

Fixed Asset Accounting Policy

Reference Number:	CR17/61785
Type:	Council Policy
Responsibility:	Director City Corporate
Responsible Officer (s):	Manager Finance
Initial Adopted Date:	Council 29 August, 2000
Last Review Date:	October 2023
Next Review Date:	Once per Council Term October 2027
Legislation:	<i>Local Government Act, 1999 (SA)</i> <i>Local Government (Financial Management) Regulations 2011</i> Australian Accounting Standards – No. 116 Property, Plant and Equipment Australian Accounting Standards – No.13 Fair Value Measurement Australian Accounting Standards – No.138 Intangible Assets Australian Accounting Standards – No.136 Impairment of Assets
Related Documents:	Asset Management Policy Sale or Disposal of Assets Policy Procurement Policy Prudential Review Policy Local Government Association (LGA) Financial Sustainability Information Paper No.18 – Financial Policies and Procedures Local Government Association (LGA) Financial Sustainability Information Paper No.6 – Infrastructure and Asset Management.

1 Purpose

- 1.1 The Fixed Asset Financial Reporting Policy (the "Policy") applies to the provisions of the *Local Government Act 1999* (the Act) Section 124 (Accounting Records to be Kept) regarding Council's Fixed Assets and how financial information pertaining to Fixed Asset transactions and reconciliations are undertaken across all Council operations.
- 1.2 The Fixed Asset Accounting Policy exists to ensure there is a distinction made between expenditure on long lived assets and expenditure on goods and services for immediate consumption. This is critically important in determining the cost of providing services.
- 1.3 The objective of this policy is to provide guidance, clarity and consistency regarding the treatment of capital expenditure, which will provide for greater understanding and accuracy of Council's capital requirements and depreciation expenses.

2 Definitions

2.1 For the purpose of this Policy:

- 2.1.1 "Fair Value" is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. "Depreciation" is the systematic allocation of the depreciable amount of an asset over its useful life.
- 2.1.2 "Materiality" in relation to information, that information which if omitted, misstated or not disclosed has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the management or governing body of the entity.
- 2.1.3 "Consideration" in the context of this policy, shall be recognised in "monetary terms" e.g. purchase cost.

3 Scope

3.1 This Policy applies to the provisions of the Local Government Act 1999 (the Act) Section 124 (Accounting Records to be Kept) regarding Council's Fixed Assets and how financial information pertaining to Fixed Asset transactions and reconciliations are undertaken across all Council operations.

4 Legislative and Corporate Requirements

- 4.1 This Policy forms part of the Internal Financial Control Framework as a direct consequence of the provisions of Section 125 (Internal Control Policies) of the Act for South Australia.
- 4.2 This commits Council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records.
- 4.3 Section 127 (Financial Statements) of the Act prescribes a Council to produce annual financial statements in accordance with standards required by the regulations.
- 4.4 In addition, Section 129 (Conduct of Audit) of the Act requires an external auditor to form an opinion as to whether there is sufficient evidence providing reasonable assurance that the financial transactions of the council have been conducted properly and in accordance with law.
- 4.5 This has been further elaborated upon within *Local Government (Financial Management) Regulations 2011* (the Regulations) at Part 3 – Accounting Principles, Part 4 – Financial Statements and Part 6 – Audit clause 19(b).
- 4.6 Part 3 of the Regulations prescribes the standards adopted are the Australian Accounting Standards overseen by the national peak body for accounting policies and principles, the Australian Accounting Standards Board.
- 4.7 Part 4 of the Regulation prescribes the statements are compiled according to the Model Financial Statements, according to those published by the Local Government Association (LGA) website www.lga.sa.gov.au on an annual basis for administrative adoption.
- 4.8 In addition, the LGA has published revised Financial Sustainability Information Papers (FSIP) as part of its ongoing Financial Sustainability Program (FSP) with the aim of harmonising high-level policy positions for council administration adoption and use.

- 4.9 The Information Papers are not statutory measures however they are considered best practice for council administrations to commit to.

5 Policy Statement

- 5.1 Assets shall be recognised and accounted for in accordance with Australian Accounting Standards and the details contained in this policy.

5.2 Recognition and Threshold

- 5.2.1 The cost method of accounting is used for the initial recording of all acquisitions of assets.
- 5.2.2 Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects' fees and engineering design fees and all other costs incurred. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.
- 5.2.3 For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.
- 5.2.4 Provisions in AASB 116 allow for fair value of the asset acquired in a non-cash transaction as the carrying amount of Council's asset given up, or the originating asset relinquished.
- 5.2.5 Assets with an economic life in excess of one year are only capitalised where the cost of acquisition exceeds materiality thresholds established by Council for each type of asset. In determining such thresholds, regard is had to the nature of the asset and its estimated service life.
- 5.2.6 Asset capitalisation threshold values applying to individual classes of assets will be guided by the characteristics of those classes. The LGA Model Financial Statements provide guidance in how these classes are determined. Councils Capitalisation thresholds by type of asset are as follows:

Asset Type	Capitalisation Threshold (Ex. GST)
Buildings & Other Structures	\$5,000
Infrastructure	\$5,000
Open Space	\$5,000
Open Space - Earthworks	\$25,000
Plant & Equipment	\$1,000
Furniture & Fittings	\$1,000
Artworks	\$1,000

- 5.2.7 This principle applies to the total value of all individual parts that form a cohesive asset recognised for reporting purposes.
- 5.2.8 For instance an asset may consist of numerous individual parts, such as can be found in a piece of equipment, which in isolation may not meet the recognition threshold. In line with AASB 116, this individual component in and of itself may not meet the definition criteria as being able to derive future economic benefit to Council in isolation.
- 5.2.9 However, if it can be categorised at an aggregated (Group) level as a component of a cohesive asset meeting the definition of Property, Plant and Equipment, then the individual component shall be capitalised as part of the aggregated value of the asset.

- 5.2.10 All assets recorded in the fixed asset register will be correctly entered and maintained according to the information management principles applicable such as their specific Asset Class, Asset Category and Asset Group.

5.3 Revaluation of non-current Assets

- 5.3.1 Infrastructure assets are revalued annually in accordance with the applicable accounting standards. Land, Buildings and Other assets are revalued with sufficient regularity to ensure the carrying amount does not differ materially from the fair value that would otherwise be determined at the reporting date.
- 5.3.2 If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
- 5.3.3 Revaluations of Non-Current Assets are carried out by an independent professionally qualified valuer. Comprehensive independent valuations are performed every 5 years with desktop valuations performed annually between comprehensive valuations for Infrastructure Assets.
- 5.3.4 Plant, Equipment, Furniture and Fittings are recognised at cost less accumulated depreciation and any accumulated impairment and are not subject to revaluation.
- 5.3.5 Non-monetary assets received without charge are recognised as assets and revenues at their fair value at the date of receipt, except for land under roads. Land under roads and trees are not recognised because there is currently no reliable method of valuation.

5.4 Depreciation

- 5.4.1 Depreciation methods, useful lives and residual values of classes of assets are reviewed annually.
- 5.4.2 All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the economic benefits provided by those assets.
- 5.4.3 Land is not a depreciable asset.
- 5.4.4 The Depreciation method applied shall be the straight line basis, except for infrastructure assets where the "Advanced Straight Line Asset Management" consumption based depreciation methodology is employed. Depreciation rates shall be reviewed each year.

5.5 Impairment of Assets

- 5.5.1 In accordance with AASB 136 Impairment of Assets, Council will assess if an asset has been impaired at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
- 5.5.2 An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash inflows or value in use).
- 5.5.3 Where an asset that has been revalued is subsequently impaired, the impairment is first offset against such amount as stands to the credit of that class of assets in Asset Revaluation Reserve, any excess being recognised as an expense.

6 Review

- 6.1 The Policy will be reviewed once per Council term or as required by legislation.

7 Access to the Policy

- 7.1 The Policy is available for public inspection on Council's website www.prospect.sa.gov.au and from Customer Service at the Civic Centre, 128 Prospect Road, Prospect SA 5082.

8 Further Information

- 8.1 For further information about this policy please contact:

Director Corporate Services
City of Prospect
128 Prospect Road
Prospect SA 5082

Ph 8269 5355

Email admin@prospect.sa.gov.au