Manager Property Services
Michael Cole – Director of Corporate Services
Nana Kurosaki – Graduate Accountant
Nalin Dias – IT Coordinator
Rajah Senathirajah – Manager of Corporate Services
Steve Crossman – Special Projects
Wayne Mo – A/Manager, Engineering

7.4 Internal Audit Report – Fixed Assets – Asset Management

Applicant	City of Nedlands
Owner	City of Nedlands
Officer	Rajah Senathirajah – Manager Finance
Director	Michael Cole - Director Corporate Services
Director Signature	
File ref.	FIN/006-05
Previous Item No's	Nil
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the <i>Local Government Act (1995)</i> .

Purpose

The purpose of this report is to receive the internal audit report from Grant Thornton on Asset Management

Recommendation to Committee

Committee receives the Internal Audit Report on Fixed Assets - Asset Management.

Strategic Plan

KFA 5: Governance

- 5.4 Monitor and review business processes, systems, structure and policies to ensure effective service delivery and organisational performance.
- 5.9 Identify, manage and seek to minimise risk.

Background

The City of Nedlands has engaged the services of Grant Thornton to conduct the Audit Plan for 2011. This assignment relates to Fixed Assets - Asset Management.

Proposal Detail

The objective of the internal audit was to evaluate the adequacy and effectiveness of fixed asset management process as it relates to the strategic asset management plan, asset utilisation and costs of maintaining assets.

3 Issues were identified during the Audit. The issue raised, recommendation and management response are summarised as follows:

Issue 1: Incomplete Asset Maintenance Plans - Inspection of the current asset management plans revealed that maintenance plans did not include all assets that required servicing.

Recommendations

That the City identifies those assets requiring ongoing maintenance and develops a forward maintenance and capital works plan for strategic management asset planning.

Management Response

The City has Asset Management Plans for the major categories of the City's assets. It is possible that some aspects may not be complete. However the relevant Divisions are reviewing these plans, and updating them on an on-going basis.

Management Action

Continue to review all the Asset Management Plans, and rectify any shortcomings in them.

Responsible Officer: Divisional Directors

Action Date: On-going

Issue 2: Disposal of Assets - Discussions with Management revealed that not all staff were aware of the City's procedure for the disposal of City's assets. Discussion with the IT Coordinator revealed that the IT Division manages the disposal of ICT equipment once every three years to Professional, PC Support who supports the City's IT function. However, we reviewed the contract and did not identify any disposal process agreement.

Recommendation

1. That the City re-enforce its disposal procedure through the provision of training and communication to its staff.
2. That the City reviews the disposal arrangement between the IT service provider Professional and undertakes the necessary adjustments to the disposal of ICT arrangement to ensure that, the disposal assets are in accordance with the City's disposal procedure.

Management Response

Agree with the Auditor's recommendations

Management Action

Communicate the disposal procedure to all relevant staff. Review the arrangement for the disposal of IT equipment.

Responsible Officer: Director, Corporate Services to review arrangement for disposal of IT equipment. Manager, Finance to communicate disposal procedures to all relevant staff.

Action Date: 30 September 2011

Issue 3: Provision of Information – Discussions with management revealed that staff does not regularly inform the Corporate Services Division and the GIS Officer of any material changes to the City's fixed assets.

Recommendations

1. The City should consider developing a policy, procedure or guidelines requiring its staff to inform both the Corporate services Division and GIS officer of relevant material changes to fixed assets in a timely manner.
2. The City should communicate the policy once it has been developed to all staff involved in the management of fixed assets.

Management Response

Due to staff turnover, some of the Business Units may not be aware of the need to inform the Asset Officer in Finance. Agree with the recommendations of the Auditor.

Management Action

Develop procedures for informing the Asset Officer of disposal / changes to assets, and communicate these procedures to all relevant staff. Random checks to ensure that the procedures are adhered to.

Responsible Officer: Asset Officer in Finance.

Action Date: 30 September 2011.

Consultation

Administration has now formally considered the issues raised by Grant Thornton and provided appropriate responses.

Legislation

Regulation 5 of the Local Government (Financial Management) Regulations 1996 requires the Chief Executive Officer to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government

regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews.

Budget/financial implications

Budget:

Funds are included in the 2010/11 Budget to undertake internal audits.

Within current approved budget: Yes ☒ No ☐

Requires further budget consideration: Yes ☐ No ☒

Financial:

There are no financial implications arising from this report.

Risk Management

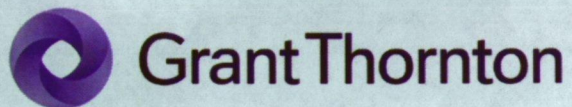
This report has reviewed items associated with Asset Management and recommended appropriate action.

Conclusion

The issues identified in this report have been addressed by the City of Nedlands. It is recommended the Committee receive the report.

Attachments

1. Internal Audit Report – Fixed Assets – Asset Management



CITY OF NEDLANDS	
DIVISION	
Document #	
File #	20 JUL 2011
Redircted	
Action	ACK NRN OTHER
Enclosed	

RECEIVED

Cam Ansell
Director
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City of Nedlands

Fixed Assets – Asset Management
20 July 2011

Mr Michael Cole
Director, Corporate Services
City of Nedlands
71 Stirling Hwy
NEDLANDS WA 6009

20 July 2011

Dear Mr Cole

INTERNAL AUDIT – FIXED ASSETS - ASSET MANAGEMENT

I refer to the Audit Strategy Statement dated 24 May 2011, which outlined the scope of the internal audit of the City of Nedlands' fixed asset management process.

The matters raised in this report came to our attention during the course of our review. Testing was conducted on a sample basis over a specific period of time. Therefore our report provides assurance regarding the operation effectiveness of the actual controls tested. However, the possibility exists that our report may not include all weaknesses that exist or improvements that may be made where these relate to controls not tested as part of this review.

Management is responsible for maintaining adequate controls over all levels of operations. The City of Nedlands should therefore not rely solely on our report to identify all weaknesses that may exist. Our comments should be read in the context of the scope of our work as detailed in the Audit Strategy Statement. Suggestions for improvement should be assessed by the City of Nedlands to their full commercial impact before they are implemented.

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We would like to thank City of Nedlands' personnel for their assistance during this review. Should you have any queries please do not hesitate to contact me on 9480 2000.

Yours faithfully



**C G ANSERLL
DIRECTOR**

Enclosure

Glossary

City	City of Nedlands
GIS	Geographic Information System
LGA	Local Government Act 1995
ICT	Information and Communication Technology

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Section 1

Executive summary

1. Executive summary

2. Findings

Executive Summary

Overview	The City of Nedlands (the “City”) is responsible for ensuring adequate management of assets in relation to operating and maintaining approximately \$120 million worth of vital infrastructure such as local roads, drains, footpaths and public buildings necessary for the well-being of the community. The City has prepared and implemented an asset management plan to enable the delivery of benefits expected over the useful life of those assets.
Objective	The objective of the internal audit was to evaluate the adequacy and effectiveness of fixed asset management process as it relates to the strategic asset management plan, asset utilisation and costs of maintaining assets.
Link to Risk Assessment	The fixed asset management subject to this internal audit were associated with the following risks: • Unauthorised or inappropriate fixed asset acquisitions and disposals; • Lack of clear direction across the City to achieve outcomes in the strategic management plans; and • Lack of documentation to govern the asset management process.
Scope	The scope of the engagement included: • Evaluating the adequacy and effectiveness of the asset management plan of fixed asset; • Examining if there are sufficient processes in place to monitor and safeguard the City’s fixed asset; • Reviewing and evaluated the City’s compliance with internal and external policies, procedures and guidelines; • Sample based testing to evaluate compliance with the documented internal and external policies, procedures and guidelines; and • Provision of appropriate recommendations for any matters identified through the audit review.
Methodology	The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing and included the undertaking of a desktop review, sample testing, and the conducting of interviews and site visits.

Executive Summary (Cont.)

Auditors Opinion	In our opinion, based on the interviews and evidence obtained, except for the matters identified, the City has adequate and effective controls over its fixed asset management process.
Overall Management Comment	Overall satisfied with controls over fixed asset management processes but note the findings in this review. In addition to the management comments noted in response to the three issues raised, it should also be noted that under the State Government's Integrated Planning and Reporting Framework (IPRF), an Asset Management Framework and Guidelines have been recently released. Accordingly, in line with the timeframes of the IPRF, the City will be undertaking a significant review of asset management over the coming months.

Rajah Senathirajah
Manager, Finance

Michael Cole
Director, Corporate Services

Section 2

Findings

1. Executive summary

2. Findings

Findings

1. Incomplete Asset Maintenance Plans

Criteria	Risk Rating	Effect
Council Policy Manual – KFA 5 Governance states that the City “Develop an integrated planning approach which ensures manager roles are understood, documented and that communication procedures are in place which ensure assets are planned and delivered in a sustainable manner”.	MODERATE	That the City’s forward maintenance and capital works plans in the strategic asset management process may not take into consideration all assets that may require maintenance.
Condition		Recommendation
Inspection of the current asset management plans revealed that maintenance plans did not include all assets that required servicing.		That the City identifies those assets requiring ongoing maintenance and develops a forward maintenance and capital works plan for strategic management asset planning.
Discussion with the Infrastructure Assets Officer revealed that an audit by external consultants had been conducted to identify the number of assets, location and condition of the assets. However, a reconciliation of the recent audit against the City’s asset maintenance plans revealed that the asset management plan did not include a maintenance requirement or schedule for a number of the City’s assets.		Management Comment
Review of GHD Parks Assets audit report revealed a number of assets were not maintained in accordance with their service requirements which has resulted in minor degradation.		The City has Asset Management Plans for the major categories of the City’s assets. It is possible that some aspects may not be complete. However the relevant Divisions are reviewing these plans, and updating them on an on-going basis.
Cause		Management Action
Management oversight - that is, assets which required maintenance were not correctly captured within the asset maintenance plans.		Continue to review all the Asset Management Plans, and rectify any shortcomings in them.
		Responsible Officer
		Divisional Directors
		Action Date
		On-going

Findings

2. Disposal of Assets

Criteria	Risk Rating	Recommendation
Disposal of asset and other material are to be conducted in accordance with the City's Procedure for Disposal of Assets and Other Materials.	MEDIUM	1. That the City re-enforce its disposal procedure through the provision of training and communication to its staff.
Condition		2. That the City reviews the disposal arrangement between the IT service provider Professional and undertakes the necessary adjustments to the disposal of ICT arrangement to ensure that, the disposal assets are in accordance with the City's disposal procedure.
1. Discussion with management revealed that not all staff were aware of the City's procedure for the disposal of City's assets.		Management Comment
2. Discussion with the IT Coordinator revealed that the IT Division manages the disposal of ICT assets separately. Enquiries revealed that IT reviews and disposes of ICT equipment once every three years to Professional, PC Support who support the City's IT function. However, we reviewed the contract and did not identify any disposal process agreement.		Agree with the Auditor's recommendations.
Cause		Management Action
1. Inadequate communication and training of City staff with regards to the procedural requirement for disposing of an asset.		Communicate the disposal procedure to all relevant staff. Review the arrangement for the disposal of IT equipment.
2. Non-compliance with the City's disposal procedure.		Responsible Officer
Effect		Director, Corporate Services to review arrangement for disposal of IT equipment. Manager, Finance to communicate disposal procedures to all relevant staff.
1. Assets may be disposed without appropriate approval.		Action Date
2. Assets may not be disposed in accordance with the City's requirements.		30 September 2011

Findings

3. Provision of Information

Criteria	Risk Rating	Recommendation
Good business practice suggest that there should be clear communication and direction to ensure that an organisation's system and asset register are properly managed.	MEDIUM	1. The City should consider developing a policy, procedure or guidelines requiring its staff to inform both the Corporate Services Division and GIS officer of relevant material changes to fixed assets in a timely manner.
Condition		2. The City should communicate the policy once it has been developed to all staff involved in the management of fixed assets.
Discussions with management revealed that staff does not regularly inform the Corporate Services Division and the GIS Officer of any material changes to the City's fixed assets.		Management Comment
Enquiries revealed that the City does not have policies, procedure or guidelines in place to require staff to advise of any material changes made to the City's assets to relevant personnel.		Due to staff turnover, some of the Business Units may not be aware of the need to inform the Asset Officer in Finance. Agree with the recommendations of the Auditor.
Both the GIS and the Fixed Asset Registers are used to monitor and track the location, condition, cost, depreciation and maintenance of the City's assets. Whilst some asset conditions changed within audit period, the changes were not communicated in a timely manner to the GIS officer and Corporate Services Division.		Management Action
Cause		Develop procedures for informing the Asset Officer of disposals / changes to assets, and communicate these procedures to all relevant staff. Random checks to ensure that the procedures are adhered to.
No directive and communication for staff to inform responsible officers of any material changes to the fixed asset.		Responsible Officer
Effect		Asset Officer in Finance
1. The information captured within the asset record keeping system used by the City may not be current.		Action Date
2. Corporate Services Division's Fixed Asset Register may not be reflective to the City's division asset registers and systems.		30 September 2011

Appendices

- A. Scope
- B. Methodology
- C. Risk Rating of Audit Findings
- D. Inherent Limitations
- E. Audit Evidence
- F. Personnel Who Assisted with the Audit

A. Scope

For clarity in terms of the deliverables, set out below were the matters concerning the scope of the internal audit:

Scope Inclusions

- Assessed the adequacy and effectiveness of the controls surrounding the record keeping activity of fixed assets;
- Reviewed the City's compliance with external and internal policies, procedures and guidelines;
- Sample based testing evaluated compliance with external and internal policies, procedures and guidelines as they relate to the recording of fixed assets, stocktake and asset classification and identification; and
- Provision of appropriate recommendations for any in scope matters identified.

Scope Period

The period under view was 1 July 2010 to 30 April 2011.

Scope Exclusions

Strategic business advice in relation to the implementation of any best practice or audit recommendations.

B. Methodology

The approach for the audit was as follows:

Familiarisation, Planning

- Reviewed the State Records Act 2000;
- Reviewed the Local Government Act 1995;
- Reviewed the General Disposal Authority for Local Government Records 1999; and
- Reviewed the City's policies, procedures and guidelines as they related to the record keeping of fixed assets.

Fieldwork

- Conducted meetings with the City's management to obtain an understanding of the policies, procedures and guidelines pertaining to the record keeping activity of fixed assets;
- Examined and documented the relevant processes used by City staff in respect to the record keeping activity of fixed assets;
- Assessed the adequacy and effectiveness of the controls surrounding the record keeping process of fixed assets;
- Examined the accuracy and completeness of the Fixed Asset Register; and
- Selected and obtained relevant samples to evaluate compliance with the documented external and internal policies, processes and guidelines.

Reporting

- Formulated conclusions on the adequacy and effectiveness of controls over record keeping of fixed assets; and
- Developed appropriate recommendations for matters identified through the review.

C. Risk Rating of Audit Findings

Findings resulting from our internal audit have been rated in accordance with the risk ratings as detailed below

Risk Rating	Risk Description
Extreme	Major strategic risk of high impact which threatens the organisation's objective and should be addressed immediately.
High	Significant strategic risk should be addressed as a matter of high priority. Controls are deficient or ineffective and require attention.
Moderate	The risk has limited strategic impact but it is of sufficient concern and should be addressed as soon as possible.
Medium	The risk has minimal operational and strategic impact but exposure in the identified areas is undesirable.
Low	Inconsequential impact. The risk is not a primary concern but opportunity to improve the systems and processes that should be addressed as a matter of course.

D. Inherent Limitations

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. An internal audit is not designed to detect all weaknesses in control procedures or all compliance failures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of the sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure or its compliance.

Any projection of the evaluation of control and compliance procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The internal audit findings expressed in this report have been formed on the above basis.

E. Audit Evidence

The following documents and information were examined as part of this review.

Documents Examined
Reviewed the Local Government Act 1995
Local Government (Function and General) Regulations 1996
Procedure for Disposal of Assets and Other Materials
City of Nedlands Council Policy Manual
Built Facility Asset Management Policy
Technical Services Report , City of Nedlands 2009
City of Nedlands Maintenance Plans
City of Nedlands Asset Register
City of Nedlands Abestos Register
City of Nedlands Capital Works Schedules
City of Nedlands Plant Lifecycle 2012-12
City of Nedlands Parks Assets Audit, GHD
City of Nedlands Lease Procedure
Facilities Rating Evaluation Guide
City of Nedlands Property Inventory Register
City of Nedlands Forward Works Plans

F. Personnel Who Assisted with the Audit

The following City of Nedlands' personnel assisted with the audit:

Contact Persons
Andrew Dickson – A/Manager, Parks
Alex MacArthur – Workshop Coordinator
Bianca Jones – Graduate Accountant
Heather Ricketts – Infrastructure Asset Officer
Matthew Deal – Manager Property Services
Michael Cole – Director of Corporate Services
Nana Kurosaki – Graduate Accountant
Nalin Dias – IT Coordinator
Rajah Senathirajah – Manager of Corporate Services
Steve Crossman – Special Projects
Wayne Mo – A/Manager, Engineering

7.2 Internal Audit Report – Business Continuity Management and Disaster Recovery Plan

Applicant	City of Nedlands
Owner	City of Nedlands
Officer	Jane Day – Manager Corporate Services Matthew Deal – Manager Property Services
Director	Michael Cole - Director Corporate Services
Director Signature	
File ref.	FIN/006-05
Previous Item No's	Nil
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the <i>Local Government Act (1995)</i> .

Purpose

The purpose of this report is to receive the internal audit report from Grant Thornton on the Business Continuity Management and Disaster Recovery Plan

Recommendation to Committee

Committee receives the Internal Audit Report on Business Continuity Management and Disaster Recovery Plan

Strategic Plan

KFA 5: Governance

- 5.4 Monitor and review business processes, systems, structure and policies to ensure effective service delivery and organisational performance.
- 5.9 Identify, manage and seek to minimise risk.

Background

The City of Nedlands has engaged the services of Grant Thornton to conduct the Audit Plan for 2011. This assignment relates to the Business Continuity Management and Disaster Recovery Plan

Proposal Detail

The objective of this internal audit was to assess the preparedness of the City in maintaining continuity of service of key operations in the event of disasters or loss of key personnel.

2 issues were identified during this Audit. The issue raised, recommendations and management responses are summarised as follows:

Issue 1: Business Continuity Plan - Discussion with management indicated that the City has not completed its BCP and that Business Impact Analysis (BIA) process is incomplete. BCM strategies have yet to be developed for some key processes and finalised for others. The ongoing identification of processes through BIA activity has impacted on the City's ability to finalise its business continuity treatments for key business functions.

Recommendations

That the City should complete their BCP and BCM Policy, which:

- Should be driven from senior management and involve consultation from relevant personnel: and
- Provide the basic principles and framework to ensure emergency response, resumption, recovery and restoration of the City's operations and business activities.

Management Response

BIA's were conducted on a prioritised list of services agreed by Executive and Managers. The next stage of implementing strategies is part of the schedule for 2011/12 and thereafter to complete BIAs for all business services. The implementation of this type of project will take place across more than one year.

Management Action

Funding has been allocated in the 2011/12 Budget to address high priority services and complete planning for 2nd and 3rd phases of Business Continuity Management across the City. Project plan developed.

Responsible Officer: Manager, Corporate Services

Action Date: 30 June 2012.

Issue 2: Crisis Management Plan – Discussions with management that the City's Crisis Management Plan (CMP) and Standard Operating Procedures (SOP) for Emergency Incidents were outdated and that not all staff were aware of their existence.

Recommendations

1. That the City updates the crisis Management Plan, Standard Operating Procedures for Emergency Incidents and the Emergency Evacuation Booklet for the relevant changes and communicate it to all staff.
2. That the City updates the new intranet links to the relevant evacuation plans and crisis management plans.

Management Responses

There is an implementation / development plan for the integration of Enterprise Risk Management which covers a number of years – the updating of the crisis Management Plan is part of the agreed schedule.

Management Action

Update Crisis Management Plan as part of Enterprise Risk Management.

Responsible Officer: Manager, Corporate Services

Action Date: 30 June 2012.

Issue 3: Business Impact Analysis – Through the review of the BIA plan and discussions with divisional management, we determined that although the BIA coverage of key processes for Finance had been performed, other City divisions were yet to complete a BIA.

Recommendation

That the City conducts further BIA workshops in consultation with key personnel from relevant divisions to enable identification of all key business processes and systems.

Management Responses

As per the previous comment due to the lack of resources, the list of identified services were prioritised and BIAs were completed for the top ranked services only. There is a plan in place to develop this across the organisation over the next two years.

Management Action

Funds included in 2011/12 Budget to address high priority services and complete planning for 2nd and 3rd phases of Business Continuity Management across the City. High priority this year, 2nd and 3rd phases for lower priority areas over the next 2 years.

Responsible Officer: Manager, Corporate Services

Action Date: 30 June 2012.

Consultation

Administration has now formally considered the issues raised by Grant Thornton and provided appropriate responses.

Legislation

Regulation 5 of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews.

Budget / Financial Implications

Budget:

Funds are included in the 2010/11 Budget to undertake internal audits.

Within current approved budget: Yes ☒ No ☐

Requires further budget consideration: Yes ☐ No ☒

Financial:

There are no financial implications arising from this report.

Risk Management

This report has looked at risks associated with Business Continuity and Disaster Recovery Plan, and appropriate actions are recommended.

Conclusion

The issues identified by in this have been noted and where appropriate have been implemented. Where recommendations are not supported, reasons for not doing so have been given. It is recommended the Committee receive the report.

Attachments

1. Internal Audit Report – Business Continuity Management and Disaster Recovery Plan



CITY OF NEDLANDS		RECEIVED
DIVISION		
Document #		
File #		
25 JUL 2011		
Redirect		
Action	ACK NRN OTHER	
Enclosed		

Cam Ansell
Director
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City of Nedlands

Business Continuity Management and Disaster Recovery Plan 25 July 2011

Mr Michael Cole
Director, Corporate Services
City of Nedlands
71 Stirling Hwy
NEDLANDS WA 6009

25 July 2011

Dear Mr Cole

**INTERNAL AUDIT – BUSINESS CONTINUITY MANAGEMENT AND
DISASTER RECOVERY PLAN**

I refer to the Audit Strategy Statement dated 10 June 2011, which outlined the scope of the internal audit of the City of Nedlands' business continuity management and the disaster recovery plan.

The matters raised in this report came to our attention during the course of our review. Testing was conducted on a sample basis over a specific period of time. Therefore, our report provides assurance regarding the operation effectiveness of the actual controls tested. However, the possibility exists that our report may not include all weaknesses that exist or improvements that may be made where these relate to controls not tested as part of this review.

Management is responsible for maintaining adequate controls over all levels of operations. The City of Nedlands should therefore not rely solely on our report to identify all weaknesses that may exist. Our comments should be read in the context of the scope of our work as detailed in the Audit Strategy Statement. Suggestions for improvement should be assessed by the City of Nedlands to their full commercial impact before they are implemented.

Chartered Accountants

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We would like to thank City of Nedlands' personnel for their assistance during this review. Should you have any queries please do not hesitate to contact me on 9480 2000.

Yours faithfully


C. CANSSELL
DIRECTOR

Enclosure

Glossary

BCM	Business Continuity Management
BCP	Business Continuity Plan
BIA	Business Impact Analysis
City	City of Nedlands
CMP	Crisis Management Plan
LGA	Local Government Act 1995
SOP	Standard Operating Procedures

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		F. Personnel Who Assisted with the Audit	18

Section 1

Executive summary

1. Executive summary

2. Findings

Executive Summary

Overview	Business continuity is a holistic management process that identifies how the City of Nedlands (the “City”) is to deal with potential threats to the City’s objectives. Business continuity management (BCM) is part of the risk management framework that ensures uninterrupted availability of all key business resources required to support essential business activities. Disaster recovery involves an analysis of business processes and continuity needs, it may also include a significant focus on disaster prevention. Establishment and maintenance of an adequate business continuity plan is an important tool for any business. Effective business continuity plans ensure that the impacts of materialisation of significant business risks are reduced to a minimum.
Objective	The objective of this internal audit was to assess the preparedness of the City in maintaining continuity of service of key operations in the event of disasters or loss of key personnel.
Link to Risk Assessment	This internal audit were associated with the following risks: • Inadequate documentation available for review; and • Business Continuity Plans (BCP) may not identify all key business processes of the organisation.
Scope	The scope of the engagement included: • Examining the City’s Business Continuity Management, Business Continuity and Crisis Management Plans; • Assessing the City’s Business Continuity Plans, inclusive of site recovery planning and communication strategies; • Assessing the City’s actual preparedness in the event of a major disruption; and • Providing appropriate improvement recommendations to the City’s Business Continuity Management as identified through audit testing.
Methodology	The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing and included the undertaking of a desktop review, sample testing, and the conducting of interviews and site visits.

Executive Summary (Cont.)

Auditors Opinion	In our opinion, based on the interviews and evidence obtained, the City does not have adequate and effective controls over its business continuity management and disaster recovery arrangements. We acknowledge that the City's management is in the process of developing a plan for Business Continuity Management.
Overall Management Comment	While the City has commenced developing a plan for Business Continuity, insufficient resources in this area has resulted in slow progress. Funding has been allocated in the 2011/12 Budget to address high priority services and complete planning for 2nd and 3rd phases of Business Continuity Management across the City.

Jane Day
Manager, Corporate Services

Michael Cole
Director, Corporate Services

Section 2

Findings

1. Executive summary

2. Findings

Findings

1. Business Continuity Plan

Criteria	Risk Rating	Effect
A Business Continuity Plan is required to ensure that the organisation's critical business functions can continue to be executed in the event of a major disruption or disaster.	HIGH	Should an incident occur, prevention and recovery actions for the City's critical business functions, resources and infrastructure may be delayed and any disruption of services may be prolonged.
Condition		Recommendation
Discussion with management indicated that the City has not completed its BCP and that the Business Impact Analysis (BIA) process is incomplete. BCM strategies have yet to be developed for some key processes and finalised for others. The ongoing identification of processes through BIA activity has impacted on the City's ability to finalise its business continuity treatments for key business functions.		That the City should complete their BCP and BCM Policy, which: • Should be driven from senior management and involve consultation from relevant personnel; and • Provide the basic principles and framework to ensure emergency response, resumption, recovery and restoration of the City's operations and business activities.
The Business Continuity Policy is being developed and is to provide the framework for the City's BCM capability design and build. The City has yet to define BCM, those principles, guidelines and minimum standards to enable a conclusive framework for the management for its BCM program.		Management Comment
		BIA's were conducted on a prioritised list of services agreed by Executive and Managers. The next stage of implementing strategies is part of the schedule for 2011/12 and thereafter to complete BIAs for all business services. The implementation of this type of project will take place across more than one year.

Findings

1. Business Continuity Plan

Cause		Management Action
Management conveyed that there was inadequate resources to complete the BCP and BCM policy during the audit period.		Funding has been allocated in the 2011/12 Budget to address high priority services and complete planning for 2 nd and 3 rd phases of Business Continuity Management across the City. Project plan developed.
		Responsible Officer
		Manager, Corporate Services
		Action Date
		30 June 2012

Findings

2. Crisis Management Plan

Criteria	Risk Rating	Effect
Under clause 36 of the Emergency Management Act 2005, it is a function of local government to “ensure that effective emergency management arrangements are prepared and maintained for its districts”.	MODERATE	That the City’s staff may not be aware of the emergency procedures and therefore would not be able to effectively manage an emergency situation.
Condition		Recommendation
Discussions with management revealed that the City’s Crisis Management Plan (CMP) and Standard Operating Procedures (SOP) for Emergency Incidents were outdated and that not all staff were aware of their existence.		1. That the City updates the Crisis Management Plan, Standard Operating Procedures for Emergency Incidents and the Emergency Evacuation Booklet for the relevant changes and communicate it to all staff.
Through the review of the CMP, SOP for Emergency Incidents and the Emergency Evacuation Booklet we observed that:		2. That the City updates the new intranet links to the relevant evacuation plans and crisis management plans.
- The staff listed as fire wardens and emergency contacts were outdated; and - The plant and equipment listed on the CMP were outdated.		Management Comment
Additionally, a walkthrough of the City’s new intranet revealed that the links to evacuation plans and the crisis management plan was not working.		There is an implementation / development plan in place for the integration of Enterprise Risk Management which covers a number of years – the updating of the Crisis Management Plan is part of the agreed schedule.
Cause		Management Action
Management conveyed that the City had numerous competing priorities with limited resources available.		Update Crisis Management Plan as part of Enterprise Risk Management.
		Responsible Officer
		Manager, Corporate Services
		Action Date
		30 June 2012

Findings

3. Business Impact Analysis

Criteria	Risk Rating	Effect
A documented Business Impact Analysis (BIA) should be conducted for all the key business processes and systems of the organisation.	LOW	In the absence of a complete BIA, the City may not identify and prioritise significant risks within the BCP.
Condition		Recommendation
Through the review of the BIA plan and discussions with divisional management, we determined that although the BIA coverage of key processes for Finance had been performed, other City divisions were yet to complete a BIA.		That the City conducts further BIA workshops in consultation with key personnel from relevant divisions to enable identification of all key business processes and systems.
The City had facilitated a number of workshops during the audit period which involved personnel from different divisions. The consultative approach enabled the identification of a number of shared processes. Management indicated that the BIA highlighted the need to conduct further workshops to enable a complete register to be developed of those functional processes that crossed divisions.		Management Comment
		As per the previous comment due to the lack of resources, the list of identified services were prioritised and BIAs were completed for the top ranked services only. There is a plan in place to develop this across the organisation over the next two years.
Cause		Management Action
Management conveyed that: - not all key personnel were involved in the business impact analysis workshop; and - not every operational aspect had a risk assessment because of workshop time constraints.		Funds included in 2011/12 Budget to address high priority services and complete planning for 2 nd and 3 rd phases of Business Continuity Management across the City. High priority this year, 2 nd and 3 rd phases for lower priority areas over the next 2 years.
		Responsible Officer
		Manager, Corporate Services
		Action Date
		30 June 2012

Appendices

- A. Scope
- B. Methodology
- C. Risk Rating of Audit Findings
- D. Inherent Limitations
- E. Audit Evidence
- F. Personnel Who Assisted with the Audit

A. Scope

For clarity in terms of the deliverables, set out below were the matters concerning the scope of the internal audit:

Scope Inclusions
• Examined the City's Business Continuity Management, Business Continuity and Crisis Management Plans; • Assessed the City's Business Continuity Plans, inclusive of site recovery planning and communication strategies; • Assessed the City's actual preparedness in the event of a major disruption; and • Provided appropriate improvement recommendations to the City's Business Continuity Management as identified through audit testing.
Scope Period
The period under view was 1 July 2010 to 30 June 2011.
Scope Exclusions
Strategic business advice in relation to the implementation of any best practice or audit recommendations.

B. Methodology

The approach for the audit was as follows:

Familiarisation, Planning
• Reviewed the published best practice advice for business continuity and establish the audit criteria; and • Reviewed the following documents provided by the City: ○ Its Business Impact Analysis Plan and Crisis Management Plan; and ○ Other documentation relating to Business Continuity Management.
Fieldwork
• Conducted meetings with the City's management with respect to the audit process; • Reviewed the currency of the Business Continuity Management process to determine if the City had: ○ Appropriate Business Continuity Management with plans which define the roles and responsibilities of personnel, identify scope and objectives, testing programs and review processes; ○ Identified its key personnel and business processes; and ○ Identified appropriate strategies to enable effective management resulting from a major disruption. • Conducted meetings with key City personnel responsible for the implementation of the Business Continuity Plan in the event of a major disruption.
Reporting
• Formulated conclusions on whether there are adequate Business Continuity and Disaster Recovery Plans; and • Developed appropriate recommendations for matters identified through the review.

C. Risk Rating of Audit Findings

Findings resulting from our internal audit have been rated in accordance with the risk ratings as detailed below

Risk Rating	Risk Description
Extreme	Major strategic risk of high impact which threatens the organisation's objective and should be addressed immediately.
High	Significant strategic risk should be addressed as a matter of high priority. Controls are deficient or ineffective and require attention.
Moderate	The risk has limited strategic impact but it is of sufficient concern and should be addressed as soon as possible.
Medium	The risk has minimal operational and strategic impact but exposure in the identified areas is undesirable.
Low	Inconsequential impact. The risk is not a primary concern but opportunity to improve the systems and processes that should be addressed as a matter of course.

D. Inherent Limitations

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. An internal audit is not designed to detect all weaknesses in control procedures or all compliance failures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of the sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure or its compliance.

Any projection of the evaluation of control and compliance procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The internal audit findings expressed in this report have been formed on the above basis.

E. Audit Evidence

The following documents and information were examined as part of this review.

Documents Examined
Business Continuity Management, A Guide to Effective Control
Business Continuity Institute, Good Practice Guidelines
City of Nedlands Crisis Management Plan M07/10906
City of Nedlands Standard Operating Procedures for Emergency Incidents
City of Nedlands Business Impact Analysis Plans
City of Nedlands Staff Communication Toolkit
City of Nedlands Emergency Evacuation Booklet
City of Nedlands Evacuation Plans
City of Nedlands Community Engagement Plan
City of Nedlands Risk Assessment Forms
City of Nedlands Job Description Forms
City of Nedlands Plant and Equipment Records

F. Personnel Who Assisted with the Audit

The following City of Nedlands' personnel assisted with the audit:

Contact Persons
Andrew Dickson – A/Manager, Parks
Alex MacArthur – Workshop Coordinator
Jane Day – Manager of Corporate Services
Katherine Osman – Human Resource Officer
Matthew Deal – Manager Property Services
Michael Cole – Director of Corporate Services
Nalin Dias – IT Coordinator
Wayne Mo – A/Manager, Engineering

7.5 Internal Audit Report – Risk Management

Applicant	City of Nedlands
Owner	City of Nedlands
Officer	Jane Day – Manager Corporate Services
Director	Michael Cole - Director Corporate Services
Director Signature	
File ref.	FIN/006-05
Previous Item No's	Nil
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the <i>Local Government Act (1995)</i> .

Purpose

The purpose of this report is to receive the final internal audit report from Grant Thornton on Risk Management

Recommendation to Committee

Committee receives the Internal Audit Report on Risk Management.

Strategic Plan

KFA 5: Governance

- 5.4 Monitor and review business processes, systems, structure and policies to ensure effective service delivery and organisational performance.
- 5.9 Identify, manage and seek to minimise risk.

Background

The City of Nedlands has engaged the services of Grant Thornton to conduct the Audit Plan for 2011. This assignment relates to Risk Management.

Proposal Detail

The objectives of the internal audit were to:

1. Evaluate the City's risk management framework against the principles and guidelines detailed in the best practice principles and guidelines: and
2. Assess the adequacy and effectiveness of the processes and procedures of the governance and risk management framework.

Two issues were identified during the Audit as follows:

Issue 1: Risk Assessments – Discussions with divisional management revealed that risk assessments have not been conducted for all new strategic and capital projects. There were no formal risk assessments conducted for:

- Plant division's new initiatives, service or capital projects: and
- Stubbs Terrace footpath construction during the 2010/11 period.

Additionally, enquires with management revealed that budget submissions for new initiatives had been approved even though a risk assessment form had not been completed.

Recommendation

1. That the City communicates its requirements for risk assessments to be conducted for new strategies and capital projects in accordance with the Risk Management Policy.
2. That the City should consider approving budget submissions for new initiatives only when a formal risk assessment has been completed.

Management Response

This was the first year of requiring Risk Assessments for New Initiative Budget items. The process will be adjusted for future years based on the learning from this year. Some risk managements not completed due to resource constraints.

Management Action

Risk Assessments will be required for all New Initiative Budget and Capital Budget items. The Budget timetable to be updated to reflect this requirement.

Responsible Officer: Manager, Corporate Services

Action Date: January 2012, in time for next Budget cycle.

Issue 2: Risk register – Our review of the risk register revealed that the register remained incomplete, however, the City acknowledges the requirement to identify the relevant risks and to complete the risk register.

Recommendation

That the City completes the risk identification for all operational and strategic risks and captures these in the risk register.

Management Response

There is an implementation plan in place to address all aspects of Enterprise Risk Management across the City and completing the risk register is an integral part of the plan.

Management Action

Funding for completion of risk register included in the 2011/12 Budget. A project plan to be developed for completion of this project by 30 June 2012

Responsible Officer: Manager, Corporate Services

Action Date: 30 June 2012

Consultation

Administration has now formally considered the issues raised by Grant Thornton and provided appropriate responses.

Legislation

Regulation 5 of the Local Government (Financial Management) Regulations 1996 requires the Chief Executive Officer to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews.

Budget/financial implications

Budget:

Funds are included in the 2010/11 Budget to undertake internal audits.

Within current approved budget: Yes ☒ No ☐

Requires further budget consideration: Yes ☐ No ☒

Financial:

There are no financial implications arising from this report.

Risk Management

The report has reviewed Risk Management at the City.

Conclusion

The issue identified in this report is minor and has been addressed. It is recommended the Committee receive the report.

Attachments

1. Internal Audit Report – Risk Register



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DIVISION	
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Action	ACK NRN OTHER
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City of Nedlands
Risk Management
25 July 2011



Grant Thornton

Private and Confidential

Mr Michael Cole
Director, Corporate Services
City of Nedlands
71 Stirling Hwy
NEDLANDS WA 6009

25 July 2011

Dear Mr Cole

INTERNAL AUDIT – RISK MANAGEMENT

I refer to the Audit Strategy Statement dated 10 June 2011, which outlined the scope of the internal audit of the City of Nedlands' risk management process.

The matters raised in this report came to our attention during the course of our review. Testing was conducted on a sample basis over a specific period of time. Therefore, our report provides assurance regarding the operation effectiveness of the actual controls tested. However, the possibility exists that our report may not include all weaknesses that exist or improvements that may be made where these relate to controls not tested as part of this review.

Management is responsible for maintaining adequate controls over all levels of operations. The City of Nedlands should therefore not rely solely on our report to identify all weaknesses that may exist. Our comments should be read in the context of the scope of our work as detailed in the Audit Strategy Statement. Suggestions for improvement should be assessed by the City of Nedlands to their full commercial impact before they are implemented.

Chartered Accountants

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We would like to thank City of Nedlands' personnel for their assistance during this review. Should you have any queries please do not hesitate to contact me on 9480 2000.

Yours faithfully

G G ANSELL
DIRECTOR

Enclosure

Glossary

AS	Australian Standards
City	City of Nedlands
ISO	International Organisation for Standardisation
NZS	New Zealand Standards

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Section 1

Executive summary

1. Executive summary

2. Findings

Executive Summary

Overview	Local governments should employ risk management processes that enable the identification of potential problems before they occur so that risk handling activities may be planned and invoked as required. ISO 31000 provides the standards by which risk management frameworks should be aligned, the Standard identifies matters such as the methodology, considerations and activities that should be undertaken by an organisation to minimise or reduce exposure to risks should they eventuate.
Objective	The objectives of the internal audit were to: 1. Evaluate the City's risk management framework against the principles and guidelines detailed in best practice principles and guidelines; and 2. Assess the adequacy and effectiveness of the processes and procedures of the governance and risk management framework.
Link to Risk Assessment	The risk management process subject to this internal audit were associated with the following risks: • Misalignment with business best practice; • Incomplete Risk Register; and • Ineffective implementation to business operations.
Scope	The scope of the engagement included: • Reviewing the governance and risk management policies and procedures; • Assessing the delegation of risk management responsibilities; • Evaluation of communication protocols and staff awareness of risk; • Reviewing the business unit structure and authorisation matrix; • Evaluation of the effectiveness of the organisations reporting and analysis functions; • Assessing the controls surrounding maintaining a current risk management framework; and • Review of previous audit findings.
Methodology	The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing and included the undertaking of a desktop review, sample testing, and the conducting of interviews and site visits.

Executive Summary (Cont.)

Auditors Opinion	In our opinion, based on the interviews conducted and evidence obtained, except for the matters identified, we consider that the design of the system of controls is sufficiently robust to provide assurance that the activities and procedures in place will achieve the risk management process objectives. Our review noted that the City has taken endeavours to implement key risk management processes across the organisation as part of the comprehensive implementation plan for structure, systems and processes for risk management, which is to be completed by 2014.
Overall Management Comment	There is a comprehensive plan in place, which runs over the next 3 years, to develop, the integration of Enterprise Risk Management across the organisation which will address all the issues raised in the audit.

Jane Day
Manager, Corporate Services

Michael Cole
Director, Corporate Services

Section 2

Findings

1. Executive summary

2. Findings

Findings

1. Risk Assessments

Criteria	Risk Rating	Recommendation
The City's Risk Management Policy requires formal risk assessments to be conducted.	MEDIUM	1. That the City communicates its requirements for risks assessments to be conducted for new strategies and capital projects in accordance with the Risk Management Policy; and
Condition		2. That the City should consider approving budget submissions for new initiatives only when a formal risk assessment has been completed.
Discussions with divisional management revealed that risk assessments have not been conducted for all new strategies and capital projects.		Management Comment
There were no formal risk assessments conducted for:		
- Plant division's new initiatives, services or capital projects; and - Stubbs Terrace footpath construction during the 2010/11 period.		This was the first year of requiring Risk Assessments for New Initiative Budget items. The process will be adjusted for future years based on the learning from this year. Some risk assessments not completed due to resource constraints.
Additionally, enquiries with management revealed that budget submissions for new initiatives had been approved even though a risk assessment form had not been completed.		
Cause		Management Action
Failure to complete the formal risk assessments was due to Management oversight.		Risk Assessments will be required for all New Initiative Budget and Capital Budget items. The Budget timetable to be updated to reflect this requirement.
Effect		Responsible Officer
1. Non compliance with internal policy; and		Manager, Corporate Services
2. Without proper risk assessments, in the event that an incident may occur, the City may not have strategies in place to adequately or effectively handle the situation.		Action Date
		January 2012, in time for next Budget cycle.

Findings

2. Risk Register

Criteria	Risk Rating	Recommendation
The City's Enterprise Risk Management Framework requires that a risk register be completed and the register accurately reflects those risks that may prevent or impede the City from achieving its objectives.	LOW	That the City completes the risk identification for all operational and strategic risks and captures these in the risk register.
Condition		
Our review of the risk register revealed that the register remained incomplete, however, the City acknowledges the requirement to identify the relevant risks and to complete the risk register.		Management Comment
Cause		There is an implementation plan in place to address all aspects of Enterprise Risk Management across the City and completing the risk register is an integral part of the plan.
Management conveyed that there were inadequate resources to complete the risk register.		Management Action
Effect		Funding for completion of risk register included in the 2011/12 Budget. A project plan to be developed for completion of this project by 30 June 2012.
The possibility exist that if a risk register is not complete, the City may not be in a position to identify and undertake strategies to reduce the risk to an acceptable level.		Responsible Officer
		Manager, Corporate Services
		Action Date
		30 June 2012

Appendices

- A. Risk Management Framework Implementation
- B. Scope
- B. Methodology
- C. Risk Rating of Audit Findings
- D. Inherent Limitations
- E. Audit Evidence
- F. Personnel Who Assisted with the Audit

A. Risk Management Implementation

The following process elements provides the City with a brief indication of their Risk Management Framework implementation progress:

No.	Process Element	Brief Description	Status	Comments
1	Communication	Sound risk management requires structured and ongoing communication and consultation with those who are affected by the organisation or activity.	Ongoing	- Some staff were not aware of the risk management process. - Internal reporting requirement not formalised and communicated to all divisions.
2	Setting the Context	The external environment and internal environment of the organisation or activity must be understood before the full range of risks can be identified.	Partial	- Included in the Risk Management Framework. - Discussed during Risk Management workshops, however Plant division did not participate in setting the context.
3	Risk Identification	There is a formal risk identification process. Strategic and operational risks identified.	Partial	- Included in the Risk Management Framework. - Operational and strategic risks not yet identified.
4	Risk Analysis	There is a formal technique to consider the consequence and likelihood of each risk. Strategic and operation risks analysed.	Partial	- Included in the Risk Management Framework. - Operational and strategic risks not yet analysed.
5	Risk Evaluation	There is a ranking mechanism for risk, so that treatment priority can be established. Strategic and operation risks evaluated.	Partial	- Included in the Risk Management Framework. - Operational and strategic risks not yet evaluated.
6	Risk Treatment	There is treatments to avoid the activity from which the risks arises, share the risk, manage the risk by the application of controls, or accept the risk and take no further action.	Partial	Not all risk treatments completed for key business processes identified in the business impact analysis.
7	Monitor and Review	There is a monitoring process, where there is regular checking of the progress of treatment plans, monitoring controls effectiveness and checking that the environment has not changed in the way that affect the risks.	Incomplete	No formal monitoring process exists to monitor risks, treatment plans and the environment.

B. Scope

For clarity in terms of the deliverables, set out below were the matters concerning the scope of the internal audit:

Scope Inclusions
• Reviewed the governance and risk management policies and procedures; • Assessed the delegation of risk management responsibilities; • Evaluated the communication protocols and staff awareness of risk management processes; • Reviewed the business unit structure and authorisation matrix; • Evaluated the effectiveness of the organisation reporting and analysis functions; • Assessed the controls surrounding maintaining a current risks management framework; and • Reviewed previous audit findings.
Scope Period
The period under view was 1 July 2010 to 30 June 2011.
Scope Exclusions
Strategic business advice in relation to the implementation of any best practice or audit recommendations.

C. Methodology

The approach for the audit was as follows:

Familiarisation, Planning
• Reviewed the published best practice advice for risk management and established the audit criteria; and • Reviewed the following documents provided by the City: ○ Risk Management Framework; and ○ Documentation relating to risks management used by the City.
Fieldwork
• Conducted meetings with staff in relation to: ○ The approach undertaken towards the development of the risks management framework; ○ Policies and procedures; ○ The governance and organisation structure; ○ Roles and responsibilities in connection to risks management; and ○ Management review mechanism. • Reviewed the risk assessment forms, business units and key process owners, policies and procedures. • Identified risks and related controls; and • Assessed the adequacy and effectiveness of the City's risk management framework against the current ISO:31000:2009 Risk Management Standards.
Reporting
• Formulate a conclusion on the adequacy of controls over the risk management process; and • Develop appropriate recommendations for any matters identified through the review.

D. Risk Rating of Audit Findings

Findings resulting from our internal audit have been rated in accordance with the risk ratings as detailed below

Risk Rating	Risk Description
Extreme	Major strategic risk of high impact which threatens the organisation's objective and should be addressed immediately.
High	Significant strategic risk should be addressed as a matter of high priority. Controls are deficient or ineffective and require attention.
Moderate	The risk has limited strategic impact but it is of sufficient concern and should be addressed as soon as possible.
Medium	The risk has minimal operational and strategic impact but exposure in the identified areas is undesirable.
Low	Inconsequential impact. The risk is not a primary concern but opportunity to improve the systems and processes that should be addressed as a matter of course.

E. Inherent Limitations

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. An internal audit is not designed to detect all weaknesses in control procedures or all compliance failures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of the sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure or its compliance.

Any projection of the evaluation of control and compliance procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The internal audit findings expressed in this report have been formed on the above basis.

F. Audit Evidence

The following documents and information were examined as part of this review.

Documents Examined
Assessing the Adequacy of Risk Management Using ISO 31000, IPPF Practice Guide.
City of Nedlands Enterprise Risk Management Framework
City of Nedlands Risk Management Policy
City of Nedlands Risk Assessment Forms
City of Nedlands Job Description Forms
City of Nedlands Community Engagement Plan
City of Nedlands Staff Communication Toolkit
City of Nedlands Job Description Forms
City of Nedlands Authority List
City of Nedlands 2010/11 Capital Works and Acquisitions List
Risk Management Standard ISO 31000:2009

G. Personnel Who Assisted with the Audit

The following City of Nedlands' personnel assisted with the audit:

Contact Persons
Andrew Dickson – A/Manager, Parks
Alex MacArthur – Workshop Coordinator
Jane Day – Manager of Corporate Services
Katherine Osman – Human Resource Officer
Matthew Deal – Manager Property Services
Michael Cole – Director of Corporate Services
Nalin Dias – IT Coordinator
Wayne Mo – A/Manager, Engineering

8. Date of next meeting

The date of the next meeting of this Committee is to be advised.

Declaration of Closure

There being no further business, the Presiding Member will declare the meeting closed.

A handwritten signature in black ink, appearing to read "Mike Cole".

Mike Cole
Director Corporate Services