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Qualitative report

Navigating EoFY reporting:

Top asset management challenges and tips for Australian local governments

Introduction

Every day, communities rely on a vast array of services and infrastructure provided by local governments to live and work, such as roads, buildings, drains, pipes, footpaths, bridges, parklands, facilities and more. Local governments must not only operate, track, maintain and renew each of these assets to meet the level of service the community expects – they also must be able to show it in End of Financial Year (EoFY) reports.

For local government CFOs, accountants, engineers and asset managers, the end of the financial year is one of the most important and stressful times on the calendar. It's when they must submit detailed financial statements for auditors, whose job is to assess whether public money is being spent efficiently, effectively and according to financial regulations. The reports can take several intensive weeks, if not months, to prepare – requiring collaboration across disciplines that don't always speak the same language.

To comply with accounting standards, AASB regulations and government directions, local governments rely on data captured on the status, condition and value of their assets. Any gaps in that data (and there almost always are) sends teams into a mad last-minute scramble to find or verify the information, only adding to the EoFY pressure cooker.

With local governments at different levels of maturity in their asset management journey, we wanted to find out what the EoFY process was like for Australian local governments – from their greatest challenges to the factors helping them navigate their EoFY successfully. We interviewed regional councils across Victoria, Queensland and New South Wales while in the midst of their 2023 year-end process to explore both obstacles and success in detail.

Thank you to the local government participants who shared their EoFY experiences. We hope you find their collective insights useful in helping you prepare for a smooth, headache-free next EoFY.

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At a glance

Top obstacles and challenges that remain a problem each year:

- → The communication gap between finance and asset/ engineering teams
- → Finance being informed of asset impairments or change in asset condition/remaining life too late in the EoFY process
- → Lack of resources
- → Retention of resources in regional councils
- → The integrity of asset inputs

Biggest factors in successfully navigating EoFY include:

- → Keeping to a comprehensive timetable
- → Completing some procedures early
- → Early dialogue with the Audit Office
- → Closing revaluation activity as early as possible
- → A rolling valuation program

Top 10 ways to achieve better EoFY success in the future according to participants:

1. Improve relationships and communication with auditors
2. Take a phased approach to clearing WIP reporting
3. More automated reporting
4. Seamless integration between asset and finance systems
5. Employ external subject matter experts
6. Additional resources to clean up asset register more quickly and for project close-off
7. Process depreciation monthly if able (i.e. resourced)
8. Undertake asset valuations early to give auditors time to review
9. Have all supporting documents in order and be sure you can justify everything
10. Share the same auditors with adjacent Councils on similar issues e.g. firefighting equipment

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Key findings

In this section:

1. **Top obstacles and challenges that remain a problem each year**

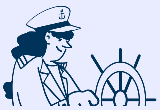
→ The communication gap between finance and asset/engineering teams

→ Finance finding out about asset impairments too late

→ Lack of resources

→ Retention of resources in regional councils

→ The integrity of asset inputs



2. **Biggest factors in navigating EoFY successfully**

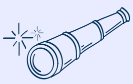
→ Keeping to a comprehensive timetable

→ Completing some procedures early

→ Early dialogue with the audit office

→ Closing revaluation activity as early as possible

→ A rolling valuation program



3. **Next EoFY: Preparing for what's ahead**

→ Improve relationship with auditors

→ Take a phased approach to work in progress

→ If money was no issue, what would they change or improve?

1. Top obstacles and challenges that remain a problem each year

The communication gap between finance and asset/engineering teams

The top challenge for participants was the quality of communication processes between finance and the asset/engineering teams. The root of the problem was the lack of resources or the lack of access to current resources, in both the finance and the asset/engineering teams, and that most capital works typically occurs in the last few months of the financial year (affected by designs, planning etc.) Added to this is the fact that engineers and accountants are skilled in very different areas and therefore don't always speak the same language or look at problems the same way.

All councils were looking to address these issues by having better planning processes and by using external firms to bridge the communication gap with regular (monthly or quarterly) capital works reviews. The use of external experts extended to verifying the appropriate categorisation of assets and the correct componentisation of assets.

It is also worth noting that many of the participants felt comfortable having these external experts speak directly to the auditors to defend the council's processes and assumptions. This was because the internal teams preparing the financial reports often find it difficult to decide what information is material and what information should not be included.

Tip: Consider using external experts to improve your asset register

The use of external resources typically brings with it greater experience and better professional judgement to decide whether information is material or not.

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Finance being informed of asset impairments or change in asset condition/remaining life too late in the EoFY process

A general lack of understanding around asset impairment was mentioned as a key challenge that always appeared to be raised as a surprise at the last minute. The finance teams reported that no matter how hard they insisted that they needed to know about impairment, the team still advised them late in the audit process.

Tip: Send reminders and start early

The importance of knowing about impairment shoul be sent out as a frequent reminder, again and again. Early close procedures should catch issues with impairment assessments.

Impairment indicators not assessed are a significant contributor to valuation errors. Getting staff to fully understand impairment is tricky, so once again, the best practical remedy appeared to be for the Finance team to spend time at the start of the EoFY process to explain to other departments the things that have a financial impact and that must be considered.

Lack of resources

All the survey participants stated that annual reporting timelines are challenging to meet in a normal year, let alone in a year when dealing with natural disasters. They also said it is a struggle to get statements done on time due to the shortage of finance and accounting professionals across Australia. Along with this, over time, financial reporting obligations have become longer and more complex.

The resource capability appeared to be that of a continuous cycle of build and rebuild. Recruiting suitably qualified finance professionals from outside of local government took time to train to be able to address the legislative reporting requirements of the sector.

This build and rebuild recruitment cycle impacted the councils' ability to prepare financial reports and performance statements because:

- They lose corporate knowledge
- The significant time and opportunity cost that it takes to recruit and train staff
- New staff need to understand the specific resources, milestones, key stakeholders, information systems and quality assurance practices to deliver the EoFY outcomes. Indeed, many councils reported that most of their staff had not encountered an EoFY audit.

Tip: Build internal relationships and understanding of needs

The most effective remedies to address resource shortfalls and tight timeframes include:

- Educating internal departments on asset information needs and deadlines required by the finance team, with a context of why the data is important to the audit process
- Improving inter-departmental relationships and communication channels
- Developing cohesiveness between the finance team, the valuers, audit committee and directors
- Using internal audits to make sure council controls are operating as intended
- Establishing multi-year contracts with external subject matter experts who understand local government financial reporting to (a) address capability shortfall and (b) bridge the internal communication gaps

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Retention of resources in regional councils

In addition to contending with the nationwide shortage of qualified professionals, regional councils in Australia face an even steeper uphill battle in the recruitment and retention of asset management, finance and accounting resources. This challenge is exacerbated by the competition these regions face from the private sector and larger government projects concentrated in metropolitan centers. Regional councils often struggle to entice skilled professionals away from larger urban hubs, where they can find a wider array of opportunities.

Tip: Engage a managed service

A professional managed service can help identify and bridge any gaps in your EoFY preparation. Working as an extension of your team but costing less than a new hire, engaging with a managed service also ensures continuity and centralisation of knowledge. This creates growth opportunities for existing staff that may not have the required skills and expertise to learn over time, knowing they have the support to get them through what can become a stressful period.

The integrity of asset inputs

All survey participants had a desire to make more frequent updates to the asset register for additions and disposals. They agreed that 'timing is everything' as assets are the biggest concern, consuming the most amount of time to contribute to the inputs to the financial statements.

Most participants identified that there were indeed some assets that may no longer exist but are still listed as active in the Fixed Asset Register (FAR), such as assets recorded that are no longer controlled by the council.

However, the majority also said that for the most part, their asset registers were complete and accurate (including the removal of duplicates and the correct classifications). This accuracy was also reflected in the fact that most councils surveyed had appropriate componentisation practices. This positivity also carried over to most councils having:

- A robust method of indexation
- Correct critical assumptions
- Evidence to support the assumptions
- Appropriate valuation methodologies (e.g., suitable unit rates, RUL correct, impairment indicators assessed).

Tip: Stay up to date

Regular desktop valuation in between comprehensive assessments is a great way to keep registers accurate and up to date.

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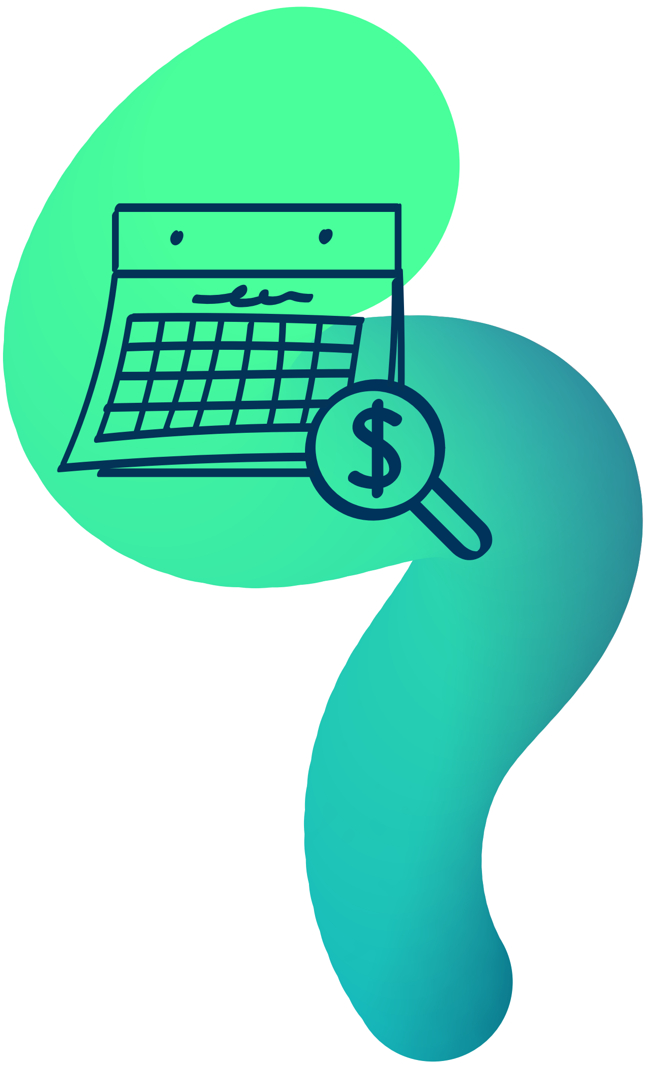
2. Biggest factors in navigating EoFY successfully

Keeping to a comprehensive timetable

One of the key behaviours in navigating EoFY successfully by the more efficient councils was the adherence to a comprehensive timetable. Their advice is as follows:

- Include micro and macro tasks in the timetable, which are revisited and adjusted each year.
- Make sure that the EoFY Team knows it inside and out.
- Content should include tasks around balance sheet checks, assumptions and notes, follow-up reminders on invoices (including chasing down the big ones), and references to any new accounting standards.
- Include the allocation of responsibilities to all team members, noting any task prerequisites or dependencies.



Completing some procedures early

Most councils endeavoured to perform early financial reporting procedures such as completing the comprehensive revaluation of infrastructure, property, plant and equipment (IPPE) by an agreed early close date, with the group interviewed typically having all of the revaluations completed by February.

Early closing procedures allowed financial reporting reviews and feedback to get to an interim audit position by the April timeframe, allowing the audit risk review to occur in May.

Another way in which councils can complete some procedures early is to initiate a 12-month pre-planning cycle. For example:

- In March, identify works that need to happen the following year such as valuations, data collection, and condition assessments. Ensure inclusion of these tasks in the upcoming year's budget.
- Commence the procurement process well in advance, preferably before the conclusion of the calendar year. This ensures access to a broader pool of vendors offering competitive pricing, who are not already engaged, and provides ample time for council offices to review proposals.
- Allocate sufficient time for council officers to validate assessed or collected data effectively.

Early dialogue with the audit office

Getting in touch early with the audit office on significant issues obviously facilitates better quality outcomes and more timely financial reporting.

This is particularly relevant given that market forces continue to inflate the values of both assets and asset inputs. As a result, IPPE early close procedures provide a contingency buffer to review unit rates and check useful lives and asset condition assessments.

Closing revaluation activity as early as possible

The survey participants who practiced having their revaluation activity close as early as possible, highlighted the importance of having a detailed project plan in place to manage the valuation process which was shared and understood by all internal stakeholders.

The consequences of having everyone on the same page from a timing perspective was that it provided for a more diligent review of the outputs and allowed management the time to document their review of the asset valuations.

A rolling valuation program

The survey participants also identified the benefit of having a rolling program of valuations whereby the major asset classes are comprehensively revalued in separate years.

This helps to level the workload across multiple years and also helps to set a regime of locking in the engagement of external valuers as early as possible to deliver timely valuation outcomes.

3. Next EoFY: Preparing for what's ahead

Improve relationships with auditors

All councils reported an improving relationship with their auditors and recommended the following approaches to foster a strong connection and achieve better outcomes:

- Engage the auditors early and throughout the EoFY process
- Maintain open, honest and timely communication
- Build a strong relationship over time by contracting with the same auditor over the longest term possible - a shortage of auditors affects the timing and execution of audits across the sector
- Have a briefing pack or standard induction session to help with any auditor transition, particularly if using new auditors who are not 'LG-aware'
- Undertake asset valuations as early as possible to give time for auditors to complete all the review requirements in order to facilitate earlier sign-offs
- Have all supporting documents in order and be sure you can justify everything
- Share the same auditors with adjacent Councils to lower the cost and deal with similar issues (e.g., qualified risks concerning the NSW Rural Fire Service fire-fighting equipment vested to local councils).

Take a phased approach to closing work in progress

All the survey participants had a strong desire to move to a phased approach to clear Work In Progress (WIP) throughout the year, but no one had achieved this goal. Currently, councils are not capitalising new assets in a timely way and fixed asset registers are not updated as regularly as they should, leading to inaccurate and/or invalid financial asset information.

Often quoted was a problem with getting capital works information from project managers, such as appropriate work breakdowns. One council even went as far as providing the asset engineers with a form for the capital expenditure works with a simple statement "Job Completed: Yes? or No?", but still struggled to receive accurate information and had to continually chase for it. Those Councils that had achieved a strong degree of cohesive behaviour between Departments, with published plans and agreed timeframes, appeared to navigate this issue better than others.

Councils with good period-end processes were able to produce higher-quality annual financial statements in less time, as any discrepancies and errors surfaced more regularly. More regular period-end processes also helped to better absorb the shock of unexpected interruptions such as staff turnover or natural disasters.

Once again, it was seen as a real advantage to employ external subject matter experts to engage with the asset and engineering teams to track the progress of the WIP and, at the appropriate time, to apply updates to the asset register using the most appropriate asset classifications and asset componentisation.

We asked each of the local governments if money was no issue, what would they change to achieve better EoFY outcomes?

The majority of responses focused on access to more resources. For example:

- Additional resources to clean up asset register more quickly
- Capitalise more often with more resources
- Process depreciation monthly if there were more resources
- Give engineering an FTE to work on project close-off.

Mention was also made of having improved reporting templates that allowed for more automated population and less manual adjustment.

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Conclusion

All local governments who took part faced resourcing challenges with their asset data management and reporting, exacerbated by the unanticipated changes to asset conditions due to natural disasters such as recent bushfires, floods and storms. Given these issues and the high likelihood of more extreme weather in the future, it was deemed more important than ever for councils to have a detailed EoFY timetable, along with a strong system of processes to navigate the EoFY audit effectively and efficiently, in order to produce reliable financial reports, comply with regulations, and support transparent and ethical government organisations.

Councils identified that any measure aimed at achieving the early finalisation of financial statements to both the council and the audit office should be a priority, although resource constraints often acted as a brake on this aspirational goal.

Despite all who took part agreeing that the EoFY audit process was stressful, they considered it in many ways a rewarding exercise for the fact that it helped them strengthen the quality of their reporting and asset management data and minimise the risk of errors, which in turn could impact levels of service for their community.

We understand not all organisations have the in-house resources to undertake the breadth of asset management activities required for EoFY preparation. Our professional and managed services are designed to be customised to your organisation's needs, paving your path from implementation to operational excellence.

Talk with a Brightly expert today to learn how we can help you identify and bridge any gaps in your EoFY preparation so that your next audit is manageable and stress-free for all involved.

Brightly's Asset and Accounting Services include:

- High-level strategic planning
- Data gathering & input – including GIS, data cleansing, policy, fair value assessment, expert valuations, journals and reporting
- Best practice legislative and product advice
- Consolidated EoFY support managed services
- Asset register maintenance & upgrade for audit compliance
- Annual capitalisations & movements schedule for auditors
- Annual financial reconciliation for auditors

About Brightly Software

Brightly, a Siemens company, the global leader in intelligent asset management solutions, enables organizations to transform the performance of their assets. Brightly's sophisticated cloud-based platform leverages more than 20 years of data to deliver predictive insights that help users through the key phases of the entire asset lifecycle. More than 12,000 clients of every size worldwide depend on Brightly's complete suite of intuitive software – including CMMS, EAM, Strategic Asset Management, IoT Remote Monitoring, Sustainability and Community Engagement. Paired with award-winning training, support and consulting services, Brightly helps light the way to a bright future with smarter assets and sustainable communities. For more information, visit brightlysoftware.com

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