

## **WEBINAR**

# **Review of the Code of Accounting Practice and Financial Reporting (the Code) Update 25 2016-17**



**Office of  
Local Government**



# Welcome

- Introductions and purpose of this webinar
- Format of presentation
- Content and run through how the webinar works



# What your screen looks like and how it all works...

- Please enter questions at any time and we will attempt to answer them during the session.
- If we are unable to answer your questions at the time of this webinar a full list of questions and answers will later be published on the OLG website.
- At the end of the presentation there will also be question time.
- If you wish to discuss any matters, please do not hesitate to contact the relevant OLG Staff. Contact details have been provided at the end of this presentation.



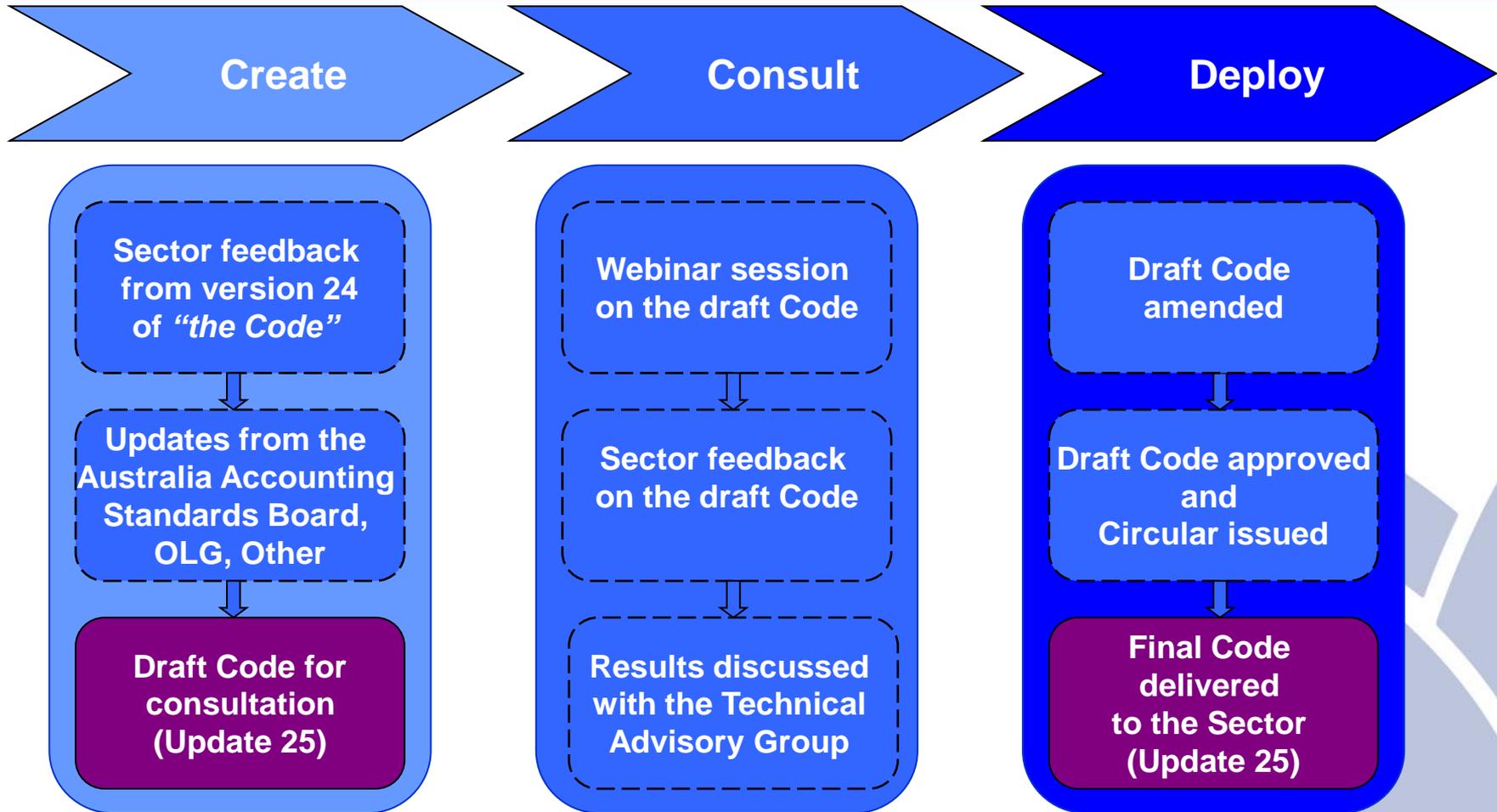
**Questions can be entered here at any time**



# Contents of this presentation

1. Overview of the consultation process
2. Financial Governance Structures and the Code
3. Changes to the Accounting Standards
4. Changes to the Code
5. Financial statements reminders
6. Key Standards issued not yet effective
7. Recap, reminders, where to go for help and next steps
8. Code supplement for new councils

# Overview of the consultation process





# Financial governance structures

- Local Government Act – Chapter 13 – Part 3 – Financial Management  
<http://www.legislation.nsw.gov.au/#/view/act/1993/30/chap13>
- Local Government (General) Regulation 2005 – Part 9 - Management and Accountability  
<http://www.legislation.nsw.gov.au/#/view/regulation/2005/487/part9>
- Code of Accounting Practice and Financial Reporting  
– (includes Australian Accounting Standards and Interpretations)  
<http://www.olg.nsw.gov.au/strengthening-local-government/supporting-and-advising-councils/accounting-practice>



# Code of Accounting Practice and Financial Reporting

- The Accounting Code comprises of four documents:
  1. General Purpose Financial Statements
  2. Special Purpose Financial Statements
  3. Special Schedules
  4. Appendices



# Changes to the Accounting Standards

- Only two new Accounting Standards for **30 June 2017**:
  - AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11]
  - Scope of AASB 124 Related Party Transactions has been expanded to cover not-for-profit public sector entities



# AASB 124 – Related Party Disclosures

Carmen Ridley



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# Who is a related party?

- A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the ‘reporting entity’).
  - A. A person or a close member of that person’s family is related to a reporting entity if that person:
    - i. has control or joint control of the reporting entity;
    - ii. has significant influence over the reporting entity; or
    - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.



# Related party definition continued...

B. An entity is related to a reporting entity if any of the following conditions apply:

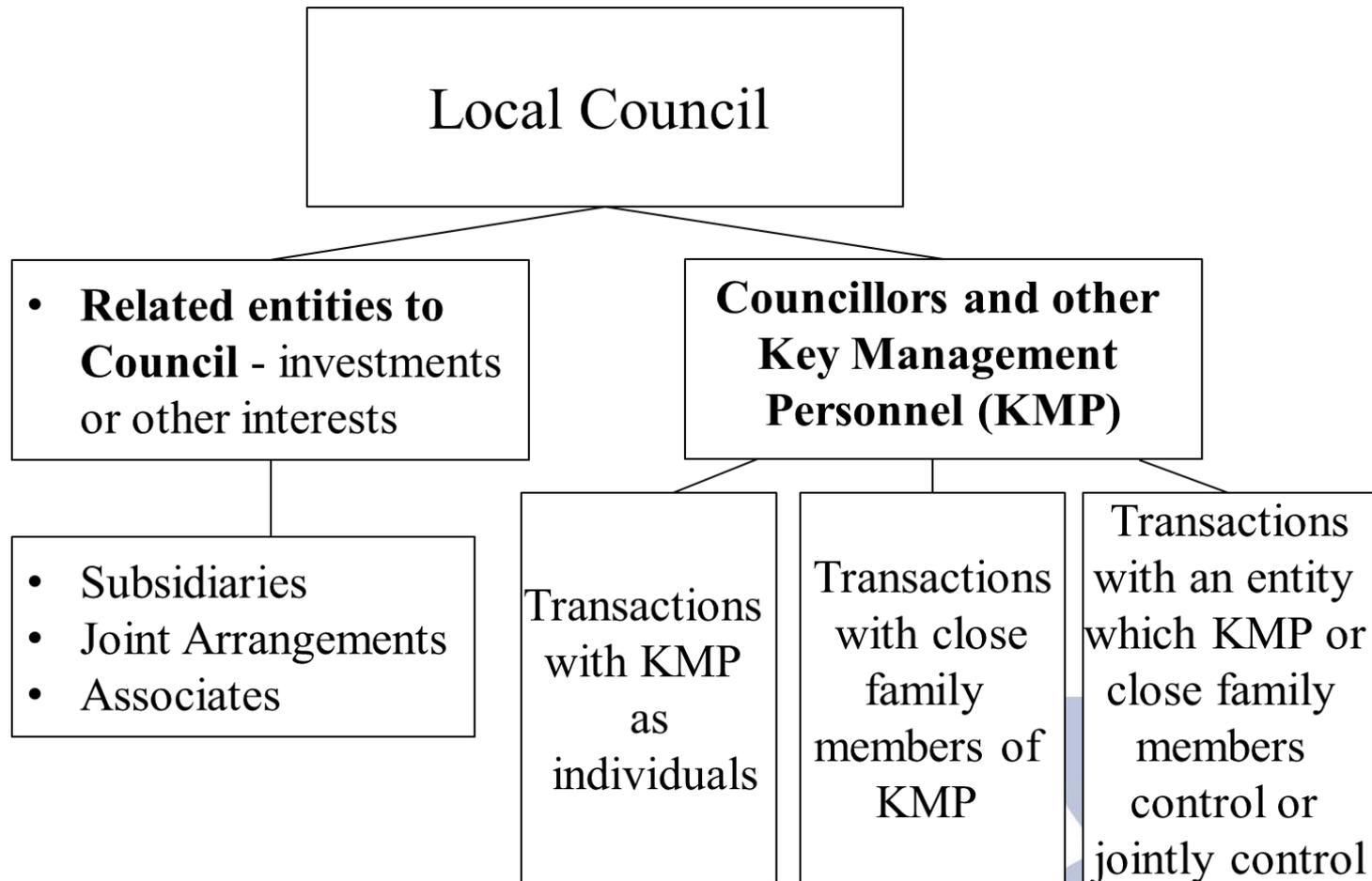
- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint ventures of the same third party.
- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.



# Related party definition continued...

- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

# Council's related entities





# Who are key management personnel?

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.



# Don't forget close family members...

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the entity:

Spouse / Partner	✓
Children or dependents of KMP	✓
Children or dependents of KMP's spouse	✓
Other, for example:	
Grandparents	?
Parents	?
Siblings	?
Cousins	?
Aunts / Uncles	?



# Required disclosures

- Key management personnel remuneration, separated into:
  - Short-term employee benefits
  - Post-employment benefits
  - Other long-term benefits
  - Termination benefits
  - Share-based payments



# Related party transactions (other than KMP remuneration)

- Disclose:
  - Nature of the related party relationship
  - Information about the transactions
  - Outstanding balances, including commitments



# AASB tentative agenda decision

- The AASB considered the issue of whether a transaction with a key management personnel (KMP) related party, that is not part of a public services provider/taxpayer relationship, is always material for disclosure, even if conducted on normal terms and conditions.



# AASB tentative agenda decision continued...

- In considering this issue the AASB noted that transactions conducted on normal terms and conditions as a member of the general public with KMP related parties should not automatically be assessed as material by nature - absent unusual circumstances, that the application of materiality would not result in disclosure in many of these situations.
- Accordingly, a not-for-profit public sector entity would apply judgement in determining the extent of information it needs to collect to meet the objective of AASB 124 Related Party Disclosures, as there is little value in an entity incurring significant costs to obtain data that is immaterial for disclosure.



# AASB tentative agenda decision continued...

- The key assessment is whether knowledge of the relationship and terms and conditions of the transaction would influence a user's understanding of the impact on the financial statements. Where the impact on the financial statements is not material the transaction is not required to be disclosed.



# AASB tentative agenda decision continued...

- For example, if the transaction has been through the entity's normal procurement processes, it may be presumed that the transaction is on terms no different to those applying to the general public and the assessment of materiality consistent with the normal materiality considerations for other disclosure aspects of the financial statements (likely to be a quantitative assessment, on basis that the transaction is not qualitatively determined as material).
- Similarly, if KMP close family members are employed through the entity's normal recruitment processes and the terms and conditions are demonstrably consistent with those offered to other public service employees performing similar roles, materiality for financial statement disclosure assessments should apply.



# Changes to the Accounting Standards

## Questions?



# Changes to the Code

- **Note 9 – Infrastructure, property plant and equipment**
  - Clarification of when to perform a full revaluation of investment properties (at fair value) when material changes have occurred and
  - added investment properties to revaluation schedule in the commentary.
- **Note 28 – Related Party Disclosures**
  - A new Note for the required disclosures associated with AASB 124 - Related Party Disclosures.
  - All councils are required to comply with AASB 124, with the exception of the 19 new councils proclaimed on 12 May 2016.
- **Special Schedule 7 – Report on Infrastructure Assets**
  - Auditing will not be undertaken this year.
  - Ratios are to be calculated using the class of assets identified in SS7 only, no additional asset classes from Note 9 to be included.
  - Ongoing conversations with IPWEA in relation to asset management.
  - Mandatory requirement to report on the ‘cost to bring assets to agreed service level’ performance indicator.
- **Appendix L – Deletions to Draft Code #25**
  - New appendix illustrating significant deletions made to the draft Code #25.



# Changes to the Code

## Questions?



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# Financial statements reminders

Financial statements have been prepared in accordance with:

- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB);
- the Local Government Act 1993 and Regulations; and
- the Local Government Code of Accounting Practice and Financial Reporting (the Code).





# Financial statements reminders

- All content in your council's financial statements should be relevant to your council.
- Review accounting policies to ensure that all policies are applicable to balances/transactions of your council.
- If disclosures illustrated in the Code are not material to your council then do not include them in the financial statements.





# Financial statements reminders

- Written request for an extension of time for the lodgement of financial statements to be submitted to the OLG by **17 October 2017**.
- Audited financial statements and financial data return to be submitted to the OLG by **31 October 2017**.





# Financial statements reminders

## Questions?



# Key Standards issued not yet effective

- No major new Standards for 30 June 2018
- Work should commence on Big 3:
  - AASB 9 *Financial Instruments* (30 June 2019)
  - AASB 15 / AASB 1058 – *Revenue / Income of NFPs* (30 June 2020)
  - AASB 16 *Leases* (30 June 2020)



# Key standards issued not yet effective

## Questions?





# Recap of draft Code update #25

*The major drivers for changes between Code #24 and draft Code #25 include:*

- Note 9 – Infrastructure, property plant and equipment
- Note 28 – Related Party Disclosures
- Special Schedule 7 – Report on Infrastructure Assets
- Appendix L – Deletions to Draft Code #25

*Updates are highlighted for ease of reference*



# Draft Code Consultation reminders?

- Consultation period closes  
**Wednesday 1 March 2017**
- All feedback to be provided to:  
[code@olg.nsw.gov.au](mailto:code@olg.nsw.gov.au)



# Final Questions?

Any further Questions?



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# Where to go to for help?

- **OLG Accounting Practice webpage**

<http://www.olg.nsw.gov.au/strengthening-local-government/supporting-and-advising-councils/accounting-practice>

- all documents for download and all there is to know about the draft Code including updated information relating to AASB 124 Related Party Disclosures;
- webinar presentation slides; and
- recorded webinar and Q&A documents will also be made available on the above webpage - an email update will be sent to councils.

**Email: [code@olg.nsw.gov.au](mailto:code@olg.nsw.gov.au)**

## **Contact details for OLG**

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**Laura Love**



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# Next Steps

- Proposed timeline



Review  
feedback  
March 17

Finalise Code  
March/April 17

Publish final  
Code  
April/May 17



# New Councils Segment

- The next segment of the webinar is focused on new councils.
- Existing councils are now able to leave the webinar.
  - We thank you for your participation and will keep you informed of the progress.



# Code supplement for new councils

- **Income Statement – Gain on Local Government amalgamation**
  - A disclosure of the assets and liabilities transferred from former councils and any accounting policy adjustments.
- **Statement of Cashflows**
  - A disclosure of the cash transferred from amalgamation of councils.
- **Note 1 (a) – Basis of preparation in accounting policies**
  - Sample wording for the basis of preparation of the financial statements.
- **Note 29 – Local Government amalgamation**
  - A detailed account of the assets and liabilities received from the former councils.



# Code supplement for new councils

- **Disclosures not required:**
  - Related party transactions as per AASB 124 (with the exception of Bayside)
  - budget information;
  - comparatives; and
  - Note 16 – material budget variations.



# Code supplement for new councils

## Questions?



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# Code supplement for new councils

This takes us to the end of the webinar.

We thank you for your participation and will keep you informed of the progress.