

**NSW CODE OF ACCOUNTING PRACTICE &
FINANCIAL REPORTING**

DRAFT UPDATE #12

Submission by

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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 #11 issued May 2003. A draft version of the proposed update #12 has been issued to the industry for comment. We have reviewed the proposed changes and submit our comments in no particular order.

Our comments exclude matters relating to the adoption of International Accounting Standards.

Section 3.1 - REQUIREMENTS

We are of the opinion that the body of the Code is so voluminous, and contains so much repetition of the contents of the Accounting Standards, that it is not used for guidance purposes and, except for the example Statements contained in the appendices, is largely unread. We have recently tested this view at our annual training courses and it has largely been confirmed.

It was for this reason that we suggested, during discussions with Department officers in Nowra in January, that the following policy be inserted:

“Councils are required to maintain, or maintain access to, current copies of all Australian accounting standards.”

We do not view this as an onerous requirement, as copies are available for free download from the AASB website. Our reasons, given at the time, were that this would permit the excision of extensive extracts from the Standards, and the substitution of appropriate cross-references. This would permit the Code to concentrate on

1. NSW statutory requirements
2. requirements specific to NSW local government, particularly matters not generally found in local governments in other jurisdictions, and
3. interpretations of Australian Accounting Standards made by the Local Government Accounting Advisory Group.

We note that the excision/substitution process has not occurred, and in our opinion the wording inserted as policy 3.1.9 is unacceptable.

ACCOUNTING STANDARDS APPLICABLE

We consider the table of applicable Accounting Standards to be in error (p 3007) in that AASB 1046 “Director and Executive Disclosure by Disclosing Entities” applies to all *disclosing entities* as defined in the Corporations Act, and hence does not apply to Local Government. (AASB 1046 - definitions).



UIG extracts UIG2, UIG6, UIG8, UIG12, UIG15, UIG18, UIG26, UIG 35 and UIG48 have all been withdrawn. UIG55 *Accounting for Road Earthworks* only took effect from 4 May 2005 (veto period expired 24 May 2004), but should be listed due to its significance to Local Government.

Section 4.5 - Statement Of Financial Performance

We submit that the wording referred to at the very end of this section (page 4015) relating to direct transfers to equity should be inserted in the example Statement in Appendix A1 as it will be used by multiple Councils (at least 7 by our records), compared to only 1 Council with a requirement to refer to minority interests.

Section 5.3 - Functions

Policy 5.3.1 - It is our understanding that the application of this policy has been deferred pending clarification of the definition of *governance costs*.

Section 5.4 - Expenses From Ordinary Activities

We submit that the policy statements in this section should stipulate those expenses for which disclosure is mandatory, such as Mayoral fee, Councillors' fees, elected member expenses, legal expenses (showing separately amounts attributable to planning & development, and other), etc.

Section 6.4 - Measurement of Assets - Revaluations

Policy 6.4.3 requires that, where fair value is adopted for a class of non-current assets, revaluations must be made at least every three years. This conflicts with the Standard, which requires that "valuations must be made with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at the reporting date"¹. We submit that the policy should be amended to conform with the Standard.

The discussion should be reviewed to remove references to the transitional period which has now expired, the Standard being operative since 1 September 2001.

Appendix A7 - 10.20 - Special Schedules

The discussion in the last paragraph on page A702 should be amended to reflect the deferral of the split of projected expenditure - a split that we submit is an accounting nonsense.

We understand that it is the Department's intention to establish a working party to clarify the requirements for Special Schedule 7 in the near future, and ask that we be notified of its formation as it is our intention to make a submission for consideration in their deliberations.

1. [Extracted from ICAA Members' Handbook December 2003 issue, AASB1041 Revaluation of Non-Current Assets, para 5.1 (b)]



Other Matters

Our detailed review of the body of the Code reveals multiple instances of out-of-date discussion, and references to exposure drafts where the substantive Standard has been in place for some years. We have refrained from listing these in detail on the assumption that the Code will receive a major revision to reflect the requirements of the forthcoming International Accounting Standards.

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

