

PROPOSED

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

UPDATE #13

Submission by

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INTRODUCTION

The draft of update #13 to the *NSW Code of Accounting Practice and Financial Reporting* was released on 22 April 2005, with closing date for submission being 5 May 2005. We note that the Australian equivalents to International Financial Reporting Standards were issued (with few exceptions) about 15 July 2004. We submit that the period for comments is unduly short, and apologise for our inability to make our submission within the specified time.

Accordingly, we have been forced to limit our comments to only the obvious changes in the Code, and have not been able to address other matters contained within the Code and Appendices.

We note that it is not proposed to issue draft formats for statements prepared under AIFRS until the next edition of the Code. The uncertainty as to the contents of these statements, and hence of the comparative figures required for the 2004/05 reporting period may impose significant inconvenience and additional costs on Councils and their Auditors in the preparation of the 2006 reports.

CODE OF PRACTICE

Page 3021 - Exploration for and evaluation of mineral resources

We suggest that this could have application for many Councils in relation to extraction sources for road-making materials, although normal practice is that these costs are written off to profit and loss at the time that the expenditure is incurred.

Page 3023 - Property, Plant & Equipment

The implications of AASB 116.16(c) in relation to waste disposal facilities and road material extraction pits, for all of which there is a legal or constructive requirement for future restoration should be explained.

Page 3023 - Employee Benefits

We submit that it is appropriate at some point to advise that the Local Government Superannuation Fund trustees will be forwarding a common advice to all Councils, and that disclosure should be made in accordance with that advice.

Page 3028 - Provisions, contingent liabilities & contingent assets

“Restoration or other clean-up obligations associated with the retirement or disposal of long-lived assets will have to be recognised as the activities arise which cause the damage and can no longer be accrued over the life of the asset (currently not specifically addressed).”

The matter is specifically addressed in AASB 116.16(c). *Changes in Existing Decommissioning, Restoration and Similar Liabilities* is specifically addressed in UIG Interpretation 1.



APPENDIX A2 - NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Paragraph 2.3 - Impacts of AIFRS

1. “Users who are prepared to exercise diligence in reviewing [the financial reports] and who possess the proficiency necessary to comprehend the significance of contemporary accounting practices” (SAC 3.36) will be aware of the introduction of Australian equivalents to IFRS (AIFRS), and it is unnecessary to repeat what is now, surely, general commercial knowledge.
2. The title of this Note is “Significant Accounting Policies”. The material contained in this section is *not policy* - it is additional explanatory information, and the normal commercial practice of disclosure in a separate Note should be adopted.
3. AASB 1047.4.2 requires the disclosure of “any known or reliably estimable information about the impacts”. It does *not require* the disclosure of a restated Income Statement or Balance Sheet¹. The additional information detracts from, and confuses, the required information, which is the *impacts* of the introduction of AIFRS.
4. Many Councils will slavishly adopt the wording shown in the draft Note. Training courses will need to emphasise the need to modify the example wording. We note that AASB 140 permits the adoption of either the cost model or the fair value model for investment property. If the fair value model is adopted, there will be consequences for the Income Statement relating to the change in fair value over the reporting period, and the non allowance for depreciation. Changes in the amount of asset revaluation reserve would only arise where the investment property is carried at cost at the date of opening Australian-equivalents-to-IFRSs balance sheet and fair value is adopted on transition.

Paragraph 5.3 - Valuation of Assets

All reference to the implementation of AAS 27 is now 13 years out of date and should be removed. References to the date of adoption of “deemed” cost are valid, as they refer to the calculation of the carrying amounts currently disclosed.

Paragraph 5.5 - Employee Benefits

1. Reference to the introduction of AASB 1028 are obsolete as the standard was introduced prior to the commencement of the comparative reporting period.
2. “Users who are prepared to exercise diligence in reviewing [the financial reports] and who possess the proficiency necessary to comprehend the significance of contemporary accounting practices” will be aware of the requirements of the Standard. Many Coun-

1. And if they are going to be restated, then the titles should reflect AIFRS rather than AAS.



cils¹ repeated this wording, in many cases without disclosing the actual policies that they actually adopted.

3. Superannuation disclosures are **not** matters of *accounting policy*, and should be relocated to Note 18 *Contingencies and Assets and Liabilities not recognised*.
4. The number of employees of a Council is **not** a matter of *accounting policy*.

Paragraph 5.12 - Financial Instruments

Reference to the introduction of AAS 33 are obsolete as the standard was introduced prior to the commencement of the comparative reporting period.

Paragraph 5.15 Provisions, Contingent Liabilities and Contingent Assets

Reference to the introduction of AASB 1044 are obsolete as the standard was introduced prior to the commencement of the comparative reporting period. The paragraph should be deleted as it does not refer to any matters of *accounting policy*.

APPENDIX A12 - GENERAL GUIDE TO IFRS

The guide is a summary of the contents of the IFRS which duplicates portions of section 3.4 of the Code proper. The duplication should be removed and components that are entirely inappropriate to the *NSW Code of Accounting Practice and Financial Reporting*, of which we instance only a few examples, should be deleted.

Paragraph 12.3.1 refers to the presentation currency. Example Note 1 requires that Councils prepare their statements in the Australian currency, and hence this section is inappropriate.

The Minister's Investment Order (Appendix A9) specifies that all investments "must be denominated in Australian Dollars" and hence translation from other currencies, at most, could only refer to the extremely rare circumstance where a Council has sourced goods or services from overseas, AND the contract is denominated in another currency.

Paragraph 12.3.2 refers to hyperinflationary economies. It is not relevant.

Paragraph 12.3.3 refers to the presentation currency - see above.

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

1. At least 19 of 86 judged for the Annual Statements Award.

