



2010 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 general guidelines used during the judging process have been published as a separate document and is available for download from the Awards page on the Coalface web-site www.coalface.com.au.

2. GENERAL

The judges compliment all Councils who submitted their Annual Statements for judging. We again noted a general improvement in technical and presentation standards, particularly when compared with the earliest years of the Award.

In making the Award, the judges may place greater emphasis on some aspects of preparation and presentation than other reviewers, particularly those concerned with statutory compliance as distinct from compliance with Australian Accounting Standards as expressed in the Code of Accounting Practice.

The judges were able to criticise aspects of all Annual Statements submitted, including those of the winner. The final selection process involved a judgement of the relative significance - or insignificance - of the different criticisms made. All of the Annual Statements involved in the final selection process would have been very worthy winners.

3. PRESENTATION & TECHNICAL COMPETENCE

Financial Statements prepared by a competent professional will look exactly that. We find that statements that look as if they have been "thrown together" have a far higher proportion of technical errors than statements that are well presented. The immediate impression conveyed by their appearance usually reflects the professional competence with which the statements have been prepared.

First and foremost, the Award winner will display a high level of technical competence with a presentation to match. Some Accounting Standards suggest voluntary disclosures and these are highly regarded in the judging process.



Financial Statements with the following characteristics are unlikely to do well in the Award:

- Additions errors, including non-material rounding errors.
- Rows with nil values, except where these are required disclosures.
- Excessive, non-material detail, except where these are required disclosures.

4. PRINCIPAL ACCOUNTING STATEMENTS

We recognise the quandary in which Councils are placed by the Code's direction that rows with NIL amounts must be shown, which in our view significantly detracts from the presentation and is contrary to best accounting practice. We are also of the view that no *additional* rows should be shown of the face of these statements - notably the Statement of Cash Flows - as this is contrary to the Code, and in our view contrary to the intention of the relevant Standard.

5. NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

By insisting that this be the first Note presented, we consider that the Australian Accounting Standards regard the Statement of Significant Accounting Policies as being of particular importance in the interpretation of the financial statements.

In reviewing the contents of this Note, the judges have had particular regard to the following contained in paragraph 25 of the *Framework for the Preparation and Presentation of Financial Statements*:

“For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.”

In a number of areas, local government accounting emphasises certain techniques and characteristics that are less frequently used in commerce and other governmental operations. We have looked for policy statements that explain and clarify these differences for a user with the knowledge assumed in the *Framework*, in preference to policies that merely restate basic accounting concepts.

We express our concern that Councils are merely reproducing the wording contained in the Code or templates without ensuring that the Note actively represents the accounting policies that were significant to the preparation of the financial statements. In particular, we have looked for policies that are irrelevant to the circumstances of particular Councils.

6. DISCLOSURE OF CAPITALISED DEPRECIATION

The Code requires disclosure of employee costs and depreciation, but not materials & contracts, capitalised. Where these amounts are not material, non-disclosure may be acceptable. The judges have viewed with disfavour instances where employee costs capitalised are material, but a blank line is shown for depreciation capitalised.

7. VALUATION DISCLOSURES - INFRASTRUCTURE, PROPERTY, PLANT & EQUIPMENT

We express our concern that insufficient attention is being given to adequate disclosure of the valuers and valuation bases of infrastructure, property, plant and equipment carried at fair value. We also suspect that some asset classes are not being disclosed in the Cost / Fair Value columns on Note 9 consistently with narrative disclosures.

8. LAND UNDER ROADS

The transitional period permitted by AASB 1045 expired as at 1 July 2008, and we have paid particular attention to narrative and numerical disclosures for land under roads.



9. COMPLEX FINANCIAL INSTRUMENTS

Given the ongoing uncertainties relating to complex financial instruments, we have again paid particular attention to the disclosure made in relation to all financial instruments.

While all auditors reports have addressed these at some length, we consider it inappropriate to rely on the auditors to make disclosures that should be made within the financial statements. We have therefore looked for clear disclosure of Council's exposure, and of the impact on Council's results for the year. Where a Council has not held complex financial instruments, we have looked for a clear disclosure to this effect. We note that the Code contains examples of the types of disclosures that may be appropriate for a Council, rather than a mandatory wording.

We express our concern at the number of instances where the information supplied in Note 16 *Material Budget Variations* was a clearer statement of the effects of financial instrument exposure on the Council than information supplied elsewhere in the Statements.

10. JOINT VENTURES & ASSOCIATED ENTITIES

There is evident confusion on the accounting procedures and disclosures appropriate for the myriad forms of joint ventures and associated entities (JVs) in which local government is involved.

Where a Council is in a position of *control*, the JV is consolidated in accordance with AASB 127. Where the Council's interest in outputs (profit/loss) and/or equity is less than 50%, the grounds on which Council considers it exerts *control* must be disclosed (AASB 127 para. 41(a)).

Where a Council's interest in a JV is less than 20%, AASB 128 para. 6 presumes that *significant influence* does not exist, and para. 37(c) requires disclosure of the reasons why this presumption is overcome, before equity accounting procedures can be applied (and similarly where an interest exceeds 20% but it is concluded that *significant influence* does not exist).

Proportional consolidation procedures may only be applied in accordance with AASB 131 where joint control exists - i.e. "only where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control" (AASB 131 para. 3 Definitions and para. 51).

"The DLG has mandated that Councils continue to use the equity method in accounting for their interests in jointly controlled entities" (Code update #18, page A-141, para. 4a).

11. THE WINNER

The winner of this year's Award was announced at the Formal Dinner at the NSW Finance Professionals Annual Conference on 16 May 2011.

LAKE MACQUARIE CITY COUNCIL

We thank all Councils who participated in the Award.