

Annexure 1: Information to assist councils prepare 2019-20 Financial Statements

1. Submission of Financial Statements

- The General Purpose Financial Reports, Special Purpose Financial Reports, Special Schedules and the Auditor's Reports are to be formatted into a single PDF document, titled using the format: "Council name – Financial Statements – 2019-20".
- All councils, county councils and joint organisations have been granted an extension to lodge their Financial Statements until **30 November 2020** in accordance with Council Circular 20-15. The Financial Statements should be sent to finance@olg.nsw.gov.au.
- Statements received after this date will be considered as being submitted late and not in accordance with the *Local Government Act 1993 (Act)*.

2. Communications during the preparation of financial statements and audit process

- Finance professionals are encouraged to speak to the Audit Service Providers /Audit Office representatives in relation to any matters that may arise. Early communications are encouraged.
- Councils with audit, risk and improvement committees may consider engaging committee members early to review the financial statements, key accounting estimates and accounting issues prior to audit.

3. Pro-forma Accounts

- Finance professionals are encouraged to prepare proforma financial statements to enable early review of the format, accounting policies and note disclosures. This will aid in the timeliness of financial reporting.
- We encourage councils to identify opportunities to declutter the financial statements by removing any unnecessary notes and streamlining disclosures.

4. Code of Accounting Practice and Financial Reporting (Code) – Update No. 28

- The Code must be used to prepare the annual financial statements in accordance with the Act and the *Local Government (General) Regulation 2005 (Regulation)*.
- The Code and supporting materials are available on the OLG website at <https://www.olg.nsw.gov.au/councils/council-finances/financial-reporting/local-government-code-of-accounting-practice-and-financial-reporting/>

5. COVID-19 reporting requirements

- Councils should ensure that they have prepared a high-quality accounting policy position paper for all material accounting areas, with a particular focus on the areas significantly impacted by COVID-19. This includes detailed materiality assessments, support for judgements and assumptions and accounting considerations of decisions made to support compliance with Australian Accounting Standards. OLG has supporting material at <https://www.olg.nsw.gov.au/council-portal/accounting-guidance/>.
- Significant financial reporting implications arising due to COVID-19 should be discussed and documented at the Audit and Risk Committee of councils as well

as during council meetings. This will support council in maintaining proper records about significant financial reporting matters. Where decisions are made by council that items are immaterial to disclose, these decisions should be included in the documentation provided to councils Audit and Risk Committee (if Council has implemented such committee).

6. Financial Data Return (FDR)

- The 2019-20 FDR has been emailed under separate cover.
- Submit by **30 November 2020** to fdr@olg.nsw.gov.au in an Excel format only.
- The FDR should be accurate and align with the audited financial statements.
- The return can also be accessed via the Council Portal on the OLG website.
- Information/data from the FDR will be used in the published Time Series Data and Your Council website.

7. Statement by Councilors and Management

- The Code requires a Statement by Councilors and Management.
- The Statement in the approved form is in the Code.
- Councils' auditors may require the Statement to be re-signed closer to the date the audit opinion is issued, where there have been significant changes to the financial statements approved for submission to audit.

8. New Accounting Standards and the impact for Councils

- It is important that councils assess the impact of the new accounting standards and is adequately prepared for first-time adoption.
- A significant amount of information is available for councils at <https://www.olg.nsw.gov.au/councils/council-finances/financial-reporting/local-government-code-of-accounting-practice-and-financial-reporting/> which will assist in the reporting requirements for the implementation of AASB 1058, AASB 15 and AASB 16
- Councils should assess if the impact of the new accounting standards will be material and prepare workpapers to support this assessment. Where possible, council should quantify the impact of new accounting standards that have been issued but are not yet effective.
- Additional information is available from the Australian Accounting Standards Board at www.aasb.gov.au.

9. Asset valuations and fair value assessments

- Councils should ensure early commencement and completion of asset revaluations.
- Fair value assessments need to be conducted annually.
- Adequate documentation needs to be available to the auditors.
- The necessary documentation should be agreed with the auditor prior to year-end.
- Restrictions on asset use, especially for community land and land under roads, should be taken into account when assessing valuation.
- NSW Valuer General's valuations may be used to represent fair value of community land. Councils will then need to separately consider any improvements made to community land in the overall fair value assessment.

10. Indicative Rates for the Purpose of Discounting Cash Flows (Employee Benefits)

- Employee benefit liabilities expected to be settled more than 12 months after the reporting date must be measured using market yields of Government Bonds - AASB 119 (Employee Benefits).
- Indicative rates of National Government Bonds (Treasury Bonds) are provided on the Reserve Bank website www.rba.gov.au by searching “indicative rates”.

11. Index Rates for Water and Sewer

- Councils should use the most current index rates for water and sewer assets.
- DPIE - Water releases index rates for water and sewer assets at <https://www.industry.nsw.gov.au/water>.

12. Domestic Waste Management (DWM)

- Will not be audited for the 2019-20 year, however councils are required to calculate the reasonable costs charges for domestic waste.
- Following the release of the NSW Audit Office DWM Performance Audit Report and IPARTs review, OLG will consider and develop specific guidance for calculating and reporting of these charges.

13. Infrastructure ratios

- Building and Infrastructure Renewal Ratio (BIRR) is calculated based on renewal expenditure on the specific infrastructure assets identified in the Report on infrastructure assets as documented in the Code.
- Other assets classes, including Work in Progress (WIP) should not be included in the infrastructure ratio calculations.

14. Council Borrowings

- The Proposed Borrowing Return should be completed and forwarded to NSW TCorp (lgs@tcorp.nsw.gov.au), if you have not already done so. The return can be accessed via the Council Portal on the OLG website.
- Councils are required to advise the Deputy Secretary, Local Government, Planning and Policy, of amounts borrowed at the time loans are taken out in accordance with clause 230 of the Regulation. Notification can be emailed to finance@olg.nsw.gov.au.
- Councils are also reminded of the need to complete the capital expenditure review requirements, as per OLG Circular to Councils 10/34, prior to the drawdown of loan funds.

15. Restricted funds

- Section 409 (3) of the Act states that money received as a result of the levying of a special rate or charge may not be used for purposes other than for which the rate or charge was levied. In this case, money received for water or sewer purposes cannot be used within the General Fund.
- Section 410 of the Act requires Ministerial approval to lend (by way of an internal loan) money that is not yet required for the purpose for which it was received.

16. Council entities

- Section 358 of the Act requires councils to obtain Ministerial consent before forming or participating in the formation of a corporation or other entity or acquire a controlling interest in a corporation or other entity.
- In this section of the Act, entity means any partnership, trust, joint venture, syndicate or any other body (whether or not incorporated).

17. Audit, Risk and Improvement Committees

- As the local government elections have been deferred due to COVID-19, the date for the implementation of the Audit, Risk and Improvement Committee (ARIC) is now March 2022.

18. Crown Land

- We encourage councils to access the Department of Industry's Crown Land portal to download information on the reserves managed by council.
- The information on the portal should be reconciled against Council's fixed assets register at 30 June 2020.
- It is ideal for the download to be performed on 30 June 2020 (or as close as possible) as there is currently no function available on the portal to extract the data at a particular date.
- If there are discrepancies, councils should contact the Crown Land Division at the Department of Industry.
- For further information, refer to:
<https://www.industry.nsw.gov.au/lands/reserves/portal>

19. Pensioner Concession Rebate Claims (PRC)

- While a blanket extension has been granted for the submission of Council's financial statements, Council may still submit its Pensioner Concession Rebate Claim within the usual timeframe if completed.
- All components associated with the claim must be submitted prior to processing.
- Completed claims and associated certificates are due on 2 October 2020. Those claims received after this date may not be paid this calendar year.
- The PRC claim form has been sent to councils under separate cover.