



**2004 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 2004 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. While we have taken every care during their compilation, it is possible that errors have occurred in that process. Any such errors have not affected the final selection of the awardee, as this occurs by a different selection method.

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

We ask that Annual Statements be supplied in hard copy format for judging¹.

1. Bellingen and Wakool supplied only soft copies of their Statements.



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 information². Shadings (if present) must be consistently applied throughout the document. 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.

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".

In our opinion, the use of colour shading by **Singleton, Kyogle** considerably improved the readability of their reports. However, the judges are of the view that the best presentations do not require the extensive use of colour for maximum clarity and readability.

3. GRAPHICAL PRESENTATIONS

We welcome the increasing use of graphs to highlight key data and enhance the presentation of the reports⁸. 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)⁹. An Executive Summary, if supplied, must be included in the Index and the page numbering. Rather than merely quoting the relevant section numbers, we prefer the contents page to describe the nature of the Auditor's Reports (i.e. *Report on the Financial Statements* and *Report on the Conduct of the Audit*)¹⁰.

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2. We experienced some difficulty in deciphering figures for **#464, #214, #269** in some Notes. **#429** fell victim to the dreaded #REF gremlin (note 13).
 3. **#429, #414, #239**
 4. **#264**
 5. Rounding errors: **#109, #119, #129, #379**
 6. Incorrect additions: Note 3(c) - **#144**; Note 9 - **#279, #409**; Note 11 - **#504**. No indication of a negative amount(s) - **#384** (Statement of Financial Performance)
 7. Incorrect transfer from Note to principal Statements: Note 6 - **#304, #234**.
 8. **Graphical Presentations**: Statement of Financial Performance - **Coffs Harbour, North Sydney, Holroyd**; Note 2 - **Coffs Harbour, North Sydney**; Note 13 - **Coffs Harbour, North Sydney, Rockdale, Holroyd, Wellington, Narromine, Gundagai, Pristine Waters, Maclean, Greater Taree**; Note 16 - **Coffs Harbour, North Sydney, Greater Taree**; Other - **Campbelltown**
 9. Non-complying tables of contents: **#134, #124, #149, #194, #384, #264, #189, #439, #344, #154, #119, #214**
 10. These Councils merely disclosed section numbers: **#454, #144, #204, #219, #379, #514, #399, #439, #369, #339, #304, #259, #279, #354, #154, #129, #284, #474, #139, #269, #289, #364**



5. EXECUTIVE SUMMARIES

Executive Summaries, where supplied (and however described)¹¹, 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 date¹²; 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 positions¹³. The certificate must indicate which person is signing as Responsible Accounting Officer.

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 appear¹⁴. (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 shown¹⁵. Amounts should not be shown as both profit and loss from disposal of assets or joint ventures & associates¹⁶. 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 Note¹⁷. (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 Code¹⁸, but lines where the amounts for both current and previous reporting periods are NIL should not appear¹⁹. Similarly, where consecutive subtotals are identical, only the bottom subtotal should be shown. The Statement is to be dated at 30 June, not “for the year ended”.

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11. Executive Summaries were supplied by **Campbelltown, Penrith, Holroyd, Mudgee, Gundagai, Maclean, Grafton, Eurobodalla, Kogarah**
 12. These Councils did not disclose the date of the Council’s resolution: **#444, #204, #419, #234, #264, #424, #154.**
 13. The following Councils did not disclose the names of one or more signatories: **#379, #159, #339, #304, #259, #279, #354, #214, #249, #364**
 14. Councils showing NIL rows included **#199, #234, #434, #239;**
 15. Councils showing more than one duplicated total included **#124, #139, #144, #154, #164, #169, #184, #189, #199, #234, #254, #269, #279, #284, #289, #304, #354, #379, #399, #409, #414, #419, #424, #429, #439, #449, #454, #459, #484, #489, #494, #239**
 16. **#439**
 17. No or incorrect Note reference: **#354, #239; #444, #354** incorrectly omitted direct transfer to equity from the Statement of Financial Performance (refer AAS 1 para 4.3 and Code page 4010).
 18. **#299** elected to disclose bank overdraft on the face of the Statement of Financial Position, rather than in Note 10.
 19. Councils showing NIL rows included **#134, #154, #184, #189, #199, #234, #399, #409, #414, #434, #439, #459, #484, #494, #239**



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 appear²⁰. 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 Statement²¹.

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 assets²². 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 appear²³. 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 place²⁴. Obvious non-compliance with UIG 31 is penalised²⁵.

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 11. *Cash assets* shown in the Statement of Financial Position must agree with Note 6 in both amount and description; *cash assets* as described in Note 6 must equal *cash assets* at the head of Note 11 in both amount and description²⁶.

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 NIL²⁷.

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20. Councils showing NIL rows or columns included #114, #124, #134, #164, #184, #189, #199, #204, #234, #269, #279, #399, #409, #414, #419, #429, #434, #439, #459, #484, #494, #239
21. #104
22. Inadequate explanation of valuers and valuation basis - #354;
23. Councils showing NIL rows included: #114, #119, #154, #159, #184, #189, #199, #234, #254, #284, #289, #409, #414, #434, #439, #454, #459, #464, #484, #494, #514, #239.
24. #419 disclosed a net purchase of investment securities but the balance sheet did not include any investment securities held. #449 disclosed *proceeds from finance leases* as a cash inflow rather than a non-cash financing activity. #344 disclosed the net movement in *bonds* as a financing payment. #464 showed *purchase of investment securities* as a positive instead of negative amount. #154 disclosed *purchase of real estate* as a positive instead of negative amount. #349 disclosed the net movement in *deposits and retentions* as an investing activity. #189 disclosed *purchase of investment securities* as a positive instead of negative amount. We were not comfortable with the items shown as *financing activities* by #109.
25. #514 disclosed both a receipt and a payment in relation to GST.
26. Councils where *cash assets* disclosed in Note 11 differed from *cash assets* disclosed in Note 6 included #204, #399, #419, #124, #334, #229, #139, #234, #284, #104
27. This applied to Note 3 - #154, #189, #409, #429, #434, #454, #484, #494; Note 4 - #114, #119, #154, #184, #189, #199, #254, #409, #434, #454, #484, #494, #239; Note 11 - #114, #119, #134, #154, #159, #184, #189, #199, #234, #254, #289, #304, #409, #414, #429, #434, #439, #454, #484, #494, #499, #239



The total of a Note must agree with the equivalent amount in the principal statements²⁸ - it is less undesirable to have a rounding error in the additions in the Note. “Other” classifications should generally not exceed 10% of the group total²⁹. Clerical and typographical errors are to be avoided, and additions and cross-additions must be correct. Amounts which add to form totals should be clearly evident from the format of the Note³⁰.

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 type. 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 disclosure³¹. Narrative portions of Notes must be clear, complete and appropriate to the financial information disclosed³².

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

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

- inappropriate and out-of-date statements or detailed statements of policies where there are no relevant assets or liabilities to which the policy could apply³³.
- omitted policy statements where there are assets or liabilities for which policy statements are normally supplied³⁴.
- clarity and completeness of disclosures of changes in accounting policies, all of which must be cross-referenced from the appropriate Statement or Note³⁵, and all of which must clearly state the financial effect.

A Standard that commenced effect before the start of the comparative reporting period is no longer “new”.

The disclosure of all funds and committees included in the consolidation is essential, and disclosure of committees omitted, and the aggregates of their revenues, expenditures and assets is encouraged³⁶. Committee names, etc., may be disclosed in a separate Note, if appropriate.

28. Note 3 - #439, #119; Note 4 - #199; Note 6 - #234, #304

29. Councils where *other* classifications exceeded 20% of the group total included Note 4 - #114, #119, #154, #159, #184, #194, #199, #204, #209, #219, #229, #254, #324, #334, #379, #409, #419, #434, #444, #459, #464, #324, #484, #489, #499; Note 6 - #119, #124, #229, #344, #459, #464; Note 7 - #129, #134, #139, #169, #189, #234, #389, #444, #484; Note 8 - #214, #264, #419, #444, #449; Note 10 - #199, #444, #394, #489.

30. Note 14 - #379

31. Instances where we questioned the value of additional detail included Note 3 - #144, #199, #204, #154, #159, #164, #179, #184, #189, #284, #329, #494; Note 4 - #459, #199, #344, #354, #214, #364; Note 6 - #344; Note 7 - #144, #124, #184, #374, #164, #344, #269; Note 10 - #164

32. Incomplete/inappropriate/unclear narrative sections: Note 6 - #219, #409

33. Property, etc - #264, #189, #439, #334, #369, #374, #304, #164, #429, #284, #474, #209, #289, #359, #324; Finance Leases - #434, #159, #464, #334, #409, #339, #344, #354, #119, #139, #364; Borrowing costs - #254, #434, #454, #444, #464, #324; Employee Benefits - #379, #514, #194, #149, #274, #264, #334, #369, #374, #339, #304, #164, #259, #344, #474, #119, #139, #289, #364; Investments - #399; Real Estate - #339, #139; GST - #304, Financial Instruments - #164, #259, #344, #139; Duplicated policies - #344

34. Leases: #299; Entity Acquisitions & Recoverable amount write-downs - #279

35. Not cross-referenced from the relevant Note - Note 7: #444; Note 10: #444, #179; Land under Roads: #179

36. Councils fully making these disclosures included **Lockhart, Narranderra, Broken Hill, Cooma-Monaro, Greater Taree, Temora, Dungog, Murray, Berrigan.**



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.

We also reviewed disclosure as to whether Council adopted nominal or DCF values for Provision for ELE³⁷, and whether the voluntary disclosures referred to in AASB 1028 “Employee Benefits” paragraph 5.3.6 have been made³⁸. We are of the opinion that AASB 1028 requires use of DCF values for the estimation of long service leave, and that the only basis for use of nominal values is immateriality of the difference between the calculations³⁹.

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. Dissertations on the contents or commencement dates of Standards are regarded as a distraction from the important information, which is the accounting policies adopted by Council in applying the Standards.

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*⁴⁰.

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.)

13. NOTE 2 - FUNCTIONS / ACTIVITIES

The use of Council’s management plan structure, rather than the ABS classifications, is encouraged^{41, 42}.

14. NOTE 3 - EXPENSES

Except where there is clear internal evidence to the contrary, it is assumed that some part of employee costs⁴³ and depreciation⁴⁴ will have been capitalised, and this disclosure is required. 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*⁴⁵. Employee numbers may be disclosed in Note 1 or Note 3⁴⁶.

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37. Non-disclosure of policy regarding ELE discounted cash flows: #379, #234, #194, #334, #114, #279, #354, #429, #394, #284, #139, #209, #214, #269; Councils using nominal method of calculation: #434, #144, #199, #219, #179, #169, #134, #184, #189, #374, #304, #259, #224, #154, #129, #364
38. Disclosed by Wellington, Oberon, Narromine, Forbes, Bega Valley, Balranald, Greater Taree, Dubbo, Carrathool, Yass
39. Other reason for adoption of nominal method: #434, #439
40. These disclosures were made by Rockdale, Bega Valley
41. The following Councils used non-ABS functions - Sutherland, Cooma-Monaro, Dubbo, Kogarah, Sydney, South Sydney, Randwick, Rockdale, Ryde, Baulkham Hills, Kempsey, Coffs Harbour,
42. #129 adopted an innovative approach to the description of functions which may not have achieved the purpose of the Standard.
43. Councils with significant infrastructure construction that did not disclose capitalisation of employee costs included #454, #399, #189, #409, #114, #369, #329, #339, #104, #109, #139, #414, #494
44. Councils with significant infrastructure construction that did not disclose capitalisation of depreciation included #454, #444, #254, #169, #299, #134, #194, #389, #244, #189, #409, #114, #319, #329, #484, #339, #304, #369, #509, #424, #224, #104, #109, #119, #139, #249, #269, #289, #359, #414, #324, #504, #499, #494, #124, #129, #144, #149, #154, #159, #174, #179, #184, #209, #214, #219, #229, #324, #384, #489, #239.
45. #404, #104, #129, #184, #209, #254, #274, #414 reported *ELE Expense* below this limit.
46. Councils whose disclosure could not be identified included #104. #379 repeated the 2003 disclosures, rather than updating them for 2004



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

The contents of the “Other Expenses” classification have been reviewed for appropriateness⁴⁷, and particular attention has been given to disclosure and non-disclosure of items of individual significance⁴⁸.

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 required⁴⁹.

Consultancies - the Code at p.5008 suggests that this item should form part of “Materials & Contracts”⁵⁰.

Legal Expenses - dissection between *planning* and *other* is required: where only one amount is shown it must be described as either *planning* or *other*⁵¹.

Mayoral Allowance - required disclosure

Members’ Fees & Allowances - required disclosure

Members’ Expenses - required disclosure (Act specifically requires adoption of policy by Council)⁵²

Operating Leases - disclosure in accordance with paragraph 11.2(a) of AAS 17 “Leases” is required⁵³.

15. NOTE 4 - REVENUES

We have reviewed the classifications of revenues⁵⁴, 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.⁵⁵ 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)⁵⁶. Credit re-measurement adjustments to provisions relating to expenses should appear as credit amounts under expenses, not as revenues⁵⁷.

Disclosures of gross rates and charges, and pensioner rebates granted, reconciling to the principal disclosures of net rates raised, were made by **Parramatta, Sutherland**.

16. NOTE 5 - DISPOSAL OF ASSETS

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.

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47. The judges considered that some of the items disclosed as *other expenses* could equally appropriately have been included in *materials & contracts* or *employee costs* - #144, #159. Interest on refundable deposits should be disclosed as *interest* rather than *other expenses* - #164.
48. The judges criticised disclosures by #189, #454, #434, #494, #409 disclosed a significant item of \$NIL.
49. #384
50. Disclosed by #454, #219, #514, #159, #179, #124, #464, #184, #274, #349, #334, #114, #229, #164, #224, #154, #129, #284, #104, #119, #139, #289, #499
51. No description - #199, #514, #399, #439
52. Member’s expenses not disclosed by #184, #439, #429
53. Appropriate disclosure not made by #254, #144, #514, #399, #124, #244, #369, #354, #394, #129, #289, #239; #199 had only contingent rental payments.
54. #204 incorrectly described *Pensioner Rates Subsidy* as a special purpose grant. We are not certain that #279 has correctly disclosed *joint venture revenues*. Capital Gains/Losses on Securities should be disclosed in Note 5 rather than Note 4 - #164, #274.
55. Councils with *user charges* items that were considered to have breached this definition included #144, #199, #204, #159, #179, #399, #189, #114, #164, #109, #119, #149, #294, #324
56. LSL contributions disclosed as revenue by #144, #159, #304, #474
57. Provision for Insurance Losses (or similar) - #204, #219, #169, #339, #259, #284.



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

Bank overdrafts must be disclosed on Note 10, not as negative cash⁵⁸. 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 recommended⁵⁹.⁶⁰ The description *blank line* included in some software packages is unacceptable, whether or not any amount is attributed⁶¹; ranges of interest rates must be shown⁶².

We would generally not expect to see any *non-current unrestricted amounts*⁶³. 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 breached⁶⁴.

External restrictions in Note 6b need to match the items in Note 6a⁶⁵; totals of internal restrictions in Note 6b must match the equivalent totals in Note 6a; additions and cross-additions in Note 6b must be correct. All internal restrictions should have a positive balance⁶⁶, and although they are to be disclosed as *current* (unless to do so would result in a negative amount based on the term of the investments), the proposed utilisation must show actual estimates of future use⁶⁷.

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 debtors⁶⁸. 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.

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*⁶⁹. *Other properties - book value* relates only to properties held surplus to requirements⁷⁰.

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58. #124 disclosed negative cash at bank.
59. The description was used by #144, #379, #514, #179, #124, #264, #334, #369, #339, #259, #129, #474, #214, #269, #364
60. We suggest that the following Councils could review their definitions of *cash assets* or *investment securities* - #344, #164, #139, #354
61. #454, #239
62. #464
63. The following Councils disclosed *negative non-current unrestricted cash and investments*: #104, #139
64. #444
65. #399, #104 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. We could not understand why #279 disclosed *Unexpended Loans* as an external restriction not included in liabilities.
66. #299 disclosed an internal restriction with a negative balance. #514 should have disclosed part of their internal restrictions as non-current, required by the term of some of their investments
67. Incorrect proposed utilisation of internal restrictions - #219, #274, #229
68. Councils where this was not the case included #454, #434, #399, #449, #384, #244, #489, #409, #369, #229, #484, #374, #304, #324, #279, #429, #224, #129, #284, #474, #139, #269, #359, #364, #494, #234, #379, #419, #439, #459, #464, #509, #239
69. Councils where we suggest additional attention could be given to real estate assets disclosures included #149, #179, #204, #489.
70. #204



Material amounts within the *Other Assets* classification must be adequately described⁷¹. **Wellington** adopted good disclosure practice in relation to shares in Inland Marketing Corporation.

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 information⁷²; 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 usually been interpreted as a classification error that should have been corrected prior to the preparation of the Statements⁷³.

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 1⁷⁴.

Assets are held either *at cost* or *at fair value* (less accumulated depreciation), not *at deemed cost*⁷⁵. (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 5 and depreciation charges must match with the disclosures in Note 3^{76,77}. 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 1⁷⁸.

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 assets⁷⁹. We interpret the Standard to require disclosure of the effective dates of all valuations⁸⁰.

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”⁸¹.

71. **#444.**

72. **#464, #489** revalued portion of a class of assets but provided no information relating to basis, etc.

73. E.g. **#514, #419, #124, #449, #384, #409, #104; #324** disclosed *land improvements (depreciable)* with no depreciation. **#454, #349, #344, #354** disclosed *bulk earthworks (non-depreciable)* with depreciation provided.

74. **#314, #424;** Note 1 claimed that *land under roads* had not been capitalised, but Note 9 showed that some had been - **#344, #429; #224** explanation was scanty, and the valuation question was not addressed. **#349** 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.

75. **#159, #304, #284**

76. This was not the case for all asset classifications for **#119, #204, #279, #379.**

77. Opening and closing amounts for several asset classes were inconsistent - **#144**

78. **#279. #289** reported both entity acquisitions and recoverable amounts write down, but we were unable to identify any other information relating to these.

79. Incorrect valuation disclosure by **#354** (plant, buildings, other structures), **#424. #199** disclosed certain assets at fair value, but did not provide information on the basis of valuation. **#444** reported that “most water & sewerage assets” had been revalued. Revaluation by **#434, #354** did not include all assets within the class.

80. We did not identify this disclosure for all valuations of **#304**. There were conflicts between the narrative note and quantitative note for **#429**.

81. No such reference was made in Note 1 by **#439, #374**



Accounting standard AASB 1044 requires a reconciliation of movements in non-employee benefits provisions, and this was generally complied with⁸². (Where an “other” provision relates to employee benefits it needs to be described as such.) 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 we require the re-measurement adjustment to be disclosed for any employee benefits provisions for which movements are shown⁸³.

Lockhart, Narranderra, Cabonne, Sutherland, Cowra, Holroyd, Jerilderie, Hornsby, Baulkham Hills, Narromine, Forbes, Waverley, Pristine Waters, Maclean, Bega Valley, Kyogle, Grafton, Moree Plains, Lismore, Byron, Harden, Eurobodalla, Berrigan, Carrathool, Yass 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 items⁸⁴. *Net cash provided by operations* must agree with Statement of Cash Flows⁸⁵; *non-cash capital grants & contributions* must equal the subtotal of *non-cash financing and investing activities*⁸⁶. Amounts should be shown as either an increase or a decrease - not both.

AAS 28.12.2 requires disclosure of details of the credit standby arrangements of the entity, not merely the amount of these used at reporting date⁸⁷. 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 Note⁸⁸. References to loan approvals are archaic (they were removed in Code update #9)⁸⁹ and statutory overdraft limits did not survive the 1919 Act. We encourage disclosure of credit card facilities as a “credit standby facility” (AAS 28.12.2(a)).⁹⁰

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82. Exceptions included **#444, #199, #379, #169, #149, #389, #244, #409, #229, #374, #509, #424, #139, #359**.
Incorrect reconciliations: **#219**
83. Councils with reconciliations that excluded re-measurement adjustments: **#159, #124, #194, #449, #439, #164, #279, #104, #109, #214, #364**
84. This was not the case for **#344**. Incorrect depreciation item in reconciliation - **#379**
85. Incorrect reconciliation: **#464, #384** (recoverable amount write down),
86. *Non-cash capital grants & contributions* did not agree exactly with the reconciliation included: **#199**. Omitted finance lease - **#239**
87. **#164**
88. **#464, #304**.
89. **#314, #349, #439, #259, #344, #269**; **#384** also disclosed a contingent liability in relation to bank overdraft, but did not describe the nature of the contingency.
90. Not disclosed by **#254, #144, #204, #159, #179, #464, #104, #109, #119, #124, #129, #139, #164, #169, #184, #209, #214, #219, #234, #259, #264, #269, #279, #284, #304, #339, #354, #364, #369, #374, #394, #409, #414, #419, #424, #429, #439, #474, #484**



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 disclosure⁹¹. We consider that every Council must have some *other expenditure commitments*⁹². Disclosures in relation to *operating leases* must comply with paragraphs 11.2(c) and (d) of AAS 17 “Leases”^{93,94} and be consistent with disclosure of operating lease expenditures in Note 3⁹⁵. 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 years; we prefer to see the relevant year at the head of the columns. Where a Council chooses to disclose additional ratios the explanation of the ratio and its purpose must be clear⁹⁶. Where additional ratios are disclosed, there should be sufficient variation from the standard ratios to justify the additional information⁹⁷. Charts, where included, must be clear and well presented⁹⁸.

25. NOTE 14 - CONDITIONS OVER GRANTS & CONTRIBUTIONS

Unexpended grants and contributions must equal the amounts disclosed in Note 6b⁹⁹; unexpended contributions must equal or exceed the unexpended balances in Note 17¹⁰⁰. We encourage the dissection of grants into the classifications used in Note 4, as shown in Note 6 to Appendix 1 of AAS 27¹⁰¹.

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 10¹⁰². Weighted average interest rates must be shown where appropriate¹⁰³; net assets per reconciliation must agree with Statement of Financial Position¹⁰⁴.

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91. Councils making **no** disclosure included: capital expenditure commitments - **#419, #429, #129, #359, #369, #379, #389, #399**; other expenditure commitments - **#419, #334, #139, #219**; finance leases - **#419, #149, #464, #264, #334, #409, #304, #259, #429, #394, #139, #104, #379, #219, #299, #364, #374, #384, #389, #399**; operating leases - **#464, #304, #289, #359, #219, #294, #299, #314, #369, #379, #499, #504**.
92. **#489, #214** disclosed NIL *other expenditure commitments*. This was interpreted as failure to complete the Note.
93. Councils where, in our opinion, this was not the case included **#454, #254, #144, #159, #179, #399, #169, #419, #134, #234, #194, #149, #384, #244, #264, #349, #489, #334, #409, #114, #229, #484, #374, #259, #509, #344, #279, #354, #429, #424, #394, #154, #129, #284, #109, #209, #214, #249, #269, #364, #124, #139, #184, #189, #204, #389, #434, #444, #449, #459, #514, #199, #239**.
94. Disclosures by **Narromine, Sydney, Singleton** were considered to be very good examples.
95. Councils who described operating leases differently in Notes 3 and 12 (or failed to disclose in Note 3) included **#454, #444, #204, #159, #419, #134, #384, #189, #489, #409, #484, #374, #259, #509, #344, #279, #429, #154, #214, #249, #364**
96. Councils where, in our opinion, this was not the case included **#159, #464, #429, #509**.
97. **#394** stated that it was making additional disclosures, but did not.
98. **#404** 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.
99. **#109, #124, #164, #179, #234** (all rounding), **#104, #369, #399, #494; #269**, omitted RTA contributions from Note 14.
100. Discrepancies were recorded for **#489, #104, #124, #394**
101. **#404** provided a reconciliation of movements in individual grants (which is standard practice in the Northern Territory) as *Internal Note 14*.



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 charges. 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 4¹⁰⁵; non-cash contributions must agree with Note 11¹⁰⁶; negative balances are not permitted in the summary of contribution plans in the *expended in advance or held as restricted asset columns*¹⁰⁷; *works provided to date* must always equal or exceed *expended during year*¹⁰⁸. 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 Code¹⁰⁹.

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

Explanations should be clear and concise¹¹⁰. 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.¹¹¹

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

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 liabilities¹¹².

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102. Apparent errors in timing, etc. occurred in #454, #369, #444, #374, #349, #484, #324, #249, #499, #139, #354, #134, #494, #314, #234, #419, #284, #224, #154, #289, #324, #439, #424, #149, #184, #364, #464, #434, #339, #344, #329, #384, #474, #459, #144, #179, #319, #334, #199, #359, #449, #379, #114, #414, #389, #489, #239.
103. Interest rates omitted or incorrect/inconsistent for #324, #249, #139, #419, #434, #119, #104, #109
104. #129 made conflicting disclosure of the *net fair value of financial assets*.
105. This was not the case for #189, #249, #204, #434, #344, #384, #474, #144, #119, #124, #199 (all rounding); #139, #419, #224, #219, #104, #169, #209; #324, #489 did not credit interest during the year, which we believe to be contrary to the Act.
106. Councils where this appeared to not be the case included #489, #259
107. Councils disclosing negative balances included #119, #214
108. Councils omitting the works provided information included #454, #399, #419, #234, #489, #114, #374, #324, #394, #224, #474, #139, #494, #239. We question the accuracy of the data disclosed by #129.
109. #124
110. We did not find the narrations for certain items for the following Councils to be entirely clear - #239 (item 4). We were not comfortable with the disclosures made by #374 (item 5), #164 (items (b) & (d)), #259 (item 1), #344 (c). #364.
111. #444, #459, #369, #304, #424, #139, #214
112. We were not comfortable with the disclosures made by #444, #379 (Note 1), #149, #334 (note 18), #409, #259, #509, #354, #394, #214, #239. An apparent joint venture entity was accounted for by proportional consolidation instead of associated entity by #234, #334, #279, #269.



31. FUNDAMENTAL ERRORS & EXTRAORDINARY ITEMS

Items so described should clearly comply with the definitions in AAS 1 “Statement of Financial Performance”¹¹³ and be material in amount. Explanations must be clear, and full disclosures required by the Standard must be made¹¹⁴. Retrospective amendment of comparative figures is a breach of the Standard. Note disclosure must be made in relation to items in the previous reporting period¹¹⁵.

The following Councils reported *Fundamental Errors* or *Extraordinary Items* - (2004) **Murray, Berrigan**; (2003) **Lockhart, Junee**.

32. AUDITOR’S REPORT

Incorrectly locating Auditor’s Reports is regarded as a significant breach of the Code¹¹⁶. Absence of either of the Auditor’s Reports is viewed as the submission of draft Statements to the judging process¹¹⁷. 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 Statements.

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

After extensive consideration the judges determined to declare **Narromine Shire Council** the winner of this year’s Award from **Greater Taree City Council**. Other Councils particularly commended for their high standard of compliance and presentation were **North Sydney, Coffs Harbour, Pristine Waters and Maclean**.

113. 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” - **#474**.

114. The judges question whether consideration should have been given to the disclosure of a Fundamental Error, by **#304**.

115. **#454, #434**

116. **#199, #419, #134, #124, #234, #184, #264, #189, #259, #344, #354, #429, #154, #214**

117. Omitted an audit report - **#474**