

## Asset Capitalisation Policy

Policy type	Administration
Function	Corporate & Community Services
Policy Owner	Finance
Effective date	6 July 2016

### 1. Purpose

This policy formalises the processes, responsibilities, and timeframe expectations adopted in order to recognise assets on Council's financial statements in a prompt and efficient manner.

Upon the commissioning of an asset, information to substantiate its value must be collated and validated in order for the asset value to be recognised on the financial statements. These activities are referred to as the asset capitalisation process. Completion of the asset capitalisation process requires execution of sub processes that span commissioning, collating, validating and finance activities. Variations of coordination and execution may delay or prevent recognition of an asset's value on the financial statements within the applicable financial year.

The extent of asset capitalisation process delays has been identified as an issue in the May 2016 and prior audits.

The Council is committed to a prompt and efficient asset capitalisation process. This policy establishes the following components of the asset capitalisation process:

- responsibilities for core activities;
- sequence of completion,
- notifications generated at key events;
- timeframe expectations, with contingencies if expectations cannot be reasonably met.

### 2. Scope

This policy applies to capitalisation of assets constructed or purchased through Work In Progress (WIP) accounts. Donated assets are outside the scope of this policy.

The Chief Executive Officer, Directors and Managers are responsible for ensuring this policy is understood and adhered to by all Council staff, or external contractors engaged on behalf of Council, to process information required for asset capitalisation.

### 3. Definitions

**Asset** — resources controlled by an entity as a result of past events, from which future economic benefits are expected to flow to that entity (Australian Accounting Standards Board, 2015). Donated assets are assets for which ownership or control has been transferred to an entity from another separate entity.

**Capitalisation** — recognising the value of an asset in the financial statements.

**Council** — means Cassowary Coast Regional Council.

**Timeframe** — the specified period of time, from commencement to completion.

**Process** — a series of activities or steps taken to achieve a particular end.

**Recognise** — incorporate in the financial statements an item from which future economic benefit will flow to that entity and the item has a cost that can be reliably measured (Australian Accounting Standards Board, 2015).

**Work In Progress (WIP)** — A register of work in progress recorded in the enterprise resource program and accounts for direct asset costs.

#### 4. Principles

This policy applies to Council staff, and external contractors engaged on behalf of Council, with responsibilities that include processing information required for asset capitalisation.

- **Collective** responsibility: Local Government Regulation 2012, Section 212 obligates Council to provide annual financial statements at a date approved by the Auditor-General, and that date must allow for an audit of the statements to be completed. Meeting this responsibility rests collectively with the respective Council business units charged with performing asset capitalisation processes.

Respective business units remain responsible for a specific process until:

- Activities and information upon which the successive process depends are complete and effective or a contingency agreement is reached;
- Notification that a process is complete has been provided to the business unit responsible for the successive process;
- The asset capitalisation process for an asset is complete.
- **Sequence:** Asset capitalisation processes must be completed in sequence. . Execution of successive processes is entirely dependent upon the supply of complete and accurate information from the Council business unit responsible for the preceding process.
- **Notifications:** The incumbent Council business enterprise resource program will be utilised to signal that responsibility for a process is complete and:
  - The business unit responsible for the successive process can commence the required activities or;
  - The asset capitalisation process is complete.
- **Time frames:** Time frame expectations are set to enable annual financial statements to be prepared on time. In cases where a function cannot be completed within expected time frames, a contingency agreement must be reached.

## 5. Procedure

A work procedure guideline is contained in Appendix 1: Asset Capitalisation Work Procedure Guidelines. This work procedure provides detail of activities required for respective processes and contains the following:

- **Process diagram:** Core activities and events are represented as a diagram to illustrate responsibilities, order of completion and time frame expectations.
- **Process notes:** Process notes summarise the relevance and application of the corresponding process element.
- **Process time requirements:** Critical time requirements and expectations are referenced to a corresponding process element.
- **Data requirements:** A prescribed list specifies the minimum data required to validate the asset value.

### 4.1 Execution of process

The order for execution of activities and events are arranged by generic process, enabling compatibility regardless of future modifications to organisation structures. Responsibilities for respective processes are tabled below in order of sequence:-

The process of:	Responsibility of Council business unit that performs the following:
1. Physical work	Commission the asset and confirms the asset fit for use as intended
2. Financial transactions	Processes payments to fund the asset
3. Asset Management	Validates the information to substantiate the asset value
4. Asset accounting	Accounts for recognition of the asset value in the asset register
5. Asset registration	Maintains the asset register

### 4.2 Exercising discretion

Where a Council business unit appears unable to execute their responsibilities or meet the time frames, that business unit shall agree a contingency with the business unit responsible for asset accounting. Such a contingency could include engagement of either internal or external parties to collate data for the asset capitalisation process. In the event that a contingency arrangement cannot be agreed with the business unit responsible for asset accounting, ultimate responsibility for discretion rests with the Chief Executive Officer or any person acting in that position.



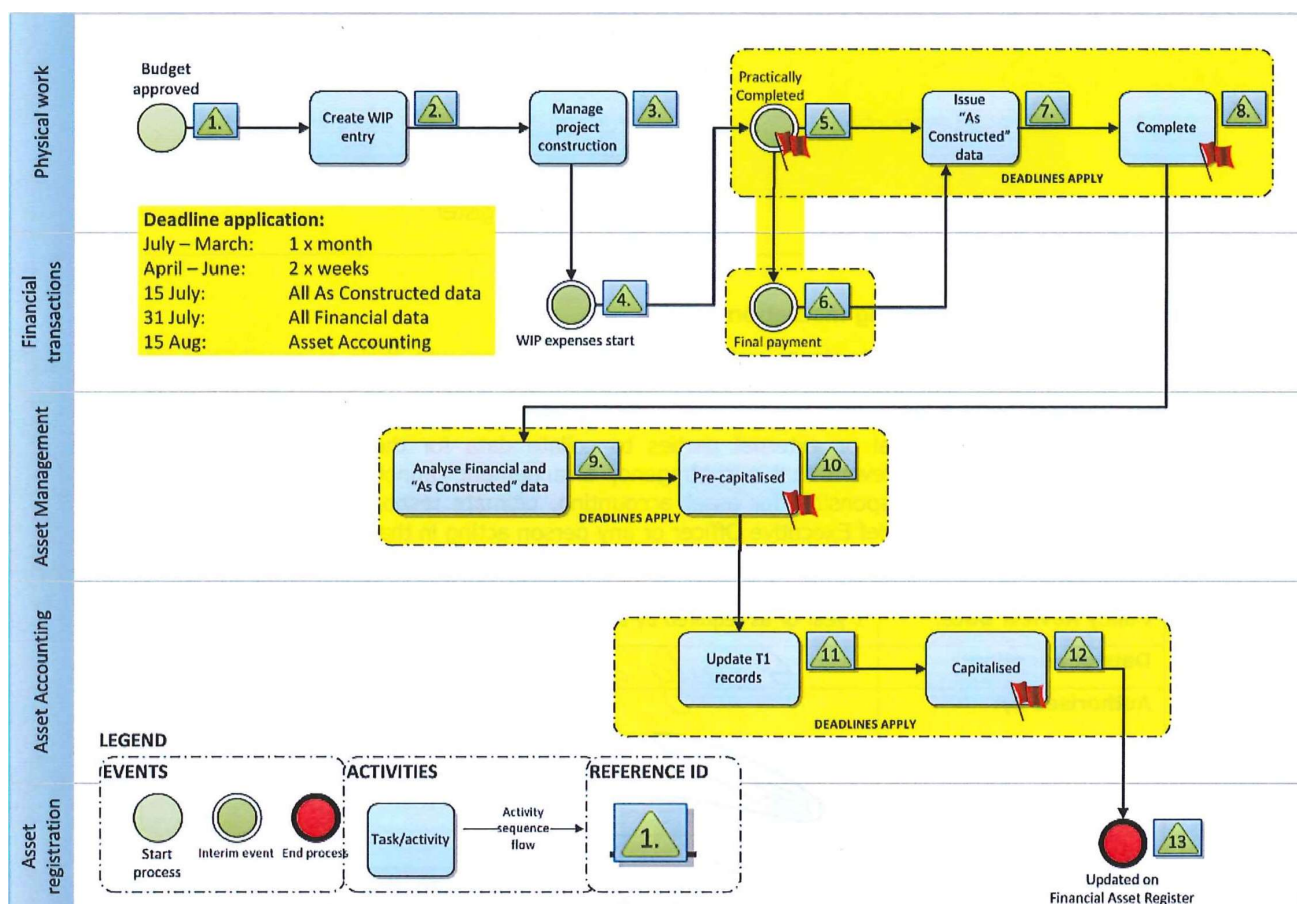
## APPENDIX 1: ASSET CAPITALISATION WORK PROCEDURE

The elements of the asset capitalisation work procedure guidelines are:-

- **Process diagram:** Core activities and events are represented as a diagram to illustrate responsibilities, order of completion and time frame expectations. Process elements have a numeric reference (Process ID) that relates to a corresponding explanatory note. Responsibilities for process activities and events are horizontally grouped and labelled by function.
- **Process notes:** Process notes summarise the relevance and application of the corresponding process element.
- **Process time requirements:** Critical time requirements and expectations are referenced by to corresponding process element.
- **Data requirements:** A prescribed list specifies the minimum data required to validate the asset value.

The incumbent business enterprise resource program that is utilised to provide process notifications is Technology One (T1).

### Process diagram



## Process notes

Process ID (PID)	Note
1. Budget approved	Approval is given at budget meeting.
2. Create WIP entry	Approved project is added into T1 as a capital project entry to Work in Progress (WIP).
3. Manage project construction	This includes taking the project through until assets are complete.
4. WIP expenses start	Expenses commence, times and costs are booked.
5. Practically completed	<ul style="list-style-type: none"> <li>Assumed as part of project management processes.</li> <li>Setting the T1 flag triggers that physical work is finished, the asset is physically complete and the sequence of deadlines commence.</li> <li>Start collating 'As Constructed and Financial data'.</li> </ul>
6. Final payment	<ul style="list-style-type: none"> <li>This event occurs as part of normal project management.</li> <li>Triggered from 'PID (5) Practically Completed' this is a mandatory input to 'Asset Management' functions.</li> <li>Potentially actions could include mandating 'As Constructed' data as a condition for final payment in order to mitigate delays.</li> </ul>
7. Issue 'As Constructed Data'	<ul style="list-style-type: none"> <li>Data is collated in accordance with the 'As Constructed Checklist', noted under the subsequent section headed 'Data requirements'.</li> <li>Email required data to <a href="mailto:asconstructeddrawings@ccrc.qld.gov.au">asconstructeddrawings@ccrc.qld.gov.au</a></li> <li>Triggered from 'PID (5) Practically Completed', this is a mandatory input to the functions of 'Asset Management'.</li> </ul>
8. Complete	<ul style="list-style-type: none"> <li>Administration staff from the section managing asset construction utilise the 'As Constructed Checklist' to confirm sufficient construction and financial data has been emailed to <a href="mailto:asconstructeddrawings@ccrc.qld.gov.au">asconstructeddrawings@ccrc.qld.gov.au</a></li> <li>Flag as complete in T1.</li> </ul>
9. Analyse Financial and 'As Constructed' data	<ul style="list-style-type: none"> <li>Assess what data has been provided and what is still required.</li> <li>Corroborate worksheet with the relevant departmental officer.</li> </ul> <p><b>Where applicable:</b></p> <ul style="list-style-type: none"> <li>Identify asset/s on the Financial Asset Register, identify applicable breakup of components.</li> <li>Assess reasonableness of recorded original asset values.</li> <li>Contingency arrangements can be made at the discretion of the Works Department, Asset Management Program.</li> </ul>
10. Pre-Capitalised	<ul style="list-style-type: none"> <li>Asset data has been analysed and prepared in a manner that can be audited, including validation of decision making and associated documents.</li> <li>Inputs provided to asset accounting in T1.</li> <li>All 'Asset Management' functions and requirement are complete and forwarded to the Department of Corporate Services, Finance Program.</li> <li>Flag as 'Pre-Capitalised' in T1.</li> </ul> <p><b>Where applicable:</b></p> <ul style="list-style-type: none"> <li>Create or dispose of an asset.</li> <li>Provides data for asset component write on/write off.</li> </ul>

11. Update T1 records	<ul style="list-style-type: none"> <li>Independent reasonableness checks undertaken by Department of Corporate Services, Finance Program.</li> <li>Updates T1 system (Asset accountant has capitalised and asset removed from WIP to Asset Register).</li> <li>Set the T1 flag.</li> </ul>
12. Capitalised	<ul style="list-style-type: none"> <li>The asset is now capitalised T1.</li> </ul>
13. Updated on Financial Asset Register	<ul style="list-style-type: none"> <li>Automatically updated in T1 to form the basis of continual control account reconciliations.</li> </ul>

### Process time requirements

Deadlines are activated at a specific Process ID as tabled below:

Deadline activated by Process ID	Process ID to finalise prior deadline
5. Practically Complete	6. Final payment
	7. Issue 'As Constructed' data
	8. Complete
8. Complete	9. Analyse Financial and 'As Constructed' data
	10. Pre Capitalised
10. Pre Capitalised	11. Update T1 records
	12. Capitalised
	13. Updated on Financial Asset Register

Deadlines of one month apply from July to March, compressing progressively from April to August as detailed below:

- July – March:** Deadlines of one month apply to complete from activation of the deadline to finalization. The target is finalization of 'Process ID (13) Updated on the Financial Asset Register' within three months from 'Process ID (5) Practically Complete'.
- March review:** Rigorous review of the asset capitalisation progress will be applied to counter the propensity to avoid shorter deadlines by delaying the move to 'Process ID (5) Practically Complete'. The Finance Manager is responsible for coordination of the review.
- April – June:** Deadlines of two weeks apply to complete from activation of the deadline to finalise prior to the deadline.
- 15 July:** All 'As Constructed' data must be submitted.
- 31 July:** All financial data must be submitted.
- 15 August:** Accounting for asset information is complete, allowing time for essential finance processes prior to preparation of financial statements.
- Exceptions:** Where it is believed that a deadline cannot reasonably be achieved, a specific resolution shall be agreed and documented with the Department of Corporate Services, Finance Program. An example scenario is when there are early indications or past precedent that an invoice will be late or cause delay to the capitalisation process.

### Data requirements

The following checklist has been prescribed by the Infrastructure Division however may be amended periodically to reflect the compliance requirements of External Audit and/or the Financial Services Department in order to meet financial reporting and other prescribed requirements.



## AS-CONSTRUCTED CHECKLIST

A check box means that document type may need to be supplied, see note under check box to determine if mandatory or not.

		Project Value <i>excluding GST</i>		
Document Type		\$5,000 - \$100,000	\$100,001 - \$1,000,000	>\$1,000,000
Photos	GPS photos (pre & post construction)	<input type="checkbox"/> Mandatory	<input type="checkbox"/> Mandatory	<input type="checkbox"/> Mandatory
Financial Data	Project cost report (from Tech1) reconciled between WIP & Works system	<input type="checkbox"/> Mandatory	<input type="checkbox"/> Mandatory	<input type="checkbox"/> Mandatory
Works Details	Hand sketch with measurement / notes	<input type="checkbox"/> Mandatory	<input type="checkbox"/> <i>If available</i>	<input type="checkbox"/> <i>If available</i>
	Amended design drawings	x	<input type="checkbox"/> Mandatory	<input type="checkbox"/> <i>If available</i>
	Fully surveyed/drafted and certified As-Cons	x	x	<input type="checkbox"/> Mandatory
Expenditure Details	Invoices	<input type="checkbox"/> Mandatory	<input type="checkbox"/> Mandatory	<input type="checkbox"/> Mandatory
	Contract schedule (including specific details of variations)	<input type="checkbox"/> <i>If available</i>	<input type="checkbox"/> Mandatory	<input type="checkbox"/> Mandatory
	Complexity (see examples below)	<b>1</b>	<b>2</b>	<b>3</b>

## Examples of Project Complexity

<b>Roads:</b>	
1.	Minor Pavement Repairs, shoulder resheeting, minor road widenings
2.	Rural Road renewal/upgrades, carparks
3.	Urban Road Renewal and Construction
<b>Buildings:</b>	
1.	General fittings renewals/upgrades, roof replacements
2.	Structural and plumbing works
3.	New building construction, major renewals/upgrades that significantly change the existing facility
<b>Water and Sewer:</b>	
1.	Minor sections of main replacement (<100m), pump renewals, service installations, meter renewals
2.	Main installation >100m in rural areas, renewal/upgrade of active assets that affect more than one component
3.	Construction of new active assets, main installation in CBD and township areas

<b>Related forms, policies and procedures</b>	Asset Capitalisation Work Procedure Guidelines
<b>Relevant legislation</b>	<i>Local Government Act 2009</i> <i>Local Government Regulation 2012</i>
<b>Reference and resources</b>	Australian Accounting Standards Queensland Audit Office Department of State Development, Infrastructure, Local Government and Planning Queensland Treasury Corporation

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<b>Approved by</b>	Chief Executive Officer	<b>Approval date</b>	6 July 2016
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<b>Review date</b>	August 2026		