



**2003 NSW LOCAL GOVERNMENT
ANNUAL FINANCIAL STATEMENTS AWARD**

JUDGES' REMARKS

1. INTRODUCTION

The NSW Local Government Annual Financial Statements Award is sponsored annually by Coalface Software Solutions to encourage improved presentation and compliance with the Australian Accounting Standards (the Standards) and the NSW Local Government Code of Accounting Practice and Financial Reporting (the Code). The award is judged on the non-audit aspects of compliance with the Standards and the Code, format and presentation, readability and information provided to users and the appropriateness, wording and content of narrative notes.

The judges are one nominee of each of the Local Government Finance Professionals, the Local Government Auditors Association and Coalface Software Solutions.

The comments made below are a summary of the points noted by the judges in their assessment of the entries received for the 2003 financial year. Not all judges assessed each of the points with the same degree of emphasis, although all judges agreed in the final choice of the awardee. Equally, individual practitioners in Local Government, and their Auditors, are likely to apply different degrees of emphasis to the points raised. These remarks have been prepared to assist entrants in future years' awards to enhance the preparation of their Annual Financial Statements.

In a number of instances, non-compliance with Australian Accounting Standards and the Code have been identified and are reported below. The judges have not identified any instance where the amounts involved in such breaches appear to be sufficiently material as to warrant qualification of the Auditor's Report. We have not carried out an audit, nor do we express any audit opinion on the Statements that we have reviewed, nor do we express any opinion in relation to the respective audits of those Statements.

2. GENERAL

Provided the information is clearly legible, no regard is taken to whether the Statements are professionally printed, or the manner of their binding (if any). Unduly small type faces, especially on a stippled background, can introduce a significant degree of difficulty in deciphering the information¹. Shadings (if present) must be consistently applied throughout the document². The Statements supplied for judging must include the index, Council certificate, principal statements, all notes and the Auditor's Report in the order stated in the Table of Contents³. Except where they have been directly referred to in the Statements, the Special Purpose Financial Reports and Special Schedules have been ignored in the judging process.

Pages should be neither duplicated nor omitted⁴.

1. We experienced some difficulty in deciphering figures for **#283** in some Notes.
2. **#205, #385, #277, #256, #325, #280, #361, #388**
3. **#298, #346** incorrectly included Note 1 to the Special Purpose Reports with Note 1 to the Annual Financial Statements.
4. **#385** (Note 3), **#370** (Notes 1 & 7)



Rounding discrepancies should be identified and corrected⁵; all additions within the Statements must be correct⁶. Totals from Notes must be correctly transferred to the principal Statements⁷. The “\$” sign should not be shown for amounts within columns headed “\$’000”⁸.

We commend **Manilla** for their simple, but effective, presentation achieved by photo-reducing A4 pages to form an A5 booklet. In our opinion, the innovative use of colour shading by **Central Darling** considerably improved the readability of their reports.

3. GRAPHICAL PRESENTATIONS

We welcome the increasing use of graphs to highlight key data and enhance the presentation of the reports⁹. In assessing these, we have adopted the following principles:

The importance of information displayed graphically.

The graphs should add to, not digress from, the financial information.

The presentation of the graphs, including ease of interpretation and use of colour.

4. TABLE OF CONTENTS

The table of contents must comply with the Department’s instructions (notes after the last note physically supplied need not be listed)¹⁰. An Executive Summary, if supplied, must be included in the Index and the page numbering¹¹. Rather than merely quoting the relevant section numbers, we prefer the contents page to describe the nature of the Auditor’ Reports (i.e. *Report on the Financial Statements* and *Report on the Conduct of the Audit*)¹².

5. EXECUTIVE SUMMARIES

Executive Summaries, where supplied (and however described)¹³, should be concise and assist the reader in interpreting the key features of the result for the year. Prolix summaries, or those which merely repeat information contained elsewhere are regarded as detracting from the Statements. Absence of an Executive Summary confers neither advantage nor disadvantage.

6. COUNCIL CERTIFICATE

The Certificate must be signed and bear the resolution date¹⁴; failure to do so implies that only a draft copy of the Statements has been supplied for judging. The Certificate should show the names of the signatories, not merely their positions¹⁵. The certificate must indicate which person is signing as Responsible Accounting Officer¹⁶.

5. Rounding errors: #304, #298, #391, #226, #307, #283, #358, #349, #322, #394
6. Incorrect additions: Statement of Financial Position - #361; Note 4(b) - #289; Note 6 - #379; Note 11 - #169.
7. Incorrect transfer from Note to principal Statements: Note 4 - #385, #391; Note 6 - #322, #382, #391, #394, #307, #370, #379, #373.
8. #316
9. **Graphical Presentations:** Statement of Financial Performance - North Sydney; Note 2 - North Sydney; Note 13 - North Sydney, Narromine, Wagga Wagga, Gundagai, Maclean, Tweed; Note 16 - North Sydney, Other - Campbelltown
10. Non-complying tables of contents: #205, #379, #343, #241, #103, #253, #265, #382, #391, #322, #226, #262, #283, #313, #352, #349, #280, #268, #244, #346, #238, #232, #223, #175, #394, #397
11. Pages should be numbered sequentially - #262
12. These Councils merely disclosed section numbers: #328, #379, #343, #247, #265, #355, #319, #382, #196, #112, #334, #364, #310, #154, #250, #139, #199, #160, #373, #268, #244, #157, #286, #118, #220, #346, #229, #151, #232, #289, #217, #136, #316, #370, #190, #340, #397, #391
13. Executive Summaries were supplied by Eurobodalla, Penrith, Camden, Pittwater, Holroyd, Campbelltown, Wollongong, Copmanhurst



7. STATEMENT OF FINANCIAL PERFORMANCE

The basic format is prescribed by the Code, but lines where the amounts for both current and previous reporting periods are NIL should not appear¹⁷. (This rule may be breached in the case of *borrowing costs*, where the information that there were no borrowing costs is of real significance.) Similarly, where consecutive subtotals are identical, only the bottom subtotal should be shown¹⁸. Amounts should not be shown as both profit and loss from disposal of assets or joint ventures & associates. Where comparative figures are reclassified, this should not have the effect of changing *total expenses*, *total revenues* or any subtotal amount unless an adequate explanation is supplied.

All amounts in the *Direct Transfers to Equity* section must have a note reference (even where this is Note 1) and the amount of the transfer must be identifiable in that Note¹⁹. (The same note references must also appear in the Statement of Changes in Equity.)

8. STATEMENT OF FINANCIAL POSITION

Again, the basic format is prescribed by the Code, but lines where the amounts for both current and previous reporting periods are NIL should not appear²⁰. Similarly, where consecutive subtotals are identical, only the bottom subtotal should be shown²¹. The Statement is to be dated at 30 June, not “for the year ended”²².

9. STATEMENT OF CHANGES IN EQUITY

Again, the basic format is prescribed by the Code, but lines and columns where the amounts for both current and previous reporting periods are NIL should not appear²³. Similarly, where consecutive subtotals are identical, only the bottom subtotal should be shown. Where there is no external interest in an equity accounted entity, the unneeded and duplicated columns should not be shown. Note references must be shown for all movements other than the result for the year.

The Code does not permit disclosure of reserves other than *asset revaluation reserve* in this Statement, and hence disclosure of other reserves is viewed as a deliberate (rather than inadvertent) breach of the Code.

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14. These Councils did not disclose the date of the Council’s resolution: #328, #214, #241, #292, #355, #382, #391, #334, #364, #250, #367, #373, #313, #394; unsigned Council Certificate supplied by #331; #283 showed conflicting dates.
 15. The following Councils did not disclose the names of one or more signatories: #328, #214, #304, #226, #334, #352, #325, #367, #199, #373, #244, #268, #220, #151, #100, #229, #148, #232, #307, #316
 16. #349, #397
 17. Councils showing NIL rows included #343, #319, #382, #391, #334, #325, #349, #367, #280, #373, #301, #286, #376, #361, #388, #316, #370, #340, #298
 18. Councils showing more than one duplicated total included #379, #385, #343, #187, #253, #265, #304, #391, #226, #334, #262, #352, #349, #310, #211, #271, #367, #373, #301, #151, #331, #376, #316, #370, #340, #355, #205, #190, #247, #142, #292, #232, #178, #220, #346, #361
 19. No Note reference: #115, #319, #136 #343; #292 incorrectly showed the adjustment in the equity section of the Statement of Financial Position; #391, #295, #244, #268, #397 incorrectly omitted direct transfer to equity from the Statement of Financial Performance (refer AAS 1 para 4.3 and Code page 4010).
 20. Councils showing NIL rows included #379, #385, #343, #265, #319, #382, #391, #334, #364, #325, #283, #349, #271, #310, #154, #367, #373, #301, #346, #127, #238, #376, #361, #388, #316, #370, #340
 21. The totals of *net assets* and *total equity* did not agree: - #370
 22. #379, #319, #382, #391, #196, #334, #364, #262, #310, #376
 23. Councils showing NIL rows or columns included #274, #379, #385, #241, #247, #187, #265, #208, #355, #256, #319, #382, #391, #322, #226, #334, #364, #262, #352, #325, #172, #349, #358, #271, #310, #211, #166, #367, #250, #139, #199, #160, #280, #301, #373, #286, #127, #346, #163, #151, #229, #238, #232, #142, #289, #307, #184, #331, #217, #175, #136, #376, #178, #361, #388, #316, #370, #190, #340, #298



In our opinion where revaluations have been made during the year and there are consequent transfers to or from *asset revaluation reserve*, the appropriate disclosure in the Notes would include the gross of revaluation increments and revaluation decrements for each class of assets²⁴. The Notes must also comply with the requirements of paragraphs 9.1 and 9.4 of AAS 38 “Revaluation of Non-Current Assets”.

10. STATEMENT OF CASH FLOWS

Again, the basic format is prescribed by the Code, but lines where the amounts for both current and previous reporting periods are NIL should not appear²⁵. Similarly, where consecutive subtotals are identical, only the bottom subtotal should be shown.

We have reviewed each Statement and identified items that appeared to be out of place²⁶. Obvious non-compliance with UIG 31 is penalised²⁷.

Cash for the purposes of the Statement of Cash Flows *must agree exactly* with cash assets (less bank overdraft) disclosed at the head of Note 11²⁸. *Cash assets* shown in the Statement of Financial Position must agree with Note 6 in both amount and description²⁹; *cash assets* as described in Note 6 must equal *cash assets* at the head of Note 11 in both amount and description³⁰.

11. ALL NOTES GENERALLY

The Notes in Appendix A2 of the Code are described as *example notes* of the types of disclosures required. Disclosure of particular information is only mandatory where specifically required by the Standards or the Code. Items should not be shown where amounts for the current and previous reporting periods are NIL³¹. “Other” classifications should generally not exceed 10% of the group total³². Clerical and typographical errors are to be avoided, and additions and cross-additions must be correct.

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24. No details of movements - #244, #391, #397, #268; Inadequate explanation of valuers and valuation basis - #268, #397, #391, #244, #328, #280, #313; inappropriate contents of note relating to *asset revaluation reserve* - #280
 25. Councils showing NIL rows included: #385, #343, #265, #208, #355, #277, #319, #382, #391, #364, #325, #271, #166, #238, #376, #361, #388, #298.
 26. #121 disclosed *bonds & deposits* as an operating payment. #112, #127, #346 showed *purchase of investment securities* as a positive instead of negative amount. #118 disclosed only the net movement in *investments*. #139, #235 showed *borrowing costs expense* as a positive instead of the expected negative amount. #238 disclosed *received from deferred debtors* as a negative instead of positive amount. #232 classified *deposits held in trust* as an investing receipt. #289 showed *proceeds from retirement home contributions* as a negative amount. #193 showed *proceeds from investments* as a financing, rather than investing, activity. We have been careful to ensure that this item has not affected placings in the Award, and invite any Council to advise us of the reasons (by email to davemax@ozemail.com.au) why they believe their particular disclosure complies with AAS 28, preferably relating those reasons to particular paragraphs in the Standard.
 27. #214 disclosed both a receivable and a payable in relation to GST. #226 disclosed a “negative” GST payment.
 28. Councils with a Statement of Cash Flows balance different from the head of Note 11 included #148 (corrupted formula), #322, #358, #331, #394.
 29. Councils where Note 6 did not agree with the Statement of Financial Position included #322, #283, #391, #382, #379, #373, #370, #394, #397.
 30. Councils where *cash assets* disclosed in Note 11 differed from *cash assets* disclosed in Note 6 included #358, #250, #295, #286, #229, #175, #247.
 31. This applied to #379, #265, #355, #382, #391, #277, #235, #376, #361, #385, #388, #316, #370, #340, #298, #283, #325, #349, #271, #343, #364, #367, #373, #334, #346.



In our opinion, Note 2 satisfies the requirements of AAS 27 for disclosure of expenditures by function, and disclosures in other Notes should be classified by type³³. We are also of the opinion that all disclosures must be for the purpose of aiding the better interpretation of the accounts, and that more disclosure is not necessarily good disclosure³⁴. Narrative portions of Notes must be complete and appropriate to the financial information disclosed³⁵.

While Notes in relation to comparative items may be reduced in detail, the appropriate explanations must still exist and be intelligible³⁶.

12. NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Policy statements contained in this note must be consistent with information given in individual notes. In future we propose to pay particular attention to

- detailed statements of policies where there are no relevant assets or liabilities to which the policy could apply.
- clarity and completeness of disclosures of changes in accounting policies, all of which must be cross-referenced from the appropriate Statement or Note, and all of which must clearly state the financial effect.

The disclosure of all funds and committees included in the consolidation is essential³⁷, and disclosure of committees omitted, and the aggregates of their revenues, expenditures and assets is encouraged³⁸. Committee names, etc., may be disclosed in a separate Note, if appropriate.

Disclosure of property, plant and equipment thresholds and typical lives may be made here or as part of Note 9; the disclosure of an excessive range of years for useful lives is discouraged.

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32. Councils where *other* classifications exceeded 20% of the group total included Statement of Cash Flows - Financing - #121; Note 3 - #301; Note 4 - #328, #292, #172, #250, #253, #196, #337, #295, #280, #256, #301, #214, #232, #352, #358, #343, #364, #169, #154, #322, #241, #103, #367, #289, #307, #331, #277, #235, #223, #259, #340, #376, #319, #361, #385, #274, #202, #355, #370, #313, #190, #394, #397; Note 6 - #379, #142, #289; Note 7 - #328, #385, #358, #271, #187, #391, #295, #256, #286, #163, #388; Note 8 - #328, #385, #337, #301, #286, #148, #145, #292, #319, #370; Note 10 - #328, #172, #253, #331, #259.
 33. #262 provided a classic example in Note 4 of merely repeating classifications by function for each revenue type, as also, to large extent, did #268
 34. Instances where we questioned the value of additional detail included Note 3 - #343, #391, #322, #226, #364, #352, #310, #250, #280, #286, #346, #163, #100; Note 4 - #391, #322, #130, #352, #310, #367, #196, #244, #118, #286, #238, #184; Note 6 - #238; Note 7 - #343, #241, #112, #262, #352, #310, #166, #373, #238, #184; Note 10 - #121, #166
 35. Incomplete/inappropriate narrative sections: Note 7 - #253, #277, #364, #298
 36. #382, #295 omitted notes in relation to comparative items.
 37. #376, #178 did not list either funds or committees. #214 disclosed the names of all committees, but did not disclose inclusions/exclusion from the consolidation. #241, #349, #358, #310 did not disclose names or numbers of committees included in the consolidation. #247, #187, #277, #256, #319, #145, #130, #325, #211, #271, #154, #250 made no reference to the existence of committees. #226 made no reference to the existence of committees in its Statements, although an accompanying document did so. #262 disclosed amounts included, but not the names of committees included. #364 disclosed some of the amounts excluded, but not the names of the committees. #139, #220 disclosed the fact that some committees had been excluded, but gave no further information. #295 disclosed *income tax expense*, but we were unable to identify any other reference to explain what is, for local government, a most unusual item, or any explanation of the accounting policies adopted in accordance with AAS 3.



We also reviewed disclosure as to whether Council adopted nominal or DCF values for Provision for ELE³⁹, and whether the voluntary disclosures referred to in AASB 1028 “Employee Benefits” paragraph 5.3.6 have been made⁴⁰. Some Councils state the requirements of the Standard without clearly stating that they have complied with its requirements. In our opinion, readers “who possess the proficiency necessary to comprehend the significance of contemporary accounting practices” (SAC 3, para 36) would already be aware of the requirements of the Standard, and Note 1 must clearly state the actual accounting policies adopted by the Council.

We encourage disclosure of the purpose of reserves in accordance with AAS 36 paragraph 8.8(b), even though the Code requires their description as *restricted assets* rather than *reserves*⁴¹.

Defined Benefit Superannuation - following the revision of AASB 1028 additional disclosures were required for defined benefit superannuation, and these may be disclosed in Note 1 or 18. (We suggest that Note 18 is the more appropriate location.) Although reliable information was not necessarily easy to obtain, we doubt that the following Councils met the disclosure requirements of the standard⁴².

13. NOTE 2 - FUNCTIONS / ACTIVITIES

The use of Council’s management plan structure, rather than the ABS classifications, is encouraged^{43, 44}.

14. NOTE 3 - EXPENSES

Except where there is clear internal evidence to the contrary, it is assumed that some part of employee costs⁴⁵ and depreciation⁴⁶ will have been capitalised, and this disclosure is required. We are also of the view that there are occasions where it is appropriate to capitalise a portion of *other expenses*. Some Councils disclose only the net change in provision as *employee leave expense*, rather than actual cost which would normally exceed 10% of *salaries & wages*⁴⁷. Employee numbers may be disclosed in Note 1 or Note 3⁴⁸.

Where additional information is disclosed for *materials and contracts*, that information must differentiate between *materials* and *contracts*⁴⁹.

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38. Councils fully making these disclosures included **Wagga Wagga, Lockhart, Tallaganda, Tumut, Penrith, Camden, Pittwater, Leeton, Cooma-Monaro, Snowy River, Bega Valley, Lake Macquarie, Taree, Dungog, Coffs Harbour, Maitland, Kyogle, Maclean, Nundle, Temora, Hay.**
 39. Non-disclosure of policy regarding ELE discounted cash flows: **#328, #274, #187, #382, #391, #160, #280, #151, #229**
 40. Disclosed by **Narromine, Dubbo, Auburn, Oberon, Bathurst, Taree, Copmanhurst, Rylstone, Wellington, Hume, Carrathool**
 41. These disclosures were made by **Campbelltown, Bega Valley**
 42. **#328, #274, #337, #343, #253, #256, #367, #280, #223, #175, #376, #313. #277** - incorrect treatment of change in accounting policy.
 43. The following Councils used non-ABS functions - **Warringah, Camden, Cooma-Monaro, Dubbo, Shoalhaven, Ku-Ring-Gai, Coffs Harbour, Woollahra, Ryde, Orange.**
 44. Explanations of functions missing - **#277, #259, #220; #358** adopted an innovative approach to the description of functions which may not have achieved the purpose of the Standard.
 45. Councils with significant infrastructure construction that did not disclose capitalisation of employee costs included **#169, #274, #247, #325, #154, #373, #151, #148, #331, #376, #388, #340**
 46. Councils with significant infrastructure construction that did not disclose capitalisation of depreciation included **#169, #274, #214, #337, #343, #124, #241, #253, #187, #208, #277, #319, #304, #391, #196, #322, #364, #262, #352, #325, #283, #349, #358, #271, #310, #211, #154, #199, #295, #106, #181, #133, #373, #301, #244, #220, #346, #127, #100, #151, #193, #307, #217, #331, #235, #223, #136, #376, #178, #388, #370, #313, #340, #394, #397**
 47. **#115, #241, #142, #388, #358, #154, #139, #157, #229, #304, #331** reported *ELE Expense* below this limit.
 48. Councils whose disclosure could not be identified included **#265, #250, #217, #370. #289** disclosed different numbers in Notes 1 & 3.



New capital expenditure and new borrowings have been examined to determine whether capitalisation in accordance with AAS 34 “Borrowing Costs” has been correctly applied⁵⁰.

The contents of the “Other Expenses” classification have been reviewed for appropriateness⁵¹, and particular attention has been given to disclosure and non-disclosure of items of individual significance⁵².

We have adopted the following policies regarding disclosures of specific items:

Audit fees - disclosure in accordance with paragraphs 1.3, 5.3(a) and 5.3(b) of AAS 37 “Financial Report Presentation and Disclosures” is required.

Legal Expenses - dissection between *planning* and *other* is required: where only one amount is shown it must be described as either *planning* or *other*⁵³.

Mayoral Allowance - required disclosure⁵⁴

Members’ Fees & Allowances - required disclosure⁵⁵

Members’ Expenses - required disclosure (Act specifically requires adoption of policy by Council)⁵⁶

Operating Leases - disclosure in accordance with paragraph 11.2(a) of AAS 17 “Leases” is required⁵⁷.

15. NOTE 4 - REVENUES

We have reviewed the classifications of revenues⁵⁸, and draw attention to the definition of *user charges* at page 2011 of the Code, which requires that they be a charge on the land.⁵⁹ Amounts described as *s94 developer contributions* must be reflected in Note 17. LSL contributions received from other councils should be offset against *employee benefit expense* (refer AASB 1028 paras 4.14, 4.15)⁶⁰. Credit re-measurement adjustments to provisions relating to expenses should appear as credit amounts under expenses, not as revenues⁶¹.

16. NOTE 5 - DISPOSAL OF ASSETS

We tend to the view that the scrapping of infrastructure on reconstruction is more correctly a supplementary depreciation charge rather than a *disposal* for the purposes of this Note, but we are aware that this matter is the subject of debate. Accordingly, we have referred the question for consideration at the Local Government Auditors Association workshop, and Councils adopting this approach⁶² not been advantaged or disadvantaged.

49. #253, #391

50. **Bathurst.** We question whether this has been the case (especially in relation to revenue) for #292.

51. The judges considered that some of the items disclosed as *other expenses* could equally appropriately have been included in *materials & contracts* or *employee costs* - #322, #364, #283, #352, #325, #172, #349, #358, #310, #367, #250. Interest on refundable deposits should be disclosed as *interest* rather than *other expenses* - #166. #289 appropriately disclosed an expense item *provision for diminution of investments* but included the provision in Note 10 instead of as a deduction from the gross amount in Note 6.

52. In the judges’ opinion, additional disclosure of items of individual significance may have been appropriate for #202, #253. #337 disclosed the amount of such an item, without disclosing any further information. #253 disclosed *decrements from revaluations* in the Statement of Cash Flows reconciliation for an amount which the judges were unable to agree with any expense item: nor were the judges able to clearly identify any other narrative disclosures in relation to this. #187 made narrative disclosure for a significant item that was (incorrectly) disclosed in revenue. #259, #118 did not disclose any item in Note 3, although the Statement of Cash Flows suggested that they may have. #226 disclosed these items as a separate Note without cross-referencing to the location of the items. The narrations for #223, #235 were incorrect.

53. #247, #109, #316

54. #349, #397

55. #349, #361

56. Member’s expenses not disclosed by #202, #265, #283, #358

57. Appropriate disclosure not made by #124, #247, #253, #208, #355, #382, #391, #334, #130, #283, #352, #172, #310, #250, #199, #295, #373, #301, #244, #268, #232



Where a Council has scrapped material amounts of infrastructure on reconstruction in the current and previous years we would expect to see evidence of a review of depreciation rates.

17. NOTE 6 - CASH ASSETS & INVESTMENT SECURITIES; RESTRICTED CASH

Bank overdrafts must be disclosed on Note 10, not as negative cash⁶³. There is ongoing debate whether *managed funds* meet the definition of *cash asset* (and accordingly, Councils have not been advantaged or disadvantaged for this classification), where the amount is material the proper disclosure must be made. The description *cash equivalent assets* is of generic nature (as with *inventories*) and is not recommended⁶⁴. The description *blank line* included in some software packages is unacceptable, whether or not any amount is attributed⁶⁵; ranges of interest rates must be shown⁶⁶.

We would generally not expect to see any *non-current unrestricted amounts*⁶⁷. The Code prescribes that “*where assets have a <12 month period to maturity, and an “internal restriction” exists over those assets, they are to be disclosed as “current” irrespective of the term of the restriction.*” If non-current internal restrictions relate to cash assets we regard this to have been breached⁶⁸.

External restrictions in Note 6b need to match the items in Note 6a⁶⁹; totals of internal restrictions in Note 6b must match the equivalent totals in Note 6a; additions and cross-additions in Note 6b must be correct⁷⁰. All internal restrictions should have a positive balance⁷¹, and although they are to be disclosed as *current*, the proposed utilisation must show actual estimates of future use⁷².

18. NOTE 7 - RECEIVABLES

We make the assumption that at least some of the rates & annual charges debtors outstanding at reporting date will remain unpaid at next reporting date, and that there should be some apportionment between current and non-current debtors⁷³. Deferred debtors will generally include a non-current component; in its absence we review the Statement of Cash Flows and form an opinion whether an apportionment should have been made^{74 75}.

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58. #259 incorrectly described *Roads to Recovery* as an untied grant. #205 omitted *investment revenues* from this Note. #322 incorrectly described *Pensioner Rates Subsidy* as a special purpose grant. We are not certain that #334 has correctly disclosed *joint venture revenues*. The description of (we think) interest earned on a loan not utilised by #310 was not clear. Capital Gains/Losses on Securities should be disclosed in Note 5 rather than Note 4 - #166. We would expect *sale of land* to be disclosed in Note 5 rather than in Note 4 - #250 Gain on disposal of investments should be disclosed in Note 5 - #124.
59. Councils with *user charges* items that were considered to have breached this definition included #379, #247, #253, #208, #304, #364, #325, #211, #310, #166, #250, #367, #199, #295, #160, #268, #346, #388
60. LSL contributions disclosed as revenue by #364, #310, #220, #361
61. Provision for Insurance Losses - #187, #292, #256, #319, #196, #310, #181, #157, #286, #151, #307, #175, #316. #304 disclosed a revenue item that suggests that they have not correctly eliminated all internal charges.
62. Councils with disposals for NIL proceeds included #214, #322, #226, #310, #181, #157, #286, #163, #151, #229, #148, #238, #232, #193, #142, #298.
63. #352 disclosed negative cash at bank.
64. The description was used by #202, #205, #124, #208, #304, #322, #352, #358, #172, #199, #373, #244, #229, #151, #193, #307, #217, #109, #316, #370, #190, #340
65. #337, #163, #331, #235, #340, #298
66. #328, #205, #385
67. The following Councils disclosed *non-current unrestricted cash and investments*: #346
68. #328, #319, #313
69. Non matches occurred with #328, #205, #379, #385, #391, #352, #358. #289 included *grant paid in advance* as an external restriction included in liabilities, which suggests that they have not applied the recognition policy set out in Note 1.
70. #346, #376, #316

**19. NOTE 8 - INVENTORIES & OTHER ASSETS**

Additional information must be disclosed for *real estate held for resale* whenever these comprise a material part of total *inventories*⁷⁶. *Other properties - book value* relates only to properties held surplus to requirements⁷⁷.

Material amounts within the *Other Assets* classification must be adequately described⁷⁸.

20. NOTE 9 - PROPERTY, PLANT & EQUIPMENT

Asset class descriptions must be consistent between Notes 1 & 9. Narrative disclosures may be made in Note 1 or Note 9 according to individual preference. Appropriate information relating to the method of valuation (i.e. cost, deemed cost or fair value) must agree with financial information; a suitable (but not necessarily exhaustive) range of thresholds and useful lives must be disclosed. Unless a reasonable explanation is given, depreciation or accumulated depreciation amounts for a land related asset has been usually been interpreted as a classification error that should have been corrected prior to the preparation of the Statements⁷⁹.

Where a value has been recorded for land under roads that clearly does not relate to all of the land under roads in the Council, the policy relating to the recognition must be clearly set out in Note 1⁸⁰.

Assets are held either *at cost* or *at fair value* (less accumulated depreciation), not *at deemed cost*⁸¹. (The source of the confusion is that, with the adoption of AAS 38, the then carrying value was deemed to be *cost* for all future accounting purposes.)

Assets movements in the reconciliation relate to carrying values and should match the amounts disclosed in Note 5⁸² and depreciation charges must match with the disclosures in Note 3^{83, 84}. Recoverable amounts written down should also be reported in Note 3 *Other Expenses* unless the amount is less than the smallest other items listed there, and should probably also be referred to in Note 1⁸⁵.

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71. #232 disclosed an internal restriction with a negative balance.
72. #385 incorrectly disclosed current/non-current internal/external restrictions.
73. Councils where this was not the case included #328, #274, #205, #202, #379, #385, #337, #211, #292, #265, #355, #256, #382, #391, #334, #160, #295, #280, #181, #244, #286, #220, #346, #142, #193, #307, #184, #331, #217, #223, #175, #376, #361, #388, #316, #313, #190, #394, #397
74. We suspect that an apportionment should have been made in the case of #169, #256, #313
75. #334 incorrectly described *government grants & subsidies* as an externally restricted receivable.
76. Councils with inconsistencies in apportionments included #274, #106, #193. We suggest that the following Council(s) could review the current/non-current apportionment for real estate assets: #340.
77. #262, #349, #367, #250, #298
78. #337, #295. The description supplied by #199 indicated that the asset should have been reported on the face of the Statement of Financial Position as a *joint venture* (AAS 36 para 7.1(a)(iv)).
79. E.g. #205, #202, #124, #292, #355, #319, #226, #352, #271, #160, #133, #148, #238, #232, #223, #376, #388, #109, #316, #313; #250 disclosed *land improvements (depreciable)* with no depreciation.
80. #364, #388; Note 1 claimed that *land under roads* had not been capitalised, but Note 9 showed that some had been - #127, #238, #217, #178; #337 explanation was scanty, and the valuation question was not addressed. We commend **Richmond Valley** for the clarity of their Note. #148 disclosed that some *land under roads* has been brought to account, but not the policy relating to the selection of *which* roads have been brought to account.
81. #286, #220, #181, #157, #394
82. #328, #274, #205, #247, #355, #319, #304, #226, #334, #262, #352, #181, #238, #394
83. This was not the case for all asset classifications for #205, #292, #208, #355, #319, #226, #334, #238, #385, #388, #316, #370, #337, #295, #181, #373, #268, #286, #289, #223, #259, #247, #376, #199, #391, #352, #211, #310, #364, #166, #367, #250, #253.
- 84.



The requirements of AAS 38 “Revaluation of Non-Current Assets” that all assets within a class must be subject to the same revaluation events must be complied with, even where this requires the splitting of what was previously one class of assets⁸⁶. We interpret the Standard to require disclosure of the effective dates of all valuations⁸⁷.

21. NOTE 10 - LIABILITIES

Where a *provision for gravel pit restoration* (or similar) is made, Note 1 should report compliance with AAS 7 “Accounting for the Extractive Industries”⁸⁸. The most common treatment was to disclose a *provision for loss - Statewide Mutual* but there were exceptions⁸⁹.

New accounting standard AASB 1044 requires a reconciliation of movements in non-employee benefits provisions, and this was generally complied with⁹⁰. We point out that the requirement is for reconciliation of movements in non-employee benefits provisions only. Where discounted cash flow procedures are used to calculate a provision, there will be a re-measurement adjustment relating to the change in future interest rates (and/or wages rates) used in the calculation, and in future years we will require the re-measurement adjustment to be disclosed for any employee benefits provisions for which movements are shown⁹¹.

Kyogle, Lismore, Ballina, Tweed disclosed Aggregate Employment Benefits Liability in accordance with AASB 1028, para 6.2.

22. NOTE 11 - RECONCILIATION TO CASH FLOW STATEMENT

The format must clearly differentiate between positive and negative reconciliation items⁹². *net cash provided by operations* must agree with Statement of Cash Flows⁹³; *non-cash capital grants & contributions* must equal the subtotal of *non-cash financing and investing activities*⁹⁴.

85. #274, #259.

86. Incorrect valuation disclosure by #304, #391, #280, #133, #331, #178, #370, #313, #340, #394, #397. #367 disclosed certain assets at fair value, but did not provide information on the basis of valuation. #397 failed to segregate the values for *land* from *buildings*, contrary to AAS 4. The valuation of buildings for #388 was made by the famous Mr. Fred Nerk, NBG, SFA of Messrs. Guess & Hazard.

87. We did not identify this disclosure for all valuations of #328, #391. #385, #253 did not disclose current valuations for land. #220, #331 did not disclose current valuations for land and buildings. There were conflicts between the narrative note and quantitative note for #268.

88. No such reference was made in Note 1 by #202

89. Disclosed as payable, but there was nothing in Notes 1 or 18 to indicate that the liability had crystallised - #355, #268, #220, #148, #361. We submit that some of the items listed as provisions by #355 should be reviewed in light of the definitions contained in AASB 1044. #382 provided a “Statement of Trust Fund” as a Special Schedule 8 (referred to in Note 1) showing amounts excluded from the consolidated reports. Based on the narrations of the items in that schedule, we submit that they should review the definition of “control”.

90. Exceptions included #379, #385, #208, #355, #112, #262, #211, #160, #181, #373, #118, #229, #289, #136, #178, #190.

91. Councils with reconciliations that excluded re-measurement adjustments: #196, #364, #268, #307.

92. This was not the case for #238. #337 disclosed both an increase and a decrease in creditors. #370 disclosed an increase in *provision for employee benefits (current)* and a decrease in *provision for employee benefits (non-current)*. #367 disclosed *decrements from revaluations* as a reconciliation item, but there was no reference to this in either Note 1 or Note 4. #280 incorrectly disclosed *share of equity accounted profit* as an *equity adjustment*. #238 showed negative amounts for *decrease in receivables* and *increase in other current assets*.

93. Councils where *net cash provided by operations* did not equal reconciliation amount included #355, #358; Incorrect reconciliation: #157, #184



Where the ledger records a bank overdraft at reporting date, but no formal overdraft facilities exist, the fourth section of this Note must be completed with the word NIL. Failure to do so is regarded as an incomplete Note⁹⁵. References to loan approvals are archaic (they were removed in Code update #9)⁹⁶ and statutory overdraft limits did not survive the 1919 Act. We encourage disclosure of credit card facilities.⁹⁷

23. NOTE 12 - COMMITMENTS FOR EXPENDITURE

Councils who do not have joint ventures or equity accounted entities disclosed at Note 19 should not make reference to that Note here. The statement that “*Council had no commitments for (e.g.) capital expenditure at this or the previous reporting date*” in Note 1 or 12 constitutes adequate disclosure⁹⁸. We consider that every Council must have some *other expenditure commitments*⁹⁹. Disclosures in relation to *operating leases* must comply with paragraphs 11.2(c) and (d) of AAS 17 “Leases”^{100, 101} and be consistent with disclosure of operating lease expenditures in Note 3¹⁰². The wording in the example note in the Code is not considered to meet these requirements.

24. NOTE 13 - STATEMENT OF PERFORMANCE MEASUREMENT

It is considered appropriate to disclose the full sequence of ratios for the four years¹⁰³; we prefer to see the relevant year at the head of the columns¹⁰⁴. Where a Council chooses to disclose additional ratios the explanation of the ratio and its purpose must be clear¹⁰⁵. Where additional ratios are disclosed, there should be sufficient variation from the standard ratios to justify the additional information¹⁰⁶. Charts, where included, must be clear and well presented¹⁰⁷.

25. NOTE 14 - CONDITIONS OVER GRANTS & CONTRIBUTIONS

Unexpended grants and contributions must equal the amounts disclosed in Note 6b¹⁰⁸; unexpended contributions must equal or exceed the unexpended balances in Note 17. We encourage the dissection of grants into the classifications used in Note 4, as shown in Note 6 to Appendix 1 of AAS 27¹⁰⁹.

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94. *Non-cash capital grants & contributions* did not agree exactly with the reconciliation included: #355, #307, #352, #358, #181, #145, #385.
95. #385, #304, #382.
96. #208, #382, #112, #148, #238, #232, #316, #313
97. Not disclosed by #115, #328, #205, #202, #337, #343, #124, #241, #247, #103, #253, #211, #292, #265, #208, #319, #196, #322, #112, #364, #262, #283, #352, #172, #358, #349, #310, #139, #199, #373, #301, #244, #268, #157, #286, #346, #151, #232, #193, #307, #331, #376, #361, #388, #316, #370, #190
98. Councils making **no** disclosure included: capital expenditure commitments - #274, #247, #292, #145, #304, #373, #127, #193, #136, #175, #376, #190, #358, #217, #340, #394; other expenditure commitments - #292, #196, #373, #229, #376, #397, #211; finance leases - #202, #379, #337, #247, #256, #145, #304, #259, #196, #130, #373, #229, #193, #289, #184, #136, #376, #178, #190, #211, #262, #322, #244, #214, #220, #217, #223, #175, #397; operating leases - #379, #256, #145, #304, #196, #118, #193, #190, #214, #220, #175, #397.
99. #385, #199, #331, #388, #313 disclosed NIL *other expenditure commitments*. This was interpreted as failure to complete the Note. #379 did not correctly disclose time bands for payments of *other expenditure commitments*. *cancellable operating leases* should be disclosed as part of other operating expenditure - #112. Although #214 disclosed the asset *leasehold improvements*, no reference was made to leases in either Notes 1 or 12.
100. Councils where, in our opinion, this was not the case included #169, #115, #328, #202, #337, #343, #124, #241, #247, #103, #253, #211, #292, #208, #355, #277, #319, #382, #391, #334, #364, #262, #325, #283, #352, #172, #349, #358, #271, #310, #367, #250, #199, #139, #295, #280, #181, #106, #373, #301, #157, #244, #268, #346, #163, #229, #238, #232, #289, #217, #223, #235, #178, #361, #388, #370, #313, #298, #394, #322, #133, #286, #304, #184, #130, #259, #274.
101. Disclosures by **Pristine Waters, Wellington, Urana** were considered to fully meet the requirements.
102. Councils who described operating leases differently in Note 3 and 12 included #169, #328, #274, #343, #292, #259, #334, #364, #325, #367, #181, #184, #217, #223, #388, #313



26. NOTE 15 - FINANCIAL INSTRUMENTS

For the purposes of Note 15, “maturing” relates to the date of finalising or re-negotiating (e.g.) a loan. Accordingly, it is unlikely that the timing split for liabilities will be identical to the current/non-current split in Note 10¹¹⁰. Weighted average interest rates must be shown where appropriate¹¹¹; net assets per reconciliation must agree with Statement of Financial Position¹¹².

27. NOTE 16 - SIGNIFICANT VARIATIONS FROM ORIGINAL BUDGET

Explanations should be clear and concise; the larger the variance, the more detailed the explanation. Policy 11.1.1 of the Code requires the detailed budget to be prepared on an accrual basis which is interpreted as requiring the inclusion of depreciation charges¹¹³. Our review of this Note was effectively limited to the final selection of the awardee.

28. NOTE 17 - STATEMENT OF CONTRIBUTION PLANS

Cash contributions and interest credited during the year must agree with Note 4¹¹⁴; non-cash contributions must agree with Note 11¹¹⁵; negative balances are not permitted in the summary of contribution plans in the *expended in advance or held as restricted asset columns*¹¹⁶; *works provided to date* must always equal or exceed *expended during year*¹¹⁷. Where a Council has sec 94 expended in advance, these are not permitted to be netted off against sec 94 funds held from other plans. Amounts expended in advance should be disclosed in accordance with the format set out in the Code¹¹⁸.

29. NOTE 18 - CONTINGENCIES & ASSETS & LIABILITIES NOT RECOGNISED

Explanations should be clear and concise¹¹⁹. We are sceptical of any Councils who omit this Note, or otherwise claim that they have no contingencies or other assets or liabilities not recognised.¹²⁰

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103. Some years omitted - #268
 104. Councils showing “yr -1” etc. included #355
 105. Councils where, in our opinion, this was not the case included #364, #349, #361, #388, #298.
 106. #259 stated that it was making additional disclosures, but did not.
 107. Graphical presentations by **Narromine** were of a very high standard. **Narromine** included a summary of the indicators derived from the Financial Health Checks, describing the Note as *Internal Note 13*. A description of *Internal Note* would imply that the information does not form part of the Annual Financial Statements. Care needs to be taken that such additional information does not become an unnecessary distraction from the Statements themselves.
 108. #337, #355, #322, #331, #217, #229 (all rounding), #379, #247, #253, #304, #391, #106, #193, #376, #313, #382, #298; #382, #391, #286, #166 omitted RTA contributions from Note 14.
 109. In our view, the following Councils provided optimum disclosure - **North Sydney, Albury, Lockhart, Jerilderie Fairfield, Lithgow, Coffs Harbour, Holroyd, Canada Bay, Auburn, Manly, Snowy River, Yass, Pristine Waters, Copmanhurst, Maclean, Bingara, Armidale, Quirindi, Nundle, Mudgee, Harden. Narromine** provided a reconciliation of movements in individual grants (which is standard practice in the Northern Territory) as *Internal Note 14*. Unfortunately there appear to be discrepancies with the revenue information in Note 4. We acknowledge the attempt to provide improved information, and have excluded the *Internal Note* from judging.
 110. Apparent errors in timing, etc. occurred in #121, #274, #205, #202, #385, #337, #241, #253, #211, #292, #265, #208, #355, #277, #319, #145, #304, #259, #391, #112, #325, #349, #271, #310, #367, #295, #160, #133, #373, #286, #163, #346, #229, #151, #100, #148, #238, #232, #193, #289, #142, #184, #307, #331, #217, #223, #175, #376, #178, #361, #388, #316, #340, #298, #397
 111. Interest rates omitted for #121, #163, #127, #331, #235, #376, #388



The Statewide Mutual situation affected Council statements for the first time in 2002 and given the uncertainties and confusion surrounding the situation, the judges have not substituted their own professional views for those of the persons responsible for preparing or auditing the statements. Our attention has been directed at the adequacy and appropriateness of disclosures in relation to the treatment selected.

Councils who have elected not to recognise Rural Fire Service assets because they lack the necessary degree of control should report this within this Note¹²¹.

30. NOTE 19 - JOINT VENTURES & ASSOCIATED ENTITIES

Due to the range and complexity of various arrangements affecting Councils, considerable variation in the format and presentation of this information is completely acceptable. Required disclosures include name of the entity, interests (ownership and voting), reconciliation of carrying amount movements, expenditure commitments and contingent liabilities¹²².

31. FUNDAMENTAL ERRORS & EXTRAORDINARY ITEMS

Items so described should clearly comply with the definitions in AAS 1 "Statement of Financial Performance"¹²³ and be material in amount. Explanations must be clear, and full disclosures required by the Standard must be made. Retrospective amendment of comparative figures is a breach of the Standard.

The following Councils reported *Fundamental Errors* or *Extraordinary Items* - **Lockhart, Leeton, Tallaganda** (2002), **Cowra** (2002), **Yass, Copmanhurst, Temora, Hume, Wentworth**. The following Councils reported items relating to Council Restructure - **Waverley, Woollahra**.

32. AUDITOR'S REPORT

Incorrectly locating Auditor's Reports is regarded as a significant breach of the Code¹²⁴. Absence of either of the Auditor's Reports is viewed as the submission of draft Statements to the judging process. The audit report relating to the review of Council's GST management systems does not, in our view, form part of the Annual Financial Statements audit assignment and should not be attached to the Annual Financial Statements¹²⁵.

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112. Councils with no or an incorrect reconciliation included #337, #103, #253, #352, #349, #172, #367, #196, #127, #289 (all rounding); #379, #214, #307, #376, #358, #394.
 113. Councils not including depreciation in their budget included #190, #211, #358, #241, #205, #325
 114. This was not the case for #352, #322, #391, #295, #160, #379, #106, #214, #220, #229, #193, #394 (all rounding); #259, #196, #343, #187, #208, #268, #100, #232, #136, #382, #340; #388, #313 did not credit interest during the year, which we believe to be contrary to the Act.
 115. Councils where this appeared to not be the case included #202, #214, #337, #259, #367
 116. Councils disclosing negative balances included #211
 117. Councils omitting the works provided information included #202, #337, #256, #382, #259, #283, #325, #358, #211, #280, #133, #163, #346, #184, #331, #376, #313, #340.
 118. #172
 119. We did not find the narrations for certain items for the following Councils to be entirely clear - #274 (item 4). We were not comfortable with the disclosures made by #295 (item 3), #160 (items 3 & 5), #280, #157 (item 2)
 120. #322, #193, #307, #223, #376, #394
 121. Not, or not adequately, reported - #382, #346.
 122. We were not comfortable with the disclosures made by #337, #391, #334, #130, #280, #301, #151, #229, #388. An apparent joint venture entity was accounted for by proportional consolidation instead of associated entity by #382, #178.
 123. The judges were not satisfied that the item(s) disclosed as *extraordinary* by the following Councils comply with the definitions in AAS 1 "Statement of Financial Performance" - #274, #280, #361, #388.
 124. #379, #343, #241, #292, #355, #256, #304, #382, #391, #226, #352, #349, #271, #367, #199, #268, #244, #118, #151, #232, #217, #394, #397



NSW ANNUAL FINANCIAL STATEMENTS AWARD

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We wish to thank all Councils nominated for the Award. In judging an award such as this, it is necessary for the judges to be critical of the Statements and for us to highlight items and presentation which we think can be improved, because that is the process that we follow in making our final selection of the awardee. Many Councils have taken much time and trouble in preparing their Statements, and we commend them on their efforts. We hope that our criticisms will be interpreted in a positive manner, and used for further improvements.

Councils who nominated for the Award may contact us by email at davemax@ozemail.com.au to obtain the code reference that we have used to indicate the Council in these remarks.

33. THE WINNER

It took the judges more than half an hour of close comparison to separate the winner of this year's Award, **Maclean Shire Council**, from **Penrith City Council**. Other Councils particularly commended for their high standard of compliance and presentation were **Bathurst City Council**, **Urana Shire Council** and **Coffs Harbour City Council**.

125. It was attached by #115, #385, #343, #208, #256, #391, #235, #376, #388, #136, #373