

**LOCAL GOVERNMENT CODE OF ACCOUNTING  
PRACTICE and FINANCIAL REPORTING**

**DRAFT UPDATE #17**

**Submission by**

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# NSW Local Government Code of Accounting Practice & Financial Reporting

## Submission relating to draft update #17

### INTRODUCTION

Our firm provides specialist financial and administration consulting services solely to Local Government throughout Australia, but principally within New South Wales. Our senior principal, David Maxwell is a Fellow of the Institute of Chartered Accountants and an Associate of Local Government Managers Australia with over 35 years experience as Local Government Auditor, Principal Accounting Officer, Chief Executive Officer and Consultant.

We have previously provided comments on most updates to the *Local Government Code of Accounting Practice and Financial Reporting* (the Code), and this continues the series. This submission includes items that have appeared in previous submissions. Our aim continues to be the provision of the most convenient, practical and flexible guide for practitioners that can be achieved.

In preparing this submission we have critically - but not hypercritically - reviewed each page, and compared the information set out with our view of the information that would be of greatest benefit to practitioners - especially those new to local government - and users of the financial reports.

We regret that, due to limitations on the time available, we have not been able to cover the entire draft update #17. However, we believe that we have provided sufficient examples of the approach and critical review that we believe if necessary to maximise the utility of the Code.

### PROPOSED NOTE 26

We conjecture that we understand the reasoning underlying the proposed inclusion of this Note, in that the separate funds which provide the statutory basis with which all Councils must comply is not clearly reflected in the general purpose financial statements. Indeed, it is only represented in a negative manner, by the indication on restrictions on the use of assets, and the extent to which certain liabilities may be satisfied from the restricted assets in the first instance.

We draw the following matters to your attention:

1. The Special Purpose Financial Reports include audited financial statements for each of water and sewer special purpose funds. These are prepared on a **gross basis** (i.e. without consolidation eliminations, and include the fictitious income tax expense and other adjustments required for Nation Competition Policy purposes. The Income Statement is presented by transaction type in AASB format.

The Special Schedules also include financial statements for each of water and sewer special purpose funds, also prepared on a **gross basis**, but without fictitious expenses and other National Competition Policy adjustments. The Income Statement is presented by functional classification using prescribed functions.

Proposed Note 26 includes financial statements for each of water and sewer special funds, the Income Statement of which is presented by transaction type in AASB format. We cannot identify any guidance whether they are to be prepared on a **gross** or **net basis** (i.e. after consolidation eliminations).

**Such guidance must be given.** A common presentation for these types of disclosures is to separately show a column for elimination adjustments. If this presentation is decided on, the example Note in the Code must show it. The Code should also specify that comparative information is or is not required.

2. There remains the issue of the preparation of **three** sets of "financial statements" for both water and sewer, none of which bear any clear description of their purpose, but all of which show



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different operating results. It is common practice for a Council to supply a copy of all three of its general purpose and special purpose statements, and its special schedules, in response to a request for its “annual financial statements”<sup>1</sup>.

We understand that a review was being undertaken with a view to reducing the duplication of water and sewer fund information between the special purpose statements and the special schedules. We have no information of progress with this project, nor have we been able to identify significant changes to either that may reflect the results of the review.

***The existing situation of two different sets of “financial statements” for water and sewer special purpose funds with different results is deplorable. To exacerbate this by introducing a third set will multiply user confusion.***

3. The guidance currently provided requires that “restricted funds (DWM, S.94 etc.) other than Water and Sewer are to be included together in the ‘Other’ category”. As a result, Sydney metropolitan and a number of other Councils will show only *general fund* and *other* columns. For these Councils, it is likely that the picture of *general fund* that will emerge will be largely identical to that currently available from proper interpretation of the principal statements and Notes 3 to 10.

Other Councils that are currently members of *regional water supply authorities* will disclose columns for *general fund*, *sewer* and *other*.

The remaining Councils showing all four columns will be largely small rural Councils, who typically have the least, and unfortunately often least skilled resources, available for the preparation of their annual financial statements. These are the people who will have to explain the differences between the three different operating results for each fund.

***We submit that the greatest impact from the additional disclosures will fall on those Councils least able to handle it.*** We submit that there are other ways of linking the annual financial statements to statutory responsibilities.

4. Although the statutory restrictions in relation to domestic waste management are fundamentally different from those relating to water and sewer, they need to be maintained in a separate fund within a Council’s ledger. We suspect that is not the practice adopted by some Councils. Further, all Councils levy some form of domestic waste charges, and we submit that these would be appropriate candidates for separate disclosure.

Stormwater drainage management annual charges were introduced into the Act only a few years ago, and these are subject to the same legislative restrictions as water and sewer charges. We are not aware of the reasoning that singles out water and sewer special purpose funds from other, similar funds for disclosure in this Note (although we are aware of the reasons for their inclusion in both the Special Purpose Reports and the Special Schedules).

***Both domestic waste management charges and stormwater drainage management charges are best administered by the use of separate funds within a Council’s general ledger.*** Requiring separate disclosure (subject to materiality) in a note such as the proposed Note 26 may help accelerate the adoption of appropriate general ledger techniques by all Councils. One method by which this could be achieved would be by expanding the requirements of AASB 1052 *Disaggregated Disclosures*, requiring in addition that such disclosures are also made on the basis of the various restricted funds<sup>2</sup>.

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1. Over 90% of the sets of financial statements supplied for judging of the Finance Professionals Annual Financial Statements Award, in response to just such a request, include all three. The balance comprises examples of the general purpose statements only, and the full Annual Report.



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5. Other restricted funds held by Councils include section 94 (EP&A Act), unexpended special purpose grants, reserve trust balances, unexpended loan funds and a plethora of special arrangements with private and community organisations. The amalgamation of all these into a single column would not appear to convey any significant information.

To consider only the disclosures relating to section 94 contributions at this point: presumably the Income Statement would disclose contributions received during the year, and interest earned thereon. There would only rarely be any expenditure shown, as the vast majority of these funds are expended on capital works. The Balance Sheet would disclose the unexpended cash and authorised investments held at reporting date. In combination, the amounts of funds collected would appear in the Income Statement, possibly spend a while on the Balance Sheet, and then disappear from the *other* column forever.

If it is intended that assets constructed with section 94 funds should be separately identified in Council's asset register as such<sup>3</sup>, and attributed to section 94 in this proposed Note, **guidance to this effect must be given**. Presumably, if this is the case, the attributable depreciation / amortisation / impairment charges should also be recorded in the Income Statement, and again guidance should be given. Consideration also needs to be given, if this is the case, to the treatment of revaluation effects, and for all these in relation to assets only part-funded from section 94 funds, and appropriate guidance given.

To consider now the disclosures relating to special grant funds appearing in the *other* column: is it intended that the whole of the special purpose grant received be shown as revenue in the Income Statement even when only part remains unexpended? If so, what are the required disclosures in relation to the expenditure of grants used, both for ordinary and capital expenditure. Equivalent questions to those asked in the section above arise, and need to be considered and guidance given.

***The points raised above in relation to specific types of restrictions apply equally if the disclosures remain undifferentiated, and guidance needs to be given on all.*** In the absence of such guidance, Councils will make their own interpretations based on their own convenience. It must be assumed that these interpretations will be inconsistent with each other.

6. We note that the proposed Note has been allocated the next available note number, being #26. However, as noted above, it will have to be completed by **all** Councils. The commentary on page A-6, in our opinion, does not make it clear whether the note should be numbered as #26, or as the next available number after #20.

AASB 101.104 requires the Notes "as far as practicable, [to] be presented in a systematic manner", and AASB 101.15 sets out the most common sequence. When the early versions of the Code were developed, this was the case. However, in recent years, it seems that much of the early logical sequence has been lost, perhaps with the intention of retaining some key note numbers with which practitioners are familiar. Such reasoning, while understandable, is not particularly valid. When the Code was first introduced it replaced schedules 1 - 40 under the then Ordinance. Within a very short time, all practitioners were referring to the new note numbers accurately except for ongoing references to schedules 26 and 40, which were not directly replicated in the Code.

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2. In the same manner, Victorian Councils are required to make the disclosures required by AASB 124 *Related Party Disclosures*.

3. Some court decisions involving Council assets acquired with section 94 funds seem, on our interpretation, to imply this.



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Periodic changes in note numbers are adjusted to quickly. (But this does not support the practice in some other jurisdictions where almost all note numbers change every year, and from Council to Council.)

***We submit that the note numbers in the Code should be revised to return to a systematic numbering system*** in the following sequence: significant accounting policies, revenue items, expense items, disposals of assets, assets items, liabilities items, equity items, notes relating to the whole of the principal statements (income statement classified by function, budget comparison, cash flows reconciliation), other required disclosures including disclosures relating to groups of assets / liabilities. ***At the least, we submit that proposed Note 26, if retained, be renumbered so that it fits within the main sequence of notes required to be supplied.***

***On balance, we submit that the introduction of proposed Note 26 should be at the very least deferred until the issues we have referred to are resolved and comprehensive guidance given.***

## LAND UNDER ROADS

We deprecate the decision advised by circular 09-09 in relation to land under roads, and in particular the proposed breach of AASB 1051 *Land under Roads* paragraph 9 (second sentence) by directing that recognition of the amounts involved be deferred to 2010.

This decision creates the potential for all audit reports for 2009 to be qualified for potentially material mis-statement. ***We presume that the proposed approach has been discussed with the executive of the Local Government Auditors Association, and we submit that it would have been appropriate to attach their advice to members, to the circular, and to summarise it in the Code.***

The decision has been taken in the knowledge that Councils in none of Northern Territory, Queensland, South Australia or Western Australia will be recognising amounts for land under roads. Although a methodology for attributing a value to land under roads has been developed in Victoria, our most recent information is that there are continuing debates as to whether it provides a *reliable* value within the terms of the accounting standards<sup>4</sup>. We understand that a final decision has yet to be taken in Victoria. We are not as well informed on the various State government approaches, but have been advised that the South Australian Government has adopted an approach consistent with local government in that State.

As well as the methodology recently developed in Victoria referred to above, the draft report of a working party established by the then Public Sector Accounting Standards Board (which was subsumed into the Australian Accounting Standards Board) proposed a different method of attributing a value to land under roads. Unfortunately, our comparison of the two methods suggests that one method would result in values of up to twenty times as large as the other.

The circular and the draft Code quite correctly recognise that Councils have much work to do to develop qualitative records on the road reserves under their control that meet appropriate modern standards. ***We agree and support this view.*** However, there are alternative methods such as those adopted in Victoria that do not rely on the attribution of a value to such road reserves.

There are associated issues that are not addressed in the draft Code. As we understand it, the question of control - as distinct from legal title - is the principal criterion for accounting purposes. (We understand that some work was being done in relation to "regional roads", but are not informed on the progress that this has made.)

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4. There is no disagreement that it will provide a *consistent* method of attributing a value to land under roads.



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As we understand it, the RTA accepts responsibility of the centre 8 metres of a State Highway. However, they exert effective supervision of the construction, signage, access etc. over the whole area of a road reserve that carries a State Highway. Does this amount to control *in accounting terms* over the whole of the road reserve? If so, presumably a Council would not need to include that road reserve in its asset records at all.

As the former *Local Government Asset Accounting Manual* appears to have been discontinued, **the Code should provide the guidance essential to meeting the standards that it sets.** A protocol should be agreed with the RTA to ensure that road reserves are neither omitted from nor duplicated in the records of the RTA and Councils, **and that protocol included in the Code.**

It would appear - but neither the Code nor circular 09-09 make this clear - that Councils that are currently recognising amounts for land under roads (on the cost basis) will continue to recognise them on the same basis in their 2009 statements. (Cost in these instances is comprised of acquisition of freehold land, associated legal and conveyancing costs, and the cost to convert the freehold land to road reserve.)

Presumably a reliable basis of measuring fair value<sup>5</sup> will be determined prior to the preparation of the 2010 statements, and all land under roads not previously recognised will be recognised on that basis. Pursuant to AASB 116.Aus15.1, this will represent the COST of these assets.

If the "reliable basis of measuring fair value" results in an amount for any parcel of road reserve previously recognised that is materially lower than its actual cost, an impairment will need to be recognised in accordance with AASB 116. In the case of the Victorian methodology, such impairment will approximate 85% - 95% of the original cost.

## EQUITY ACCOUNTED INVESTMENTS

### Revenue (and Expenses) of Equity Accounted Investments

Page A-13 includes an extract from AASB101(81)(e) and Framework(74), the text of which is at variance from the presentation shown in the Income Statement. This is an area where local government's widespread use of these as a vehicle for sharing the provision of certain services (that are equally commonly provided independently by single Councils) is significantly different from normal commercial practice, and in our view the disclosure in the Income Statement is appropriate.

We are aware that many Councils include their contributions to associated entities as expenditure (which simplifies budgetary control), and then disclose their equity entitlement to the result of the associated entity as a gain or loss. Where the associated entity result is a gain, both revenues and expenses are over-stated to the extent of the gain, but where the result is a loss there is no over-statement.

We submit that the extracts from AASB101(81)(e) and Framework(74) should be deleted, and instead guidance should be inserted specifying the correct treatment of contributions to (and distributions from) associated entities, and of the equity accounted share of the net gain or loss.

### Liabilities arising from Equity Accounted Investments

In a commercial environment, an investor usually has the option of walking away from an equity accounted associate with negative equity, and hence it is rarely appropriate to record more than a provision in these instances.

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5. However, we doubt this.



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However, in local government, where these are used as a vehicle for sharing the provision of services, it is much more commonly the case that a Council has a **constructive obligation** within the meaning of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, and hence an actual liability. Such a liability does not meet the definition of *provision*, as the liability as at reporting date is certain, nor does it fit well with the financial instruments that dominate *payables* and *borrowings*.

We submit that consideration should be given to a non-current liability classification to be shown on the face of the Balance Sheet, and in Note 10, being *liability - equity accounted entities*. This line would not be shown where all amounts are NIL, and offset against other equity accounted investments would only be permitted where legal right of set-off exists.

## POT-POURRI

We view the following points as having a considerably lesser impact than those made above, but submit that in combination they significantly affect the utility and usability of the Code in the hands of users. However, we have not sought to rank them in order of importance.

### Items where (further) guidance is required

The third paragraph on the page before page A-6 (page A-5?) is breached by most Councils, a practice with which we concur. The paragraph purports to require (say) Sydney City Council to report nil rows for water and sewer special rates in Note 3, a requirement which we consider to be absurd. Indeed, most Councils with water special purpose funds no longer levy water special rates, these having been replaced by annual charges. We submit that this paragraph should be deleted, and more detailed guidance provided in each relevant note.

The fact that most Councils are making a realistic interpretation of this instruction is not a valid reason for retaining an instruction that provides a ridiculous result.

The last paragraph on the same page encourages Councils to be prodigal with the use of paper, especially as many Councils interpret the Code to require that no more than one note be placed on any one page. We have not yet heard any argument that suggests that the previous practice of marking the allocated note number as "N/A" on the index, and then dispensing with a formal note, was misleading to users. Indeed, normal accounting practice is that notes are sequentially numbered, and that notes that are irrelevant are entirely excluded.

### Items where (further) guidance is required

Page Ref.	Comment
A-5	Fourth paragraph - the word "significant" should be in bold italic font.
A-5	Fifth, sixth & seventh paragraphs - add after the words "statement to this effect", the words "in Note1".
A-10	Footnote to Income Statement - this is a guidance note and should be identified as such, or more appropriately located in the heading text of page A-123



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### Items where (further) guidance is required

Page Ref.	Comment
A-11	(And also page A-14, sub-heading <i>Offsetting</i> ) Guidance should be provided whether <i>gains and losses arising from joint ventures and associates</i> (and also <i>asset disposals</i> ) should be netted against each other, and if so, the circumstances when this should be done. In relation to <i>asset disposals</i> it should be noted that the <i>WA Local Government Accounting Manual</i> does not permit offsetting of gains and losses of different sub-classes of assets within Infrastructure, Property, Plant & Equipment, while the <i>SA Model Financial Statements</i> treat IPP&E as a single class of assets, and permit offset, transferring the net total of the entire Note to the Income Statement. Note 5 as currently drafted isolates the “property” group of IPP&E from other sub-classes, and normal NSW practice has been to transfer the net total of the entire Note to the Income Statement.
A-11	Guidance should be provided to permit the non-disclosure of blank lines for <i>gains or losses from the disposal of assets, net gains or losses arising from joint ventures and associates, operating result from discontinued operations</i> and <i>minority interests</i> . (We understand that there is only one Council which is required to disclose <i>minority interests</i> .) The Code is correct in showing the location and manner of disclosure, but not in mandating disclosure for ALL councils.
A-16	Guidance should be provided to permit the non-disclosure of blank lines for <i>non-current assets held for sale, equity accounted investments, investment property, intangible assets, other (non-current assets)</i> and <i>minority equity interest</i> .
A-17	Guidance should be provided to permit the non-disclosure of blank lines and columns.
A-17	Guidance should be provided for the use of the line <i>income and expenses recognised directly in equity</i> , and a note reference provided. The proposed recognition of land under roads should probably feature in such guidance.
A-20	Guidance should be provided to permit the non-disclosure of blank lines, especially in the investing and financing activities sections. The line <i>proceeds from boundary adjustment</i> should have no application at all in the 2009 financial year.
A-24	Footnote to page is a guidance note and should be identified as such.
A-26	Note immediately preceding (iii) is a guidance note and should be identified as such.
A-44	Footnote to page is a guidance note and should be identified as such. The words added in 2009 - “as reported on the income statement” - do not appear to refer to anything. The guidance is inadequate - <ul style="list-style-type: none"> <li>• “rates and annual charges (including ex gratia)” should be “ordinary rates and annual charges not allocable to a specific function”. All special rates and most annual charges can be attributed to particular purposes such as DWM, water, etc.</li> <li>• delete “non-capital” from general purpose grants. Quite apart from the fact that we have never known a “capital general purpose grant”, there is the implication that one would have to be allocated to a function, which contradicts the “general purpose”.</li> <li>• add ‘not elsewhere allocated’ to interest and investment revenue.</li> </ul>
A-47 - A50	Guidance should be provided permitting the deletion of blank lines, and the insertion of other descriptions.
A-48	Footnote to page is a guidance note and should be identified as such. It will be obvious to any user of the completed financial statements.



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### Items where (further) guidance is required

Page Ref.	Comment
A-47, A-49	Guidance should be provided on the basis of differentiation between RTA charges, transportation grants and RTA contributions, or alternatively the notational descriptions should cover ALL types of payments. Correspondence from the RTA, the Minister, and local parliamentarians refer to all such amounts a <i>grants</i> .
A-50	Footnote to page is a guidance note and should be identified as such. Alternatively, as the reconciliation to Note 6 is to the <u>balance</u> of unexpended grants funds, disclosure of the balance could be inserted here.
A-53	Grants and contributions - we deprecate the use of a test that is subjective. Such tests should be objective and determined in accordance with the grant conditions placed by the grantor, so that all Councils will classify the same grant in the same manner. Practitioners may appreciate guidance on the treatment of part operating/part capital grants, and so-called capital grants where the assets acquired are below the Council's capitalisation threshold, to be of benefit.

### Superfluous material, and material which should be relocated

The *Framework for the Preparation and Presentation of Financial Statements* describes the users for whom the statements are prepared as "users [who] are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence." It would be appropriate to assume that users are, or who have access to, competent accountants but that those accountants are likely to lack an understanding of accounting practices and legislation specific to local government, or where local government places especial emphasis on these.

As these are likely to be the characteristics of new practitioners entering local government, achieving these aims in relation to interpreters of the financial reports will also materially assist new practitioners in rapidly acquiring the skills required for their preparation.

We suggest that much of the superfluous information noted below is well within the knowledge of "users [with] a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence", and can be deleted without derogating from their understanding of the reports.

We can identify much of the material, and its location, by comparison with the *Value Accounts* publication prepared by Pricewaterhouse Coopers, and widely used as a guide by public corporations in formulating the presentation of their public financial reports. As such, the purpose of *Value Accounts* is significantly different from the Code, because users of *Value Accounts* may adopt any format permitted by the accounting standards, whereas users of the Code are constrained to adopt the format approved by the Local Government Accounting Advisory Group as embodied in the Code. We question whether this difference in purpose of the Code has been given sufficient weight in its drafting.

### Superfluous and relocatable material

Page Ref.	Comment
A-7	AASB127(42)(a) - the appropriate location for this is in the Special Purpose reports file.
A-7	AASB127(41)(a) - we suggest that the appropriate paragraph would be AASB127Aus9.1



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### Superfluous and relocatable material

Page Ref.	Comment
A-12	AASB101(81), AASB5(33)(a) - irrelevant. The Code prescribes the disclosures to be made on the face of the Income Statement. Councils failing to comply with the prescribed disclosures, whether or not they comply with AASB101(81), will have their statements disallowed.  Also the material shown under the sub-headings of <i>Additional line items, headings and subtotals, Operating profit and Re-ordering of line items</i> , (page A-13) <i>Extraordinary items not permitted, Discontinued operations, Either on the face of the income statement or in the notes, Classification of expenses</i> , and (page A-14) paragraph 19.
A-14	Revised business combination standard - conflicts with policy statement 43 on page A-43
A-17	AASB101(68),(68A),(69); AASB101(74),(75); AASB101(51); AASB101(52); AASB101(27) - irrelevant. The Code prescribes the disclosures to be made on the face of the Balance Sheet.
A-19	The sections <i>Information to be disclosed</i> and <i>Prescribed format for certain entities with defined benefit superannuation plans</i> are irrelevant. The Code prescribes the disclosures to be made on the face of the Statement of Changes in Equity.
A-21	AASB107(18)(a); AASB107(19) - irrelevant. The Code prescribes that the direct method will be used.
A-22	Paragraphs 9 & 10 are, at best, historical interest.
A-22	Paragraph 12 is over-ridden by paragraph 13a; paragraph 13 is irrelevant except for a corporation that is a subsidiary of a Council (and hence consolidated into the financial reports), and has paid a dividend. We know of no such corporations. Indeed, if such a corporation existed, it would be required to make disclosures in relation to income taxation liability, expense and payment in the Income Statement, Balance Sheet and Cash Flow Statement.
A-22	<i>Sale of property, plant and equipment held for rental to others</i> - the applicability of this reference is challenged. We submit that it applies only where the sole or principal purpose of the acquisition or construction of the asset is for rental and subsequent sale. Even where (say) a Council acquires furniture and equipment for a hall that is regularly hired out, the over-riding purpose is the provision of a public hall, rather than the rental and subsequent sale of the asset. Retaining the extract as is, is to invite practitioners to misinterpret the purpose of the amendment to AASB 107.
A-22	Heading <i>Additional recommended disclosures</i> should be relocated to Note 11 (page A-104)
A-22	<i>Inter-entity accounts</i> - <i>prima facie</i> irrelevant because there is only one entity. Even for the multiple fund situation required of NSW Councils, universal practice is to use a <u>combined</u> bank account. All local government accounting software manages this automatically, and hence retention of this paragraph is more likely to lead to confusion amongst practitioners than clarity.
A-25	(a) second paragraph - superfluous. On a par with reporting that the 1979 regulations no longer apply.
A-26	Jointly controlled operations - we fail to see how the accounting treatment for a type of operation which the Council <u>does not have</u> can be a <b>significant accounting policy</b> . Relocate to guidance notes covering additional policies that may be applicable under certain circumstances.



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### Superfluous and relocatable material

Page Ref.	Comment
A-37	Sections 2-5 - section 6 makes these paragraphs redundant
A-47	The note concerning the year of valuations does not, by itself convey information that is useful in the context of the annual financial statements and should be deleted.

### Items to improve the convenience and usability of the Code

We note that the permissions on the Adobe Acrobat file with the 2009 drafts make it possible to insert bookmarks in the file to permit more rapid movement around the file. This is a change from the past 2 years and is encouraged. Indeed, it is suggested that the files should be *supplied* already bookmarked.

Further, there should be a comprehensive index included within the files, preferably hyperlinked. If the Code is "to facilitate the practical and effective implementation ..." <sup>6</sup> then users must be able to rapidly locate the information they need. And the users most in need of locating information in the Code are those who are least familiar with the contents of the various notes, and who, in the absence of an index, will have the least idea of where to look.

### Items to improve convenience and usability

Page Ref.	Comment
A-39	Sections 18-24 - we suggest that these could be appropriately located in Note 12. We suggest that a new practitioner would be more likely to seek this information located together with the disclosures of future payments. The discussion in Note 12 should then be cross-referenced back to here.
A-39 - A-40	Sections 25-30 - relocate to Note 15 for similar reasons to the above. At the moment it is extremely difficult to locate all material relating to financial instruments, some being located here, some in Note 6 and some in Note 15. It should all be grouped in Note 15, with cross-references to the other sections.
A-40 - A41	Sections 31-32 - similarly relocate to Note 9. There does not seem to be a compelling reason for retaining these 2 paragraphs here, when section 33 refers the user to Note 9 for further information. The cross-reference to Note 9 should include a page number, as the Note 9 material extends to 13 pages.

### Towards more compact Annual Financial Statements

One of the most frequent complaints heard from elected members and other users relates to the sheer bulk of the Annual Financial Statements. To some extent, the complexity of Councils affairs makes this unavoidable. Nonetheless, the Code should encourage the preparation of these statements in as compact manner as is compatible with full disclosure of all material matters, and good presentation practice.

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6. Introduction and overview, Purpose



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### Towards more compact presentation

Page Ref.	Comment
A-6 & A-24	Separate tables of contents for the statements generally, and for the Notes separately seems prodigal use of paper. Combine the two tables of contents. The statement that these are general purpose statements is duplicated in Note 1, and legal form, domicile and date of issue can form the introduction to Note 1. The last paragraph is advertising puff, and can form part of the preface to the Annual Report.
A-25 to A-36	This example Note extends to 12 pages which is an extraordinary length for a <b><u>summary</u></b> of <b><u>significant</u></b> accounting policies. It invites a user to skip the essay to get at the numbers. We suggest that much of the wording is verbose, and contains much material that a <i>user</i> - as defined in the <i>Framework</i> - would assume.
A-27	We suggest that it is not necessary to state (paragraph (g)) that "bank overdrafts are shown within borrowings in current liabilities on the balance sheet". It is the natural location, and it is clearly disclosed in Note 10.
A-27	We suggest that it is not necessary to state that possible bankruptcy of the debtor is an indicator that the receivable may be impaired.
A-29 & A-30	We suggest that much of the content of sections (k) & (l), while significant, would convey more useful information to a user if it were co-located with the rest of the Financial Instruments information in Note 15. Note 1 could then simply refer to the detailed statement of policies at that location.
A-31	(m) We find it difficult to describe the program of future revaluations as a <b><u>significant accounting policy</u></b> , and suggest that useful lives etc. of IPP&E should be located together with the note relating with those assets. (We recognise that Note 1 is a common location for this information, and agree that this is appropriate for organisations <u>without</u> the large number of distinct asset types of local government).
A-32	(s)(iii) - there is no accounting policy disclosed in this section, and it should be limited to <ul style="list-style-type: none"> <li>• a statement that contributions are paid to a contributions fund and one or more defined benefits funds</li> <li>• a statement that the defined benefits funds are pooled funds such that it is not possible to identify the liability of individual Councils, and accordingly contributions are recognised in accordance with AASB 119.32. (<i>Note that this is not an accounting policy as such - it is merely a statement that a given set of circumstances exists, and the accounting consequences thereof.</i>)</li> <li>• a reference to Note 18 (where the information given here is currently duplicated).</li> </ul>
A-33	(v) - Once a <i>user</i> - as defined in the <i>Framework</i> - is made aware of the existence and nature of restoration/rehabilitation liabilities, the accounting is straightforward, especially as there is an <i>Interpretation</i> specifically dedicated to it. If it is considered desirable to provide some training notes for new practitioners, Note 1 is not the place to do so.



# NSW Local Government Code of Accounting Practice & Financial Reporting

## Submission relating to draft update #17

### Towards more compact presentation

Page Ref.	Comment
A34 & A-35	<p>(x)(i) - the last sentence is surely sufficient - see also paragraph 41, page A-41</p> <p>(x)(ii) - the current exposure draft will restore the option for Councils, and is expected to take effect concurrently with new AASB 132. Wording that "the new standard is not expected to have significant effect", without a detailed description should be considered.</p> <p>(x)(iv) - the last sentence is surely sufficient - see also paragraph 41, page A-41</p> <p>(x)(v) - the last sentence is surely sufficient - see also paragraph 41, page A-41</p> <p>(x)(vi) - the last sentence is surely sufficient - see also paragraph 41, page A-41</p> <p>(x)(ix) - a statement that the standard will not affect Council should be sufficient.</p> <p>(x)(xi) - the last sentence is surely sufficient - see also paragraph 41, page A-41.</p> <p>We suggest that these explanations would be more appropriately located in section 42, page A-42</p>
A-35	<p>(z) - Not a <u>significant accounting policy</u>. If it is thought necessary to explain the basis of classification of only 2 of the 24 classes of assets shown in Note 9, this should be done in Note 9, or at worst, in the IPP&amp;E section above.</p> <p>In fact, this is a guidance note, and should be shown as such.</p>
A-36	<p>(bb) - if anything, this relates to the definition of the local government entity, as it refers to only part of one of the classes of assets referred to in (z). Again, it is a guidance note and should be shown as such.</p>
A-36	<p>(cc) - the policy that "Council will continue to account for these assets as it has been doing in previous years" provides absolutely no information. It is, at best, a guidance note, except that it gives limited guidance.</p> <p>The guidance note should clearly state that</p> <ul style="list-style-type: none"> <li>• Councils that recognised RFS assets in the previous year must continue to do so on a consistent basis, and</li> <li>• Councils that did not recognise RFS assets in the previous year must include an item in Note 18 about the non-recognition of those assets, and give an example of the required disclosure.</li> </ul> <p>Is there any indication when this matter will be resolved?</p>

## Trivia

### Trivia

Page Ref.	Comment
A-25	<p>(b) "provision for doubtful debts" twice occurring - does not meet the requirements for a <i>provision</i>; the term adopted in AASB 101.33 is "allowance".</p>
A-25	<p>(b) Regrettably, many practitioners do not critically review the wording of Note 1 each year. We suggest, in the 5th paragraph under this heading, that special purpose grants are only recognised upon receipt or acquittal, and not upon notification. Indeed, we are not even convinced that unconditional grants should be recognised prior to receipt.</p> <p>Perhaps the sub-heading <i>rates, annual charges, grants and contributions</i> could be split into three separate components - revenue recognition for <i>rates &amp; annual charges</i> is significantly different from <i>grants</i>, which in turn have significant differences from <i>contributions</i>.</p>
A-33	<p>(u) - Land under roads should be relocated to the IPP&amp;E section.</p>



# NSW Local Government Code of Accounting Practice & Financial Reporting

## Submission relating to draft update #17

### Trivia

Page Ref.	Comment
A-41	Sections 34 & 35 - reference to the current exposure draft, which is expected to reverse the changes to AASB 123 as they apply to local governments, may be appropriate.
A-43	Section 44 - delete words "must be prepared in accordance with AAS27 and"
A-46	Paragraph 4 - substitute "cost" for "value"
A-47	Sub-heading <i>User Charges</i> - section 502 authorises the levying of <i>service charges</i> , and we suggest that this should be used as the sub-heading. Retention of <i>user charges</i> could be interpreted that these are the only charges made for the use of a service, as distinct from fees. (Also, <i>user charges</i> is used in other jurisdictions in its more general sense, and could lead to misleading inter-state comparisons.) The next sub-heading could become <i>other user charges and fees</i> , which we suggest is more accurate than just <i>fees</i> .
A-52	Paragraph 19 - we have difficulty in interpreting this clause and suspect a typo between the words "Environmental" and "Planning". If it is intended to provide guidance on the items to be classified as <i>contributions</i> , references to rates and to grants should be removed, as they should be located in other classifications.
A-53	Interest and investment losses - We disagree with the disclosure of negative investment returns as expenses. This will result in the over-statement of both revenues and expenses over a period of years.

