



LOCAL GOVERNMENT
ASSOCIATION
OF QUEENSLAND

Submission to
Public Accounts Committee
Inquiry into Government Financial Reporting
Legislative Assembly of Queensland

6 July 2005

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Introduction

On 12 May 2005, the Legislative Assembly of Queensland's Public Accounts Committee (PAC) released a discussion paper as part of an inquiry process to examine government financial reporting.

The discussion paper was developed as part of the Committee's ongoing assessment of the integrity, economy, efficiency and effectiveness of government financial management. The Committee does this by examining financial documents and considering the annual and other reports of the Auditor-General.

Submissions were invited on the Terms of Reference (ToR) and any other matters relevant to the ToR (closing date Friday 8 July) with the Local Government Association of Queensland (LGAQ) identifying key issues of concern to local government.

Member Councils provided comments on the discussion paper to the Association to enable it to make its submission.

This inquiry presents an opportunity for the Association to outline some key local government concerns regarding current reporting regimes.

This submission will provide a brief discussion on financial reporting in local government and address each of the ToR separately, note some related issues and provide some concluding remarks.

Discussion

Autonomy and Accountability

In Queensland the concepts of autonomy and accountability are embedded in the *Local Government Act 1993* (the Act), which provides flexibility of Council operations. The Act also takes into account Council size and capacity.

Recent changes incorporated in the *Local Government Finance Standard 2005* and *Local Government Regulation 2005* have sought to:

- Adopt a 'one size fits all' approach to financial reporting by local government;
- Impose unreasonable administrative burdens on small and under-resourced Councils; and
- Unnecessarily and inappropriately align local government financial management and reporting with the state government.

LGAQ Submission:

The LGAQ strongly believes that a clearly articulated public benefit argument needs to be made by the state government before changes are introduced to financial reporting legislation affecting local government. Changes have already been made to the *Local Government Finance Standard 2005* and *Local Government Regulation 2005* that will deliver no noticeable improvement to local government accountability.

Consultation Process and Documents

The timing and duration of consultation on financial reporting matters is crucial to local government. Councils need time to consider the implications of policy or legislative change on their operations. Moreover, Councils should be given ample opportunity to note their concerns in submissions to ongoing state government inquiries relating directly or indirectly

to local government. The LGAQ should be given time to present a considered and collective response on behalf of its members.

State government departments and agencies should clearly outline the implications of policy and/or legislative change in their consultation documents. Local government and the LGAQ will provide comment on all issues in an open and transparent manner. Confidence in state government processes diminishes significantly if consultation documents are not in sync with draft documents.

LGAQ Submission:

Relevant state government departments and agencies should consider local government work cycles and ensure adequate time is provided for local government to process and develop submissions.

Consultation documents should clearly note and define all proposed changes to local government policy or procedures.

Whole of Government Focus

The PAC discussion paper notes that the inquiry process will assess the integrity, economy, efficiency and effectiveness of government financial reporting. Local government has made considerable inroads in relation to simplified financial reporting.

Reporting undertaken by local government provides a greater emphasis on readability and a greater consideration for various stakeholders including (1) elected members (2) Council staff, (3) auditors and (4) the community.

LGAQ Submission:

The LGAQ supports a whole of government focus with the proviso that it is appropriate to delineate between the requirements placed on local versus state government in relation to financial reporting. This is not to imply a less rigorous reporting framework for local government but one that does not place unreasonable reporting burden on Councils.

Terms of Reference

ToR 1: Clarity and utility of financial reports for decision-making.

Financial reporting in the local government context takes place internally for Councillors and Council officers and externally for use by the community, creditors, state government departments and agencies such the Department of Local Government, Planning and Recreation, the Queensland Treasury Corporation and the Queensland Auditor Office (QAO)

Councillors, Council staff and members of the community need information to facilitate decision-making so reporting needs to contain:

- Relevant and reliable financial information; and
- Financial information that is comparable and understandable.

LGAQ Submission:

The LGAQ supports simplified financial reporting whenever possible. This includes adhering to accounting standards and more importantly that enabling legislation reflects standards but does not generate additional reporting requirements. The LGAQ also supports clarity in reporting to help all local government stakeholders understand the financial position of their respective Councils.

The LGAQ has taken a leadership role through the development of a report on Best Practice Simplified Internal and External Reporting for Local Governments in Queensland, the report is provided for your information. From this report the LGAQ developed a workshop to assist Councils in their financial reporting obligations.

ToR 2: Auditor-General's reports to Parliament.

The Auditor-General has the role independent external auditor for the Parliament. The Auditor-General certifies the financial statements for local government and other public entities. Certification provides assurance that local government is complying with its prescribed requirements.

The Auditor-General will report to the Parliament on local government audits. Attention is given to any significant local government cases in which the financial and administrative management functions of a particular Council were not properly performed.

LGAQ Submission:

The LGAQ supports the regulatory role undertaken by the Queensland Auditor-General. The LGAQ strongly believes that the issues considered by the Auditor-General in any given year provide an opportunity for local government to improve their operations. State government departments should not necessarily legislate on issues noted by the Auditor-General.

ToR 3: Impact of implementation of accrual accounting.

Accrual accounting measures provide comprehensive information regarding the funds generated by government and the full cost its products and/or activities. In the local government context this information provides staff, senior managers and elected members material to make informed decisions. In turn, this information can be used to hold Councils accountable or their operational decisions.

Local government was the first level of government in Australia to implement accrual accounting. This came at considerable cost to Councils and their communities through the need to develop new data capture and computers systems as well as developing processes to manage the change.

LGAQ Submission:

The LGAQ supports accrual accounting across local government. Accrual accounting should not impose further costs to councils in terms of compliance.

ToR 4: Evolution and application of accounting standards including implementation of international accounting standards.

The harmonisation of Australian accounting standards with International Financial Reporting Standards (IFRS) will place pressure on local government resources. State and local government will be similarly affected by the changes and the LGAQ has asked that the state government take up the initiative of ensuring the Queensland public sector can achieve the new reporting requirements. The initiatives should include the development of tools, training and implementation programs. The LGAQ facilitated a meeting with the following stakeholders to discuss the IFRS project:

- Local Government Accountants Association;
- Local Government Managers Association;
- Queensland Audit Office;
- Department of Local Government and Planning;
- CPA Australia; and

- Queensland Treasury Corporation.

All stakeholders agreed that this project was too large for one organisation to undertake in isolation particularly given that the issue will impact on all areas of local government. Stakeholders agreed that it was necessary to ascertain the impact IFRS will have on local government and then determine an appropriate strategy to ensure all councils are able to adequately manage the adoption of the new standards, e.g. education and training.

LGAQ Submission:

It is the view of the LGAQ that the state government should take the initiative to ensure that local government can achieve the reporting requirements of the new international financial reporting standard requirements. This includes taking a lead in developing tools, training and implementation programs.

ToR 5: Convergence of Government Finance Statistics and Generally Accepted Accounting Principles reporting.

According to the QAO the Australian Accounting Standards Board's (AASB) convergence project has the potential to impact on all public sector entities. The Board used a three-phase approach for implementing the project:

- Phase 1 - Whole of government (including sectors);
- Phase 2 - Entities within the General Government Sector (including government departments); and
- Phase 3 - Local governments and other public sector entities (including universities and government business enterprises).

The objective of converging Government Finance Statistics (GFS) with Australian Generally Accepted Accounting Principles (GAAP) is to produce a set of high quality standards which provide a single set of government financial reports which are (1) auditable, (2) comparable between jurisdictions (Australia and internationally) and (3) where outcome statements are directly comparable with budgeted statements.

LGAQ Submission:

The LGAQ supports this strategic path for reporting as long as transition and reporting costs are provided to local government. Assistance will also be required in the form of better practice guides or workshops developed by the state government. Ongoing consultation between the LGAQ, the state and federal governments and professional associations is vitally important for the transition to the new arrangements.

Related Issues

In the context of the issues noted by the Public Accounts Committee, the LGAQ has gathered comments on the following related issues noted in the Public Accounts Committee's discussion paper:

1. Does the complexity of reporting reduce its usefulness?
2. Does the technical quality of the information address the needs of the reports users (the community and/or the state government)?
3. What are the costs to Council in preparing financial information?
4. To what extent does current local government financial reporting improve transparency and/or accountability?
5. How do current reporting requirements improve the economy, efficiency and effectiveness of local government?

LGAQ Submission:

The issues cited above (1 to 5) are important to local government. The LGAQ supports:

1. Reporting regimes that include sufficient data for external stakeholders to understand the operations of local government. Increasing the complexity of financial data excludes the use of financial data by individuals unfamiliar with finance jargon or experience with finance issues generally.
2. Financial information that is consistent with accepted accounting standards and can be reported in a plain English manner.
3. Reasonable time and resource costs in preparing financial information. Any changes proposed by the state government should have a cost-benefit analysis and this result weighed against the size and capacity of local government.
4. Changes to the *Local Government Finance Standard 2005* that add to local government capacity in relation transparency and accountability. Unfortunately recent changes to this legislation do not provide for improvements in these areas and fail to address the materiality of matters reported by local government.
5. Reporting requirements that enable valid comparisons between Councils and allow Councils to improve current practice.

Conclusions

The LGAQ believes that local government is pursuing best practice under current reporting requirements. The LGAQ also believes that the state government should take the following issues into account where financial reporting is concerned:

- Changes to legislation affecting local government must have a cost-benefit test that clearly states in what ways Councils become more accountable or transparent as a result of legislative change.
- A continuing concern for the LGAQ and its member Councils is the 'one size fits all' approach consistently adopted by the state government. Local government ranges in size and financial capacity and thus the ability to enact wholesale changes to financial reporting can have negative impact on Council operations.
- The state government should consider the materiality of reporting on certain issues, such as entertainment expenditure.
- At its core, financial reporting from a local government perspective provides information to many different stakeholders on the viability and sustainability of Councils. The state has the obligation to ensure that Councils generate financial reports in a timely and accurate manner. Changing legislation to align local government with the state does not guarantee better practice and more often than not imposes costs to local government with no clear benefit for Councils or the communities they represent.