



**2005 NSW LOCAL GOVERNMENT  
ANNUAL FINANCIAL STATEMENTS AWARD**

**JUDGING GUIDELINES**

**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 general guidelines used by the judges in judging the Award. Not all judges assess each of the points with the same degree of emphasis, although all judges agree 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.

The judges do not carry 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.

Non-compliance with Australian Accounting Standards and the Code may be identified during the course of the judging. Most commonly these breaches do not appear to be sufficiently material as to warrant qualification of the Auditor's Report, but they are taken into account in making the Award.

**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). The use of colour shading can considerably improve the readability of 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.

Unduly small type faces, especially on a stippled background, can introduce a significant degree of difficulty in deciphering the information. 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 Contents. 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 omitted.



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

### 3. GRAPHICAL PRESENTATIONS

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

- The importance of information displayed graphically.
- The graphs should add to, not distract 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). 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’ Reports (i.e. *Report on the Financial Statements* and *Report on the Conduct of the Audit*).

The Annual Statements are those of the Council, upon which the Auditors report. The judges are strongly of the view that the audit reports should therefore *follow* the statements and notes in accordance with normal commercial practice and the indexing sequence set out in the Code<sup>1</sup>.

### 5. EXECUTIVE SUMMARIES

Executive Summaries, where supplied (and however described), should be concise and assist the reader in interpreting the key features of the result for the year. Prolonged 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 date; 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 positions. 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 appear. (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 shown. Amounts should not be shown as both profit and loss from disposal of assets or joint ventures & associates.

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 Note. (The same note references must also appear in the Statement of Changes in Equity.)

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1. Code update #9 relocated Audit reports to follow the Statements.



## 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 appear. 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”.

## 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 appear. 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.

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 assets. 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 appear. 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 place. Obvious non-compliance with UIG 31 is penalised.

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 description.

## 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 NIL.

The total of a Note must agree with the equivalent amount in the principal statements. “*Other*” classifications should generally not exceed 10% of the group total. 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 Note.

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 disclosure. Narrative portions of Notes must be clear, complete and appropriate to the financial information disclosed.



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

The Judges emphasise that this Note is entitled “*Statement of Significant Accounting Policies*”, and in our view should be limited to matters of accounting policy that apply to the overall interpretation of the statements. Accordingly, the policies actually applied in the preparation of the statements must be clearly disclosed. Detailed information, whether or not disclosure is required by the Standards or the Code, does not, in our view, constitute accounting policy. Policy statements contained in this note must be consistent with information given in individual notes. We have noted

- inappropriate and out-of-date statements or detailed statements of policies where there are no relevant assets or liabilities to which the policy could apply.
- omitted policy statements where there are assets or liabilities for which policy statements are normally supplied.
- 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.
- information, rather than policy, disclosures.

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 encouraged. 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.

We also reviewed disclosure as to whether Council adopted nominal or DCF values for Provision for ELE, and whether the voluntary disclosures referred to in AASB 1028 “Employee Benefits” paragraph 5.3.6 have been made. We are of the opinion that AASB 1028 requires use of present 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 calculations.

Some Councils state the requirements of a 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. 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*.

## 13. IMPACTS OF ADOPTION OF AIFRS

The judges are of the view that the required disclosures of the impact of the adoption of AIFRS are information rather than policy disclosures. We have looked for a clear statement of the proposed policy in relation to, and the financial effect of each individual anticipated adjustment, and the total net effect on equity and the result for the year.

## 14. NOTE 2 - FUNCTIONS / ACTIVITIES

The use of Council’s management plan structure, rather than the ABS classifications, is encouraged.



## 15. NOTE 3 - EXPENSES

Except where there is clear internal evidence to the contrary, it is assumed that some part of employee costs and depreciation 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*. Employee numbers may be disclosed in Note 1 or Note 3.

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 appropriateness, and particular attention has been given to disclosure and non-disclosure of items of individual significance.

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.
- Consultancies - the Code at p.5008 suggests that this item should form part of “Materials & Contracts”.
- Legal Expenses - dissection between *planning* and *other* is required: where only one amount is shown it must be described as either *planning* or *other*.
- Mayoral Allowance - required disclosure
- Members’ Fees & Allowances - required disclosure
- Members’ Expenses - required disclosure (Act specifically requires adoption of policy by Council)
- Operating Leases - disclosure in accordance with paragraph 11.2(a) of AAS 17 “Leases” is required.

## 16. NOTE 4 - REVENUES

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

## 17. 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.

## 18. NOTE 6 - CASH ASSETS & INVESTMENT SECURITIES; RESTRICTED CASH

Bank overdrafts must be disclosed on Note 10, not as negative cash. The description *cash equivalent assets* is of generic nature (as with *inventories*) and is not recommended. The description *blank line* included in some software packages is unacceptable, whether or not any amount is attributed; ranges of interest rates must be shown. (Note 15 requires, as a separate exercise, that weighted average interest rates are disclosed.).

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



External restrictions in Note 6b need to match the items in Note 6a; 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 balance, 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 use.

We regard a negative internal restriction as a nonsense.

## 19. 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 debtors. Deferred debtors will generally include both current and non-current components; in its absence we review the Statement of Cash Flows and form an opinion whether an apportionment should have been made.

## 20. 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*. *Other properties - book value* relates only to properties held surplus to requirements.

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

## 21. NOTE 9 - PROPERTY, PLANT & EQUIPMENT

Asset class descriptions must be consistent between Notes 1,3 & 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 usually been interpreted as a classification error that should have been corrected prior to the preparation of the Statements.

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 1.

Assets are held either *at cost* or *at fair value* (less accumulated depreciation), not *at deemed cost*. (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. 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 1.

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 assets. We interpret the Standard to require disclosure of the effective dates of all valuations, and in the case of land & buildings, to require the disclosure of the fair value of these at a date not more than 3 years before reporting date.

## 22. 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”.



Accounting standard AASB 1044 requires a reconciliation of movements in non-employee benefits provisions, and this was generally complied with. (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 shown.

We encourage disclosure of Aggregate Employment Benefits Liability in accordance with AASB 1028, para 6.2.

### **23. NOTE 11 - RECONCILIATION TO CASH FLOW STATEMENT**

The format must clearly differentiate between positive and negative reconciliation items. *Net cash provided by operations* must agree with Statement of Cash Flows; *non-cash capital grants & contributions* must equal the subtotal of *non-cash financing and investing activities*. 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 date. 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 Note. References to loan approvals are archaic (they were removed in Code update #9) 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)).

### **24. 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 disclosure. We consider that every Council must have some *other expenditure commitments*. AAS 17 requires that the *gross future payments* (and hence the amount of unexpired charges) be shown for *finance leases*.

Disclosures in relation to *operating leases* must comply with paragraphs 11.2(c) and (d) of AAS 17 “Leases”, and be consistent with disclosure of operating lease expenditures in Note 3. The wording in the example note in the Code is not considered to meet these requirements.

### **25. 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 clear. Where additional ratios are disclosed, there should be sufficient variation from the standard ratios to justify the additional information. Charts, where included, must be clear and well presented.

### **26. NOTE 14 - CONDITIONS OVER GRANTS & CONTRIBUTIONS**

Unexpended grants and contributions must equal the amounts disclosed in Note 6b; 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 27.



## 27. 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 10. Weighted average interest rates must be shown where appropriate; net assets per reconciliation must agree with Statement of Financial Position.

## 28. 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.

## 29. NOTE 17 - STATEMENT OF CONTRIBUTION PLANS

Cash contributions and interest credited during the year must agree with Note 4; non-cash contributions must agree with Note 11; negative balances are not permitted in the summary of contribution plans in the *expended in advance* or *held as restricted asset columns*; *works provided to date* must always equal or exceed *expended during year*. Amounts expended in advance should be disclosed in accordance with the format set out in the Code.

Where section 64 contributions are treated as recoupment of prior year construction expenditure, the amount expended (during year) should equal the amount received.

## 30. NOTE 18 - CONTINGENCIES & ASSETS & LIABILITIES NOT RECOGNISED

Explanations should be clear and concise, and should preferably identify whether the item is *contingent*, and if so the nature of the contingency, or whether it is *not recognised*, and if so, why it has not been recognised<sup>2</sup>.

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. 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.

## 31. 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 liabilities.

## 32. FUNDAMENTAL ERRORS & EXTRAORDINARY ITEMS

Items so described should clearly comply with the definitions in AAS 1 “Statement of Financial Performance” 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. Note disclosure must be made in relation to items in the previous reporting period.

The following Councils reported *Fundamental Errors* or *Extraordinary Items* - (2004) ; (2003) .

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2. There is a very small window for an item to be sufficiently material to require reporting, but not sufficiently material to warrant inclusion.



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**33. AUDITOR'S REPORT**

Incorrectly locating Auditor's Reports is regarded as a significant breach of the Code. 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 Statements.