



LOCAL GOVERNMENT
ASSOCIATION OF
QUEENSLAND INC.

Reporting Generally

Best Practice Simplified Internal and External Reporting for Local Governments in Queensland

Prepared for the

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1. REPORTING GENERALLY

1.1. Key Points

- Primarily reporting needs to be seen as a means of communication.
- For the facilitation of decision making, either internally by management and councillors or externally by the community, reporting needs to:
 - contain relevant and reliable information; and
 - be presented in a comparable and understandable way.

1.2. Attributes of a Report¹

The purpose of financial reporting is the disclosure of information useful to the recipient². In this way the preparers of financial reports discharge their accountability to the users. To discharge this function financial reports are required to have the following characteristics.

Choosing which Financial Information to Present

Relevance and reliability are the primary qualitative characteristics which financial information should possess in order to be the subject of general purpose financial reporting.

Relevant information is information ‘that has predictive power or feedback value and is timely’³. It influences the user’s decision-making by:

- (a) helping them form predictions about the outcomes of past, present or future events; and/or
 - (b) confirming or correcting past evaluations; and
- which enables users to assess the rendering of accountability by preparers.

Reliable information is ‘information that is complete and offers a fair presentation. It represents faithfully what it purports to represent and avoids the use of excessive

¹ Statement of Accounting Concepts SAC 3 “Qualitative Characteristics of Financial Information”

² Statement of Accounting Concepts SAC 2 “Objective of General Purpose Financial Reporting”

³ CICA MDA

language. It is neutral (that is, free from deliberate or systematic bias), balanced (includes bad news) and free from material error⁴. Information that is subject to material uncertainties can be presented in the notes or supplementary schedules provided that there is a faithful presentation of the information including the uncertainties surrounding it. The information should be free from bias (that is, the information should be neutral). It should not be designed to lead users to conclusions that serve particular needs, desires or preconceptions of the preparers. Independent audit is important in relation to reliability

Once it has been decided that financial information is relevant and reliable, it is necessary to consider the information in the context of the individual circumstances of the reporting entity in question. The Materiality Test should be applied. The **materiality test** measures the extent to which relevant and reliable information may be omitted, misstated or not disclosed separately without having the potential to adversely affect the decisions made by the users of a report.

Choosing how to Present Financial Information

It is not enough that financial information is relevant and reliable. It also needs to be comparable, understandable, timely and cost efficient (the benefit exceeds the cost of preparation).

Comparable information enables a user to discern and evaluate similarities in, and differences between, the nature and effects of transactions and events, at one time and over time, either when assessing aspects of a single reporting entity or of a number of reporting entities. **Comparability** enables ‘meaningful trend identification and analysis over successive time periods and facilitates benchmarking among companies and business segments’⁵.

Comparability implies **consistent**, ‘once information is disclosed it should be updated and explained unless it becomes irrelevant. If no longer irrelevant, this should also be explained. In particular, performance measures, once selected and disclosed, should be reported consistently from period to period unless explicit explanation is given. The reporting entity should not avoid discussion of a previously raised issue by simply omitting it from a subsequent report.’⁶

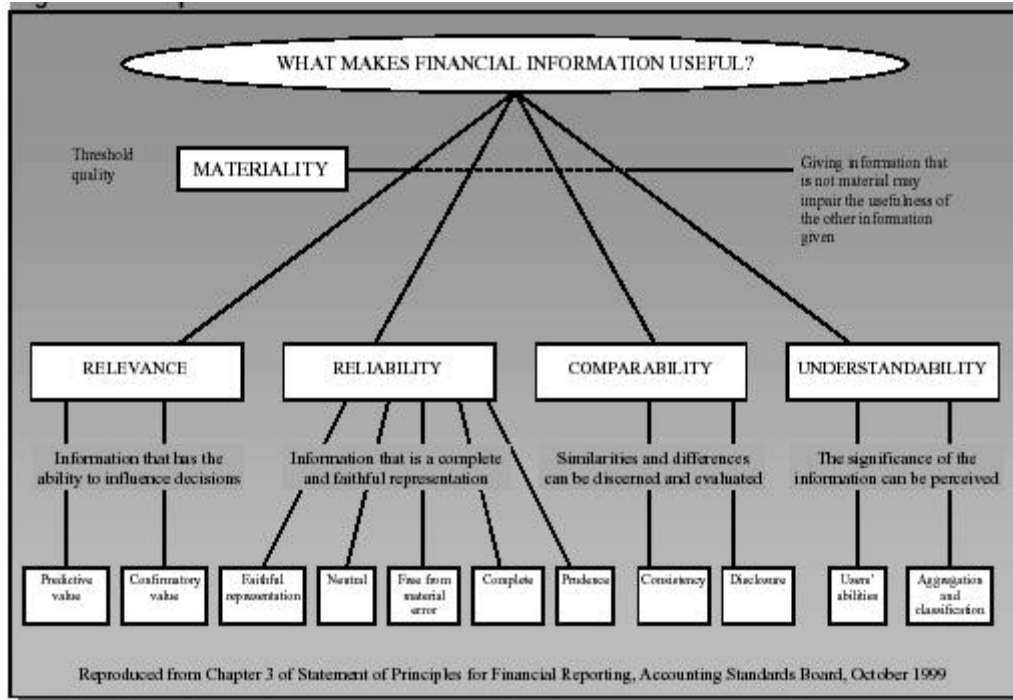
⁴ CICA MDA

⁵ CICA MDA

⁶ CICA MDA

Understandable information exists when users of that information are able to comprehend its meaning. This will depend in part on the capabilities of the users but reports are to be prepared for users who are prepared to exercise diligence in reviewing those reports and who possess the proficiency necessary to comprehend the significance of contemporary accounting practices.

FIGURE 5: WHAT MAKES FINANCIAL INFORMATION USEFUL⁷



1.3. Reporting Techniques

Knowledge Management: The Basics, by Dr Dennis Sinclair and Dr Neil Hardie (CSIRO publication):

Data is the sea of facts which surrounds us, much of it low quality, irrelevant or redundant. From this sea of data we have to select and combine relevant bits to create *information* - that which 'informs' people. Statisticians are very good at turning data into information. Information comes in many forms: graphs and tables, financial statements, the Balanced Scorecard, procedures manuals and work instructions, notice boards, newsletters, memos, e-mail, etc. People transform this information into knowledge through a process of learning and understanding. Clearly knowledge is a personal thing, and thus human capital or intellectual assets become a high priority for any organisation.

⁷ Prospective Financial Information: Challenging the Assumptions (A discussion paper)

In the Canadian model 'one of the key processes at the Information Level is to provide consistent and comparable financial and operational (non-financial) information and reports that meet the needs of managers. This information provides a basis for developing performance indicators, cost and quality measures and monitoring performance, to ensure that intended results are being achieved and to demonstrate accountability.

This capability flows from a history of having measured and managed organisational performance, which includes, for example:

- managing the organisation's information and knowledge resources as assets, so that information needed to make informed decisions is available (for example, by using simulations, historical trends and manipulating variables to see how they affect results);
- defining the relationships among variables that affect cost, quality and level of service and understanding how they impact on the organisation's desired results;
- using information to make informed choices among competing objectives like cost, quality and schedule;
- understanding the financial implications of decisions before making them, and monitoring their outcomes;
- using quantitative information to control variances (for example, fluctuations or changes) in the organisation's production or service delivery processes; and
- using quantitative information to balance among competing business line objectives (examples include, to reduce cost, increase productivity, improve quality, reduce risk, increase opportunities).'