



LOCAL GOVERNMENT CODE OF ACCOUNTING PRACTICE & FINANCIAL REPORTING

SUBMISSION RELATING TO PROPOSED UPDATE #11

1. Introduction

The NSW Code of Accounting Practice was introduced concurrently with the adoption of Australian Accounting Standard AAS 27 “Financial Reporting by Local Governments” effective from 1 January 1993. Pursuant to clause 18 of the Local Government (Financial Management) Regulation 1999 the Code is a prescribed standard for the purposes of section 413 (3) of the Local Government Act 1993 (as amended).

The Code is updated regularly and the current edition includes update #10 issued May 2002. A draft version of the proposed update #11 has been issued to the industry for comment. We have reviewed the proposed changes and submit our comments in no particular order.

2. Timing

We commend the Department on the obvious efforts being made for the early issue of update #11, particularly with the disruptions involved in the change of premises. However, we submit that, as a general policy, a Code Update should not be issued any later than the end of February of the year in which the changes are to commence to take effect.

3. Definitions - Cash Assets, Cash Equivalents

There are four linked definitions involved which together form a very close and coherent structure. These definitions, and their sources, are shown in the following table:

<i>cash on hand</i>	means notes and coins held, and deposits held at call with a financial institution	AAS 28 & AAS 36
<i>cash-equivalent assets</i>	means highly liquid investments with short periods to maturity which are readily convertible to cash on hand at the investor's option and are subject to an insignificant risk of changes in value	AAS 36
<i>cash assets</i>	means cash on hand and cash-equivalent assets	AAS 36



<i>cash equivalents</i>	means highly liquid investments with short periods to maturity which are readily convertible to cash on hand at the investor's option and are subject to an insignificant risk of changes in value, and borrowings which are integral to the cash management function and which are not subject to a term facility	AAS 28
<i>cash</i>	means cash on hand and cash equivalents	AAS 28
<i>cash flows</i>	means cash movements resulting from transactions with parties external to the entity	AAS 28

We are concerned that the juxtaposition of the definitions of *cash assets* and *cash equivalents* may mislead some practitioners to assume that the *cash equivalent assets* referred to in the first definition are the same as the *cash equivalents* in the second definition.

4. Section 7.3 - Accounting for Employee Benefits

We interpret AASB 28 paragraph 5.1 to include long service leave expected to be settled within 12 months of the reporting date, and suggest that it may be appropriate to include this in the paragraph headed *Nominal Basis of Measurement* on page 7025.

5. Statement of Financial Performance

AAS 1 paragraph 4.3 (a) & (c) requires that direct credits and debits to equity “*must be disclosed on the face of the statement of financial performance as a component of the statement of financial performance separate from net profit or loss/result, or net profit or loss/result attributable to members of the parent entity in the case of an economic entity.*”

There are at least 2 Councils that we know of that have adopted the *fair value* basis for certain infrastructure assets, and there will be an unknown number of Councils that elect to “book” the required value of land and buildings, hence adopting the *fair value* basis for these assets. We recommend that the following be appended to the foot of the Statement of Financial Performance in order to comply with the Standard:

Movements in Equity

Net increase (decrease) from revaluation

Net increase (decrease) from adoption of new Accounting Standard

Total Movements Directly Recognised as Equity

Total Changes in Equity

We submit that provision should be made for an example Note in the form supplied in our previous submission for those Councils that have or will adopt *fair value* for the 2003 Statements.



6. Note 1 - Significant Accounting Policies

Transitional Provisions

This is the tenth set of Statements prepared since the introduction of AAS 27 and the sixth since the end of the principal transitional period for the recognition of assets. Would it now be appropriate to remove this paragraph, and to limit the reference to *land under roads* to paragraph 5.3.3.3 or to include reference in Note 18?

Operational/Non-Operational Land & Freehold/Controlled Land

We interpret the intention of the Standards that the policies set out in Note 1 should relate to the same classes of property, plant and equipment set out in Note 9. In this regard, the classification of land to be operational or community in accordance with Chapter 6 Part 2 of the Local Government Act 1993 (as amended) is entirely independent of the quality of title to land, and it is clearly envisaged that freehold land may be classified as *community land*. This classification process is entirely separate from the existence of control pursuant to the Australian Accounting Standards.

We submit that the descriptions of land in Notes 1 and 9 should be aligned. We also recommend that Section 6.4 of the Code include commentary emphasising that, where a class of assets is held at fair value, that value must be based on only one valuation, and that descriptions of classes of assets may be selected such that this is the case.

Buildings and Land Improvements

We suggest that existing paragraph 5.3.4 be separated into two separate components so that it is clear that the land improvements are not buildings that would attract the application of paragraph 8.2 of AAS 36.

Current Valuation - paragraphs 5.3.1, 5.3.2 & 5.3.4

AAS 38 defines the two methods of determining the carrying value of non-current assets as *cost* and *fair value*. There is *NO* authorised method that is called *deemed cost*. Under the transitional provisions of that Standard, entities that previously used a valuation basis were permitted to revert to the *cost basis*, and in doing so, to *deem* the existing carrying values as being the *cost for future accounting purposes*. Accordingly, new valuations have not been brought to account as Council has continued to adopt the *cost basis* for recording the respective asset classes.

Employee Benefits

We submit that the contents of paragraph 5.5 of the draft note does not comprise *a summary of accounting policies* that must be presented in the initial section of the notes in the financial report in accordance with AAS 6, as it appears to contain much information that, in our view, would be more appropriately placed in section 7.3 of the Code.



SAC 3 states that general purpose financial reports ought to be constructed having regard to the interests of users who are prepared to exercise diligence in reviewing those reports and *who possess the proficiency necessary to comprehend the significance of contemporary accounting practices* (our emphasis). When judged against this criteria, we submit that much of the contents are extraneous, as users who do comprehend the significance of contemporary accounting practices would be aware of the existence of the new standard and its principal features.

7. Note 4 - Revenues - Pensioner Subsidies

The draft minutes of the Accounting Advisory Group meeting do not provide any information relating to the Department's reasoning for requiring the split up of pensioner rates subsidies. Given that the Department is the paying authority, we had assumed that this information would be available from their own files. From the point of view of a general purpose user, we submit that the additional information would be insignificant in providing "information useful to users for making and evaluating decisions about the allocation of scarce resources".

8. Note 10 - Provisions - Movements

We note that no example has been given of the requirements in AASB 1044 paragraphs 14.1 & 14.2 for the disclosure of movements in provisions other than those relating to employee benefits.

9. Note 18 - Contingencies & Assets & Liabilities Not Recognised

We suggest that the examples given be reviewed to ensure that the sample disclosures given comply with the requirements of AASB 1044, especially in relation to quantifying potential liabilities and the existence of contingent assets.

10. Statement of Cash Flows - Budget Figures

We note the insertion of this column on a voluntary basis for 2003, becoming mandatory from 2004. Our arguments against this requirement are very similar to those that we stated in opposing the inclusion of budget figures in the Statement of Financial Position, and the requirements introduced in Appendix A11 last year.

In our view, it would be of far greater merit for a Council to have to prepare a formal comparison of the original budget with a final, end-of-year Management Plan that reconciles to the audited Annual Financial Statements. We suggest that *this* is the most valid and effective comparison - *comparing the original plan as Council planned it with the actual result*.



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Certainly, the budget figures are extracted from the original budget, and inserted into the Statement of Financial Position and from 2004 into the Statement of Cash Flows, and they do provide a comparison between the two. But, we liken this to comparing the fallen leaves in two gardens in Autumn, rather than the trees that were planted. No Council *formulates* its Management Plan in the format of the Annual Financial Statements.

For most Councils, the required Budget Comparison Statement to the end of June is submitted to Council well before the Annual Financial Statements are audited, and there can be very significant ledger adjustments required by, or agreed with, the Auditors. At present, there is no mechanism that these are taken back to the Management Plan, or that their effect (if any) on the following year's Plan be reviewed or assessed.

We shall be pleased to supply any further information or explanations that you may require.