Accounting policy update

Newsletter – Edition No. 30, July 2016

#### Scope: This bi-annual newsletter outlines areas of particular importance in public sector financial reporting. Please distribute to both budget and financial reporting areas of Victorian public sector entities.

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# Overview

As we head into the 2015-16 annual financial reporting year-end, please note the following reminders and updates.

Entities are reminded to re-measure their long service leave (LSL) and annual leave provisions to reflect changes in the wage inflation and discount rates for the current reporting period. The latest annual effective discount rate published has significantly decreased by 103.8 bps since 30 June 2015 (3.028%) to 30 June 2016 (1.990%). This is due to a decline in inflation expectations, a cut in the Reserve Bank of Australia (RBA) cash rate and the Brexit impact. Please refer to the body of the newsletter for further information.

With the withdrawal of the 2004 LSL model from the Department of Treasury and Finance (DTF) website from 1 July 2016, entities are reminded to transition to an appropriate model that reflects the substance of their employee profile in line with the relevant accounting standard. The 2008 LSL model will be available for use by entities that are consolidated in the State’s financial statements. Whilst the use of this model is recommended, it is not mandatory.

Following the release of the Australian Accounting Standards Board (AASB) 124 *Related Party Disclosures,* the AASB 124 implementation project has progressed and will potentially have significantly sensitive disclosure impacts for all not-for-profit (NFP) entities from 1 July 2016.

Looking forward, there will be a number of new accounting standards that will have implications for entities across the public sector. The application date for AASB 15 *Revenue from Contracts with Customers* and the new AASB 16 *Leases* standard have been released and are applicable for reporting periods commencing on or after 1 January 2018 and 1 January 2019 respectively. The final standard on income for not-for-profit entities is expected later this year, with an application date similar to that of AASB 15. Other accounting pronouncements on the horizon include financial instruments and service concession arrangements.

# 2015‑16 reporting year

## Reminders/updates

#### LSL model transition

The 2004 LSL model will be withdrawn from the DTF website from 1 July 2016 and its maintenance will no longer be supported. Departments and entities need to assess their current circumstances to determine if the 2004 LSL model continues to reflect the substance of the entity’s employee profile and leave utilisation pattern in line with AASB 119 *Employee Benefits*.

If the assessment indicates that the assumptions are not consistent with the entity’s specific circumstances, departments and entities need to transition to a more appropriate model and advise their relevant DTF or portfolio departmental contact of the expected transitional impact and any funding implications where appropriate.

Please note that with this transition, from 1 July 2016, the wage inflation and discount rates published quarterly (monthly in the last quarter of each financial year) on the DTF website will no longer provide rates to be used with the 2004 LSL Model.

#### Use of 2008 LSL model

The 2008 LSL model is currently available in the restricted area of the DTF website for use by entities that are consolidated in the State’s financial statements. Whilst the use of this model is recommended, it is not mandatory.

This model applies a more simplified approach to determining an entity’s LSL liability and associated on-costs compared to the 2004 LSL model by:

* Applying a single weighted average discount rate;
* Applying an average retention rate for all employees; and
* Modelling leave taken on a more prolonged time frame in line with actual employee leave utilisation patterns.

Please note the following updates have been made to the *Long service leave 2008 model* on the DTF website:

* A troubleshooting guide based on frequently asked questions is now available on the website to provide users with a first point of reference for issues encountered when using the model; and
* The application date on the 2008 LSL model excel file has been updated to reflect the current reporting period (30 June 2016).

To assist with upcoming audits of departments and agencies, training has also been provided to the Victorian Auditor-General’s Office (VAGO) auditors on the application of the 2008 LSL model. In particular, they were provided with an understanding of how data is entered into the model and what estimation variables are applied to calculate the LSL liability.

#### Use of corporate bond rates vs government bond rates for AASB 119 *Employee Benefits* calculation

AASB 119 requires all entities, except for not-for-profit public sector entities, to use a high quality corporate bond rate (HQCB) to discount post-employment benefit obligations at the end of each reporting period. In countries where there is no deep market for such bonds, for-profit entities use the government bond rates, whereas not-for-profit public sector entities are required to only use government bond rates. Given the view on whether Australia has a deep market in HQCB is highly subjective and a matter of judgement, Victorian for-profit public sector entities will continue to use the government bond rates for 30 June 2016.

#### AASB 124

Revised AASB 124 issued by the AASB will be applicable for not-for-profit public sector entities for the first time from 1 July 2016. The accounting standard requires disclosure of the remuneration of an entity’s key management personnel (KMP) and also related party transactions. This aligns the relevant requirement of the public sector with those of the private sector.

The objective of AASB 124 is to ensure that the relevant reporting entity’s financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

For the State, Cabinet is the principal decision making body of the government and therefore proposed to be designated as the KMP, whereas for departments and agencies, portfolio ministers plus executives with decision making responsibilities will form the KMP list. Further guidance on this will be issued in due course.

In addition, under the requirements of AASB 124, all Cabinet ministers, their close family members and entities under their control, will be regarded as related parties for the State and all controlled entities. Consequently, relevant departments and entities must disclose in their annual financial reports any material related party transactions with the relevant ministers, their close family members and entities under their control.

The accounting standard requires the following related party information to be collected:

* the nature of the related party relationships between the reporting entity (e.g. a department or entity controlled by the State) and the information provider (e.g. the minister, spouse, close family member or entity under their control); and
* information about the transaction (e.g. contractual amount of the transaction, and any outstanding balance and commitments).

To support KMPs in understanding the requirements of AASB 124, an information sheet on the objective of AASB 124 has been developed, including the proposed related party transaction Declaration Certificate template for KMPs. This will form the basis of disclosures to be made by KMPs in order to support the implementation of AASB 124.

A checklist is also being developed for completion by the management of entities based on key transactions identified in the certificate of KMPs that they need to consider in support of their attestation. The questionnaire will seek to identify instances where transactions have been entered into with known related parties (i.e. ministers and any others that represent themselves to be related to ministers).

#### Interim valuation assessments

This is a reminder that entities are required to conduct annual fair value assessments for each class of non-financial physical assets. These interim assessments need to be documented as audit may request this information to support the carrying value of assets. Interim assessments should be performed annually between formal valuations.

The Valuer-General Victoria (VGV) and DTF will be providing training to support entities with their interim assessment at the end of the year(November/December 2016).

#### 2015‑16 Model Report for Victorian Government Departments

DTF released the 2015‑16 Model Report on 15 April 2016.

The main changes include:

* illustrations to reflect the amendments in the Financial Reporting Directions (FRD) 22G *Standard Disclosures in the Report of Operations*, which require the disclosure of Information and Communication Technology (ICT) expenditure and a reduced disclosure threshold for government advertising expenditure from $150 000 to $100 000;
* implementation of a Public Accounts and Estimates Committee (PAEC) recommendation for departments to disclose completed capital projects with a total estimated investment of $10 million or more for the portfolio; and
* integration of the key initiatives and projects disclosure into the departmental outputs section of the Report of Operations to enhance the performance story.

## FRDs and guidance notes

Since the last newsletter, several FRDs have been amended and are applicable for the 2015‑16 reporting year. These FRDs include:

* FRD 108B *Classification of entities as for-profit* removes Fed Square Pty Ltd as a for-profit entity; and
* FRD 104 *Foreign currency* has been retired as it was developed on transition to Australian equivalents to International Financial Reporting Standards (A-IFRS) and is not required as we are a domestic reporting group.

The following FRDs have been updated for general improvements which are largely editorial in nature:

* FRD 12B *Disclosure of major contracts*;
* FRD 100A *Financial Reporting Directions – framework*;
* FRD 105B *Borrowing costs*;
* FRD 106A *Impairment of assets*;
* FRD 107B *Investment properties*;
* FRD 109A *Intangible assets*;
* FRD 110A *Cash flow statements*;
* FRD 114B *Financial instruments – general government entities and public non-financial corporations*;
* FRD 116A *Financial instruments – public financial corporations*;
* FRD 117A *Contributions of existing non-financial assets to third parties*;
* FRD 118C *Land under declared roads*;
* FRD 120J *Accounting and Reporting Pronouncements Applicable to the 2015-16 Reporting Period*will be available on the DTF website by the end of July 2016 and provides a summary of accounting standards that apply to the current reporting period and future reporting periods; and
* FRD 102 *Inventories* was issued in December 2004 on transition to A-IFRS and requires entities to measure all inventories (other than land held for sale and high value, low volume items) using the weighted average cost (WAC) method. There was a transitional exception which allowed entities to use the first-in first-out (FIFO) method if there were constraints with the configuration of the inventory systems at the date of transition to A-IFRS. However, entities were expected to change to the WAC method once they updated/replaced their inventory systems.

FRD 102A will be available on the DTF website by the end of July 2016. The transitional provision will be removed effective from 1 July 2016 and all entities will be required to use the WAC method.

# 2015‑16 financial reporting legislation

The *Financial Management Act 1994* continues to be the principal legislation governing VPS financial reporting for 2015‑16.

## Other guidance

#### Superannuation Guarantee Levy

The Superannuation Guarantee Levy (SGL) schedule has been updated in accordance to the *Minerals Resource Rent Tax Repeal and Other Measures Act* *2014* (the Act) passed in September 2014. Based on the Act, the future SGL rates will remain at 9.5 per cent for seven years, before making yearly increments of 0.5 per cent from 2021 to 2025.

The next SGL rate change for departments and agencies will be effective from 1 July 2021 when the rate will increase to 10 per cent.

#### Wage inflation and discount rates

The wage inflation and discount rates are published quarterly (monthly in the last quarter of each financial year), to assist entities in ascertaining their financial position for the year-end.

The rates for 30 June 2016 were circulated to all departmental CFOs and published on the DTF website on 1 July.

The latest discount rates published by the RBA have **decreased** since the last update – the annual effective rate has decreased by 32.3 bps from 31 May 2016 (2.313%) to 30 June 2016 (1.990%), primarily due to the impact of Brexit. Prima facie, all things being equal, your provision for employee benefits would be expected to **increase**.

For comparison to the prior year, the discount rate has significantly decreased by 103.8 bps from 30 June 2015 (3.028%) to 30 June 2016 (1.990%). This is due to a decline in inflation expectations, a cut in the RBA cash rate and the Brexit impact.

The expectation is that interest rates world-wide continue to remain very low, with official central bank rates in some countries (such as Japan, and some European countries) actually negative. The long, unsteady recovery post the GFC means that rates are staying much lower than has occurred in past economic cycles.

Entities are reminded to **re-measure the provisions** to ensure that any material movements arising from the wage inflation rate and discount rates are reflected during the current reporting period.

The rates for 30 September 2016 will be distributed at the beginning of October 2016. Please note, the wage inflation and discount rates publication will no longer provide rates for the 2004 LSL Model from 1 July 2016 onwards.

## 2016-17 reporting year

#### 2016-17 Model Report for Victorian Government Departments

The financial reports of the State and individual entities, such as departments, inform Parliament and other users about the government’s/public sector’s stewardship of resources entrusted to them. The presentation of high quality and user friendly financial reports is accordingly an essential part of effective public accountability. The Annual Financial Report (AFR) is the State’s consolidated financial report, while the Model Report for the Victorian government departments provides the mandatory template for the preparation of financial reports by each of the individual departments.

DTF is planning the release of the 2016‑17 Model Report in April/May 2017.

Updates to the Model Report will include illustrative examples in response to new and revised accounting standards and applicable FRDs. In addition, consistent with previous practice, DTF’s responses to the recommendations from PAEC and VAGO will also be considered for illustration where appropriate.

It is important to note that the 2015-16 State’s AFR and the 2016-17 model report will be streamlined to:

* improve alignment with private sector best practice (ASX listed companies);
* de-clutter these reports into a more understandable, easily digestible format; and
* improve the transparency and utility of these reports to their users.

More detail regarding proposed updates and changes for the 2016‑17 Model Report will be communicated in the January 2017 newsletter.

## Key financial publication dates for the State of Victoria up to 2016‑17

The following table shows the indicative key publication tabling dates for some of the State’s upcoming financial publications.

|  |  |  |
| --- | --- | --- |
| Reporting year | Publication | Anticipated release dates – actual dates to be confirmed |
| **2015‑16** | Annual Financial Report | Anticipated for the end of September 2016. Legislated due date is 17 October 2016. |
| **2015‑16** | Department and entity reporting | Expected to be tabled progressively on or before the last sitting day in September 2016. |
| **2016‑17** | September Quarterly Financial Report | Legislative due date is 15 November 2016. |
| **2016‑17** | Budget Update | Legislative due date is 15 December 2016. |
| **2016‑17** | Mid‑Year Financial Report | Legislative due date is 15 March 2017. |
| **2017‑18** | Budget papers | Anticipated date is 3 May 2017, with a potential change to a later date subject to government discretion. |
| **2016‑17** | Annual Financial Report | Anticipated for the end of September 2017. Legislated due date is 16 October 2017. |
| **2016‑17** | Department and entity reporting | Expected to be tabled progressively on or before the last sitting day in September 2017. |

# Looking forward

## Key AASB Standards and Exposure Drafts issued but not effective for 2015‑16

#### AASB 15 *Revenue from Contracts with Customers*

The core principle of the new revenue standard, AASB 15 *Revenue from Contracts with Customers*, requires entities to only recognise revenue upon the transfer of promised goods or services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This will require a transaction price to be allocated to each performance obligation in a contract to transfer goods or services which is recognised only when the associated performance obligation is satisfied.

This newsletter provides an update on the following amending standards issued by AASB to accompany the release of the new revenue standard:

* AASB 2015-4 *Amendments to Australian Accounting Standards arising from AASB 15* made consequential amendments to 21 standards and six interpretations. This included changes to the measurement of trade receivables and the recognition of dividends.

The amending standard requires trade receivables that do not have a significant financing component to be measured at their transaction price at initial recognition.

Dividends are to be recognised in profit and loss only when:

* + the entity’s right to receive payment of the dividend is established;
	+ it is probable that the economic benefits associated with the dividend will flow to the entity; and
	+ the amount can be measured reliably.
* AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* deferred the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018. This amending standard also deferred the application of amending standard AASB 2015-4.
* AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* clarifies the requirements for identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence.

The amending standard clarifies that a promise to transfer to a customer a good or service that is ‘distinct’ is a separate performance obligation.

For licences identified as being distinct from other goods or services in a contract, entities will be required to determine whether the licence is transferred to the customer over time (right to use) or at a point in time (right to access).

The new standard will require retrospective application, however there are transitional requirements, which allow the following two alternative retrospective application methods:

* Full retrospective basis – requires the standard to be applied retrospectively to each prior period presented; and
* Cumulative effect method – a transitional method that requires retrospective application with the cumulative effect of applying AASB 15 to be recognised in the year of initial application, but does not require restatement of comparative periods.

#### Exposure Draft 260 Income of Not-for-Profit Entities (New AASB 10XX)

The AASB issued exposure draft Exposure Draft (ED) 260 *Income of Not-for-Profit Entities* in April 2015, which proposed guidance to assist not-for-profit entities to apply the principles of AASB 15 *Revenue from Contracts with Customers*, and a replacement of the income recognition requirements in AASB 1004 *Contributions*.

This newsletter provides an update on the progress of the ED, and highlights **tentative** decisions recently made by the Board:

* **Perpetual endowments**

The Board tentatively agreed to include additional guidance and examples to assist entities in determining whether they control an endowment, particularly in circumstances where:

* + the asset is the cash received;
	+ the asset is the 'right to investment income'; and
	+ when the not-for-profit entity does and does not have the ability to direct the use of a resource.

Sign posts for AASB 9 *Financial Instruments* will be included to assist with determining control in relation to individual financial assets and signposts for AASB 10 *Consolidated Financial Statements* will be included where an entity receives an inflow of a resource as a trustee.

* **Capital grants**

The Board tentatively agreed that the proposed AASB 10XX will be used to account for grants of cash that must be used to acquire or construct a non-financial asset **and** has a return obligation attached where the grant is not spent appropriately.

A new principle will also be developed to clarify the accounting for these arrangements. This principle will express the view where there is a return obligation, clear requirements to build or construct an asset to specifications under the grant, and in substance the arrangement is a grant of a non-financial asset, there are obligations attached to the receipt of the cash. As such, no revenue will be recognised until such time as the obligations are satisfied (i.e. as the non-current asset is constructed).

* **Transition**

The Board tentatively agreed that comparative information will be encouraged, but not required, in the first year of application.

An additional ‘Aus’ paragraph will be added to AASB 15 for not-for-profit entities on transition. This will exempt existing grants that have been fully recognised in income, in accordance with AASB 1004 *Contributions*, from being reconsidered.

For existing peppercorn leases:

* + AASB 10XX will replicate the practical expedients in AASB 16 Leases; and
	+ the lessee will have an option to measure the carrying amount of the right-to-use asset at the date of initial application of AASB 10XX fair value.

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) will be writing to the AASB to request an extension of the application dates of AASB 15 and the new standards for ED 260 *Income of Not-for-Profit Entities* and ED 261 *Service Concession Arrangements: Grantor* in light of the time taken to finalise the standards, including:

* the related not-for-profit implementation guidance;
* the expected scale of change required for their implementation;
* the particular public sector reporting protocols that implicitly provide for the effective implementation of new standards one year earlier for our Budget; and
* the consequential implications on the preparers of financial reports to prepare and deliver effective implementation in an orderly manner.

#### AASB 16 *Leases*

In February 2016, the AASB issued the new leasing standard AASB 16 *Leases*. AASB 16 will apply for annual reporting periods beginning on or after 1 January 2019 (i.e. 2019-20 financial year and corresponding 2019-20 Budget). It will supersede the existing standard AASB 117 *Leases*.

AASB 16 requires the lessee to recognise most operating leases (which are currently not recognised) on the balance sheet, which will result in increasing the reported lease liabilities and lease assets. The recognition of new lease liabilities will increase net debt. AASB 16 eliminates the differentiation between operating and finance leases by introducing a single lessee accounting model. Lessees will have to account for most leases in a manner similar to how finance leases are currently treated in AASB 117.

In summary, in applying the new standard, a lessee will:

* recognise all lease assets and lease liabilities (except minor leases with lease periods less than 12 months and low value items) on the balance sheet, which will increase net debt;
* cease to recognise operating lease expense but recognise depreciation of lease assets and interest on lease liabilities in the income statement, which is expected to have a marginal impact on the operating surplus; and
* present the amounts of cash paid for the principal portion of the lease liability within financing activities, and the amount paid for the interest portion within the operating activities in the cash flow statement.

There are two major exemptions that an entity may apply in recognising a lease arrangement:

* short-term leases that are less than 12 months; and
* leases of low value items (e.g. ≤ USD 5,000 based on IFRS 16 basis for conclusions).

There will be little change for lessors under the new standard as lessors will continue to classify their leases as operating or finance leases and to account for those two types of leases differently. The Victorian Government is the lessor of land predominantly and will not be required to change the current accounting treatment for it.

Under the new standard, the Victorian Government may choose, on initial application of the standard, to either:

* restate each prior reporting period retrospectively; or
* make an adjustment to the opening balance of retained earnings at the date of initial application, with no restatement of comparative information.

#### AASB 9 *Financial Instruments*

AASB 9 (2014) will supersede previous versions of AASB 9 and AASB 139 *Financial Instruments: Recognition and Measurement* and will apply to annual reporting periods beginning on or after 1 January 2018.

The main changes relevant for the public sector are as follows:

* Recognition and measurement classification categories are reduced from four to two. Financial instruments will now be measured at amortised cost or fair value. Within the fair value measurement classification, the financial instrument can either be recognised at Fair Value Through other comprehensive income (FVTOCI) or fair value through the profit and loss (FVTPL).
* FVTOCI will be limited to equity instruments that are not held for trading and the option to measure the FVTOCI must be elected, otherwise they will be measured FVTPL.
* The approach to classification is based on an entity’s business model and the nature of their cash flows. A change in business model allows for a reclassification of financial instruments which is less restricted than the previous AASB 139 standard.
* To qualify for amortised cost, a financial asset must be held to collect its contractual cash flows and these cash flows represent solely payments of principal and interest (SPPI). Businesses that provide loans would be able to continue measuring these assets at amortised cost. If the financial asset is bought and sold, other than to be held to collect its contractual cash flows, they must be measured at FVTOCI.
* Derivatives are measured at FVTPL. However, identifying and separating embedded derivatives is no longer required under AASB 9.
* One of the most significant changes arising from the new standard relates to the recognition of impairment losses. The standard introduces an expected credit loss (ECL) impairment model which will result in an earlier recognition of credit losses. Note that we currently recognise impairment on an incurred loss model where an impairment is only recognised on the occurrence of a credit event (i.e. a payment being overdue). Instead the ECL model is forward looking and no longer requires a credit event to have occurred before credit losses are recognised as the model effectively requires ‘general doubtful debt provisions’ to be recognised based on the likelihood of a receivable going ‘bad’.

In short, the two key differences for receivables under AASB 139 and AASB 9 are:

* + the entity does not wait until the receivable is past due before a provision is raised; and
	+ the amount of credit loss recognised is based on forward looking estimates that reflect current and forecast credit conditions.

The standard introduces a three stage approach to be undertaken for the assessment for impairment.

After initial recognition of a financial asset, the three stage model applies as follows:

* + Stage 1: credit risk has not increased significantly since initial recognition – recognise 12 months of ECL.
	+ Stage 2: credit risk has increased significantly since initial recognition – recognise lifetime ECL and interest is presented on a gross basis.
	+ Stage 3: financial asset is credit impaired (using the criteria currently included in AASB 139) – recognise lifetime expected losses but present interest on a net basis (i.e. gross carrying amount less credit allowance).
* simplification of hedge accounting rules and aligning it with how an entity manages risk. The three types of hedge relationships: cash-flow, fair value and net investment hedge remain the same.

#### Service concession arrangements: grantor accounting

The AASB has issued ED 261 *Service Concession Arrangements: Grantor* which is aimed at ensuring all relevant public private partnership (PPP) projects of public sector jurisdictions (grantors) are appropriately accounted for. It is currently proposed for application from the 2017-18 financial year (and corresponding 2017-18 Budget). A similar AASB Interpretation 12 *Service concession arrangements*, covering the private sector operator’s perspective, has already been in place since 2009.

The exposure draft proposals would require the recognition of service concession arrangements which are currently recognised on balance sheet on commercial acceptance (that is, once available for service), on a basis consistent with own built assets (that is, as construction takes place). From a net debt perspective, this change will result in a change in the phasing profile of the debt impact of service concession arrangements on the State’s balance sheet.

The more significant change for the State of the exposure draft proposals relates to the recognition of service concession arrangements where third party users pay for the asset (i.e. toll roads), which will need to be recognised on the State’s balance sheet (e.g. City Link, East Link, etc). These are not currently recognised on the balance sheet, having an estimated total cost in excess of $5 billion.

The recognition of the toll roads on the State’s balance sheet is not expected to have an impact on net debt and may generate a positive impact on net result from transactions in the earlier years of these arrangements due to the phasing of depreciation expense and the revenue recognised.

It is anticipated that the issue of ED 261 as an accounting standard could be later than 2017-18 as a result of extended field testing, which may lead to a deferral of the application date of the service concession arrangement standard to a later date.

#### Insurance contracts

The AASB has advised that the International Accounting Standards Board (IASB) has completed its substantive decision making on a forthcoming revised IFRS 4 *Insurance Contracts*. If adopted, the new standard would supersede the existing AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts.*

The Board notes that the revised IFRS 4 proposals will significantly improve the current accounting by international users, and that in context, the proposals are likely to mean less change for Australian entities than their international counterparts.

# Other important news

## Branding Guidelines – changes for annual reports

The Department of Premier and Cabinet (DPC) released new branding guidelines in 2015 which should be considered when producing your department Annual Reports. Changes include the introduction of ‘VIC’ brand font or Arial as the acceptable default font type to use.

Visit the DPC website for more information: [www.dpc.vic.gov.au/VictoriaBrandGuidelines](http://www.dpc.vic.gov.au/VictoriaBrandGuidelines)

All queries should be directed to: branding@dpc.vic.gov.au

## Machinery of government

The development of a comprehensive machinery of government (MoG) manual led by the Financial Reporting team is well advanced. The manual is designed to provide assistance across the general government sector as a practical application of the steps required after a MoG change is announced. The manual will be published later this year and reflects DTF’s ongoing commitment to improving how government responds and adapts to change, as efficiently and cohesively as possible.

# For noting

## Key audit matters

A new auditing standard (ISA 701) has been issued and applies to audits of general purpose financial statements (financial reports) of listed entities and when the auditor otherwise decides to communicate key audit matters (KAM) in the auditor’s report.

KAM are those matters that, in the auditor’s professional judgement, required significant attention in performing the audit. KAM are selected from matters communicated with those charged with governance and are determined by taking into account areas of higher risk, significant auditor judgements, and the effect on the audit of significant events or transactions.

VAGO has advised that this new auditing standard may be applied to Victoria Government entities in future years. A discussion with your VAGO auditor on this topic may be prudent to understand their plan for your entity.

# How to contact us

## AccPol mail box

When directing accounting policy enquiries to DTF at accpol@dtf.vic.gov.au, **departments** are requested to support their questions with the facts and with clear referencing to Accounting Standards, FRDs and other authoritative pronouncements related to their queries.

**Other entities** are requested to contact their portfolio department in the first instance to resolve any accounting policy issues.

## Useful websites

**AASB** – [www.aasb.com.au](http://www.aasb.com.au) for information on AASB pronouncements, discussion papers and ED publications.

**International Public Sector Accounting Standards Board** (IPSASB) – [www.ifac.org/public‑sector](http://www.ifac.org/public-sector)/ for information on IPSASB and IPSASB pronouncements.

## DTF website

**The DTF website (for all internet users)** – [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au/Government-Financial-Management/Financial-reporting-policy), covers FRDs and guidance, the Model Report, accounting policy updates, wage inflation and discount rates. From the menu on the top of the home page, users should select Government Financial Management, then Financial Reporting Policy.

**VPS users** should contact their portfolio department in the first instance for the login details to access the information relating to the 2008 Long Service Leave Model, the Valuer‑General building and land indices.

For assistance with technical difficulties using the DTF website, e.g. broken links, please contact the DTF web team via email at dtfweb@dtf.vic.gov.au.

## About the Accounting Policy Update

Accounting Policy Update is published by the Accounting Policy team of DTF twice a year. The aim of the newsletter is to highlight changes in financial reporting requirements affecting public sector entities, outlining any financial reporting related policy decisions reached by DTF and to inform readers of other developments that are under consideration by the AASB.

**Disclaimer:** No responsibility is taken for any action(s) taken on the basis of information contained in this Newsletter nor for any errors or omissions in that information.

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