



City of Nedlands

# ***Minutes***

## ***Audit & Risk Committee Meeting***

***7 November 2016***

### **ATTENTION**

**These Minutes are subject to confirmation**

This is a committee which has only made recommendations to Council. No action should be taken on any recommendation contained in these Minutes. The council resolution pertaining to an item will be made at the Ordinary Council Meeting next following this meeting.



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## City of Nedlands

### Minutes of a meeting of the Audit & Risk Committee held in the Meeting Room at the City of Nedlands on Monday 7 November 2016 at 5:30pm.

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#### Audit & Risk Committee Agenda

##### Declaration of Opening

The Presiding Member declared the meeting open at 5:30pm and drew attention to the disclaimer below.

(NOTE: Council at its meeting on 24 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)

##### Committee Members

	Councillor I S Argyle	Dalkeith Ward (Presiding Member
	His Worship the Mayor	R M Hipkins
	Councillor L J McManus	Coastal Districts Ward
	Mr R Senathirgajah	Community Member
	Mr P Setchell	Community Member
	Mr K Eastwood	Community Member
<b>Staff</b>	Mr G Trevaskis	Chief Executive Officer
	Mr A Melville	Manager Health & Compliance
	Mrs L Driscoll	Director Corporate & Strategy
	Mr K Chua	Manager Finance
	Mrs S Gibson	Corporate & Strategy Administration Officer
<b>Invited</b>	Mr M Gudka	Manager Audit & Assurance (Macri Partners)
	Mr T Macri	Partner (Macri Partners)
<b>Newspaper</b>	There were no members of the public present.	
<b>Leave of Absence (Previously Approved)</b>	Councillor B Hodsdon	Hollywood Ward
<b>Apologies</b>	Councillor G Hay	Melvista Ward

## **Disclaimer**

Members of the public who attend Council meetings should not act immediately on anything they hear at the meetings, without first seeking clarification of Council's position. For example by reference to the confirmed Minutes of Council meeting. Members of the public are also advised to wait for written advice from the Council prior to taking action on any matter that they may have before Council.

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### **1. Public Question Time**

Nil.

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

Nil.

### **3. Disclosures of Financial Interest**

The Presiding Member reminded 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.

There were no disclosures of Financial Interest

### **4. Disclosures of Interests Affecting Impartiality**

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

There were no disclosures of Interests Affecting Impartiality.

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

Mr K Eastwood and Councillor L McManus advised the Committee that as the agenda was circulated on Friday 4 November 2016 it is their option that they were not given enough time to consider the papers. However, it was noted that the distribution of paper was within the required 72 hours.

## 6. Confirmation of Minutes

### 6.1 Audit & Risk Committee Meeting 7 April 2016

It was agreed that all minutes are to be confirmed at the Audit and Risk Committee Meeting immediately following the meeting at which the minutes relate.

Moved – Ken Eastwood  
Seconded – Councillor L McManus

**The minutes of the Audit & Risk Committee held 7 April 2016 be confirmed.**

**CARRIED UNANIMOUSLY 6/-**

### 6.2 Audit & Risk Committee Meeting 8 September 2016

Moved – Councillor L McManus  
Seconded – Councillor Rajah S

**The minutes of the Audit & Risk Committee held 8 September 2016 be confirmed.**

**CARRIED UNANIMOUSLY 5/-  
(Abstained: Mr K Eastwood)**


## 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 Annual Financial Report 2016

<b>Owner</b>	City of Nedlands
<b>Officer</b>	Kim Chua – Manager Finance
<b>Director</b>	Lorraine Driscoll
<b>Director Signature</b>	
<b>Disclosure of Interest</b>	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 Local Government Act (1995).

Additional analysis of financial performance will be proved as part of the Council Report.

The Auditors (Macri Partner) brought to the attention of the Audit and Risk Commit that there is a new Accounting Standard that requires disclosure of any financial interests. This will be added to a future Councillor Briefing Agenda.

Moved – Mr K Eastwood  
 Seconded – Mr P Setchell

**That in future, where possible papers are to be delivered to the Committee Members at least 7 days prior to a meeting, otherwise the meeting may be differed.**

**CARRIED UNANIMOUSLY 6/-**

Moved – Councillor McManus  
 Seconded – Mr Eastwood

### **Audit & Risk Committee Recommendation / Recommendation to Audit & Risk Committee**

**The Audit and Risk Committee receives the Annual Financial Report for the City of Nedlands for the year ended 30 June 2016 and recommends that Council receive the Annual Financial Report 2016 for the year ended 30 June 2016.**

**CARRIED UNANIMOSLY 6/-**

### **Executive Summary**

The Annual Financial Report for the year ended 30 June 2016, including the Audit Representation Letter, is presented to the Audit & Risk Committee for its review. The Committee is requested to recommend to Council that it be received, and be included as part of the City's Annual Report for discussion at the Annual Electors' Meeting.

## Strategic Plan

KFA: Governance and Civic Leadership

The report enables Council to assess the financial performance of the City and compliance with the relevant statutory obligations.

## Background

*Section 5.53 of the Local Government Act 1995* requires a Local Government 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 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 2016 including the Independent Auditor's Report.

The Financial Report comprising the Annual Financial Statements for the year ended 30 June 2016 was completed and submitted to Council's Auditor Macri Partners who completed their audit in November 2016.

## Consultation

Required by legislation:

Yes

No

Required by City of Nedlands policy:

Yes

No

## Legislation

*Sections 5.27, 5.29, 5.53, 5.54 and 6.4 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 Financial Report.

## Budget/Financial implications

### Financial Performance

The City completed the 2015/16 Financial Year with a surplus Net Result in the Statement of Comprehensive Income of \$766,282 compared with a surplus of \$3,462,900 in the adopted 2015/16 Budget. The Statement of Comprehensive Income includes all operating revenues and expenses, both cash and non-cash and grants & contributions. 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. Key factors contributing to the variances by Nature or Type between actual and adopted budget are provided in this report.

The significant reasons for the variances are:

### **Operating Revenue**

1. The operating revenue for the year was \$31,030,100 compared to the budget of \$31,395,800, this is an overall decrease of \$365,700 (1.16%).
2. Rates levied were \$377,440 (1.77%) less than budgeted at the time of budget adoption. The decrease was due to a \$443,501 rate modelling error as 112 properties were double counted by the City's Authority (ERP) system. The shortfall was compensated by better than expected increase in interim rates.
3. Operating Grants & Contributions received was \$254,358 (12.96%) less compared to the budget.
4. Fees and Charges raised were lower than Budget by \$818,012 (11.36%), with nil increase in sanitation charges. Some items of fees and charges in Economic and Transport Services have been classified in Other Revenue.
5. The City earned \$119,256 (17.10%) more than budgeted from the investment of funds surplus to its immediate requirements. Although wholesale interest rates have declined during 2015/16, the principal amount available for investing was higher than the previous financial year.
6. Other Revenue was above Budget by \$964,855 (372.5%). This was largely due to 4 items namely, Building Services of \$131,338, Parking of \$450,206, WESROC Project of \$206,571 and Governance of \$118,988. Part of this additional revenue was as a result of increased parking revenue and a change in classification of other items for example, parking and building services, were classified as fees and charges in 2015. The decrease in Fees and Charges in 2016 is partly due to this.

### **Operating Expenses**

1. The operating expenses for the year were \$31,833,553 compared to the budget of \$30,871,100, this is an overall increase of \$962,453 (3.12%).
2. Employee costs were up by \$762,273 (6.37 %) compared to the budget. This is partly due to the increase in salaries paid.
3. Materials and Contracts costs were down by \$1,430,867 (13.54%) compared to the budget. This is due to the deferment of some operating projects due to factors outside the City's control and savings due to constant monitoring of expenses.

4. Utility charges were up by \$148,850 or (20.0%) due to a higher than expected increase in charges.
5. Depreciation expenses were up by \$1,002,158 (16.51%) mainly due to an increase in building depreciation post Fair Value implementation.
6. Insurance expenses were down by \$72,007 (15.84%) which can be mainly attributed to work cover premiums.
7. Other Expenditure was up by \$562,628 (73.98%). This was due partly to grants provided by Council to Community Groups of \$462,756.

### Capital Works

During the financial year the City spent \$9.35million in carrying out its Capital Works program. The major share of the funds, \$4.96 million, was utilised in improving infrastructure assets – roads, footpaths, drainage, parks and gardens – with another \$4.39 million used for upgrading and renovating the City’s buildings and purchase of plant and equipment.

The original capital budget for the year was \$12.31 million. During the mid-year Budget Review this was amended to \$13.65 million. However, a number of projects were not fully completed during the year and are carried forward to 2016/17. \$1.4 million of these have been re-budgeted in the 2016/17 Budget adopted in June 2016; the funds carried over for those that have not been re-budgeted include:

#### Footpath Rehabilitation:

Melvista Reserve	\$ 70,000
Stirling Hwy	\$ 120,000

#### Drainage Rehabilitation:

Strickland Street	\$ 90,000
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#### Grant Funded Projects:

Bulimba Road	\$ 500,000
Greenville Street	\$ 170,000

#### Building:

71 Stirling Hwy – Administration Building	\$ 130,000
110 Smyth Road – Cottage Building	\$ 45,000
Mt Claremont Change rooms	\$ 15,000
Oder Crescent (Bridge Club)	\$ 170,000

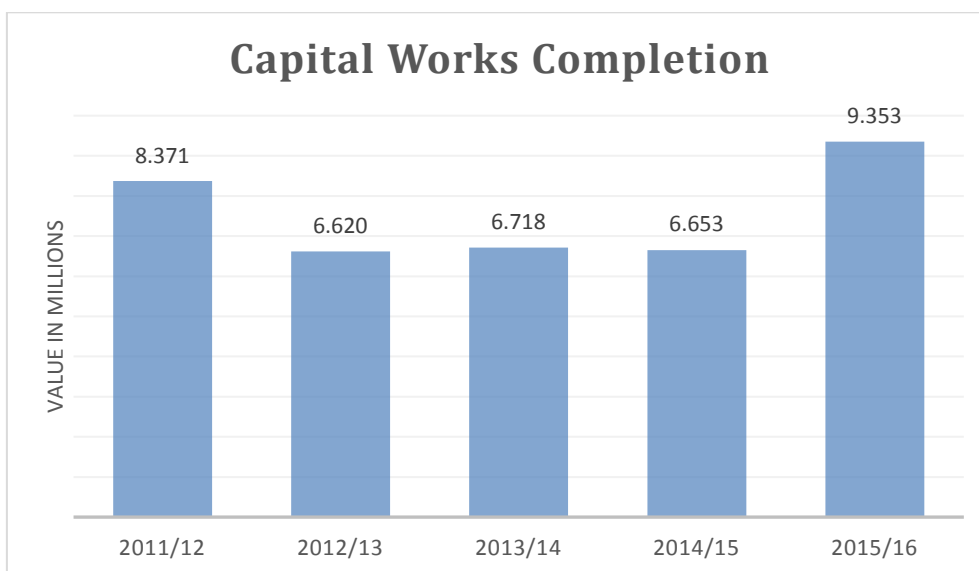
#### Parks & Reserve:

The Marlows	\$ 60,000
Bore Installation MTC G/Water Monitoring	\$ 30,000

**Total** **\$ 1,400,000**

Of the total funds expended on capital works, \$1.63 million were from grants and contributions. The balance was made up of operating surplus, sale of plant, and proceeds of loans of \$1.98 million.

The values of capital works completed in each of the past 5 years is shown in the following chart. It is to be noted that the high value of capital works in 2011/12 was due to the renovation of John Leckie Pavilion that year and for 2015/16, the Collegians Football Clubrooms at David Cruickshank Reserve.



### Revaluation of Infrastructure Assets

The Local Government (Financial Management) Regulations 1996 requires all physical assets to be valued on a fair value basis with full implementation by 30 June 2015. We followed the Department of Local Government and communities (DLGC) circular (02-2016) and conducted the recurring revaluation on Plant and Equipment in 2015-16 Financial Year. The impact of the revaluation is \$403,022 (increment) and the recognition is in the Statement of Other Comprehensive Income.

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

### Cash and Cash Equivalents

The cash and cash equivalent balance at 30 June 2016 was \$13,205,796 compared to \$12,843,046, an increase of \$362,750 (2.82%). Reserves included in this balance amounted to \$3,993,894 or 30% of the total.

### Receivables

The increase in Receivables in 2015/16 of \$88,054, more than the previous year was mainly due to sundry debtors. Rates outstanding was down \$125,902 or 40% from 2014/15 figure of \$315,038 to \$189,136. The provision for doubtful debts was \$1,170 compared to \$24,522 in 2014/15.

One of the risk factors evaluated in the Notes to the Accounts (Note 5) is receivables – the risk that the debts may not be collected by the City. Credit risk on rates and annual charges is minimal as they are charges on the associated properties, and the City has the ability to recover these debts from the sale of the properties if necessary.

### **Payables**

The increase in payables of \$272,493 was as a result of the receipt of higher value capital project invoices towards the end of the year.

### **Borrowings**

During 2015/16, the City borrowed \$1,982,000 and utilised \$1,345,300 of this in the Collegian Clubrooms construction with the balance of \$636,700 funding towards other Building works. At 30 June 2016, the City had total borrowings of \$7,187,827 after principal repayment of \$790,872 compare to 2014/15 total borrowings of \$5,856,699.

### **Provisions**

The provision showed an increase of \$168,808 which is mainly due to natural increases in employee leave entitlements.

### **Financial Performance Indicators**

The Financial Ratios in Note 21 to the accounts give an overview of the financial performance of the City in 2015/16 compared with the previous two years. All the ratios except for the Operating Surplus Ratio and Asset Consumption ratio are within recommended standard benchmarks set by the Department of Local Government.

The operating surplus ratio is effected by the increase in operating expenses disproportionality to the increase in revenue. The Asset Consumption Ratio is lower than target due to the aging nature of the City's assets which is being addressed by planned increase in capital expenditure in the coming years.

	2016	Target	2015	2014
<i>Liquidity Ratio</i>				
<b>1. Current Ratio</b> <sup>(1)</sup>				
<u>Current Assets less Restricted Current Assets</u>	<b>2.00 : 1</b>	> 1.00 : 1	2.01	1.51
Current Liabilities less Liabilities Associated with Restricted Assets				
<i>Debt Ratio</i>				
<b>2. Debt Service Cover Ratio</b> <sup>(2)</sup>				
<u>Operating Surplus before Interest and Depreciation Exp</u>	<b>5.94 : 1</b>	> 2.00 : 1	10.75	4.44
Principal and Interest Repayments				
<i>Coverage Ratio</i>				
<b>3. Own Source Revenue Coverage Ratio</b> <sup>(3)</sup>				
<u>Own Source Operating Revenue</u>	<b>91.61%</b>	> 40%	98.00%	99.00%
Operating Expense				
<i>Financial Performance Ratio</i>				
<b>4. Operating Surplus Ratio</b> <sup>(4)</sup>				
<u>Operating Revenue less Operating Expense</u>	<b>-2.94%</b>	> 1%	6.00%	5.00%
Own Source Operating Revenue				
<i>Asset Management Ratios</i>				
<b>5. Asset Sustainability Ratio</b> <sup>(5)</sup>				
<u>Capital Renewal and Replacement Expenditure</u>	<b>129.29%</b>	> 50%	92.00%	117.00%
Depreciation Expense				
The following information relates to the below ratios which only require attestation that they have been checked and are supported by verifiable information.				
<b>6. Asset Consumption Ratio</b> <sup>(6)</sup>				
<u>Depreciated Replacement Cost of Depreciable Assets</u>	<b>59.24%</b>	90-110%	60.00%	65.00%
Current Replacement Cost of Depreciable Assets				
<b>7. Asset Renewal Funding Ratio</b> <sup>(7)</sup>				
<u>NPV of Planned Capital Renewals over 10 years</u>	<b>86.03%</b>	75-95%	85.00%	67.00%
NPV of Required Capital Expenditure over 10 years				

## Audit Report

The City's Auditor, Macri Partners, have completed the audit of the Annual Financial Statements in line with current Australian Standards and have stated that they will give an Unqualified Opinion following the meeting with the Audit and Risk Committee.

## Risk Management

Not applicable.

## **Conclusion**

That the Committee recommends to Council the acceptance of the Financial Report for the City of Nedlands for the year ended 30 June 2016 comprising the Financial Report and the Auditor's Report.

## **Attachments**

1. Annual Financial Report for the year ended 30 June 2016
2. Audit Completion Report by Macri Partners
3. Audit Interim Report by Macri Partners.



# City of Nedlands

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2016

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City of Nedlands

# City of Nedlands

## General Purpose Financial Statements for the year ended 30 June 2016

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## City of Nedlands

### General Purpose Financial Statements for the year ended 30 June 2016

*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 other information for the financial year ended 30 June 2016 are in my opinion properly drawn up to present fairly the financial position of the City of Nedlands at 30 June 2016 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 \_\_\_\_\_ day of \_\_\_\_\_ 2016

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Greg Trevaskis

**CHIEF EXECUTIVE OFFICER**

## City of Nedlands

Statement of Comprehensive Income (by Nature or Type)  
for the year ended 30 June 2016

	Notes	2016 Actual \$	2016 Budget \$	2015 Actual \$
<b>Revenue</b>				
Rates	23(a)	20,899,560	21,277,000	20,168,870
Operating Grants, Subsidies & Contributions	29	1,708,042	1,962,400	2,409,290
Fees & Charges	28	6,381,888	7,199,900	7,094,964
Interest Earnings	2(a)	816,756	697,500	792,714
Other Revenue		1,223,855	259,000	615,635
		<u>31,030,100</u>	<u>31,395,800</u>	<u>31,081,473</u>
<b>Expenses</b>				
Employee Costs		(12,733,973)	(11,971,700)	(11,771,033)
Materials & Contracts		(9,135,931)	(10,566,800)	(8,545,231)
Utilities		(878,650)	(729,800)	(821,416)
Depreciation & Amortisation	2(a)	(7,072,058)	(6,069,900)	(6,951,499)
Interest Expenses	2(a)	(307,221)	(317,800)	(259,769)
Insurance		(382,593)	(454,600)	(388,779)
Other Expenditure		(1,323,128)	(760,500)	(884,639)
		<u>(31,833,553)</u>	<u>(30,871,100)</u>	<u>(29,622,365)</u>
<b>Operating Result from Continuing Operations</b>		<u>(803,453)</u>	<u>524,700</u>	<u>1,459,108</u>
Non-Operating Grants, Subsidies & Contributions	29	1,626,227	2,896,300	626,341
Loss on Asset Impairment	7(b)	-	-	(70,000)
Change in Equity in LG House Trust		-	-	135,676
Profit on Asset Disposals	20	55,316	121,000	116,427
Loss on Asset Disposal	20	(111,808)	(79,100)	(7,222)
		<u>1,569,735</u>	<u>2,938,200</u>	<u>801,222</u>
<b>Net Result - Surplus (Deficit)</b>		<u>766,282</u>	<u>3,462,900</u>	<u>2,260,330</u>
<b>Other Comprehensive Income</b>				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes on revaluation of non-current assets	13	403,022	-	50,005,378
<b>Total Other Comprehensive Income</b>		<u>403,022</u>	<u>-</u>	<u>50,005,378</u>
<b>Total Comprehensive Income</b>		<u>1,169,303</u>	<u>3,462,900</u>	<u>52,265,708</u>

## City of Nedlands

Statement of Comprehensive Income (by Program)  
for the year ended 30 June 2016

	Notes	2016 Actual \$	2016 Budget \$	2015 Actual \$
<b>Revenue</b>				
Governance		451,184	194,300	504,324
General Purpose Funding		22,098,392	22,821,000	22,228,200
Law, Order, Public Safety		110,610	116,100	118,031
Health		141,508	95,500	97,019
Education & Welfare		1,802,795	1,794,300	1,792,598
Community Amenities		3,811,933	3,894,900	3,781,942
Recreation & Culture		806,602	708,300	803,586
Transport		596,805	455,400	497,487
Economic Services		1,144,655	1,290,000	1,225,599
Other Property & Services		65,616	26,000	32,687
		<u>31,030,100</u>	<u>31,395,800</u>	<u>31,081,473</u>
<b>Expenses (excl. Finance Costs)</b>				
Governance		(3,153,736)	(2,625,500)	(2,717,757)
General Purpose Funding		(309,761)	(318,400)	(285,633)
Law, Order, Public Safety		(886,350)	(980,500)	(1,036,804)
Health		(649,008)	(713,300)	(553,295)
Education & Welfare		(2,382,503)	(2,397,300)	(2,455,918)
Community Amenities		(4,619,055)	(4,920,700)	(4,470,943)
Recreation & Culture		(8,271,398)	(7,744,400)	(7,393,371)
Transport		(5,169,316)	(5,421,600)	(4,838,402)
Economic Services		(6,044,952)	(4,444,400)	(5,277,996)
Other Property & Services		(40,252)	(987,200)	(332,477)
		<u>(31,526,332)</u>	<u>(30,553,300)</u>	<u>(29,362,596)</u>
<b>Finance Costs</b>				
General Purpose Funding	2(a)	(307,221)	(317,800)	(259,769)
<b>Operating Result from Continuing Operations</b>		<u>(803,453)</u>	<u>524,700</u>	<u>1,459,108</u>
<b>Non-Operating Grants, Subsidies, Contributions</b>				
Education & Welfare		-	-	375,000
Recreation & Culture		801,700	2,247,700	66,570
Transport		824,527	648,600	184,771
	29	<u>1,626,227</u>	<u>2,896,300</u>	<u>626,341</u>
<b>Profit/(Loss) on Disposal of Assets</b>				
Governance		-	-	(70,000)
Economic Services		(107,531)	-	-
Other Property & Services		51,039	41,900	109,205
	20	<u>(56,492)</u>	<u>41,900</u>	<u>39,205</u>
<b>Change in Equity - LG House Trust</b>				
Governance		-	-	135,676
		<u>-</u>	<u>-</u>	<u>135,676</u>
<b>Net Result - Surplus (Deficit)</b>		<u>766,282</u>	<u>3,462,900</u>	<u>2,260,330</u>
<b>Other Comprehensive Income</b>				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes on revaluation of non-current assets	13	403,022	-	50,005,378
<b>Total Comprehensive Income</b>		<u>1,169,303</u>	<u>3,462,900</u>	<u>52,265,708</u>

## City of Nedlands

## Statement of Financial Position

as at 30 June 2016

	Notes	2016 Actual \$	2015 Actual \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	13,205,796	12,843,046
Trade and Other Receivables	5	1,205,841	1,117,787
Inventories	6	24,671	18,148
<b>Total Current Assets</b>		<b>14,436,308</b>	<b>13,978,981</b>
<b>Non-Current Assets</b>			
Trade and Other Receivables	5	489,060	359,394
Property, Plant and Equipment	7	65,251,389	64,150,914
Infrastructure	8	127,005,163	125,687,891
Other Financial Assets	4	135,676	135,676
<b>Total Non-Current Assets</b>		<b>192,881,289</b>	<b>190,333,875</b>
<b>TOTAL ASSETS</b>	19	<b>207,317,597</b>	<b>204,312,856</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and Other Payables	9	2,312,849	2,040,356
Borrowings	10	939,810	696,636
Provisions	11	2,016,197	1,847,389
<b>Total Current Liabilities</b>		<b>5,268,856</b>	<b>4,584,381</b>
<b>Non-Current Liabilities</b>			
Borrowings	10	6,248,017	5,160,063
Provisions	11	254,167	191,160
<b>Total Non-Current Liabilities</b>		<b>6,502,184</b>	<b>5,351,223</b>
<b>TOTAL LIABILITIES</b>		<b>11,771,040</b>	<b>9,935,604</b>
<b>Net Assets</b>		<b>195,546,559</b>	<b>194,377,252</b>
<b>EQUITY</b>			
Retained Surplus		67,624,741	66,718,256
Reserves - Cash/Investment Backed	12	3,993,894	4,134,091
Revaluation Surplus	13	123,927,924	123,524,902
<b>Total Equity</b>		<b>195,546,559</b>	<b>194,377,252</b>

## City of Nedlands

Statement of Changes in Equity  
for the year ended 30 June 2016

	Notes	Retained Surplus \$	Reserves Cash / Investment Backed \$	Revaluation Surplus \$	Total Equity \$
<b>Balance as at 1 July 2014</b>		<b>64,550,976</b>	<b>3,966,676</b>	<b>73,519,527</b>	<b>142,037,179</b>
Comprehensive Income					
Net Result		2,260,330	-	-	<b>2,260,330</b>
Changes on Revaluation of Assets	13	74,365	-	50,005,378	<b>50,079,743</b>
Total Comprehensive Income		2,334,695	-	50,005,378	52,340,073
Transfers from/(to) Reserves	12	(167,415)	167,415	-	-
<b>Balance as at 30 June 2015</b>		<b>66,718,256</b>	<b>4,134,091</b>	<b>123,524,902</b>	<b>194,377,252</b>
Comprehensive Income					
Net Result		766,281	-	-	<b>766,281</b>
Changes on Revaluation of Assets	13	-	-	403,022	<b>403,022</b>
Total Comprehensive Income		766,281	-	403,022	<b>1,169,303</b>
Transfers from/(to) Reserves	12	140,197	(140,197)	-	-
<b>Balance as at 30 June 2016</b>		<b>67,624,740</b>	<b>3,993,894</b>	<b>123,927,924</b>	<b>195,546,559</b>

## City of Nedlands

## Statement of Cash Flows

for the year ended 30 June 2016

	Notes	2016 Actual \$	2016 Budget \$	2015 Actual \$
<b>Cash Flows from Operating Activities</b>				
<b>Receipts:</b>				
Rates		21,014,281	21,232,900	20,119,735
Operating Grants, Subsidies and Contributions		1,958,042	1,962,400	2,373,775
Fees and Charges		6,180,076	7,188,500	7,094,964
Interest Earnings		816,756	697,500	792,714
Goods and Services Tax		1,810,186	-	(60,833)
Other Revenue		1,223,855	259,000	615,635
		<u>33,003,196</u>	<u>31,338,100</u>	<u>30,935,990</u>
<b>Payments:</b>				
Employee Costs		(12,548,815)	(11,875,500)	(12,115,973)
Materials and Contracts		(9,088,378)	(10,410,400)	(7,922,917)
Utilities		(878,650)	(729,800)	(821,416)
Insurance		(308,917)	(454,600)	(632,128)
Interest		(299,981)	(317,800)	(255,994)
Goods and Services Tax		(1,883,573)	-	(11,510)
Other Expenditure		(1,315,293)	(760,500)	(884,639)
		<u>(26,323,607)</u>	<u>(24,548,600)</u>	<u>(22,644,577)</u>
<b>Net Cash provided (or used in) Operating Activities</b>	14(b)	<u>6,679,587</u>	<u>6,789,500</u>	<u>8,291,413</u>
<b>Cash Flows from Investing Activities</b>				
<b>Receipts:</b>				
Non-Operating Grants, Subsidies and Contributions	29	1,626,227	2,896,300	626,341
Proceeds from Sale of Assets	20	209,557	250,900	429,973
<b>Payments:</b>				
Payments for Purchase of Property, Plant & Equipmen	7(b)	(4,388,809)	(5,216,200)	(2,444,942)
Payments for Construction of Infrastructure	8(b)	(4,964,020)	(7,095,900)	(4,640,232)
		<u>(7,517,045)</u>	<u>(9,164,900)</u>	<u>(6,028,860)</u>
<b>Net Cash provided (or used in) Investing Activities</b>		<u>(7,517,045)</u>	<u>(9,164,900)</u>	<u>(6,028,860)</u>
<b>Cash Flows from Financing Activities</b>				
<b>Receipts:</b>				
Proceeds from Self Supporting Loans	22(a)	9,080	2,900	-
Proceeds from New Loans	22(b)	2,122,000	2,122,000	1,630,000
<b>Payments:</b>				
Repayment of Debentures	22(a)	(790,872)	(719,800)	(563,160)
Advances to Community Groups		(140,000)	(140,000)	-
		<u>1,200,208</u>	<u>1,265,100</u>	<u>1,066,840</u>
<b>Net Cash provided (or used in) Financing Activities</b>		<u>1,200,208</u>	<u>1,265,100</u>	<u>1,066,840</u>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		362,749	(1,110,300)	3,329,393
Cash & Cash Equivalents at the Beginning of the Year	3	12,843,046	7,792,200	9,513,653
		<u>13,205,796</u>	<u>6,681,900</u>	<u>12,843,046</u>
<b>Cash &amp; Cash Equivalents - End of the Year</b>	14(a)	<u>13,205,796</u>	<u>6,681,900</u>	<u>12,843,046</u>



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## City of Nedlands

## Rate Setting Statement

for the year ended 30 June 2016

	Notes	2016 Actual \$	2016 Budget \$	2015 Actual \$
<b>Revenue</b>				
Governance		451,184	194,300	640,000
General Purpose Funding (Excl Rates)		1,198,831	1,544,000	2,059,330
Law, Order, Public Safety		110,610	116,100	118,031
Health		141,508	95,500	97,019
Education and Welfare		1,802,795	1,794,300	1,792,598
Community Amenities		3,811,933	3,894,900	3,781,942
Recreation and Culture		806,602	708,300	803,586
Transport		596,805	506,600	497,487
Economic Services		1,144,655	1,290,000	1,225,599
Other Property and Services		116,655	26,000	141,892
		<u>10,181,578</u>	<u>10,170,000</u>	<u>11,157,484</u>
<b>Expenses</b>				
Governance		(3,153,736)	(2,625,500)	(2,787,757)
General Purpose Funding		(616,982)	(636,200)	(545,402)
Law, Order, Public Safety		(886,350)	(980,500)	(1,036,804)
Health		(649,008)	(713,300)	(553,295)
Education and Welfare		(2,382,503)	(2,397,300)	(2,455,918)
Community Amenities		(4,619,055)	(4,920,700)	(4,470,943)
Recreation and Culture		(8,271,398)	(7,744,400)	(7,393,371)
Transport		(5,169,316)	(5,430,900)	(4,838,402)
Economic Services		(6,152,483)	(4,444,400)	(5,277,996)
Other Property and Services		(40,252)	(987,200)	(332,477)
		<u>(31,941,084)</u>	<u>(30,880,400)</u>	<u>(29,692,365)</u>
<b>Net Result Excluding Rates</b>		<u>(21,759,506)</u>	<u>(20,710,400)</u>	<u>(18,534,881)</u>
<b>Adjustment for Cash Budget Requirements:</b>				
<b>Non-Cash Expenditure &amp; Revenue</b>				
(Profit)/Loss on Asset Disposal	20	56,492	(41,900)	(109,205)
Movement in Non-Current Deferred Pensioner Rates		(11,181)	(20,800)	(8,034)
Movement in Non-Current Employee Benefit Provisions		63,007	6,200	(10,635)
Depreciation & Amortisation on Assets	2(a)	7,072,058	6,069,900	6,951,499
Impairment - Buildings		-	-	70,000
Movement in Non Current Investment		-	-	(135,676)
<b>Net Non-Cash Expenditure &amp; Revenue</b>		<u>7,180,376</u>	<u>6,013,400</u>	<u>6,757,949</u>
<b>Capital Expenditure</b>				
Purchase Land and Buildings		(3,703,057)	(4,252,000)	(230,340)
Purchase Plant and Equipment		(606,326)	(794,200)	(822,372)
Purchase Furniture and Equipment		(79,426)	(170,000)	(334,242)
Infrastructure Assets		(4,964,020)	(7,095,900)	(4,640,233)
Advances to Community Groups		(140,000)	(140,000)	-
Repayment of Debentures	22(a)	(790,872)	(719,800)	-
Construction of Roads - Work in Progress		-	-	(563,160)
Construction of Buildings - Work in Progress		-	-	(1,057,988)
<b>Net Capital Expenditure</b>		<u>(10,283,701)</u>	<u>(13,171,900)</u>	<u>(7,648,335)</u>

## City of Nedlands

Rate Setting Statement (by Program) (continued)  
for the year ended 30 June 2016

	Notes	2016 Actual \$	2016 Budget \$	2015 Actual \$
<b>Capital Revenue</b>				
Proceeds from Disposal of Assets	20	209,557	250,900	429,973
Proceeds from New Debentures	22(b)	2,122,000	2,122,000	1,630,000
Self-Supporting Loan Principal Income	22(a)	9,080	2,900	-
Capital Grants & Contributions		1,626,227	2,896,300	626,341
<b>Net Capital Revenue</b>		<b>3,966,864</b>	<b>5,272,100</b>	<b>2,686,314</b>
<b>Transfers</b>				
Transfers to Reserves (Restricted Assets)	12	(503,744)	(240,800)	(167,415)
Transfers from Reserves (Restricted Assets)	12	643,941	653,500	-
<b>Net Transfers</b>		<b>140,197</b>	<b>412,700</b>	<b>(167,415)</b>
Surplus/(Deficit) July 1 B/Fwd	23(b)	5,957,145	699,200	2,694,642
Surplus/(Deficit) June 30 C/Fwd	23(b)	6,100,933	(207,900)	5,957,145
<b>Amount Raised from Rates</b>	23(a)	<b>(20,899,560)</b>	<b>(21,277,000)</b>	<b>(20,168,870)</b>

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Contents of the Notes accompanying the Financial Statements

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## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies

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The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### (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), other authoritative pronouncements of the Australian Standards Board, *Local Government Act 1995* and accompanying regulations. Except for cash flow and rate setting statement, the report has also been prepared on the accrual basis under the convention of historical cost accounting modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

##### Critical Accounting Estimates

The preparation of a financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. 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 this experience and other factors combine to form the basis of making judgements about carrying values of assets and liabilities 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 18 to this financial report.

##### (c) Goods and Services Tax

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

##### (d) Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and on hand and short-term deposits with an original maturity of six months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included as short-term borrowings in current liabilities on the Statement of Financial Position.

##### (e) Trade and Other Receivables

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

##### (f) Inventories

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.

##### (i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the established selling price in the ordinary

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies (continued)

course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (ii) Land Held for resale/capitalisation of borrowing costs

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred. Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

Revenue arising from the sale of property is recognised in the operating statement as at the time of signing a binding contract of sale. Land held for resale is classified as current except where it is held as non-current based on the Council's intentions to release for sale.

#### (g) Fixed Assets

##### Initial Recognition

All assets are initially recognised at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed includes the cost of all materials, direct labour and variable and fixed overheads.

##### Mandatory requirement to revalue non-current assets

Effective from 1 July 2012, the Local Government (Financial Management) Regulations were amended and the measurement of non-current assets at Fair Value became mandatory.

During the year ended 30 June 2013, the City commenced the process of adopting Fair Value in accordance with the Regulations.

Whilst the amendments initially allowed for a phasing in of fair value in relation to fixed assets over three years, as at 30 June 2015 all non-current assets were carried at Fair Value in accordance with the requirements.

Thereafter, each asset class must be revalued in accordance with the regulatory framework established and the City revalue its asset classes in accordance with this mandatory timetable.

Relevant disclosures, in accordance with the requirements of Australian Accounting Standards, have been made in the financial report as necessary.

##### 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 a basis 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 surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of comprehensive income.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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 significantly from that determined using fair value at reporting date.

##### Land under Roads

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

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies (continued)

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 AASB 1051 Land Under Roads and the fact that *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 that, 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.

#### (h) 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.

Expenditure on items of equipment under \$2,000 are not capitalised but are placed on an "Attractive Items" list for reference and maintenance.

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

	Short Life	Long Life
Buildings		
- Structure	3 to 47 yrs	
- Fit-outs	1 to 9 yrs	
- Mechanical	2 to 14 yrs	
- Roof Cladding	3 to 47 yrs	
Furniture and Equipment	4 to 10 yrs	
Plant and Equipment	5 to 15 yrs	

Drainage	16 to 65 yrs	
Roads		
- Pavement	80 to 200 yrs	
- Sub Grade		100,000 yrs
- Top Surface	17 to 29 yrs	
Footpaths	16 to 78 yrs	
Stormwater		
- Pipes	93 to 126 yrs	
- Pits	84 to 120 yrs	
- Plant	107 to 114 yrs	
Street Furniture	16 to 76 yrs	150 yrs

The assets residual value and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Comprehensive Income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

#### (i) Financial Instruments

##### Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the Council becomes a part 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 (i.e. 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.

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies (continued)

##### Classification and Subsequent Measurement

Financial instruments are subsequently measured at amortised cost using the effective interest rate method or 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 is 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 initially recognised and the maturity amount calculated using the effective interest rate method; and
- (d) less any reduction for impairment.

The effective interest method used is 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 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 or 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. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

##### (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. They are included in current assets, except for those with maturities greater than 12 months after the Statement of Financial Position date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

##### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity. If 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. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

##### (iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the Statement of Financial Position date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

##### (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



## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies (continued)

determine whether impairment has arisen. Impairment losses recognised in the Statement of Comprehensive Income.

#### (j) Fair Value of Assets and Liabilities

When performing a revaluation, the City uses a mix of both independent and management valuations using the following as a guide.

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

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

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

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

#### Fair value hierarchy

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

#### Level 1

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

#### Level 2

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

#### Level 3

Measurements based on unobservable inputs for the asset or liability.

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

#### Valuation Techniques

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

#### Market Approach

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

#### Income approach

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

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies (continued)

##### Cost Approach

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

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

As detailed above, the mandatory measurement framework imposed by the Local Government (Financial Management) Regulations requires, as a minimum, all assets carried at a revalued amount to be revalued in accordance with the regulatory framework.

##### (k) Provisions

Provisions are recognised when the Council has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

##### (l) Leases

Leases of property, plant and equipment where the Council has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The

corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term. Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

##### (m) Impairment

In accordance with Australian Accounting Standards the Council's assets, other than inventories, are tested annually for impairment. 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. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognised in the Statement of Comprehensive Income.

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

##### (n) Trade and Other Payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Municipality prior to the end of the financial year that are unpaid and arise when the Municipality 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.

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies (continued)

##### (o) Interest-bearing Loans and Borrowings

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

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

Borrowings are classified as current liabilities unless the Council has an unconditional right to defer settlement of the liability for at least 12 months after the Statement of Financial Position date. 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.

##### (p) 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:

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

The provision for employees' benefits 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 employee's services provided to balance date. The provision has been calculated at nominal amounts based on remuneration rates the Council expects to pay and includes related on-costs.

##### **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 Council does not have the unconditional right to defer settlement beyond 12 months, the liability is recognised as a current liability.

##### (q) Superannuation

The Council contributes to a number of Superannuation Funds on behalf of their employees. Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### (r) Joint Venture

The municipality's interest in a joint venture has been recognised in the financial statements by including its share of any assets, liabilities, revenues and expenses of the joint venture within the relevant items reported in the Statement of Financial Position and Statement of Comprehensive Income. Information about the joint venture is set out in Note 17.

##### (s) 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 at Note 2(d). 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.

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies (continued)

##### (t) 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 operation 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 the Council's intentions to release for sale.

##### (u) Rounding Off Figures

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

##### (v) Comparative Figures

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

When the Council applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statement, a statement of financial position as at the beginning of the earliest period will be disclosed.

##### (w) Budget Comparative Figures

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

##### (x) Investment Property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields. Investment property is carried at fair value, representing open-market value determined annually by external users.

##### (y) Non-Current Assets (or Disposal Groups) "Held for Sale" & Discontinued Operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of either (i) their carrying amount and (ii) fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The exception to this is plant and motor vehicles which are turned over on a regular basis. Plant and motor vehicles are retained in Non Current Assets under the classification of Property, Plant and Equipment - unless the assets are to be traded in after 30 June and the replacement assets were already purchased and accounted for as at 30 June.

For any assets or disposal groups classified as Non-Current Assets "held for sale", an impairment loss is recognised at any time when the assets carrying value is greater than its fair value less costs to sell.

Non-current assets "held for sale" are not depreciated or amortised while they are classified as "held for sale".

Non-current assets classified as "held for sale" are presented separately from the other assets in the balance sheet.

A Discontinued Operation is a component of Council that has been disposed of or is classified as "held for sale" and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are presented separately on the face of the income statement.

##### (z) Intangible Assets - Easements

Local governments are required to recognise easements in their financial statements where the asset can be identified and reliably measured. The City has easements over certain small portions of land but it is not possible to reliably measure these. Accordingly they are recognised at nil value. .

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies (continued)

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

In the current year, Council adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of the new and revised Standards and Interpretations has not resulted in any material changes to Council's accounting policies.

Council has not applied any Australian Accounting Standards and Interpretations that have been issued but are not yet effective with the exception of AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*. Generally Council applies standards and interpretations in accordance with their respective commencement dates. The retrospective application of AASB 2015-7 has exempted Council from the disclosure of quantitative information and sensitivity analysis for some valuations categorised within Level 3 of the fair value hierarchy.

At the date of authorisation of the financial report, AASB 9 *Financial Instruments* and AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* are the only new accounting standards with a future application date that are expected to have a material impact on Council's financial statements.

From 1 July 2016 AASB 124 *Related Party Disclosures* will apply to Council, which means that Council will disclose more information about related parties and transactions with those related parties.

AASB 9, which replaces AASB 139 *Financial Instruments: Recognition and Measurement*, is effective for reporting periods beginning on or after 1 January 2018 and must be applied retrospectively. The main impact of AASB 9 is to change the requirements for the classification, measurement and disclosures associated with financial assets. Under the new requirements the four current categories of financial assets stipulated in AASB 139 will be replaced with two measurement categories: fair value and amortised cost and financial assets

will only be able to be measured at amortised cost where very specific conditions are met.

##### Effective for periods commencing 1 January 2016:

- AASB 14 *Regulatory Deferral Accounts*
- AASB 1057 *Application of Australian Accounting Standards*
- AASB 2014-3 *Amendments to Australian Accounting Standards-Accounting for Acquisitions of Interests in Joint Operations*
- AASB 2014-4 *Amendments to Australian Accounting Standards-Clarification of Acceptable Methods of Depreciation and Amortisation*
- AASB 2014-6 *Amendments to Australian Accounting Standards-Agriculture: Bearer Plants*
- AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements* [AASB 1, 127 & 128]
- AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [AASB 10 & AASB 128]
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle* [AASB 1, AASB 2, AASB 3, AASB 5, AASB 7, AASB 11, AASB 110, AASB 119, AASB 121, AASB 133, AASB 134, AASB 137 & AASB 140]
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* [AASB 7, AASB 101, AASB 134 & AASB 1049]
- AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception* [AASB 10, AASB 12 & AASB 128]
- AASB 2014-1 *Amendments to Australian Accounting Standards (Part D)*

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 1. Summary of Significant Accounting Policies (continued)

##### Effective for periods commencing 1 July 2016:

- AASB 1056 *Superannuation Entities*
- AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* [AASB 10, AASB 124 & AASB 1049]

##### (ab) Comparative Figures

To ensure comparability with the current reporting period's figures, some comparative period line items and amounts may have been reclassified or individually reported for the first time within these financial statements and/or the notes.

##### Effective for periods commencing 1 January 2017:

- AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*
- AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*

##### Effective for periods commencing 1 January 2018:

- AASB *Financial Instruments (December 2009)*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*
- AASB 2014-1 *Amendments to Australian Accounting Standards (Part E)*
- AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*

##### Effective for periods commencing 1 January 2019:

- AASB 16 *Leases*

Council does not expect to adopt the new standards before their operative date.

They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2017.

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 2. Operating Revenues and Expenses

	Notes	2016 Actual \$	2016 Budget \$	2015 Actual \$
<b>(a) Net Result</b>				
The Result includes:				
<b>(i) Charging as an Expense:</b>				
<b>Auditors Remuneration</b>				
- Audit of the Annual Financial Report		19,060	26,800	20,860
- Audit of Projects		2,100	28,800	3,400
		<u>21,160</u>	<u>55,600</u>	<u>24,260</u>
<b>Bad &amp; Doubtful Debts</b>				
Rates	26(b)	1,656	6,000	-
General Debtors	26(b)	10,700	-	-
<b>Depreciation &amp; Amortisation</b>				
<i>Property, Plant &amp; Equipment</i>				
- Buildings	7(b)	2,536,771	857,700	2,386,539
- Furniture and Equipment		323,333	332,500	338,418
- Plant and Equipment		565,207	1,039,600	601,435
<i>Infrastructure</i>				
- Roads	8(b)	2,391,466	2,506,500	2,332,829
- Drainage		301,739	242,400	238,793
- Footpaths		271,592	443,900	428,839
- Parks, Gardens, Reserves & Reticulation		633,828	647,300	597,690
- Street Furniture		48,122	-	26,956
		<u>7,072,058</u>	<u>6,069,900</u>	<u>6,951,499</u>
<b>Interest Expenses (Finance Costs)</b>				
Debentures	22(a)	307,221	317,800	259,769
		<u>307,221</u>	<u>317,800</u>	<u>259,769</u>
<b>Rental Charges</b>				
- Photocopier Leases		97,472	54,300	65,621
		<u>97,472</u>	<u>54,300</u>	<u>65,621</u>
<b>(ii) Crediting as Revenue:</b>				
<b>Interest Earnings</b>				
Investments - Reserve Funds		115,159	105,400	128,283
Investments - Other Funds		413,769	391,300	473,634
Other Interest Revenue	27	287,828	200,800	190,797
		<u>816,756</u>	<u>697,500</u>	<u>792,714</u>
<b>Other Revenue</b>				
Other		1,219,495	791,800	615,635
		<u>1,219,495</u>	<u>791,800</u>	<u>615,635</u>

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 2. Operating Revenues and Expenses (continued)

##### (b). Statement of Objectives, Reporting Programs and Nature or Type

City of Nedlands is dedicated to providing high quality services to the community through the various service orientated programs which it has established.

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

##### **COMMUNITY VISION**

The City will endeavour to provide the community services and facilities to meet the needs of the members of the community and enable them to enjoy a pleasant and healthy way of life.

##### **REPORTING PROGRAM DESCRIPTIONS**

Council operations that are disclosed 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 and the administrative support available to the council for the provision of governance of the district. Other costs relate to the task of assisting elected members and ratepayers on matters which do not concern specific council 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 other aspects of public safety including emergency services.

##### **HEALTH**

Objective: To provide an operational framework for environmental and community health.

Activities: Inspection of food outlets and their control, provision of meat inspection services, noise control and waste disposal compliance.

##### **EDUCATION AND WELFARE**

Objective: To provide services to disadvantaged persons, the elderly, children and youth

Activities: Maintenance of child minding centre, playgroup centre, senior citizen centre and aged care centre. Provision and maintenance of home and community care programs and youth services.



## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 2. Operating Revenues and Expenses (continued)

##### (b). Statement of Objectives, Reporting Programs and Nature or Type (continued)

###### **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, cemeteries and public conveniences.

###### **RECREATION AND CULTURE**

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

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

###### **TRANSPORT**

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

Activities: Construction (if not capitalised) and maintenance of roads, streets, footpaths, depots, cycleways, parking facilities and traffic control. Aerodromes and water transport facilities, cleaning of streets and maintenance of street trees, street lighting etc.

###### **ECONOMIC SERVICES**

Objective: To help promote the City and its economic wellbeing.

Activities: Tourism and area promotion including the maintenance and operation of a caravan park. Provision of rural services including weed control, vermin control and standpipes. Building control.

###### **OTHER PROPERTY & SERVICES**

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

Activities: Private works operation, plant repair and operation costs and engineering operation costs.

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 2. Operating Revenues and Expenses (continued)

##### (c) Nature or Type Classifications

City of Nedlands is required by the Australian Accounting Standards to disclose revenue and expenditure according to its nature or type classification. The following nature or function descriptions are also required by State Government regulations.

#### REVENUE

##### Rates

All rates levied under the Local Government Act 1995. Includes general, differential, specific area rates, minimum rates, interim rates, back rates, ex-gratia rates, less discounts offered. Excludes administration fees, interest on instalments, interest on arrears, service charges and waste and sewerage rates.

##### Operating Grants, Subsidies and Contributions

Refer to all amounts received as grants, subsidies and contributions that are not non-operating grants.

##### Non-Operating Grants, Subsidies and Contributions

Amounts received specifically for the acquisition, construction of new or the upgrading of non-current assets paid to a local government, irrespective of whether these amounts are received as capital grants, subsidies, contributions or donations.

##### Profit on Asset Disposal

Profit on the disposal of assets including gains on the disposal of long term investments. Losses are disclosed under the expenditure classifications.

##### Fees and Charges

Revenue (other than service charges) from the use of facilities and charges made for local government services, sewerage rates, rentals, hire charges, fee for service, photocopying charges, licences, sale of goods or information, fines, penalties and administration fees.

##### Service Charges

Service charges imposed under Division 6 of Part 6 of the Local Government Act 1995. Regulation 54 of the Local Government (Financial Management) Regulations identifies the charges which can be raised. These are television and radio rebroadcasting, underground electricity, property surveillance and security and water services. Excludes rubbish removal and charges for the provision of waste services.

##### Interest Earnings

Interest and other items of a similar nature received from bank and investment accounts, interest on rate instalments, interest on rate arrears and interest on debtors.

##### Other Revenue

Other revenue, which cannot be classified under the above headings, includes dividends, discounts, rebates, etc.

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 2. Operating Revenues and Expenses (continued)

##### (c) Nature or Type Classifications (continued)

#### EXPENDITURE

##### Employee Costs

All costs associated with the employment of persons such as salaries, wages, allowances, benefits such as vehicle and housing, superannuation, employment expenses, removal expenses, relocation expenses, worker's compensation insurance, training costs, conferences, safety expenses, medical examinations, fringe benefits tax etc.

##### Material and Contracts

All expenditure on materials, supplies and contracts not classified under other headings. These include supply of goods and materials, legal expenses, consultancy, maintenance agreements, communication expenses, advertising expenses, membership, periodicals, publications, hire expenses, rental, leases, postage and freight etc.

##### Utilities (Gas, Electricity, Water, etc.)

Expenditures made to respective agencies for the provision of power, gas or water. Excludes expenditure incurred for the re-instatement of road works on behalf of these agencies.

##### Depreciation & Amortisation on Non-Current Assets

Depreciation and amortisation expense raised on all classes of assets.

##### Loss on Asset Disposal

Loss on the disposal of fixed assets.

##### Interest Expenses

Interest and other costs of finance paid, including costs of finance for loan debentures, overdraft accommodation and re-financing expenses.

##### Insurance

All insurance other than worker's compensation and health benefit insurance included as a cost of employment.

##### Other Expenditure

Statutory fees, taxes, provision of bad debts. Donations and subsidies made to community groups.

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 2. Operating Revenues and Expenses (continued)

	Opening Balance <sup>1</sup> 1/07/2014 \$	Received <sup>2</sup> 2014/15 \$	Expended <sup>3</sup> 2014/15 \$	Closing Balance <sup>1</sup> 30/06/2015 \$	Received <sup>2</sup> 2015/16 \$	Expended <sup>3</sup> 2015/16 \$	Closing Balance 30/06/2016 \$
<b>(d). Conditions Over Grants, Subsidies &amp; Contributions</b>							
<b>Grant/Subsidy/Contribution</b>							
<b><u>Governance</u></b>							
River Foreshore Management - WESROC	-	68,760	(28,817)	<b>39,943</b>	-	(39,943)	-
Karda, Karak & Waarlitj Bidi - WESROC	-	30,000	(13,700)	<b>16,300</b>	-	(16,300)	-
<b><u>Education &amp; Welfare</u></b>							
Long Day Care Professional Education Funding - PRCC	-	20,773	(15,580)	<b>5,193</b>	-	(5,193)	-
Children's Book Week 2015 - Education Nedlands Library	-	900	-	<b>900</b>	-	(900)	-
HACC - Capital Grant	5,282	-	(5,282)	-	-	-	-
<b><u>Recreation &amp; Culture</u></b>							
DSR - Kidsports Program	10,290	-	(10,290)	-	5,000	(4,164)	<b>836</b>
Office of Crime Prevention Boatsafe Program	2,500	-	(2,500)	-	-	-	-
<b>Total Unspent Grants, Subsidies &amp; Contributions</b>	<b>18,072</b>	<b>120,433</b>	<b>(76,169)</b>	<b>62,336</b>	<b>5,000</b>	<b>(66,500)</b>	<b>836</b>

**Notes:**

- (1) - Grants/contributions recognised as revenue in a previous reporting period which were not expended at the close of the previous period.
- (2) - 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.
- (3) - 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.
- (4) - Grants received but not expected to be fully expended in the next financial year.

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 3. Cash and Cash Equivalents

	Notes	2016 Actual \$	2015 Actual \$
Cash - Unrestricted		9,211,066	8,074,607
Cash - Restricted		3,994,730	4,768,439
<b>Total Cash and Cash Equivalents</b>	14(a)	<b>13,205,796</b>	<b>12,843,046</b>
<b>The following restrictions have been imposed by regulations or other externally imposed requirements:</b>			
Plant Replacement Reserve	12	146,543	142,447
City Development Reserve	12	447,156	379,852
North Street Reserve	12	728,048	1,149,527
Welfare Reserve	12	469,039	456,150
Services Reserve	12	1,078,565	1,047,412
Insurance Reserve	12	59,720	58,106
Waste Management Reserve	12	469,850	157,248
Building Replacement Reserve	12	471,826	619,755
Swanbourne Reserve	12	123,147	119,667
Public Art Reserve	12	-	3,927
<b>Total Reserves</b>		<b>3,993,894</b>	<b>4,134,091</b>
Unspent Grants	2(d)	836	62,336
Unspent Loans	22(c)	-	572,012
<b>Total Unspent Grants and Loans</b>		<b>836</b>	<b>634,348</b>
<b>Total Restricted Cash</b>		<b>3,994,730</b>	<b>4,768,439</b>

## Note 4. Other Financial Assets

<b>Investment in WALGA Local Government House Trust*</b>		<b>135,676</b>	<b>135,676</b>
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\* this note discloses the equity the City of Nedlands has in the Local Government House Trust as a consequence of a contribution towards the cost of purchasing Local Government House.

The total contribution by all Councils towards the cost of the WALGA building was \$582,000 of which the City of Nedlands contributed \$8,000. There are 620 units in the Local Government House Trust, 8 of which are held by the City of Nedlands.

## City of Nedlands

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 5. Trade &amp; Other Receivables

Notes	2016 Actual \$	2015 Actual \$
<b>Current</b>		
Rates Outstanding	189,136	315,038
Sundry Debtors	541,908	363,448
GST Receivable	293,859	220,474
Self Supporting Loan Debtors	12,435	-
Prepayments	169,673	243,349
Provision for Impairment in Receivables	(1,170)	(24,522)
<b>Total Current Trade &amp; Other Receivables</b>	<b><u>1,205,841</u></b>	<b><u>1,117,787</u></b>
<b>Non-Current</b>		
Rates Outstanding - Pensioners	370,575	359,394
Self Supporting Loan Debtors	118,485	-
<b>Total Non-Current Trade &amp; Other Receivables</b>	<b><u>489,060</u></b>	<b><u>359,394</u></b>
<b>Note 6. Inventories</b>		
<b>Current</b>		
Fuel and Oil	24,671	18,148
<b>Total Current Inventories</b>	<b><u>24,671</u></b>	<b><u>18,148</u></b>

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 7a. Property, Plant and Equipment

Notes	2016 Actual \$	2015 Actual \$
Freehold Land - Fair Value	35,664,000	35,664,000
Land Vested in and Under Control of Council - Cost	97,000	97,000
	<u>35,761,000</u>	<u>35,761,000</u>
Buildings - Fair Value	66,210,888	61,591,340
Less Accumulated Depreciation	(40,773,351)	(38,270,039)
	<u>25,437,537</u>	<u>23,321,301</u>
Furniture and Equipment - Fair Value	5,186,217	5,108,288
Less Accumulated Depreciation	(4,280,506)	(3,958,671)
	<u>905,711</u>	<u>1,149,617</u>
Plant and Equipment - Fair Value	7,570,025	6,851,875
Less Accumulated Depreciation	(4,422,885)	(3,990,867)
	<u>3,147,140</u>	<u>2,861,008</u>
Work In Progress - Buildings - Cost	-	1,057,988
	-	<u>1,057,988</u>
<b>Total Property, Plant &amp; Equipment</b>	<b>7(b) <u><u>65,251,389</u></u></b>	<b><u><u>64,150,914</u></u></b>

The fair value of property, plant, and equipment is determined at least every three years in accordance with the regulatory framework. Additions since the date of valuation are shown as cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. At the end of each intervening period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with Local Government (Financial Management) Regulation 17A(2) which requires property, plant and equipment to be shown at fair value.

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 7b. Property, Plant and Equipment (continued)

## Movements in Carrying Amounts

	Notes	Land \$	Buildings \$	Furniture and Equipment \$	Plant and Equipment \$	Work In Progress - Buildings \$	Total \$
<b>Balance as at 1 July 2015</b>		<b>35,761,000</b>	<b>23,321,301</b>	<b>1,149,617</b>	<b>2,861,008</b>	<b>1,057,988</b>	<b>64,150,914</b>
Additions		-	3,703,057	79,426	606,326		4,388,809
Transfers	20	-	1,057,988	-	-	(1,057,988)	-
Disposals	20	-	(108,040)	-	(158,009)	-	(266,049)
Revaluation - Increments	13	-	-	-	403,022	-	403,022
Depreciation	2(a)	-	(2,536,769)	(323,332)	(565,207)	-	(3,425,308)
<b>Property, Plant &amp; Equipment at 30 June 2016</b>		<b>35,761,000</b>	<b>25,437,537</b>	<b>905,711</b>	<b>3,147,140</b>	<b>-</b>	<b>65,251,389</b>
<b>Balance as at 1 July 2014</b>		<b>35,722,000</b>	<b>25,547,500</b>	<b>1,153,793</b>	<b>2,960,839</b>	<b>-</b>	<b>65,384,132</b>
Additions		-	230,340	334,242	822,372	1,057,988	2,444,942
Disposals	20	-	-	-	(320,768)	-	(320,768)
Revaluation - Increments	13	39,000	-	-	-	-	39,000
Impairment - (Decrements)		-	(70,000)	-	-	-	(70,000)
Depreciation	2(a)	-	(2,386,539)	(338,418)	(601,435)	-	(3,326,392)
<b>Property, Plant &amp; Equipment at 30 June 2015</b>		<b>35,761,000</b>	<b>23,321,301</b>	<b>1,149,617</b>	<b>2,861,008</b>	<b>1,057,988</b>	<b>64,150,914</b>



## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 8a. Infrastructure

	Notes	2016 Actual \$	2015 Actual \$
Roads - Fair Value		114,870,051	111,413,794
Less Accumulated Depreciation		(40,525,967)	(38,134,501)
		<u>74,344,084</u>	<u>73,279,293</u>
Drainage - Fair Value		31,603,235	31,275,978
Less Accumulated Depreciation		(7,613,997)	(7,312,258)
		<u>23,989,238</u>	<u>23,963,720</u>
Footpaths - Fair Value		21,085,468	20,788,917
Less Accumulated Depreciation		(4,374,816)	(4,103,224)
		<u>16,710,652</u>	<u>16,685,693</u>
Parks, Gardens, Reserves & Reticulation - Fair Value		15,846,352	14,561,359
Less Accumulated Depreciation		(5,078,972)	(4,445,144)
		<u>10,767,380</u>	<u>10,116,215</u>
Street Furniture - Fair Value		1,783,818	1,752,857
Less Accumulated Depreciation		(590,009)	(541,887)
		<u>1,193,809</u>	<u>1,210,970</u>
Work In Progress - Roads - Cost		-	432,000
		<u>-</u>	<u>432,000</u>
<b>Total Infrastructure</b>	8(b)	<u><u>127,005,163</u></u>	<u><u>125,687,891</u></u>

The fair value of infrastructure is determined at least every three years in accordance with the regulatory framework. Additions since the date of valuation are shown as cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. At the end of each intervening period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with Local Government (Financial Management) Regulation 17A(2) which requires property, plant and equipment to be shown at fair value.

## City of Nedlands

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 8b. Infrastructure (continued)

## Movements in Carrying Amounts

		Roads	Drainage	Footpaths	Parks, Gardens, Reserves & Reticulation	Street Furniture	Work In Progress - Roads	Total
	Notes	\$	\$	\$	\$	\$	\$	\$
<b>Balance as at 1 July 2015</b>		<b>73,279,293</b>	<b>23,963,720</b>	<b>16,685,693</b>	<b>10,116,215</b>	<b>1,210,970</b>	<b>432,000</b>	<b>125,687,891</b>
Additions	20	3,024,257	327,258	296,550	1,284,994	30,961		4,964,020
Transfers	20	432,000	-				(432,000)	
Depreciation (Expense)	2(a)	(2,391,466)	(301,739)	(271,592)	(633,828)	(48,122)		(3,646,747)
<b>Infrastructure at 30 June 2016</b>		<b>74,344,084</b>	<b>23,989,239</b>	<b>16,710,651</b>	<b>10,767,381</b>	<b>1,193,809</b>	<b>-</b>	<b>127,005,163</b>
<b>Balance as at 1 July 2014</b>		<b>51,482,034</b>	<b>7,411,033</b>	<b>5,581,275</b>	<b>9,941,786</b>	<b>215,895</b>	<b>-</b>	<b>74,632,023</b>
Additions		3,200,169	162,865	71,348	772,120	1,731	432,000	4,640,233
Revaluation - Increments	13	20,929,919	16,628,615	11,461,909		1,020,300		50,040,743
Depreciation (Expense)	2(a)	(2,332,829)	(238,793)	(428,839)	(597,690)	(26,956)		(3,625,107)
<b>Infrastructure at 30 June 2015</b>		<b>73,279,293</b>	<b>23,963,720</b>	<b>16,685,693</b>	<b>10,116,216</b>	<b>1,210,970</b>	<b>432,000</b>	<b>125,687,891</b>

## City of Nedlands

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 9. Trade and Other Payables

	2016 Actual \$	2015 Actual \$
<b>Current</b>		
Sundry Creditors	1,964,459	1,910,383
Accrued Interest on Debentures	40,510	33,270
Accrued Salaries and Wages	50,046	96,703
Deferred Income	250,000	-
ESL Payable	7,835	-
<b>Total Current Trade and Other Payables</b>	<u><u>2,312,849</u></u>	<u><u>2,040,356</u></u>

## Note 10. Borrowings

## Current

Secured by Floating Charge		
- Debentures	22(a) <u>939,810</u>	<u>696,636</u>
<b>Total Current Borrowings</b>	<u><u>939,810</u></u>	<u><u>696,636</u></u>

## Non-Current

Secured by Floating Charge		
- Debentures	22(a) <u>6,248,017</u>	<u>5,160,063</u>
<b>Total Non-Current Borrowings</b>	<u><u>6,248,017</u></u>	<u><u>5,160,063</u></u>

Additional detail on borrowings is provided in Note 23.

## Note 11. Provisions

## Current

Annual Leave	1,014,933	902,080
Long Service Leave	1,001,264	892,190
Worker's Compensation	-	53,119
<b>Total Current Provisions</b>	<u><u>2,016,197</u></u>	<u><u>1,847,389</u></u>

## Non-Current

Long Service Leave	<u>254,167</u>	<u>191,160</u>
<b>Total Non-Current Provisions</b>	<u><u>254,167</u></u>	<u><u>191,160</u></u>

## City of Nedlands

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 12. Reserves - Cash/Investment Backed

	2016 Actual \$	2016 Budget \$	2015 Actual \$
<b>(a). Plant Replacement Reserve</b>			
Opening Balance	142,447	144,100	137,871
Amount Set Aside / Transfer to Reserve	4,096	4,200	4,576
	<u>146,543</u>	<u>148,300</u>	<u>142,447</u>
<b>(b). City Development Reserve</b>			
Opening Balance	379,852	369,800	361,725
Amount Set Aside / Transfer to Reserve	76,304	10,700	18,127
Amount Used / Transfer from Reserve	(9,000)	-	-
	<u>447,156</u>	<u>380,500</u>	<u>379,852</u>
<b>(c). North Street Reserve</b>			
Opening Balance	1,149,527	1,150,700	1,110,649
Amount Set Aside / Transfer to Reserve	29,460	30,500	38,878
Amount Used / Transfer from Reserve	(450,939)	(473,500)	-
	<u>728,048</u>	<u>707,700</u>	<u>1,149,527</u>
<b>(d). Welfare Reserve</b>			
Opening Balance	456,150	441,500	426,597
Amount Set Aside / Transfer to Reserve	12,889	12,800	29,553
	<u>469,039</u>	<u>454,300</u>	<u>456,150</u>
<b>(e). Services Reserve</b>			
Opening Balance	1,047,412	1,048,500	1,012,524
Amount Set Aside / Transfer to Reserve	31,153	30,400	34,888
	<u>1,078,565</u>	<u>1,078,900</u>	<u>1,047,412</u>
<b>(f). Insurance Reserve</b>			
Opening Balance	58,106	58,200	56,115
Amount Set Aside / Transfer to Reserve	1,614	1,700	1,991
	<u>59,720</u>	<u>59,900</u>	<u>58,106</u>
<b>(g). Waste Management Reserve</b>			
Opening Balance	157,248	157,400	152,105
Amount Set Aside / Transfer to Reserve	312,602	104,600	5,143
	<u>469,850</u>	<u>262,000</u>	<u>157,248</u>
<b>(h). Building Replacement Reserve</b>			
Opening Balance	619,755	725,900	589,506
Amount Set Aside / Transfer to Reserve	32,071	42,300	30,249
Amount Used / Transfer from Reserve	(180,000)	(180,000)	-
	<u>471,826</u>	<u>588,200</u>	<u>619,755</u>

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 12. Reserves - Cash/Investment Backed (continued)

	2016 Actual \$	2016 Budget \$	2015 Actual \$
<b>(i). Swanbourne Reserve</b>			
Opening Balance	119,667	119,800	115,753
Amount Set Aside / Transfer to Reserve	3,480	3,500	3,914
	<u>123,147</u>	<u>123,300</u>	<u>119,667</u>
<b>(j). Public Art Reserve</b>			
Opening Balance	3,927	3,900	3,831
Amount Set Aside / Transfer to Reserve	75	100	96
Amount Used / Transfer from Reserve	(4,002)	-	-
	<u>-</u>	<u>4,000</u>	<u>3,927</u>
<b>Total Reserves</b>	<b><u>3,993,894</u></b>	<b><u>3,807,100</u></b>	<b><u>4,134,091</u></b>
<b><u>Summary of Reserve Transfers</u></b>			
<b>Transfers to Reserves</b>			
Plant Replacement Reserve	4,096	4,200	4,576
City Development Reserve	76,304	10,700	18,127
North Street Reserve	29,460	30,500	38,878
Welfare Reserve	12,889	12,800	29,553
Services Reserve	31,153	30,400	34,888
Insurance Reserve	1,614	1,700	1,991
Waste Management Reserve	312,602	104,600	5,143
Building Replacement Reserve	32,071	42,300	30,249
Swanbourne Reserve	3,480	3,500	3,914
Public Art Reserve	75	100	96
<b>Total Transfers to Reserves</b>	<b><u>503,744</u></b>	<b><u>240,800</u></b>	<b><u>167,415</u></b>
<b>Transfers from Reserves</b>			
City Development Reserve	(9,000)	-	-
North Street Reserve	(450,939)	(473,500)	-
Building Replacement Reserve	(180,000)	(180,000)	-
Public Art Reserve	(4,002)	-	-
<b>Total Transfers from Reserves</b>	<b><u>(643,941)</u></b>	<b><u>(653,500)</u></b>	<b><u>-</u></b>
<b>Total Net Transfer to/(from) Reserves</b>	<b><u>(140,197)</u></b>	<b><u>(412,700)</u></b>	<b><u>167,415</u></b>

All of the cash backed reserve accounts are supported by money held in financial institutions and match the amounts shown as restricted cash in Note 3 to this financial report.

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 12. Reserves - Cash/Investment Backed (continued)

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

##### **Plant Replacement Reserve**

To provide funds for the replacement of the City'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 provide funds for the improvement of property, plant and and equipment. The use of funds in this reserve is on going.

##### **North Street Reserve**

To provide funds for the operational and capital costs of community facilities in Mt Claremont, community and recreation facilities in Swanbourne and infrastructure generally.

The use of funds in this reserve is on going.

##### **Welfare Reserve**

To provide funds for 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 building maintenance. The use of funds in this reserve is ongoing.

##### **Insurance Reserve**

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

##### **Waste Management Reserve**

To provide funds for the replacement of the City'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 City buildings. The use of funds in this reserve is ongoing.

##### **Swanbourne Reserve**

To provide funds for the capital works in the swanbourne area associated with the Swanbourne Masterplan. The use of funds in this reserve is ongoing.

##### **Public Art Reserve**

To provide funds for the works of art in the City. The use of funds in this reserve is ongoing.

## City of Nedlands

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 13. Revaluation Surplus

	Notes	2016 Actual \$	2015 Actual \$
Asset revaluation reserves have arisen on revaluation of the following classes of assets:			
<b>(a). Land</b>			
Opening Balance		17,714,418	17,675,418
Revaluation Increment	7(b)	-	39,000
		<b>17,714,418</b>	<b>17,714,418</b>
<b>(b). Buildings</b>			
Opening Balance		9,692,645	9,692,645
		<b>9,692,645</b>	<b>9,692,645</b>
<b>(c). Plant and Equipment</b>			
Opening Balance		329,778	404,143
Revaluation Increment	7(b)	403,022	-
Revaluation Decrement	7(b)	-	(74,365)
		<b>732,800</b>	<b>329,778</b>
<b>(d). Roads</b>			
Opening Balance		64,710,548	43,780,629
Revaluation Increment	8(b)	-	20,929,919
		<b>64,710,548</b>	<b>64,710,548</b>
<b>(e). Drainage</b>			
Opening Balance		18,595,307	1,966,692
Revaluation Increment	8(b)	-	16,628,615
		<b>18,595,307</b>	<b>18,595,307</b>
<b>(f). Footpaths</b>			
Opening Balance		11,461,909	-
Revaluation Increment	8(b)	-	11,461,909
		<b>11,461,909</b>	<b>11,461,909</b>
<b>(g). Street Furniture</b>			
Opening Balance		1,020,300	-
Revaluation Increment	8(b)	-	1,020,300
		<b>1,020,300</b>	<b>1,020,300</b>
<b>Total Asset Revaluation Surplus</b>		<b>123,927,924</b>	<b>123,524,902</b>

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 14. Notes to the Statement of Cash flows

		2016 Actual \$	2016 Budget \$	2015 Actual \$
<b>(a). Reconciliation of Cash</b>				
For the purposes of the Statement of Cash Flows, cash includes cash on hand 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:				
Cash and Cash Equivalents	3	<u>13,205,796</u>	<u>10,489,000</u>	<u>12,843,046</u>
<b>(b). Reconciliation of Net Cash Provided By Operating Activities to Net Result</b>				
Net Result		766,281	3,462,900	2,260,330
Depreciation		7,072,058	6,069,900	6,951,499
(Profit)/Loss on Sale of Assets		56,491	(41,900)	(109,205)
Loss on Impairment		-	-	70,000
Decrease/(Increase) in Receivables		(63,448)	(57,700)	(400,341)
Increase/(Decrease) in Provision for Doubtful Debts		(23,352)	-	-
Decrease/(Increase) in Inventories		(6,523)	(5,000)	12,407
Increase/(Decrease) in Payables & Accruals		265,253	192,600	334,834
Increase/(Decrease) in Accrued Interest Payable		7,240	-	-
Increase/(Decrease) in Employee Leave Entitlements		231,815	65,000	(66,093)
Change in Equity in LG House Trust		-	-	(135,676)
Grants/Contributions for the Development of Assets		(1,626,227)	(2,896,300)	(626,341)
<b>Net Cash from Operating Activities</b>		<u>6,679,588</u>	<u>6,789,500</u>	<u>8,291,414</u>
<b>(c). Undrawn Borrowing Facilities Credit Standby Arrangements</b>				
Bank Overdraft Limit		500,000	500,000	500,000
Credit Card Limit		25,000	30,000	25,000
Credit Card Balance at Balance Date		(148)	8,000	(2,881)
Purchasing Card Limit		100,000	100,000	100,000
Purchasing Card Balance at Balance Date		(869)	-	-
<b>Total Amount of Credit Unused</b>		<u>623,982</u>	<u>638,000</u>	<u>622,119</u>
<b>Loan Facilities</b>				
Loan Facilities - Current	10	939,810		696,636
Loan Facilities - Non-Current	10	6,248,017		5,160,063
<b>Total Facilities in Use at Balance Date</b>		<u>7,187,827</u>		<u>5,856,699</u>



## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 15. Contingent Liabilities

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's Financial Report.

##### LIABILITIES NOT RECOGNISED:

The final instalment of the City's workers compensation insurance payment has been deferred until 30 September 2017. The payment is contingent if the claims plus a 25% loading for the policy period exceed \$173,000 of the first three instalments. The City's claim on 70% or over compensation insurance up to July 2016 amounted to \$30,970.10. Should this amount exceed \$173,000 for the period ending 30 September 2017, the final instalment liability for the City would be \$103,249.87 excluding GST.

##### ASSETS NOT RECOGNISED:

The City of Nedlands had no contingent asset at the reporting date.

#### Note 16. Capital and Leasing Commitments

Notes	2016 Actual \$	2015 Actual \$
<b>(a). Operating Lease Commitments</b>		
Non-cancellable operating leases contracted for but not capitalised in the accounts.		
<b>Payable:</b>		
- not later than one year	73,902	84,854
- later than one year but not later than five years	27,448	73,073
- later than five years	-	-
<b>Total Operating Lease Commitments</b>	<b>101,350</b>	<b>157,927</b>
<b>(b). Capital Expenditure Commitments</b>		
<b>Contracted for:</b>		
- capital expenditure projects	2,308,829	1,661,650
<b>Total Capital Expenditure Commitments</b>	<b>2,308,829</b>	<b>1,661,650</b>
<b>Payable:</b>		
- not later than one year	2,308,829	1,661,650
- later than one year but not later than five years	-	-
- later than five years	-	-
<b>Total Capital Expenditure Commitments</b>	<b>2,308,829</b>	<b>1,661,650</b>

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 17. Subsidiaries, Joint Arrangements & Associates

The City has no interest in any Controlled Entities, Associated Entities or Joint Ventures.

#### Note 18. Trust Funds

	Balance 1/07/2015	Amounts Received	Amounts Paid	Balance 30/06/2016
	\$	\$	\$	\$
Footpath Bond	1,018,120	490,286	(436,797)	1,071,609
Holl and Key Hire Bond	42,721	5,272	(3,012)	44,981
Tresillian Bond	9,171	1,900	(2,663)	8,408
Retention for Non Compliance	6,851	5,213	(1,630)	10,434
Construction Training Levy	86,160	290,985	(310,395)	66,750
Builder Reg. Board Levy	149,440	216,619	(175,965)	190,094
Unclaimed Monies	51,774	88	-	51,862
Tresillian Artist Sales	1,323	23,272	(23,032)	1,563
Crossover Bond	9,000	-	(3,000)	6,000
Nedlands-Subiaco CLAG	3,124	14,360	(11,744)	5,740
Miscellaneous	25,350	640	(640)	25,350
Staff Funds	-	2,886	-	2,886
Adelma Road	100,000	-	-	100,000
	<b><u>1,503,034</u></b>	<b><u>1,051,521</u></b>	<b><u>(968,878)</u></b>	<b><u>1,585,677</u></b>

#### Note 19. Total Assets Classified by Function and Activity

	Notes	2016 Actual \$	2015 Actual \$
Governance		35,930,673	39,192,270
General Purpose Funding		14,705,722	-
Law, Order, Public Safety		1,207,739	1,190,122
Health		-	244,723
Education & Welfare		3,108,647	2,743,911
Community Amenities		37,405	66,460
Recreation & Culture		31,888,530	27,141,410
Transport		119,508,498	118,492,120
Economic Services		-	7,636
Other Property & Services		930,383	15,234,204
		<b><u>207,317,597</u></b>	<b><u>204,312,856</u></b>

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 20. Disposal of Assets

Notes	Net Book Value		Sale Price		Profit/(Loss)	
	Actual	Budget	Actual	Budget	Actual	Budget
	\$	\$	\$	\$	\$	\$

The following assets were disposed of during the year.

**By Asset Class**

<i>Property, Plant &amp; Equipment</i>	7(b)						
Buildings		108,040	-	-	-	(108,040)	-
Plant and Equipment		158,009	209,000	209,557	250,900	51,549	41,900

**By Program**

<i>Property, Plant &amp; Equipment</i>							
Governance		22,219	24,500	19,091	22,100	(3,128)	(2,400)
Law, Order, Public Safety		640	-	-	-	(640)	-
Community Amenities		-	7,500	-	9,100	-	1,600
Recreation & Culture		108,040	83,600	-	98,100	(108,040)	14,500
Transport		135,150	-	190,466	-	55,316	-
Economic Services		-	16,700	-	19,100	-	2,400
Other Property & Services		-	76,700	-	-	-	(76,700)
Other		-	-	-	102,500	-	102,500
<b>Total</b>		<b>266,049</b>	<b>209,000</b>	<b>209,557</b>	<b>250,900</b>	<b>(56,491)</b>	<b>41,900</b>

	2016 Actual \$	2016 Budget \$	2015 Actual \$
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**Summary**

Profit on Asset Disposals	55,316	121,000	116,427
Loss on Asset Disposals	(111,808)	(79,100)	(7,222)
<b>Net Profit/(Loss) on Disposal of Assets</b>	<b>(56,492)</b>	<b>41,900</b>	<b>109,205</b>

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 21. Financial Ratios

	2016	Target	2015	2014
<i>Liquidity Ratio</i>				
<b>1. Current Ratio</b> <sup>(1)</sup>				
<u>Current Assets less Restricted Current Assets</u>	<b>2.00 : 1</b>	> 1.00 : 1	2.01	1.51
Current Liabilities less Liabilities Associated with Restricted Assets				
<i>Debt Ratio</i>				
<b>2. Debt Service Cover Ratio</b> <sup>(2)</sup>				
<u>Operating Surplus before Interest and Depreciation Exp</u>	<b>5.94 : 1</b>	> 2.00 : 1	10.75	4.44
Principal and Interest Repayments				
<i>Coverage Ratio</i>				
<b>3. Own Source Revenue Coverage Ratio</b> <sup>(3)</sup>				
<u>Own Source Operating Revenue</u>	<b>91.61%</b>	> 40%	98.00%	99.00%
Operating Expense				
<i>Financial Performance Ratio</i>				
<b>4. Operating Surplus Ratio</b> <sup>(4)</sup>				
<u>Operating Revenue less Operating Expense</u>	<b>-2.94%</b>	> 1%	6.00%	5.00%
Own Source Operating Revenue				
<i>Asset Management Ratios</i>				
<b>5. Asset Sustainability Ratio</b> <sup>(5)</sup>				
<u>Capital Renewal and Replacement Expenditure</u>	<b>129.29%</b>	> 50%	92.00%	117.00%
Depreciation Expense				
The following information relates to the below ratios which only require attestation that they have been checked and are supported by verifiable information.				
<b>6. Asset Consumption Ratio</b> <sup>(6)</sup>				
<u>Depreciated Replacement Cost of Depreciable Assets</u>	<b>59.24%</b>	90-110%	60.00%	65.00%
Current Replacement Cost of Depreciable Assets				
<b>7. Asset Renewal Funding Ratio</b> <sup>(7)</sup>				
<u>NPV of Planned Capital Renewals over 10 years</u>	<b>86.03%</b>	75-95%	85.00%	67.00%
NPV of Required Capital Expenditure over 10 years				

#### Notes

- (1) This is a modified commercial ratio designed to focus on the liquidity position of the Council that has arisen from past year's transactions.
- (2) This ratio is the measurement of Council's ability to repay its debt including lease payments.
- (3) This ratio is the measurement of Council's ability to cover its costs through its own revenue efforts.
- (4) This ratio is a measure of Council's ability to cover its operational costs and have revenues available for capital funding or other purposes.
- (5) This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.
- (6) This ratio indicates whether Council is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.
- (7) This ratio is a measure of the ability of Council to fund its projected asset renewal / replacements in the future.

## City of Nedlands

Notes to the Financial Statements  
for the year ended 30 June 2016

## Note 22. Information on Borrowings

Borrowing Institution	Interest Rate %	Principal 1/07/2015 \$	New Loans \$	Principal Repayments		Principal 30/06/16		Interest Repayments		
				Actual \$	Budget \$	Actual \$	Budget \$	Actual \$	Budget \$	
<b>(a). Debenture Repayments</b>										
<b>Community Amenities</b>										
- Waste Bins #178	WATC	6.01%	291,995	-	62,449	82,700	229,546	229,500	15,750	18,900
<b>General Purpose Funding</b>										
- Road Infrastructures #179	WATC	6.04%	1,054,553	-	91,095	91,100	963,458	963,500	60,955	68,500
- Buildings & Infrastructures #181	WATC	5.91%	1,337,115	-	191,488	191,500	1,145,627	1,145,600	73,417	83,400
- Buildings & Infrastructures #182	WATC	4.67%	1,543,036	-	208,163	208,200	1,334,873	1,334,800	68,027	78,400
- Buildings & Infrastructures #183	WATC	2.78%	1,630,000	-	143,440	143,400	1,486,560	1,486,600	43,199	54,200
- Buildings & Infrastructures #184	WATC	3.12%	-	1,345,300	57,801	-	1,287,499	1,345,300	28,818	8,900
- Buildings & Infrastructures #185	WATC	3.12%	-	636,700	27,356	-	609,344	636,700	13,639	4,200
- Buildings & Infrastructures #186	* WATC	3.07%	-	140,000	9,080	2,900	130,920	137,100	3,416	1,300
			<b>5,856,699</b>	<b>2,122,000</b>	<b>790,872</b>	<b>719,800</b>	<b>7,187,827</b>	<b>7,279,100</b>	<b>307,221</b>	<b>317,800</b>

Funding of Borrowings Loan #178 - funded by community amenities revenue. All other loan repayments were funded by general purpose income.

1 Self- Supporting Loan \* Those loans denoted with "\*" are subject of a repayment agreement that secured the reimbursement from a community organisation of all costs associated with the loan.

2 WATC = WA Treasury Corporation

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 22. Information on Borrowings (continued)

	Amount Borrowed		Institution	Type	Term (Years)	Total	Interest	Amount Used		Balance
	Actual	Budget				Interest	Rate	Actual	Budget	Unspent
	\$	\$				\$	%			
Buildings & Infrastructures #184	1,345,300	1,345,300	WATC	Debenture	10	225,960	3.12%	(1,345,300)	-	-
Buildings & Infrastructures #185	636,700	636,700	WATC	Debenture	10	106,942	3.12%	(636,700)	-	-
Buildings & Infrastructures #186	140,000	140,000	WATC	Debenture	10	23,120	3.07%	(140,000)	-	-
	<b>2,122,000</b>	<b>2,122,000</b>				<b>356,022</b>		<b>(2,122,000)</b>	-	-

## (b). New Debentures

	Date Borrowed	Balance	Borrowed	Expended	Balance
		1/07/2015	During Year	During Year	30/06/2016
		\$	\$	\$	\$
Buildings & Infrastructures - #183	4 May 2015	572,012	-	(572,012)	-
		<b>572,012</b>	-	<b>(572,012)</b>	-

## (c). Unspent Debentures

## (d). Overdraft

Council established an overdraft facility of \$500,000 in 2008 to assist with short term liquidity requirements. The balance of the bank overdraft at 30 June 2016 was \$0. (1 July 2015: \$0).

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 23(a). Rating Information (2015/16 Financial Year)

	Notes	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 \$
<b>Rate Type</b>												
<b>Differential General Rate</b>												
GRV - Residential		0.04561	6,098	314,309,190	14,335,642	178,471	12,644	14,526,757	14,264,400	45,600	-	14,310,000
GRV - Residential Vacant		0.06458	153	8,533,020	551,062	(29,479)	3,344	524,927	815,000	15,000	-	830,000
GRV - Non Residential		0.05689	396	51,809,833	2,947,462	18,289	(1,108)	2,964,643	2,960,200	10,000	-	2,970,200
<b>Sub-Total</b>			<b>6,647</b>	<b>374,652,043</b>	<b>17,834,166</b>	<b>167,282</b>	<b>14,880</b>	<b>18,016,327</b>	<b>18,039,600</b>	<b>70,600</b>	<b>-</b>	<b>18,110,200</b>
<b>Minimum Rates</b>												
		<b>Minimum \$</b>										
GRV - Residential		1,320	1,933	44,331,860	2,551,560	(43,794)	(3,462)	2,504,304	2,682,200	-	-	2,682,200
GRV - Residential Vacant		1,740	86	1,643,465	149,640	4,778	(914)	153,504	257,500	-	-	257,500
GRV - Non Residential		1,802	127	2,580,070	228,854	(2,408)	(1,021)	225,425	227,100	-	-	227,100
<b>Sub-Total</b>			<b>2,146</b>	<b>48,555,395</b>	<b>2,930,054</b>	<b>(41,424)</b>	<b>(5,397)</b>	<b>2,883,233</b>	<b>3,166,800</b>	<b>-</b>	<b>-</b>	<b>3,166,800</b>
								20,899,560				21,277,000
Discounts	26							-				-
								<b>20,899,560</b>				<b>21,277,000</b>
Specified Area Rate	24							-				-
<b>Totals</b>								<b>20,899,560</b>				<b>21,277,000</b>

## City of Nedlands

## Notes to the Financial Statements

for the year ended 30 June 2016

## Note 23(b). Surplus/(Deficit) B/Fwd and C/Fwd

	Notes	2016 Carried Fwd \$	2015 Carried Fwd \$
<b>Current Assets</b>			
Cash - Unrestricted	3	9,211,066	8,074,607
Cash - Restricted Reserves	3	3,993,894	4,134,091
Cash - Restricted Unspent Grants	2(d)	836	62,336
Cash - Restricted Unspent Loans	3	-	572,012
Rates - Current	5	189,136	315,038
Sundry Debtors	5	541,908	363,448
GST Receivable	5	293,859	220,474
Inventories			
- Fuel and Materials	6	24,671	18,148
Prepayments		169,673	243,349
Less: Provision for Impairment in Receivables		(1,170)	(24,522)
		<b>14,436,308</b>	<b>13,978,981</b>
<b>Current Liabilities</b>			
Sundry Creditors	9	1,964,459	1,910,383
Accrued Interest on Debentures	9	40,510	33,270
Accrued Salaries and Wages	9	50,046	96,703
Other Current Trade and Other Payables	9	257,835	-
Current Employee Benefits Provision	11	2,016,197	1,847,389
Current Loan Liability	10	939,810	696,636
		<b>5,268,856</b>	<b>4,584,381</b>
<b>Net Current Assets</b>			
		<b>9,167,452</b>	<b>9,394,600</b>
<b>Less:</b>			
Reserves - Restricted Cash	3	(3,993,894)	(4,134,091)
Self Supporting Loan Principal Repayments		(12,435)	-
<b>Add Back:</b>			
Current Loan Liability	10	939,810	696,636
		<b>6,100,933</b>	<b>5,957,145</b>

**Difference**

There was no difference between the surplus/(deficit) 1 July 2015 brought forward position used in the 2016 audited financial report and the surplus/(deficit) carried forward position as disclosed in the 2015 audited financial report.



## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 24. Specified Area Rate (2015/16 Financial Year)

The City did not impose any specified area rate during the 2015/16 financial year.

#### Note 25. Service Charges (2015/16 Financial Year)

The City did not impose any service charges during the 2015/16 financial year.

#### Note 26. Discounts, Incentives, Concessions & Write-offs (2015/16 Financial Year)

##### (a) Discounts

The City offered no discounts for the early payment of rates or any other debts to Council during the 2015/16 financial year.

	Notes	Total Cost \$	Budget Cost \$
<b>(b). Write-Offs</b>			
Rate Assessment	2(a)	1,656	6,000
General Debtors	2(a)	10,700	-
		<u>12,356</u>	<u>-</u>

##### (c). Waivers

City of Nedlands does not offer any standard waivers or write offs of rates and charges or any other debts of ratepayers unless specifically approved by Council.

##### (d). Concessions

City of Nedlands offers those residents who hold a current valid seniors and pensioners concession card.

A concession in respect of the following services:

- (i) Rates and Charges
- (ii) ESL
- (iii) Dogs and Cats Registration

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 27. Interest Charges and Instalments (2015/16 Financial Year)

	Interest Rate	Admin. Charge \$	Actual Revenue \$	Budgeted Revenue \$
Interest on Unpaid Rates	11.00%	-	59,722	61,500
ESL Interest Income	11.00%	-	5,719	5,400
Interest on Instalments Plan	5.50%	-	125,451	123,000
Deferred Rates Interest	-	-	9,450	10,900
Charges on Instalment Plan	-	36	87,486	77,900
			<b>287,828</b>	<b>278,700</b>

Ratepayers had the option of paying rates in four equal instalments, due on 24 August 2015, 9 November 2015, 24 January 2015 and 28 March 2016. Administration charges and interest applied for the final three instalments.

#### Note 28. Fees & Charges

	2016 Actual \$	2016 Budget \$	2015 Actual \$
Governance	83,815	91,900	83,595
General Purpose Funding	-	85,900	75,062
Law, Order, Public Safety	83,539	95,200	89,130
Health	79,656	90,500	93,918
Education and Welfare	754,420	749,700	730,745
Community Amenities	3,710,040	3,894,900	3,778,162
Recreation and Culture	694,564	641,500	707,251
Transport	73,527	423,900	470,560
Economic Services	858,363	1,100,400	1,036,400
Other Property and Services	43,965	26,000	30,141
	<b>6,381,888</b>	<b>7,199,900</b>	<b>7,094,964</b>

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

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 29. Grants, Subsidies & Contributions

	2016 Actual \$	2015 Actual \$
Grants, subsidies and contributions are included as operating revenues in the Statement of Comprehensive Income:		
<b>(a). By Nature &amp; Type</b>		
Operating Grants, Subsidies and Contributions	1,708,042	2,409,290
Non-Operating Grants, Subsidies and Contributions	1,626,227	626,341
	<b>3,334,269</b>	<b>3,035,631</b>
<b>(b). By Program</b>		
Governance	28,740	27,834
General Purpose Funding	362,679	1,163,719
Law, Order, Public Safety	27,072	24,128
Health	-	26,210
Education & Welfare	1,045,001	1,029,267
Recreation & Culture	843,653	546,411
Transport	884,329	207,910
Economic Services	142,795	10,152
	<b>3,334,269</b>	<b>3,035,631</b>

#### Note 30. Employee Numbers

	2016 Actual	2015 Actual
The number of full-time equivalent employees at balance date	149	164

#### Note 31. Councillor Remuneration

	2016 Actual \$	2016 Budget \$	2015 Actual \$
The following fees, expenses and allowances were paid to council members and/or the president.			
Meeting Fees	302,844	302,300	300,326
Mayor's Allowance	61,800	61,800	59,436
Deputy Mayor's Allowance	15,448	15,500	14,857
Communication Allowance	45,501	45,500	45,156
	<b>425,593</b>	<b>425,100</b>	<b>419,774</b>

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 32. Major Land Transactions

The City did not undertake any major land transaction during the 2015/16 financial year.

#### Note 33. Trading and Major Trading Undertakings

The City did not participate any trading undertaking or major trading undertakings during the 2015/16 financial year.

#### Note 34. Financial Risk Management

The City's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk.

The City's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the City.

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

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

*The City held the following financial instruments at balance date:*

	Notes	Carrying Value		Fair Value	
		2016	2015	2016	2015
		\$	\$	\$	\$
<b>Financial Assets</b>					
Cash and Cash Equivalents	3	13,205,796	12,843,046	13,210,301	12,843,046
Receivables (Current & Non-Current)	5	1,694,901	1,477,181	1,618,479	1,477,181
		<u>14,900,697</u>	<u>14,320,227</u>	<u>14,828,780</u>	<u>14,320,227</u>
<b>Financial Liabilities</b>					
Payables (Current & Non-Current)	9	2,312,849	2,040,356	2,371,847	2,040,356
Borrowings (Current & Non-Current)	10	7,187,827	5,856,699	6,666,310	5,262,246
		<u>9,500,676</u>	<u>7,897,055</u>	<u>9,038,157</u>	<u>7,302,602</u>

Fair Value is determined as follows:

- Cash & Cash Equivalents, Receivables, Payables - are estimated to be the carrying value which approximates market value.
- Borrowings - estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles.
- Financial Assets - based on quoted market prices at the reporting date or independent valuation.

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 34. Financial Risk Management (continued)

##### (a). Cash & Cash Equivalents, Financial assets "at Fair Value through the Profit & Loss", "Available-for-sale" financial assets

The City's objective is to maximise its return on cash & investments whilst maintaining an adequate level of liquidity and preserving capital. The finance area 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 is credit risk – the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to the City.

The City manages these risks by diversifying its portfolio and only investing in investments authorised by Local Government (Financial Management) Regulation 19C. Council also seeks advice from independent advisers (where considered necessary) before placing any cash and investments.

	30-Jun-16	30-Jun-15
	\$	\$
<b>Impact of a 1% <sup>(1)</sup> movement in interest rates on cash</b>		
Equity	132,058	128,400
Statement of Comprehensive Income	132,058	128,400

#### Notes:

(1) Sensitivity percentages based on management's expectations of future possible market movements.

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 34. Financial Risk Management (continued)

##### (b). Receivables

The City's major receivables comprise rates & annual charges and user charges & fees.

The major risk associated with these receivables is credit risk - the risk that debts due and payable to Council may not be repaid.

The City manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of the City to secure a charge over the land relating to the debts - that is, the land can be sold to recover the debt. The City is also able to charge interest on overdue rates & annual charges at higher than market rates which further encourages the payment of debt.

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

The City 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 subjected to a re-negotiation of repayment terms.

The profile of the City's receivables credit risk at balance date follows:

	30-Jun-16 %	30-Jun-15 %
<b>Percentage of Rates and Annual Charges</b>		
Current	47.29%	47.00%
Overdue	52.71%	53.00%
<b>Percentage of Other Receivables</b>		
Current	59.34%	54.00%
Overdue	40.66%	46.00%

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 34. Financial Risk Management (continued)

##### (c). Payables & Borrowings

Payables & Borrowings are both subject to liquidity risk - the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

The City 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 the City's Payables & 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 \$
<b>2016</b>					
Payables	2,312,848	-	-	2,312,848	2,312,849
Borrowings	1,230,330	4,672,383	2,456,666	8,359,379	7,187,827
	<b>3,543,178</b>	<b>4,672,383</b>	<b>2,456,666</b>	<b>10,672,227</b>	<b>9,500,676</b>
<b>2015</b>					
Payables	2,040,356	-	-	2,040,356	2,040,356
Borrowings	966,014	3,794,783	1,957,192	6,717,989	5,856,699
	<b>3,006,370</b>	<b>3,794,783</b>	<b>1,957,192</b>	<b>8,758,345</b>	<b>7,897,055</b>

Borrowings are also subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. The City 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 interest rates were applicable to the Council's Borrowing at balance date:

	30-Jun-16		30-Jun-15	
	Weighted average effective interest rate %	Balance \$	Weighted average effective interest rate %	Balance \$
Borrowings - Fixed	4.26%	7,187,827	4.74%	5,856,699
		<u>7,187,827</u>		<u>5,856,699</u>

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 35. Fair Value Measurements

The City measures the following asset and liability classes at fair value on a recurring basis:

- Land
- Buildings
- Furniture and Equipment
- Plant and Equipment
- Roads
- Footpaths
- Drainage
- Parks, Gardens, Reserves and Reticulation
- Street Furniture

(1) The following table presents all assets and liabilities that have been measured & recognised at fair values:

	Note	Recurring Fair Value Measurement			
		Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>2016</b>					
<b>Property, Plant &amp; Equipment</b>					
- Land	7a	-	35,664,000	97,000	35,761,000
- Buildings	7a	-	290,252	25,147,285	25,437,537
- Furniture and Equipment	7a	-	905,712	-	905,712
- Plant and Equipment	7a	-	3,147,140	-	3,147,140
<b>Total Property, Plant &amp; Equipment</b>		<b>-</b>	<b>40,007,104</b>	<b>25,244,285</b>	<b>65,251,389</b>
<b>Infrastructure</b>					
- Roads	8a	-	-	74,344,084	74,344,084
- Footpaths	8a	-	-	16,710,652	16,710,652
- Drainage	8a	-	-	23,989,238	23,989,238
- Parks, Gardens, Reserves and Reticulation	8a	-	-	10,767,381	10,767,381
- Street Furniture	8a	-	-	1,193,809	1,193,809
<b>Total Infrastructure</b>		<b>-</b>	<b>-</b>	<b>127,005,164</b>	<b>127,005,164</b>
<b>2015</b>					
<b>Property, Plant &amp; Equipment</b>					
- Land	7a	-	35,664,000	97,000	35,761,000
- Buildings	7a	-	321,110	23,000,191	23,321,301
- Furniture and Equipment	7a	-	1,149,617	-	1,149,617
- Plant and Equipment	7a	-	2,861,008	-	2,861,008
<b>Total Property, Plant &amp; Equipment</b>		<b>-</b>	<b>39,995,735</b>	<b>23,097,191</b>	<b>63,092,926</b>
<b>Infrastructure</b>					
- Roads	8a	-	-	73,279,293	73,279,293
- Footpaths	8a	-	-	16,685,693	16,685,693
- Drainage	8a	-	-	23,963,720	23,963,720
- Parks, Gardens, Reserves and Reticulation	8a	-	-	10,116,215	10,116,215
- Street Furniture	8a	-	-	1,210,970	1,210,970
<b>Total Infrastructure</b>		<b>-</b>	<b>-</b>	<b>125,255,891</b>	<b>125,255,891</b>



## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 35. Fair Value Measurements (continued)

##### (2) Transfers Policy

The policy of the City of Nedlands is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period. There were no transfers between Level 1, Level 2 or Level 3 for recurring fair value measurements during the year.

##### (3) Valuation techniques and inputs used to derive Fair Value

The following table summarises the valuation inputs and techniques used to determine the fair value for each asset class.

Asset Class	Level of Valuation Input	Fair Value at 30 June 2016 \$	Valuation Technique(s)	Inputs Used
Land	2	35,664,000	Market Approach	Price per square metre
Land	3	97,000	Cost Approach	Ground rent included with the cost of developing the golf course and applied the Depreciated Replacement Cost over the estimated economic working life, assuming the lease will be renewed, utilising the straight line depreciation method
Buildings	2	290,252	Market Approach	Price per square metre
Buildings	3	25,147,285	Cost Approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount
Furniture and Equipment	2	905,712	Market Approach	Make, size, year of manufacture and condition
Plant and Equipment	2	3,147,140	Market Approach	Make, size, year of manufacture and condition.
Roads	3	74,344,084	Cost Approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount
Footpaths	3	16,710,652	Cost Approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount
Drainage	3	23,989,238	Cost Approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount
Parks, Gardens, Reserves and Reticulation	3	10,767,381	Cost Approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount
Street Furniture	3	1,193,809	Cost Approach	Estimates of residual value, useful life, pattern of consumption and asset condition and relationship to the assessed level of remaining service potential of the depreciable amount
Total		192,256,553		

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 35. Fair Value Measurements (continued)

##### (3) Valuation techniques and inputs used to derive Fair Value (continued)

##### Property, Plant & Equipment

###### Land

Level 2 valuation inputs are used to value land held in freehold title as well as land used for special purposes that are restricted in use under current zoning rules (i.e. Commercial, Industrial or Residential). Sales prices of land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

The Golf Course has been valued on the basis that the City of Nedlands developed the course and, whilst a lease is in place for a nominal amount per year, the Present Value of a typical ground lease was applied over the period of the lease. The ground rent has been included with the cost approach of developing the golf course (including fairways, sand greens, bunkers, tee boxes etc.) and applied the Current Replacement Cost (CRC) approach, based on the original or effective age of the asset, depreciated over the Estimated Economic Working Life (EOWL), assuming the lease will be renewed, utilising the straight line depreciation method.

###### Buildings

The City's buildings assets are considered to be of a specialised nature (non-market type properties which are not readily traded in the market place) were valued by professionally qualified registered valuers using the cost approach. This approach is commonly referred to as the Current Replacement Cost (CRC). The "DRC" approach considers the cost (sourced from cost guides such as Rawlinsons, Cordell, professional quantity construction costs for similar projects throughout Western Australia) to reproduce or replace similar assets with an asset in new condition, including allowance for installation, less an amount for depreciation in the form of accrued physical wear and tear, economic and functional obsolescence. This approach is an accepted method in arriving at a market value.

###### Plant and Equipment

Plant and equipment were revalued in 2013 a part of the mandatory requirements embodied in Local Government (Financial Management) regulations 17A. Whilst the additions since 1 July 2013 have been brought in the books at cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered that the recorded written down values approximate fair values.

Thus, the value of class of assets in the City's books is considered to be in accordance with Local Government Financial Management Regulation 17A which requires these assets to be shown at fair value.

Plant and Equipment will be revalued during the year ended 30 June 2016 in accordance with the mandatory asset measurement framework detailed at Note 1 (f). Most plant and equipment assets are generally valued using the market and cost approach using comparable sales and relevant industry market price reference guides, and have been classified as being valued at Level 2 of the fair value hierarchy. The most significant inputs into this valuation approach are the make, size, year of manufacture and condition

## City of Nedlands

### Notes to the Financial Statements for the year ended 30 June 2016

#### Note 35. Fair Value Measurements (continued)

##### (3) Valuation techniques and inputs used to derive Fair Value (continued)

##### Property, Plant & Equipment (continued)

##### Furniture and Equipment

Furniture and equipment were revalued in 2013 a part of the mandatory requirements embodied in Local Government (Financial Management) regulations 17A. Whilst the additions since 1 July 2013 have been brought in the books at cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered that the recorded written down values approximate fair values.

Thus, the value of class of assets in the City's books is considered to be in accordance with Local Government Financial Management Regulation 17A which requires these assets to be shown at fair value.

Furniture and Equipment revalued during the year ended 30 June 2016 in accordance with the mandatory asset measurement framework detailed at Note 1(f).

The income approach is not appropriate given the City does not generate cash flows from the use of these assets. The market value approach that would be best achieved through a qualified valuer is an expensive exercise for an asset class that lacks materiality. Given there is not an active or liquid market for much of the City's Furniture and Equipment it is questionable if the market approach is deemed to be fair value of furniture and Equipment.

##### Infrastructure

##### Road, Footpaths, Drainage, Street Furniture

All Road, Footpaths, Drainage, Street Furniture infrastructure assets were valued using level 3 valuation inputs using the cost approach

The approach estimated the replacement cost for each asset by componentising assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on square metres or similar capacity could be supported from market evidence (level 2) other inputs (such as estimates of residual value, useful life, pattern of consumption and asset condition) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using level 3 valuation inputs.

During the year there were a number of new projects completed where the actual cost was recorded and the impact of depreciation at year end was negligible. While these could be classified as valued at level 2, given the low proportion of the total portfolio that these represented and the likelihood that in future valuations they would most likely be valued at level 3, we have adopted a policy that all Road, Footpaths, Drainage, Street Furniture infrastructure assets are deemed to be valued at level 3.

## City of Nedlands

### Notes to the Financial Statements

for the year ended 30 June 2016

#### Note 35. Fair Value Measurements (continued)

##### (3) Valuation techniques and inputs used to derive Fair Value (continued)

###### Infrastructure (continued)

###### Parks, Gardens, Reserves and Reticulation

The Parks, Gardens, Reserves and Reticulation Asset Class is wholly comprised of specialised homogenous assets. It was determined that the valuation of this asset class would be an expensive exercise for an asset class that lacks materiality. Given there is not an active or liquid market for much of the City's Parks, Gardens, Reserves and Reticulation assets, management deemed the depreciated replacement cost of the assets in the asset register as an acceptable surrogate for the fair value for the asset class.

##### (4) Valuation Process

The City's land, buildings and infrastructure assets are valued using external independent valuers on a regular basis, with a management valuation carried out on plant and equipment and furniture and equipment asset class. This is in line with Regulation 17(A) of the *Local Government (Financial Management) Regulations 1996*.

As at 30 June 2016, a comprehensive revaluation was undertaken for the Plant and Equipment and Furniture and Equipment asset classes internally by management. The valuation process was undertaken in close consultation with experienced City staff and reference to relevant industry guides such as *Glasses* to determine the fair value of the relevant asset classes. Evidence of market value was obtained from the sales evidence of similar or reference assets.

This included preparation of a valuation methodology, applying assumptions and inputs. Changes in fair values were analysed at the end of the reporting period. Consequently, management is satisfied with the results of the valuations undertaken and confirm that the movement in the asset values are reasonable.

##### (5) Disclosed Fair Value Measurements

The following assets and liabilities are not measured at fair value in the statement of financial position, but their fair values are disclosed in the notes:

Description	Note	Fair Value Hierarchy Level	Valuation Technique(s)	Inputs Used
Liabilities				
Borrowings	34	2	Income approach using discounted cash flow methodology	Current treasury borrowing rates for similar instruments

There has been no change in the valuation technique(s) used to calculate the fair values disclosed in the notes to the financial statements.

##### (6) Highest and best use

All of Council's non financial assets are considered to being utilised for their highest and best use.



Certified Practising Accountants

## **CITY OF NEDLANDS**



Audit Completion Report to the  
Audit Committee  
For the Year Ended 30 June 2016

4 November 2016

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# 1. Executive Summary

Under the requirements of Australian Auditing Standard ASA 260: “*Communication with Those Charged with Governance*”, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Completion Report together with our previous External Audit Plan reported to the Audit Committee in June 2016 discharges the requirements of the Auditing Standard.

This report has been prepared for the Audit Committee to summarise the significant matters that have arisen from our year-end audit of the City of Nedlands for the year ended 30 June 2016.

## 1.1 Status of Audit

Our audit field work at the City of Nedlands for the financial year ended 30 June 2016 has been completed.

Before our Independent Auditor’s Report is signed off and issued to the Council, the following outstanding matter is required to be attended to:

- Receipt of signed management representation letter by the auditor from management
- Completion of audit procedures relating to Auditing Standard ASA 560 *Subsequent Events* to be performed up to the date of signing the Independent Auditor’s Report.

## 1.2 Deliverables

Output	Timing
External Audit Plan	27 June 2016
Interim Audit Management Letter	4 August 2016
Present this report (Audit Completion Report) to the Audit Committee	7 November 2016
Provide Independent Auditor’s Report on the Financial Report	After recommendation of Financial Report by Audit Committee

## 2. Financial Statements and Audit Opinion

### Audit Opinion

We have completed the audit of the City of Nedlands' accounts in line with current Australian Auditing Standards and will give an **Unqualified Opinion** [subject to subsequent events procedures] that the financial report of the City of Nedlands:

- (a) gives a true and fair view of the financial position of the City of Nedlands as at 30 June 2016 and of its financial performance for the year ended on that date; and
- (b) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards (including Australian Accounting Interpretations).

### Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- (a) There are no matters that in our opinion indicate significant adverse trends in the financial position or financial management practices of the Council.
- (b) Except as detailed below, no other matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit:

#### **Submission of Annual Financial Report**

**The accounts and annual financial report for the year ended 30 June 2016 were not submitted to the auditor by 30 September 2016 as required by Section 6.4(3) of the Local Government Act 1995.**

- (c) In relation to the asset consumption ratio and asset renewal funding ratio (presented at Note 21 of the annual financial report) we have reviewed the calculations as presented and nothing has come to our attention to suggest they are not:
  - (i) reasonably calculated; and
  - (ii) based on verifiable information.
- (d) All necessary information and explanations were obtained by us.
- (e) All audit procedures were satisfactorily completed in conducting our audit.

Refer to **Appendix 1** for our Proposed Draft Independent Auditor's Report.

## 3. Current Year Areas of Audit Focus

Our audit procedures were focused on those areas of City of Nedlands' activities that are considered to represent the key audit risks identified in our external audit plan and through discussions with management during the course of our audit.



	Risk Area	Audit Response
1	Revaluation of: <ul style="list-style-type: none"> <li>○ Plant and Equipment</li> <li>○ Furniture and Equipment</li> </ul>	<p>Regulation 17A(4) of the LG (Financial Management) Regulations 1996 requires Plant and Equipment assets to be measured at fair value for the year ended 30 June 2016. The City's Plant and Equipment and Furniture and Equipment asset classes were revalued at fair value internally by management at 30 June 2016.</p> <p>Audit procedures involved:</p> <ul style="list-style-type: none"> <li>• testing capital asset additions on a sample basis for accuracy to supporting documentation</li> <li>• reviewing the valuation methodology documents showing the basis of the asset valuations (at fair value) undertaken</li> <li>• considering the judgements, assumptions and data used together with the reasonableness of any estimation techniques applied</li> <li>• Verifying asset reconciliation schedules against trial balance reported amounts.</li> </ul> <p>Results of the audit procedures conducted did not highlight any issues to bring to your attention.</p>
2	Risk of Fraud through Management Override of Controls	<p>Australian Auditing Standards ASA 240 – <i>The auditor's responsibility to consider fraud in an audit of financial statements</i> requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud.</p> <p>In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>• accounting estimates impacting amounts included in the financial statements;</li> <li>• consideration and review of unusual or significant transactions outside the normal course of business; and</li> <li>• journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul> <p>Results of the audit procedures conducted did not highlight any issues to bring to your attention.</p>

3	Revenue Recognition	<p>Accounting Standards for Revenue and Contributions recognition may prevent Councils from recording unexpended grants as a liability instead of revenue (grants and contributions received in advance)</p> <p>Audit procedures included substantiation and verification of cut-off procedures and assessment of whether treatment of revenue is consistent with Accounting Standards AASB 118 <i>Revenue</i> and AASB 1004 <i>Contributions</i>.</p> <p>Results of the audit procedures conducted did not highlight any issues to bring to your attention.</p>
4	Financial Ratios	<p>The Department of Local Government and Communities launched a new website <a href="http://www.mycouncil.wa.gov.au">www.mycouncil.wa.gov.au</a> where all key financial ratios for every Council will be reported to allow the public to view the financial health score of local governments.</p> <p>Audit procedures included checking the calculations of the financial ratios and assessing the reasonableness of explanations provided for any significant variations.</p> <p>At this date, we are satisfied with the current disclosure of the ratios in the financial report.</p>
5	Contingent Liabilities	<p>Audit procedures included discussions with management, review of Council minutes and reviewing the solicitor's representation letters to identify the possible existence of contingencies which may require disclosure in the financial statements.</p> <p>At this date, we are satisfied with the current disclosure in the financial report.</p>

We are satisfied that these key areas of focus have been addressed appropriately based on our audit procedures and are properly reflected in the City's financial report.

## 4. Assessment of Internal Controls

Our interim phase of the audit indicated that the current internal control systems and processes are reasonable. They are designed adequately for the City's current business operations.

However, a separate Interim Audit Management Letter has been provided to management following our interim audit which provides details of the internal control and compliance matters raised.

We will be following up on the implementation of the management comments during our next interim audit visit. The result of our follow-up will be reported within our next Interim Audit Management Letter.

## 5. Key Findings During Final Phase of Audit

During our audit planning procedures and risk identification process, we identified a number of key focus areas as outlined in Section 3. In addition, during the course of our year-end fieldwork, the following audit matters were noted.

We request that the Audit Committee review the matters below and satisfy themselves that:

- there are no other matters of which the Audit Committee is aware that would impact these issues;
- there are no other significant issues that ought to be considered before recommending the adoption of the financial statements to the Council; and
- the Audit Committee concurs with the resolution of the issues as described below.

<b>1</b>	<b>Area: Asset Register Reconciliations</b>
	<b>Issue</b>
	During the audit, we noted that the City’s asset registers were not reconciled to the general ledger due to accounting for the assets at a later date within the Authority system and non-recognition of the adjustments on time. We were advised that this was the same reason why other assets revalued in prior years were having the same issue of balancing with the asset register.
	<b>Resolution/Recommendation</b>
	We recommend that any asset additions, disposals or adjustments should be entered onto the asset register on a timely basis. Further, as a control activity to prevent the above issue, the asset register should be reconciled to the general ledger at the end of each month.

<b>2</b>	<b>Area: Derecognition of Buildings</b>
	<b>Issue</b>
	During the audit, we also noted that there were several buildings which were demolished during the year and consequently derecognised from the asset register. However, we were unable to obtain any supporting documentation to substantiate the approval for derecognition.
	<b>Resolution/Recommendation</b>
	In our opinion, all decisions to derecognise an asset should be authorised and supported by appropriate documentation prior to removal from the financial asset register.

<b>3</b>	<b>Area: Readiness for Audit and Client Workpapers</b>
	<b>Issue</b>
	<p>As part of our planning for the final audit phase, we prepared and forwarded a detailed document request in June 2016 which outlined the information that we would require to complete the audit. A number of client working papers and schedules were not ready prior to the audit process commencing.</p> <p>This caused some delays in the audit process and increased audit costs as it required the further audit work to be completed from our office through liaising with the City's finance team. Whilst we accept that we were provided a copy of the financial report during our site visit, the report originally submitted for audit has been substantially amended since that time based on the amount of errors noted.</p>
	<b>Resolution/Recommendation</b>
	<p>All client working papers/schedules should be readily available prior to the audit process commencing. This will improve efficiency of the audit process thereby benefitting the City's management and the audit team.</p> <p>Management should ensure controls over the preparation of the financial statements are properly designed, implemented and operating effectively. Further, the City's financial statements should be rigorously reviewed before they are submitted for audit.</p>

<b>4</b>	<b>Area: Asset Management Plans</b>
	<b>Recommendation</b>
	<p>Given the significant work undertaken in the revaluation of the City's Property, Plant and Equipment and Infrastructure Assets during the financial years ended 30 June 2013 to 30 June 2016, we recommend that Asset Management Plans for each asset class be reviewed and updated with the most recently acquired data collected to ensure all future projections of required capital maintenance and upgrades remain reliable for strategic decision making purposes.</p> <p>Updated projections from the Asset Management Plans should be factored into the City's Long Term Financial Plan estimates to ensure appropriate planning for future funding requirements are appropriately planned for and known.</p>

## 6. Significant Changes for the 2016/17 Year

### **AASB 2015–6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities was released in March 2015.**

The effective date is annual reporting periods beginning on or after 1 July 2016 (i.e. 30 June 2017) financial statements for Councils, comparatives are not required.

AASB 2015-6 removes the scope exemption currently within AASB 124 *Related Party Disclosures* for not-for-profit public sector entities which means that they will need to comply with all paragraphs in AASB 124. The AASB did not include any not-for-profit public sector specific paragraphs in AASB 124 however Australian Implementation Guidance has been added as an Appendix.

The impact of this standard will be disclosure in nature only – there is no impact to reported financial position or performance. The implementation guidance reminds Councils that materiality still exists in this context and provides the following information:

*“as is often the case with related party transactions, judgement would be required as to when transactions are material, especially when qualitative assessments are made about the nature of transactions.”*

*“entity would also need to apply judgement in determining the extent of information it needs to collect to meet the objective of AASB 124, as there is little value in an entity incurring significant costs to obtain data that is immaterial for disclosure.”*

When Councils are considering whether a disclosure of a related party transaction is material they should consider not just the financial amount but whether the user of the financial statements would be impacted by the information in making decisions, i.e. in their vote for Councillors, etc. An alternative way of thinking about whether a disclosure should be included is whether omitted information would make newspaper headlines if it were to be discovered.

Key Management Personnel will include all Councillors, Directors and all Senior Staff as determined by the Local Government Act 1995.

The additional disclosures are not onerous; however the time-consuming part of this standard is in identifying the transactions. The City is encouraged to refer to the Accounting Standard AASB 124 *Related Party Disclosures* and liaise with the Department of Local Government and Communities (DLGC) for further clarification or guidance on the types of disclosures for Not-for-profit public entities.

## 7. Specific Required Communications

The Australian Auditing Standard ASA 260: “*Communication with Those Charged with Governance*” requires the auditor to communicate certain matters to the Audit Committee that may assist them in overseeing management’s financial reporting and disclosure process. Below we summarise these required communications as they apply to your organisation.

Reporting Requirement	Detailed Comments
Changes to Audit Approach Outlined in External Audit Plan	<ul style="list-style-type: none"> <li>➤ There were no changes to the audit approach outlined in the External Audit Plan.</li> </ul>
Significant accounting policies	<ul style="list-style-type: none"> <li>➤ Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Nedlands including new pronouncements adopted during the year, are described in Note 1 to the financial statements.</li> <li>➤ There were no significant changes in the application of existing policies during the year ended 30 June 2016. The accounting policies adopted in the financial statements are appropriately disclosed.</li> </ul>
Sensitive Accounting Estimates and Disclosures	Refer to “Current Year of Audit Focus” section
Misstatements and significant audit adjustments	<ul style="list-style-type: none"> <li>➤ We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature.</li> </ul> <p>In the context of the City of Nedlands, we consider that amounts of a value less than \$31,000 should be considered trivial. This represents 5% of materiality.</p> <ul style="list-style-type: none"> <li>➤ A number of disclosure adjustments to the financial statements have been discussed and amended during the course of our audit.</li> <li>➤ All financial adjustments that have been raised through our audit work have been adjusted in the financial report meaning there are no unadjusted misstatements to report.</li> </ul>
Significant Weaknesses in Internal Controls	<ul style="list-style-type: none"> <li>➤ No significant weaknesses in internal control were identified. Refer to our Interim Audit Management Letter.</li> </ul>
Disagreements with management	<ul style="list-style-type: none"> <li>➤ There have been no significant disagreements with management during the course of the audit.</li> </ul>
Serious Difficulties Encountered in Dealing with Management	<ul style="list-style-type: none"> <li>➤ There were no serious difficulties encountered in dealing with management when performing the audit. However, please</li> </ul>

<p>when Performing the Audit such as:</p> <ul style="list-style-type: none"> <li>• Significant delays in management providing required information</li> <li>• An unnecessarily brief time within which to complete the audit</li> <li>• Extensive unexpected effort required to obtain sufficient appropriate audit evidence</li> <li>• The unavailability of expected information</li> <li>• Restrictions imposed on the auditor by management</li> </ul>	<p>refer to Section 5 – Issue 3 for further details on Readiness for Audit and Client Workpapers.</p>
<p>Fraud and Illegal Acts</p>	<ul style="list-style-type: none"> <li>➤ We are not aware of any matters that require communication.</li> <li>➤ We would request that the Audit Committee members raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.</li> </ul>
<p>Compliance with laws and regulations</p>	<ul style="list-style-type: none"> <li>➤ In performing our audit procedures, we have not become aware of any non-compliance with applicable laws or regulations that would have an impact on the determination of material amounts and disclosures in the financial report.</li> <li>➤ We await written representations from management confirming that the Council is in compliance with all laws and regulations that impact the Council.</li> </ul>
<p>Books and records and conduct of the audit</p>	<ul style="list-style-type: none"> <li>➤ We have been presented with all the necessary books and explanations requested of management to support the amounts and disclosures contained in the financial statements in a timely and efficient manner.</li> </ul>
<p>Other Information in Documents Containing Audited Financial Statements</p>	<ul style="list-style-type: none"> <li>➤ Our financial statement audit opinion relates only to the financial statements and accompanying notes.</li> </ul> <p>Other information in the Annual Report will be reviewed for consistency with the audited financial statements, when available.</p>
<p>Related Party Transactions</p>	<ul style="list-style-type: none"> <li>➤ None of which we are aware.</li> </ul>
<p>Major Issues Discussed with Management in Connection with Initial or Recurring Retention</p>	<ul style="list-style-type: none"> <li>➤ None.</li> </ul>
<p>Going concern</p>	<ul style="list-style-type: none"> <li>➤ As part of our audit, we have assessed and agreed with the conclusions reached by the management concerning the application of the going concern concept.</li> </ul>

Independence	<ul style="list-style-type: none"><li>➤ We confirm that, as the date of this report, we are independent having regard to Macri Partners' policies, professional rules and relevant statutory requirements regarding auditor independence.</li><li>➤ During the year ended 30 June 2016, Macri Partners has not provided any non-audit services to the City of Nedlands.</li></ul>
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## 8. Disclaimer

This report has been prepared for the Audit Committee and management of the City of Nedlands only. It should not be quoted or referred to, in whole or in part, without our prior written consent. No warranty is given to, and no liability will be accepted from, any party other than the City of Nedlands.



## 9. Appendix 1 - Proposed Audit Opinion

### 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 2016 and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, 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 information and Statement by Chief Executive Officer.

#### **Management's Responsibility for the Financial Report**

Management is responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal controls as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

#### **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 management'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 Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 have complied with the independence requirements of the Accounting Professional and Ethical Standards Board.

# **INDEPENDENT AUDITOR'S REPORT**

## **TO: RATEPAYERS OF CITY OF NEDLANDS (Cont'd)**

### **Auditor's Opinion**

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

- (a) gives a true and fair view of the financial position of the City of Nedlands as at 30 June 2016 and of its financial performance for the year ended on that date; and
- (b) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards (including Australian Accounting Interpretations).

### **Report on Other Legal and Regulatory Requirements**

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- (a) There are no matters that in our opinion indicate significant adverse trends in the financial position or financial management practices of the Council.
- (b) Except as detailed below, no other matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit:

#### *Submission of Annual Financial Report*

The accounts and annual financial report for the year ended 30 June 2016 were not submitted to the auditor by 30 September 2016 as required by Section 6.4(3) of the Local Government Act 1995.

- (c) In relation to the asset consumption ratio and asset renewal funding ratio (presented at Note 21 of the annual financial report) we have reviewed the calculations as presented and nothing has come to our attention to suggest they are not:
  - (iii) reasonably calculated; and
  - (iv) based on verifiable information.
- (d) All necessary information and explanations were obtained by us.
- (e) All audit procedures were satisfactorily completed in conducting our audit.

**INDEPENDENT AUDITOR'S REPORT**  
**TO: RATEPAYERS OF CITY OF NEDLANDS (Cont'd)**

**Matters Relating to the Electronic Publication of the Audited Financial Report**

This auditor's report relates to the financial report of City of Nedlands for the year ended 30 June 2016 included on the City of Nedlands' website. Management is responsible for the integrity of the City of Nedlands' website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

---

**MACRI PARTNERS  
CERTIFIED PRACTISING ACCOUNTANTS  
SUITE 2, 137 BURSWOOD ROAD  
BURSWOOD WA 6100**

---

**A MACRI  
PARTNER**

**PERTH  
DATED THIS        DAY OF                    2016.**



4 August 2016

Chief Executive Officer  
City of Nedlands  
P O Box 9  
NEDLANDS WA 6909



Dear Sir

**RE: INTERIM AUDIT VISIT FOR THE YEAR ENDED 30 JUNE 2016**

We carried out an interim audit of the City of Nedlands for the year ended 30 June 2016. Our interim audit covered a review of the accounting and internal control procedures in operation, as well as testing of transactions, in the following areas:

- Bank Reconciliations
- Investment of Surplus Funds
- Purchases
- Payments and Creditors
- Rate Receipts and Rate Debtors
- Receipts and Sundry Debtors
- Payroll
- General Accounting (Journals, etc.)
- IT Controls
- Registers (Tenders Register, etc.)
- Fixed Assets (Property, Plant & Equipment and Infrastructure)
- Review of Council Minutes

Our review also covered an examination of some compliance matters, which are required under the Local Government Act 1995 (as amended) and Financial Management Regulations 1996.

Please note that our examination of internal controls was carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the City of Nedlands. Because of the inherent limitations of any internal control structure, it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Any projection of the evaluation of control 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.

It should be appreciated that the matters noted came to our attention during the course of our normal audit examination and as a result do not necessarily include all those matters which a more extensive or special examination might identify. Accordingly, our comments in this management letter are not intended to cover all aspects of the City's internal controls and accounting systems and are limited to those matters that arose from our normal audit procedures.

The following matters were noted and are brought to your attention.

### **BANK RECONCILIATIONS**

- (i) During our review of the bank reconciliations as at 29 April 2016, for the Municipal Fund and Trust Fund, we noted that the unrepresented cheque listing included a number of cheques that were more than 18 months old. These stale cheques may no longer be presented at the bank and should therefore be written back.

We recommend that the unrepresented cheque listing be reviewed on a more regular basis to ensure that there are no old outstanding cheques in the list. Any long outstanding cheques should be investigated and cleared from the system, as appropriate.

#### **Management Comment:**

***As part of our financial year end review and Audit recommendations, Management will be writing off a total of 20 stale cheques as at 30 June 2016.***

***In addition, a process will be introduced to perform a regular review of outstanding cheques and will include recommendations for dealing with them. This process will be signed off by the Manager, Finance.***

- (ii) During our review of the monthly bank reconciliations from July 2015 to April 2016 for the Municipal and Trust Bank Accounts, we noted that whilst they showed that they were signed by the preparer and reviewer, the dates of review were not indicated. Hence, we were unable to ascertain if the bank reconciliations have been reviewed on a timely basis.

We recommend that the bank reconciliations be dated by the reviewer to enhance the bank reconciliation process and provide evidence that they have been reviewed in a timely manner.

#### **Management Comment:**

***Management concurs with Audit recommendation and commencing July 2016, all bank reconciliations will be reviewed, signed and dated by the Finance Supervisor.***

## PURCHASES AND PAYMENTS

As part of our audit, we carried out a review of the purchasing and payments system. Our audit procedures have been designed to determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures. Professional judgement is used to assess the risk of material misstatement and to design and perform further audit procedures where necessary to reduce the risk to an acceptable low level. Our audit procedures have been designed to determine whether purchases of goods/services were in accordance with the City's Purchasing of Goods and Services Policy.

Generally the controls surrounding purchases, creditors and payments are appropriate to meet the City's requirements.

However, the following matters were noted as requiring attention:

- (i) Our review of the outstanding purchase orders listing as at 4 May 2016 revealed that some purchase orders were outstanding since May 2013. Our checks revealed that some of these outstanding purchase orders were completed and require cancellation.

We request that management review the outstanding purchase orders and purge unwanted and fulfilled purchase orders from the system. This will ensure that only valid outstanding purchase orders remain in the system.

### **Management Comment:**

***The Finance Supervisor performs a review of completed orders once every 6 months as a result of Audit recommendation.***

***However, due to an Authority systems glitch, there were 8 outstanding purchasing orders since May 2013 - these have recently been resolved. Management will continue to monitor system performance to ensure that these issues do not occur again in the future***

- (ii) During our testing, we noted three (3) instances (18 samples tested) where purchase orders were raised only after the goods and services have been supplied and invoices received.

The nature of the procurement for these instances was:

- Park pavilion structural services and energy assessment
- Fire equipment testing
- Farewell function for staff member

Such practice may increase the risk of unauthorised purchases being made. We request that purchase orders be raised when the goods and services are ordered and not after the goods and services have been received. This will ensure that goods and services have been obtained at the most competitive prices and ensure adherence to the City's Purchasing of Goods and Services Policy.

Where the final value for procurement of regular and ongoing acquisition of services is unknown, standing orders may be used containing an estimated price.

**Management Comment:**

***The three instances which occurred were once off and unlikely to be repeated in future.***

***However, Management agrees that it is not acceptable for an order to be raised after the receipt of an invoice and will ensure that this requirement is met by all Budget Holders. This will be done via communication and identification of training where necessary.***

***In addition, if in the future one of these non-compliance occurs the Accounts Payable Officer in Finance will alert the Finance Manager and ensure immediate follow up and adherence to the City's Purchasing of Goods and Services Policy.***

**CORPORATE CREDIT CARDS**

As part of the audit, we examined the policy and procedures in place for the use of corporate credit cards.

The following matter was noted and brought to your attention:

During our testing, we noted 3 instances (3 samples tested) where corporate credit cardholders were approving expenditure incurred on their own credit cards. There was no evidence of an independent review and approval by a senior officer of the expenditure incurred by the cardholders.

We recommend that expenditure incurred by the corporate credit cardholders be reviewed and approved by an independent senior officer.

**Management Comment:**

***Management agrees with Audit findings and with effect from July 2016, all credit card expenditure will be reviewed by the Director Corporate & Strategy. In the case of the review of the credit card held by the Director Corporate & Strategy – this will be reviewed by either of the other two Directors. These changes will be incorporated as part of the review of the Credit Card Policy as agreed with the Internal Auditors in July 2016***



## CREDITORS

Our discussions with the Accounts Payable Officer revealed that background checks (e.g. company extracts obtained to view shareholders' and directors' details, etc.) are performed on suppliers where the procurement amount is expected to exceed \$40,000. The limit has been set by management based on the procurement limits in the City's Purchasing of Goods and Services Procedure Manual to request at least three written quotations. Such background checks serve as an anti-fraud control and assist to identify current or past Council employees, elected members, etc.

In our opinion, we believe that the monetary threshold limit used for undertaking background checks is high.

We recommend that a lower realistic monetary threshold limit be implemented in order for background checks to be performed. This should involve applying a 'risk-based' approach and designing and implementing procedures which identify the circumstances in which background checks may be required.

### **Management Comment:**

***The \$40,000 threshold was set after due assessment by management of the risk level of the intended creditors, in line with the current purchasing policy and procedures. As City's regular purchases are mainly from long-established suppliers, new suppliers are mainly used for one-off purchases which are not provided by our current suppliers. Management will continue to monitor the new supplier request and assess the threshold on an annual basis.***

## RATES

The City's rating procedures were reviewed to ensure that they were in compliance with statutory requirements and that rates have been imposed correctly. This also included a review of the rate notices issued and the process of reconciliation of the Valuer General's reports to the Rates Ledger.

We checked a limited number of property assessments from the Rates Ledger to ensure that the rates calculations, raising and postings to the Rates and General Ledger were correctly performed.

The following matter was noted and brought to your attention:

We noted that there was no documentary evidence the reconciliations between the City's rates ledger and the interim Gross Rental Value (GRV) valuation reports from the Valuer General were reviewed by an independent senior officer.

The lack of or inadequate review and approval could result in the following:

- errors may be overlooked resulting in misstatements that could affect financial, as well as operational decisions
- inaccurate or incomplete information in accounts and/or reports
- inability to detect irregularities

We recommend that the reconciliations between the rates ledger and the interim Gross Rental Value (GRV) valuation reports be reviewed by an independent senior officer to ensure any unusual reconciling items are investigated. The reconciliations should be initialled as evidence that the reviews have been performed.

**Management Comment:**

***Agree with comments and will introduce a process to address this. Rates Officer will produce the Interim GRV valuation report and subsequent Rates GL reconciliation at every Interim GRV change advised by the Value General. Coordinator Management Accounting will check and approve the work***

**SUNDRY DEBTORS**

The sundry debtors system including raising of invoices was reviewed and testing conducted to ensure proper procedures have been followed.

The following matters were noted during the audit:

- (i) The City leases premises to various clubs. During the audit, we noted that the City had raised invoices to tenants for outgoings incurred from the 2013 financial year to date only in September 2015.

This, prima facie, may indicate possible loss of revenue to the City over the past few years since commencement of the leases.

We request management to:

- (a) review all leases entered into by the City to ensure that revenues (lease amounts and outgoings) are being identified and collected on a timely basis; and
- (b) introduce a monitoring process over revenue collection for all leases entered into by the City.

**Management Comment:**

***The reasons why the City did not recover the outgoings are mainly due to an absence of sub-meters for utility usage at certain leased properties and a proper staff handover procedure. These shortcomings have now been eliminated as some sub-meters are now installed at leased properties. In addition, the City will consider a valued added internal audit review of all the City's leases by BDO, our Internal Auditors.***

- (ii) Some of the leases entered into by the City with external parties for the lease of premises contain a requirement to comply with the *Commercial Tenancies (Retail Shops) Agreements Act 1985* (Retail Shops Act).

Amongst other things, the *Commercial Tenancies (Retail Shops) Agreements Act 1985* requires the City to provide the tenant an updated budget estimate of the outgoings each year and statements relating to the actual outgoings incurred for the year.

We observed that these requirements have not been undertaken by the City to date.

We request that all leases entered into by the City for any tenancies that fall under the ambit of *Commercial Tenancies (Retail Shops) Agreements Act 1985*, be reviewed as part of the City's obligations to comply under the Act.

**Management Comment:**

***The City accepts the Audit recommendation and will perform a review of all leases in this regard by June 2017.***

**RECEIPTING**

As part of our review of the City's receipting function at the Council Administration Office, we noted that:

- the "Cashier Summary" and "Receipt Listing Prior to Closing" reports produced from the system are reconciled to the daily takings (cash, EFTPOS, credit cards, etc.) at the end of the day by the customer service officer; and
- the reports lists any voided receipts processed during the day by the customer service officer.

However, there was no documentary evidence that this reconciliation reports including the list of voided receipts were reviewed by an independent senior officer. Voided receipts can be used to cover up misappropriation or cash discrepancies.

We recommend that the "Receipt Listing Prior to Closing" report be reviewed and initialled by a senior officer independent of the receipting function to indicate that the receipt reconciliations are correct, all cancelled receipts have been appropriately authorised with reasons ascertained and to provide evidence that the reviews have been carried out.

This matter was raised in our previous interim audit management letter dated 9 July 2015. The management response then provided was as follows:

*"Management agrees that the "Receipt Listing Prior to Closing" report is to be signed and dated by the preparer and it should also be subsequently initialled by a Senior Officer."*

We will be pleased to receive management response on the above matter.

**Management Comment:**

***Agree with comments and will introduce a process to address this. The Finance Officer – Revenue will prepare the reconciliation which will be reviewed and approved by The Coordinator – Management Accounting.***

## JOURNAL ENTRIES

Australian Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* states that there is a risk in all entities that management may be in a position to override the financial controls to perpetrate fraud. The standard requires that auditors perform audit procedures to address this risk in the areas including journal entries.

As part of our audit, we performed procedures and reviewed internal controls over journal entries recorded in the general ledger.

To test this, we reviewed the entire population of journals as at our audit visit date to identify those which would be regarded as unusual or higher risk. All higher risk journals were tested to ensure they were appropriate and supported by a clear business rationale.

The following matter was noted and is brought to your attention:

We noted that there is no documented policy or guideline regarding the use, authorisation and control over journal entries.

We recommend that a documented policy or guideline be created which addresses the use of standard entries, non-routine entries (corrections and adjustments) and unusual or management-requested entries. This includes details on sequential numbering, the requirement for journals to be adequately explained or supported by appropriate documentation and the approved officers who can raise or authorise journal entries.

This matter was raised in our previous interim audit management letter dated 9 July 2015. The management response then provided was as follows:

*We will update the internal procedures. GL journal has senior officer sign off process. Management have introduced sign off process to Rates journal.*

We will be pleased to receive management response on the above matter.

**Management Comment:**

***A new GL journal policy will be drafted and will be implemented immediately.***


We thank your staff for the assistance provided during the audit. Should you have any queries with respect to the above or any other matters please do not hesitate to contact our office.

Yours faithfully



**ANTHONY MACRI**  
**AUDIT PARTNER**

### 7.3 BDO Control Self-Assessment – Fraud Management

<b>Applicant</b>	City of Nedlands
<b>Owner</b>	BDO
<b>Officer</b>	Andrew Melville
<b>Director</b>	Lorraine Driscoll
<b>Director Signature</b>	
<b>Disclosure of Interest</b>	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 Local Government Act (1995).

Moved – Mayor Hipkins  
 Seconded – Mr P Setchell

**That the BDO Reports will be received and deferred to the next Audit & Risk Committee Meeting, with BDO representatives present.**

**CARRIED UNANIMOUSLY 6/-**

#### **Recommendation to the Audit and Risk Committee**

The Audit and Risk Committee receives the Fraud Management Control Self-Assessment and notes the finding and recommendation of the review and the actions proposed by Administration.

#### **Background**

BDO Audit (WA) Pty Ltd are the City's appointed Internal Auditors and in accordance with the 2016/17 Internal Audit Annual Plan have facilitated a Control Self-Assessment of the City's fraud management processes.

A Control Self-Assessment is a process through which internal control effectiveness is examined and assessed. The objective is to provide a facilitated self-assessment for compliance with relevant management policies and procedures. The assessment is conducted with input from city personnel and is facilitated by the BDO Audit Team.

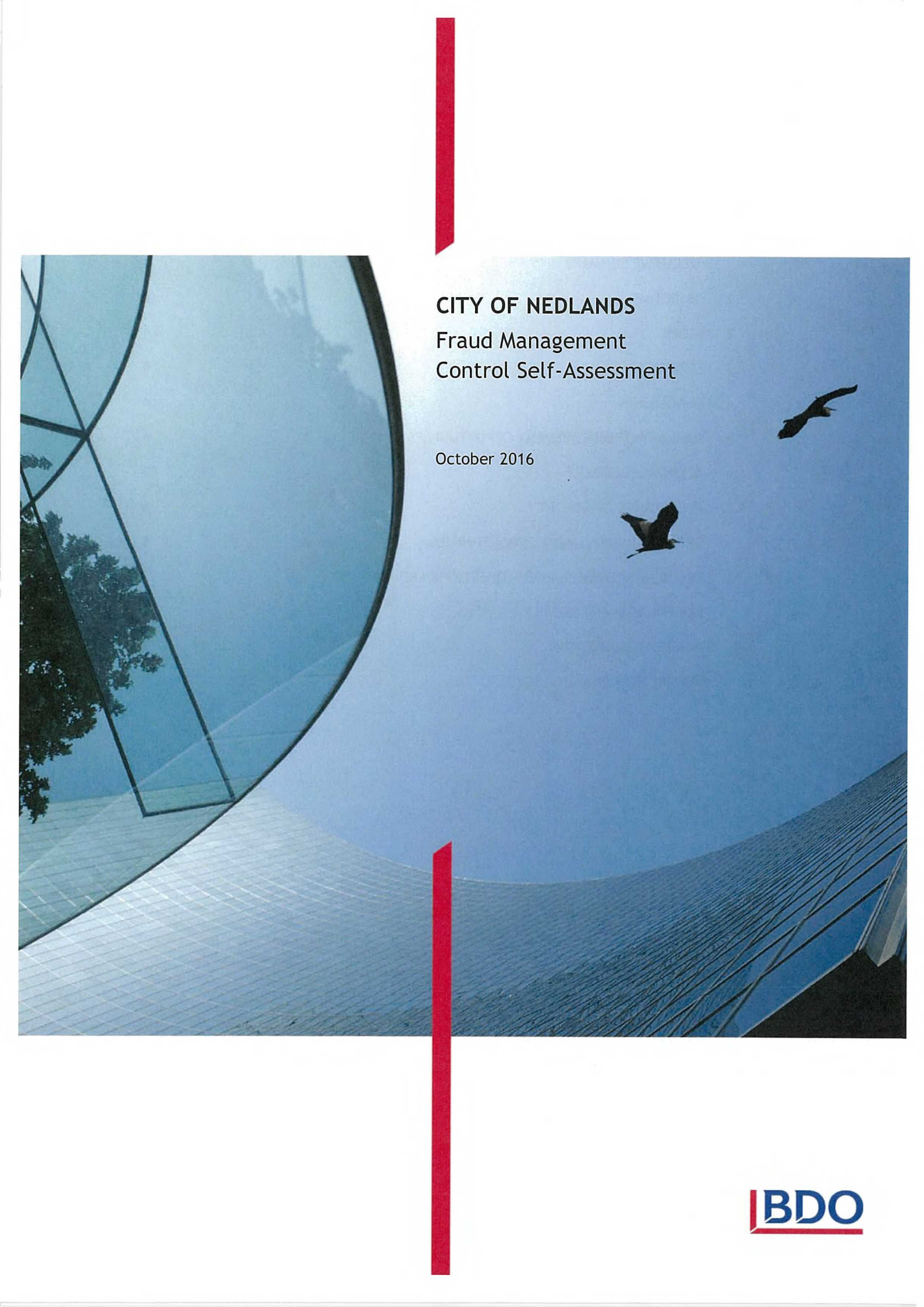
The attached report contains details of the issues raised and management's comments.

The Fraud Management Control Self-Assessment is presented to the Audit and Risk Committee for their information.

#### **Attachment**

1. BDO Audit (WA) Pty Ltd – Fraud Management Control Self-Assessment





**CITY OF NEDLANDS**  
Fraud Management  
Control Self-Assessment

October 2016



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## 1. EXECUTIVE SUMMARY

### 1.1 Objective

In accordance with the 2016/17 Internal Audit Annual Plan, we have facilitated a Control Self-Assessment (CSA) of the Fraud management processes for the City of Nedlands (the City) with selected City personnel. A CSA is a process through which internal control effectiveness is examined and assessed. The objective is to provide a facilitated self assessment for compliance with relevant management policies and procedures. The “self” refers to the involvement and input provided by City personnel to perform the assessment that was facilitated by the BDO internal audit team.

### 1.2 Scope

On 9 September 2016, we facilitated a CSA at the City’s offices with personnel identified by the City to review the risk management and control processes with respect to the City’s fraud management process.

The following City personnel participated directly in the CSA:

Title of Participant	Name of Participant
CEO	Greg Trevaskis
Director Corporate and Strategy	Lorraine Driscoll

In addition to the above we conducted a Fraud management awareness survey that was distributed to various staff for completion. Refer section 3 of this report for survey content and results.

### 1.3 Approach

In performing this CSA, we:

- Obtained and reviewed relevant and available policy and procedure documentation to understand them and the roles and responsibilities of personnel performing them
- Agreed a date for the CSA with City personnel and requested City personnel arrange for personnel attendance and participation
- Facilitated the CSA with nominated City personnel
- Conducted a Fraud management awareness Survey among the City’s staff members. 8 staff members was selected randomly to participate in the Survey
- Summarised recommendations for improvement in a draft report and provided it to City personnel for management comments
- Upon receipt of management comments, finalised the report and issued to the CEO.

### 1.4 Conclusion

As this review was a facilitated CSA, we have not provided a rating. A summary of improvement opportunities identified during the CSA is provided at 1.6 below.

### 1.5 Summary of Improvement Opportunities


During the facilitated CSA, three improvement opportunities were identified. A summary is provided in the following table and are further detailed in Section 3 of this report.

Reference	Improvement Opportunity
1	<p><b>Fraud management policy and procedures</b></p> <p>A formal fraud management policy and related procedures to be implemented that outline the City's processes for the detection, reporting, investigation and management of fraud.</p>
2	<p><b>Formalised a fraud control plan</b></p> <p>A fraud control plan is to be developed that outlines executive management's approach to preventing, detecting and responding to fraud.</p>
3	<p><b>Enhance Fraud training and awareness</b></p> <p>A formal fraud awareness and training programme is to be developed and implemented that is fit for purpose for all staff members.</p>

### 1.6 Acknowledgement

We thank the staff at the City of Nedlands for their support and assistance to us in performing this CSA.

### 1.7 Acceptance of Report

On behalf of City of Nedlands	
Signature:	
Name:	Greg Trevaskis
Title:	Chief Executive Officer
Date:	31 October 2016

## 2. DETAILED IMPROVEMENT OPPORTUNITIES

### Fraud Management

### Management Comments

#### 1 - Fraud management policy and procedures

The City does not have a formal fraud policy and or procedure in place.

We recommend the City create and implement a formal fraud management policy and procedure based on relevant industry standards, such as Australian Standard AS8001-2008, which would include the detection, reporting, investigation and management of Fraud both internal and external to the organisation.

Agree with recommendation. Policy will be developed by 31<sup>st</sup> December 2016

#### 2 - Formalised a fraud control plan

The City does not have a defined fraud control plan in place outlining the various Governance practices and standards to be followed for the prevention, detection and responses to fraud.

We recommend the City implement a formal fraud control plan based on a fraud risk assessment, which should include elements such as Leadership, Ethics, Responsibility, Fraud policies, Preventions systems, Fraud Awareness, Third Party management systems, notification systems, detection systems and investigation systems.

Our understanding of a Fraud Control Plan is a collation of all documents relating to fraud ie a framework of all elements relating to fraud. This will be implemented as we continue to develop our policies and systems in this area. This is an ongoing/evolving process and as such has no specific end date.

#### 3 - Enhance fraud control training and awareness

We have selected 8 staff members to complete a Fraud Management awareness Survey, of which 4 responded to complete the survey.

Based on the survey results, 75% of the staff responded "Disagree" to the question "***Our organisation runs a comprehensive awareness program about fraud control***" which indicates that fraud awareness training needs improvement.

Currently the City provides ad hoc training and awareness training sessions for staff. We recommend that the City develop a targeted fraud training and awareness program suitable for all staff and within applicability of their various job roles.

Do not feel that it is necessary to 'develop a targeted fraud training awareness program' however we agree to heighten awareness with Directors and Managers - who will then cascade to their teams. We are not attaching any specific date to this activity as we see it as an ongoing activity and part of risk management and good governance

### 3. FRAUD AWARENESS SURVEY - QUESTIONS AND RESULTS

Survey Questions	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The CEO and senior management team are committed to actively managing the risks associated with fraud in my workplace.		25%		75%
2. We have ethical behaviours policies that staff in my work area are aware of and understand that staff will be disciplined for fraudulent or corrupt behaviour, and for breaches of our code of conduct/ethics.			50%	50%
3. Most staff in my work area are aware of their responsibilities and the responsibilities of management for minimising fraud in our workplace.		33%		67%
4. Our fraud control policies and procedures tell us how to deal effectively with the fraud risks we face in our workplace		25%	75%	
5. The functions of my work area are regularly assessed to identify and address the fraud risks we face in our workplace		25%	50%	25%
6. Our organisation runs a comprehensive awareness program about fraud control		75%	25%	
7. I am confident our organisation has policies and systems in place to ensure that third parties are appropriately checked and verified		25%	25%	50%
8. Staff and third parties are encouraged to report alleged fraud or corruption that may occur within my organisation		25%	25%	50%
9. I am confident my organisation systematically makes efforts to detect fraud and corruption		25%	25%	50%
10. I am confident internal investigations of alleged fraud and corruption would be carried out independently and to high standards in my organisation		25%	25%	50%



#### 4. KEY ENGAGEMENT DETAILS & TIMING

Engagement Detail	
Date Final Report Issued	31 October 2016
Review Period Covered	CSA performed on 09 September 2016
BDO Engagement Principal	Andrew Hillbeck
Client Sponsor	Greg Trevaskis

CSA Timing	Planned Date	Actual Date	Comments on Variations
CSA Commencement	09 September 2016	09 September 2016	
CSA Completion	09 September 2016	09 September 2016	
Draft report sent	16 September 2016	27 September 2016	Time taken to complete Fraud Awareness Survey
Management Comments Received	4 October 2016	31 October 2016	
Final report issued	11 October 2016	31 October 2016	



#### **4. INHERENT LIMITATIONS**


Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure within which the control procedures that are subject to internal audit operate is not reviewed in its entirety and, therefore, no opinion or view is expressed as to the effectiveness of the greater internal control structure. An internal audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are done on a sample basis. Any projection of the evaluation of control 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.

We believe that the statements made in this internal audit report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, client management and personnel. We have indicated within this internal audit report the sources of the information provided. We have not sought to verify those sources independently unless otherwise noted within the internal audit report. We are under no obligation in any circumstance to update this internal audit report, in either oral or written form, for events occurring after the internal audit report has been issued in final form unless specifically agreed with management.

#### **5. RESTRICTION OF USE**

This report is intended solely for the use of management, the City of Nedlands Council, the external auditors, regulatory agencies or the City's legal counsel and cannot be used by, circulated, quoted, disclosed, or distributed to third parties without BDO's prior written consent.

**7.4 BDO Control Self-Assessment – Accounts Receivable**

<b>Applicant</b>	City of Nedlands
<b>Owner</b>	BDO
<b>Officer</b>	Andrew Melville
<b>Director</b>	Lorraine Driscoll
<b>Director Signature</b>	
<b>Disclosure of Interest</b>	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 Local Government Act (1995).

Moved – Mayor Hipkins  
 Seconded – Mr P Setchell

**That the BDO Reports will be received and deferred to the next Audit & Risk Committee Meeting, with BDO representatives present.**

**CARRIED UNANIMOUSLY 6/-**

**Recommendation to the Audit and Risk Committee**

The Audit and Risk Committee receives the Accounts Receivable Control Self-Assessment and notes the finding and recommendation of the review and the actions proposed by Administration.

**Background**

BDO Audit (WA) Pty Ltd are the City’s appointed Internal Auditors and in accordance with the 2016/17 Internal Audit Annual Plan have facilitated a Control Self-Assessment of the City’s accounts receivable processes.

A Control Self-Assessment is a process through which internal control effectiveness is examined and assessed. The objective is to provide a facilitated self-assessment for compliance with relevant management policies and procedures. The assessment is conducted with input from city personnel and is facilitated by the BDO Audit Team.

The attached report contains details of the issues raised and management’s comments.

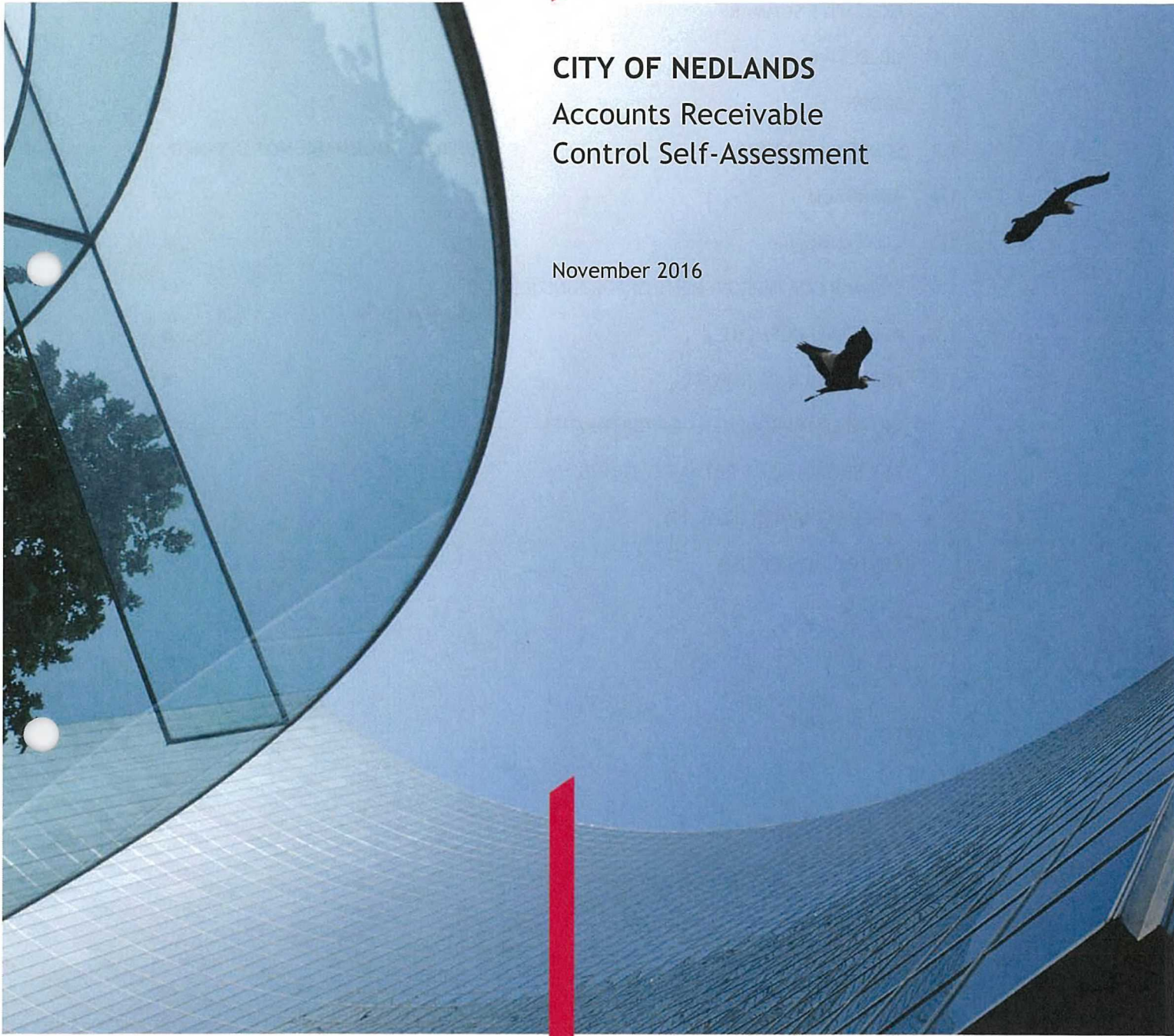
The Accounts Receivable Control Self-Assessment is presented to the Audit and Risk Committee for their information.

**Attachment**

1. BDO Audit (WA) Pty Ltd – Accounts Receivable Control Self-Assessment.







**CITY OF NEDLANDS**  
Accounts Receivable  
Control Self-Assessment

November 2016



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## 1. EXECUTIVE SUMMARY

### 1.1 Objective

In accordance with the 2016/17 Internal Audit Annual Plan, we have facilitated a Control Self-Assessment (CSA) of the Accounts Receivable processes for the City of Nedlands (the City) with selected City personnel. A CSA is a process through which internal control effectiveness is examined and assessed. The objective is to provide a facilitated self assessment for compliance with relevant management policies and procedures. The “self” refers to the involvement and input provided by City personnel to perform the assessment that was facilitated by the BDO internal audit team.

### 1.2 Scope

On 20 October 2016, we facilitated a CSA at the City’s offices with personnel identified by the City to review the risk management and control processes with respect to the City’s Accounts Receivable process.

The following City personnel participated directly in the CSA:

Title of Participant	Name of Participant
Director Corporate and Strategy	Lorraine Driscoll
Manager of Finance	Kim Chua
Finance Officer (AR, Assets & Insurance)	Daniel Wong
Coordinator Financial Accounting	Vanaja Jayaraman
Coordinator Rangers	Jessica Wotherspoon
Coordinator Corporate Services	Natalie Wilson

### 1.3 Approach

In performing this CSA, we:

- Obtained and reviewed relevant and available policy and procedure documentation to understand them and the roles and responsibilities of personnel performing them
- Agreed a date for the CSA with City personnel and requested City personnel arrange for personnel attendance and participation
- Facilitated the CSA with nominated City personnel
- Summarised recommendations for improvement in a draft report and provided it to City personnel for management comments
- Upon receipt of management comments, finalised the report and issued to the CEO.

### 1.4 Conclusion

As this review was a facilitated CSA, we have not provided a rating. A summary of improvement opportunities identified during the CSA is provided at 1.5 below.

## 1.5 Summary of Improvement Opportunities

During the facilitated CSA, five improvement opportunities were identified. A summary is provided in the following table and are further detailed in Section 3 of this report.

Reference	Improvement Opportunity
1	<b>Accounts Receivable policy and procedures</b> A formal Accounts Receivable policy should be developed and implemented and procedural documentation should be either revised or developed and implemented.
2	<b>Segregation of duties for invoice processing process</b> Segregation of duties can be improved by improving controls as the Finance Officer has sole responsibility for creating and processing invoices and creating and processing credit notes.
3	<b>Excessive number of Users with access to Accounts Receivable Modules</b> Access controls over the Accounts Receivable modules can be improved as there are 252 users with the same level of access to the Accounts Receivable modules and the access level is the highest available. User access levels and respective Accounts Receivable functions in the system should also be defined.
4	<b>Implement Accounts Receivable Delegation of Authority</b> A formal Delegation of Authority for accounts receivable should be implemented.
5	<b>Accounts Receivable master file governance</b> Controls should be implemented that will enable appropriate monitoring of changes to accounts receivable master file data.

## 1.6 Acknowledgement

We thank the staff at the City of Nedlands for their support and assistance to us in performing this CSA.



### 1.7 Acceptance of Report

On behalf of City of Nedlands	
Signature:	
Name:	Greg Trevaskis
Title:	Chief Executive Officer
Date:	4 November 2016

## 2. DETAILED IMPROVEMENT OPPORTUNITIES

Accounts Receivable	Management Comments
<p><b>1 - Accounts Receivable policy and procedures</b></p> <p>A formal Accounts Receivable policy does not exist and all key processes are not documented. Some procedural documentation exist but is outdated and not formally Governed.</p> <p>We recommend the City create and implement formal fit for purpose Accounts Receivable policy and update current procedures, which align with the current business operational requirements for Accounts Receivable processes.</p>	<p>Agree with recommendation, policy and procedures will be developed</p>
<p><b>2 - Segregation of duties for invoice processing process</b></p> <p>We identified segregation of duties concerns for the entry and processing of new invoice creation and credit note processing as the Finance officer is solely responsible for these activities.</p> <p>We recommend that the City implement reporting capabilities outlining invoice and credit transactions that are reviewed by management monthly and or a formal review and authorisation process for new invoice creation and credit note processing.</p>	<p>Agree with recommendation and will implement reporting capabilities to address these concerns</p>
<p><b>3 - Excessive number of Users with access to Accounts Receivable Modules</b></p> <p>There are 252 users with the same level of access to the Accounts Receivable modules resulting in a lack of segregations of duties and may lead to unauthorised transaction processing and or potential fraudulent activities. User access levels and respective Accounts Receivable functions in the system have not been defined and the levels of access granted to these users are the highest level available.</p> <p>We recommend management to review current user access for the Accounts Receivable modules and only allocate relevant and appropriate level of access to staff members based on their roles and responsibilities as needed.</p>	<p>Agree with recommendation to review user access provisioning</p>

## Accounts Receivable

## Management Comments

### 4 - Unformal Accounts Receivable Delegation of Authority

A formal Delegation of Authority is not available that outline relevant Accounts Receivable delegations.

We recommend that the City create and implement a formal Delegation of Authority for relvant Accounts Receivable processes.

More than 90% of the City's invoices have a value of less than \$1,000 and with invoices raised only at the request of another Senior Employee, however, whilst the risk is limited in this area we agree to review the process.

### 5 - Accounts Receivable master file governance

No governance process and or audit trail exists for changes made to accounts receivable master file data.

We recommend that changes made to the account receivable master file should be segregated from the finance officer, formally, reviewed and approved by another employee to ensure accuracy and validity of changes.

We will review the options available to us re audit trail, in the interim period we will implement a process for sign off by the Director Corporate and Services



### 3. KEY ENGAGEMENT DETAILS & TIMING

Engagement Detail	
Date Final Report Issued	02 November 2016
Review Period Covered	CSA performed on 20 October 2016
BDO Engagement Principal	Andrew Hillbeck
Client Sponsor	Greg Trevaskis

CSA Timing	Planned Date	Actual Date	Comments on Variations
Planning Meeting	17 October 2016	17 October 2016	
CSA Commencement	20 October 2016	20 October 2016	
CSA Completion	20 October 2016	20 October 2016	
Draft report sent	27 October 2016	27 October 2016	
Management Comments Received	3 November 2016	02 November 2016	
Final report issued	10 November 2016	04 November 2016	



#### **4. INHERENT LIMITATIONS**

Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure within which the control procedures that are subject to internal audit operate is not reviewed in its entirety and, therefore, no opinion or view is expressed as to the effectiveness of the greater internal control structure. An internal audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are done on a sample basis. Any projection of the evaluation of control 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.


We believe that the statements made in this internal audit report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, client management and personnel. We have indicated within this internal audit report the sources of the information provided. We have not sought to verify those sources independently unless otherwise noted within the internal audit report. We are under no obligation in any circumstance to update this internal audit report, in either oral or written form, for events occurring after the internal audit report has been issued in final form unless specifically agreed with management.

#### **5. RESTRICTION OF USE**

This report is intended solely for the use of management, the City of Nedlands Council, the external auditors, regulatory agencies or the City's legal counsel and cannot be used by, circulated, quoted, disclosed, or distributed to third parties without BDO's prior written consent.



**7.5 BDO Control Self-Assessment – Human Resource Leave**

<b>Applicant</b>	City of Nedlands
<b>Owner</b>	BDO
<b>Officer</b>	Andrew Melville
<b>Director</b>	Lorraine Driscoll
<b>Director Signature</b>	
<b>Disclosure of Interest</b>	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 Local Government Act (1995).

Moved – Mayor Hipkins  
 Seconded – Mr P Setchell

**That the BDO Reports will be received and deferred to the next Audit & Risk Committee Meeting, with BDO representatives present.**

**CARRIED UNANIMOUSLY 6/-**

**Recommendation to the Audit and Risk Committee**

The Audit and Risk Committee receives the Human Resource Leave Control Self-Assessment and notes the finding and recommendation of the review and the actions proposed by Administration.

**Background**

BDO Audit (WA) Pty Ltd are the City’s appointed Internal Auditors and in accordance with the 2016/17 Internal Audit Annual Plan have facilitated a Control Self-Assessment of the City’s human resource leave processes.

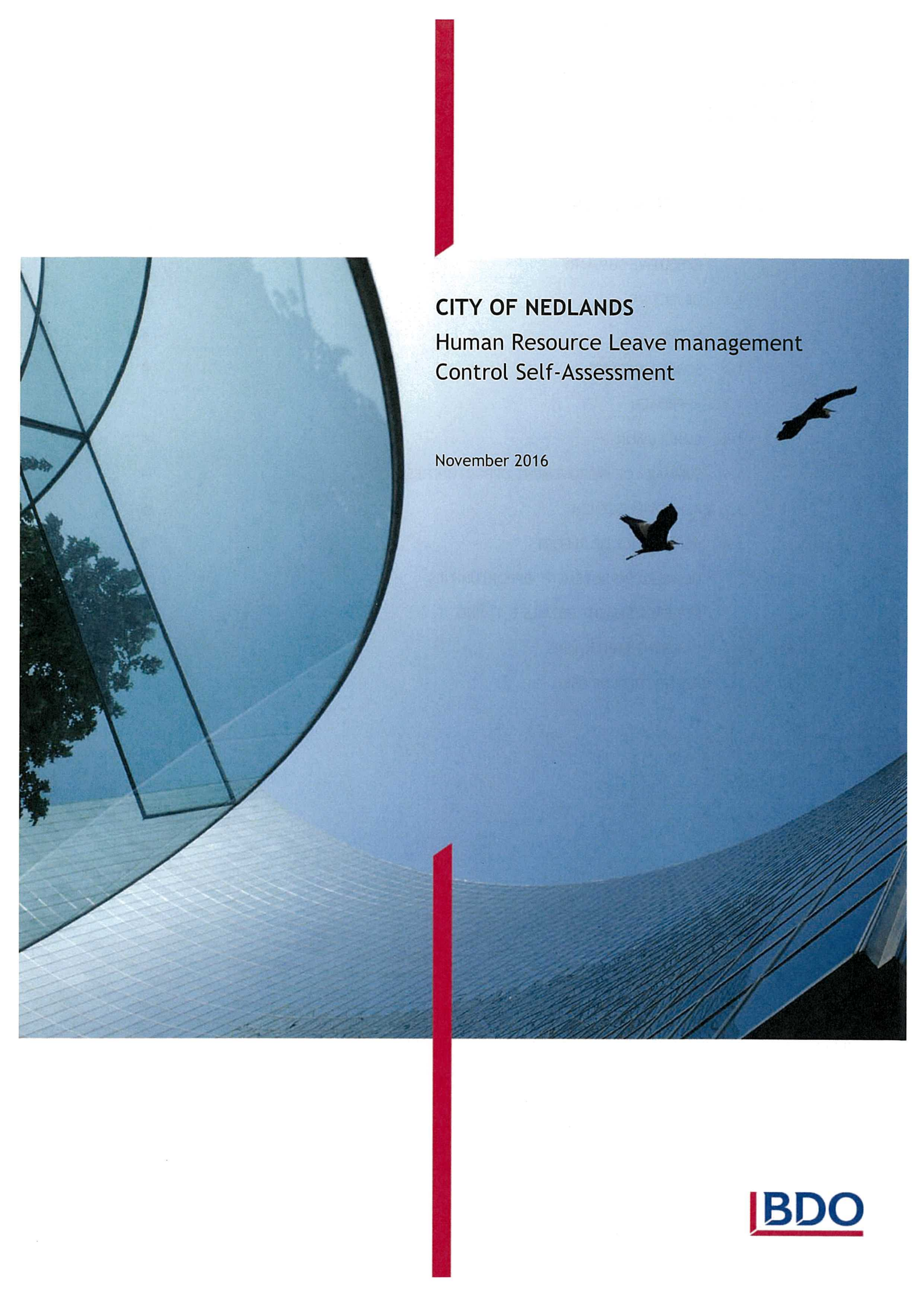
A Control Self-Assessment is a process through which internal control effectiveness is examined and assessed. The objective is to provide a facilitated self-assessment for compliance with relevant management policies and procedures. The assessment is conducted with input from city personnel and is facilitated by the BDO Audit Team.

The attached report contains details of the issues raised and management’s comments.

The Human Resources Leave Control Self-Assessment is presented to the Audit and Risk Committee for their information.

**Attachment**

1. BDO Audit (WA) Pty Ltd – Human Resource Leave Control Self-Assessment



**CITY OF NEDLANDS**  
Human Resource Leave management  
Control Self-Assessment

November 2016

## 1. EXECUTIVE SUMMARY

### 1.1 Objective

In accordance with the 2016/17 Internal Audit Annual Plan, we have facilitated a Control Self-Assessment (CSA) of Human Resource (HR) Leave management processes for the City of Nedlands (the City) with selected City personnel. A CSA is a process through which internal control effectiveness is examined and assessed. The objective is to provide a facilitated self assessment for compliance with relevant management policies and procedures. The “self” refers to the involvement and input provided by City personnel to perform the assessment that was facilitated by the BDO internal audit team.

### 1.2 Scope

On 28 September 2016, we facilitated a CSA at the City’s offices with personnel identified by the City to review the risk management and control processes with respect to the City’s HR Leave management process.

The following City personnel participated in the CSA:

Defined Role per Procedure	Title of Participant	Name of Participant
Manager	Manager Human Resources and Organisational Development	Shelley Mettam
Payroll Officer	Payroll Officer	Dimple Kaur

### 1.3 Scope Limitation

The City did not have a specific documented policy and procedure in place for Leave management.

### 1.4 Approach

In performing this CSA, we:

- Obtained and reviewed relevant and available policy and procedures documentation to understand them and understand the roles and responsibilities of personnel performing them
- Agreed a date for the CSA with City personnel and requested City personnel arrange for personnel attendance and participation
- Facilitated the CSA with nominated City personnel
- Summarised recommendations for improvement in a draft report and provided it to City personnel for management comments
- Upon receipt of management comments, finalised the report and issued to the CEO.

### 1.5 Conclusion

As this review was a facilitated CSA, we have not provided a rating. A summary of improvement opportunities identified during the CSA is provided at 1.6 below.

### 1.6 Summary of Improvement Opportunities

During the facilitated CSA, five improvement opportunities were identified. A summary is provided in Table 1 below and are further detailed in Section 3 of this report.

## 2. DETAILED IMPROVEMENT OPPORTUNITIES

Leave management	Management Comments
<p><b>1 - Leave management policy and procedures</b></p> <p>Although the City subscribes to relevant Fair Work and Enterprise agreements that outline legislative compliance, there is no specific documented policies and or procedures outlining the responsibility, accountability and processes to be followed by staff, HR and payroll.</p> <p>We recommend the City create and implement formal fit for purpose leave management policy and procedures, which align with the current business operational requirements for leave management.</p>	<p>Agreed - If approved by CEO &amp; parameters agreed - eg leave accrual, leave clearance - can be easily built into a policy/procedure March 2017</p> <p>Implementation date: Mar 2017</p>
<p><b>2 - Segregation of duties for leave processing process</b></p> <p>We identified that inadequate segregation of duties exists for the entry and processing of new employees and leave requests. The payroll officer is solely responsible for entering leave transactions into the payroll system without any other staff member checking the accuracy and validity of transactions.</p> <p>We recommend that the City implement an independent review and approval process for the input and processing of transactions into the Authority system.</p>	<p>This will be addressed by the introduction of the on line leave request form which is being implemented later this month</p> <p>Implementation date: 30 Nov 2016</p>
<p><b>3 - Leave liability reporting process</b></p> <p>Although the leave liability report is circulated to line managers and directors, there is no evidence obtained to ensure that reports have been reviewed and checked by management. Our review highlighted that currently there are 13 employees that have more than eight weeks of Annual leave available that are in breach of the current City of Nedlands Enterprise Agreement 2013.</p> <p>We recommend that the relevant line managers or directors should sign and document reasons for exceptions on the leave liability reports to evidence checking and review of reports.</p>	<p>Leave liability reports are forwarded to the Executive Management Team and discussed on a quarterly basis and Minutes of these meetings are recorded.</p>

### 3. KEY ENGAGEMENT DETAILS & TIMING

Engagement Detail	
Date Draft Report Issued	29 September 2016
Review Period Covered	CSA performed on 28 September 2016
BDO Engagement Principal	Andrew Hillbeck
Client Sponsor	Greg Trevaskis

CSA Timing	Planned Date	Actual Date	Comments on Variations
Planning Meeting	16 September 2016	16 September 2016	
CSA Commencement	28 September 2016	28 September 2016	
CSA Completion	28 September 2016	28 September 2016	
Draft report sent	5 October 2016	29 September 2016	
Management Comments Received	12 October 2016	02 November 2016	
Final report issued	19 October 2016	04 November 2016	



**8. Date of next meeting**

The date of the next meeting of this Committee will be held on 13 February 2017.

**Declaration of Closure**

There being no further business, the Presiding Member declared the meeting closed 7.02 pm.