Accounting policy update

Newsletter – Edition No. 34, July 2018

#### 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 the majority of our controlled public sector entities and departments prepare for the end of their 30 June 2018 financial year, we provide an update of key changes that are relevant for the reporting period.

The new streamlined Model Report was released at the end of May 2018 and is available from the DTF website.

There have also been a number of updates made to the financial reporting directions (FRDs) since the last newsletter. An outline of changes to the following FRDs, applicable for 2017‑18, are included in this newsletter: FRD 15E *Executive officer disclosures in the Report of Operations*, FRD 29C *Workforce data disclosures in the Report of Operations*, FRD 24D *Reporting of office‑based environmental data by government entities,* FRD 103F *Non‑financial physical* assets, FRD 106B *Impairment of assets* and FRD 120L *Accounting and reporting pronouncements applicable to the 2017‑18 reporting period*.

As a reminder, valuation assessments for 2017‑18 need to be finalised using the April indices provided by the Valuer‑General Victoria. For some departments we expect that a formal valuation will be required.

All agencies are reminded that, in relation to all applicable 2016 Standing Directions and Instructions, a formal attestation statement is to be included in your annual reports. Note also that new Ministerial directions have been developed in relation to public construction procurement.

A table of key financial publications due in the coming year, along with their anticipated publication dates, is included in this newsletter.

Amendments to the FMA and the Constitution Act are currently being debated in the Parliament. The proposed amendments are now anticipated to take effect from 1 July 2020 with significant impacts on existing accounting, financial and budget policies.

Also included is an update that VAGO provided on the implementation of the new Key Audit Matters section of its independent audit report and on the work of its newly‑established Data Analytics business unit.

# 2017‑18 reporting year

## Major updates/reminders

### 2017‑18 Model Report for Victorian Government Departments

The Department of Treasury and Finance (DTF) has released the 2017‑18 *Model Report for Victorian Government Departments* (Model Report) with its new streamlined format. Copies are available for download from the DTF website, including a comprehensive list of the significant changes from the previous year’s publication. It should be noted that there has been no change to the financial statements section with the exception of continued streamlining and editorial updates.

The most significant changes and additions include:

* updated disclosures of and additional guidance on sections of the Report of Operations following the release of FRD 24C *Reporting of office‑based environmental data by government entities,* FRD 15E *Executive officer disclosures in the Report of Operations* and FRD 29C *Workforce data disclosures in the Report of Operations – Public Service Employees*;
* enhanced guidance on general criteria in determining a significant variance in output performance in the portfolio reporting section of the Report of Operations following the Public Accounts and Estimate Committee’s recommendation; and
* additional appendices containing implementation checklists for upcoming new accounting standards, including:
  + AASB 16 *Leases*;
  + AASB 15 *Revenue from Contracts with Customers*; and
  + AASB 1058 *Income of Not‑for‑Profit Entities*.

### AASB 124 Related Party Disclosure project

#### Ministerial declarations for the 2017‑18 reporting period

To support the compliance and preparation of financial reports by not‑for‑profit public sector entities, information consistent with the requirements of AASB 124 *Related Party Disclosures* is collected twice in each financial year from cabinet ministers.

The second submission of declarations in relation to related party transactions by Ministers for 2017‑18 covers the period 1 January 2018 to 30 June 2018. All ministers are required to complete and submit their declaration certificates **by 13 July 2018**.

As for the previous reporting period, DTF will provide information extracted from ministerial declarations to the relevant portfolio entities to perform a ‘significance’ and a ‘materiality’ assessment of the nature and amount of the related party transactions for disclosure, where relevant, in the entities’ annual financial reports.

With the upcoming election, an additional data collection is planned for Ministers prior to the caretaker period to cover the period they were in office.

#### Movements in key management personnel (KMP)

Disclosure for the 2017‑18 reporting period will need to include information relevant to all KMP appointed during the period, including any recent executive appointments and departures.

#### Guidance information

A declaration certificate, checklist and summary guidance is included in Appendices 8 and 9 of the 2017‑18 Model Report to assist entities with the implementation of AASB 124. Further comprehensive guidance information is also available in the ‘Financial Reporting Policy’ section of DTF’s website at:

<https://www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures>

### Interim valuation assessments

Entities are reminded to ensure they have conducted their interim valuation assessments in preparation for year-end. With the increased granularity in the land indices for selected metropolitan areas provided by the Valuer‑General Victoria (VGV) for each postcode, we have observed that this has resulted in the cumulative fair value movements for land exceeding the 40 per cent threshold for some departments, triggering the need to undertake a formal valuation for that class of assets immediately (which may be earlier than the formal fifth valuation year). In most instances, this seems to occur most frequently in the fourth year of the five year formal valuation cycle.

You should have already conducted your 2017‑18 interim valuation assessments using the October 2017 indices as a preliminary indicator to assess how the fair values for land have moved for the period, prior to finalising your valuation assessment using the April indices. In instances where the cumulative fair value movements have risen substantially and are greater than 30 per cent but less than 40 per cent, we strongly recommend that you alert VGV in anticipation that the 40 per cent threshold may be triggered before the formal fifth valuation year, requiring a formal valuation for that class of assets immediately.

Our December 2016 Newsletter, Edition No. 31 contains information on interim valuation assessments including an example of how to assess fair value movements on a cumulative basis. The publication can be found at [www.dtf.vic.gov.au/Accounting-policy-newsletters](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Accounting-policy-update-newsletters).

## Financial reporting directions and guidance notes

Since the last newsletter, updates have been made to the following Financial Reporting Directions (FRDs), applicable for the 2017‑18 reporting period:

* FRD 15E *Executive officer disclosures in the Report of Operations*;
* FRD 29C *Workforce data disclosures in the Report of Operations*;
* FRD 24D *Reporting of office‑based environmental data by government entities*; and
* FRD 103F *Non‑financial physical assets*.
* FRD 106B *Impairment of assets*
* FRD 120L *Accounting and reporting pronouncements applicable to the 2017‑18 reporting period*

### FRD 15E and FRD 29C

As mentioned in the last newsletter, the Integrity and Corporate Reform Subcommittee of the Victorian Secretaries Board endorsed a new policy and standard model for collecting and reporting on staff gender information in the VPS. The policy and standard model provides a framework for VPS organisations to collect and report on staff who identify as gender diverse.

In line with this policy, recognition of three gender categories: women, men and self‑described are recommended for the 2017‑18 and 2018‑19 reporting periods when reporting on gender for executive officers under FRD 15E, and the workforce under FRD 29C. This change will provide transitional relief for entities in order for them to plan how data will be collected to comply with the new policy and standard model.

Entities should note that these categories will become a mandatory reporting requirement for all applicable entities from the 2019-20 reporting period onwards and they are strongly encouraged to comply with these requirements if it is practically achievable in the current and following reporting periods.

### FRD 24D

FRD 24D requires entities to report on the consumption of resources and greenhouse gas emissions. References in the FRD have been updated to align with the Commonwealth’s revised environmental benchmarks. In revising the FRD, the Climate Change Division in DELWP considered all comments and suggestions submitted by departmental Chief Financial Officers and financial reporting teams. Key changes to FRD 24D include:

* preparers are no longer required to report future targets for all aspects of environmental reporting. Targets should be reported only where applicable and relevant;
* optional disclosures have been included to prepare entities for when these disclosures become mandatory. Preparers are encouraged to report on a range of indicators including total renewable energy generation installed and generated, details of star energy and water rating/s achieved, coffee cups, soft paper and towel recycled, certified paper used, petrol hybrid, electric and plug-in hybrid electric vehicles in fleet, exposure to climate-related risks and planned responses, components of the ISO 14001:2015 *Framework* implemented and buildings with a Green Star rating of 5 or higher;
* preparers are now required to report the units of metered water consumed in offices per unit of office area (previously optional);
* references to previous government policy and programs have been revised and new legislation and policies referenced; and
* the requirement to conduct an annual audit of the entity’s EMS has been replaced by an audit every two years and the audit report is required to be submitted to the Commissioner for Environmental Sustainability.

### FRD 103G

FRD103G *Non-financial physical assets* has been updated and streamlined to make it easier for preparers to focus on the requirements of the direction. There has been no change to the requirements of the direction. All guidance material has been removed from the FRD and are now included as separate guidance notes to the FRD.

The FRD, including supporting guidance documents, is expected to be approved and available on DTF’s website in July 2018.

### FRD 106B

The FRD has been updated to reflect changes introduced by AASB 2014-6 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities*. The amendment removes the requirement for not-for-profit entities to carry out impairment tests on specialised assets that are carried at fair value, because the valuation process already implicitly incorporates the impairment assessment. The definitions of ‘Cost Model’ and ‘Revaluation Model’ have been added to align the definitions in FRD 106B with the terminologies used in AASB 136.

### FRD 120L

FRD 120L Accounting and reporting pronouncements applicable to 2017-18 reporting period provides a summary of accounting standards that apply to the current reporting period and future reporting periods. The FRD will be available on DTF’s website in July 2018.

# 2017‑18 financial reporting legislation

## Standing Directions – annual report attestation

The *Standing Directions of the Minister for Finance 2016* (2016 Standing Directions) require a formal attestation statement in your annual reports. Agencies must complete an attestation statement for the period **1 July 2017** to **30 June 2018,** in relation to **all** applicable 2016 Standing Directions and Instructions as required and in the form prescribed by [Instruction 5.1, clause 2](http://www.dtf.vic.gov.au/files/0b43b325-68cc-4285-9055-a5a6010a5a01/Standing-Directions-Instructions-2016.docx).2.

Note that the previous risk management and insurance attestation (under Standing Direction 3.7.1) has ceased and has been incorporated into this overarching attestation statement.

New Ministerial directions relating to public construction procurement have been developed under Part 4 of the *Project Development and Construction Management Act 1994* (PDCM Act). The 2016 Standing Directions will be revised to draw attention specifically to the need for relevant departments and agencies to apply these directions and to attest to compliance with that requirement.

If you have any further queries on the Standing Directions, please direct your queries to the DTF Financial Frameworks team mailbox: [standing.directions@dtf.vic.gov.au](mailto:standing.directions@dtf.vic.gov.au).

## Superannuation Guarantee Levy

There has been no change to the Superannuation Guarantee Levy (SGL) schedule since the last update on the SGL in the December 2017 newsletter edition. Consistent with the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014* passed in September 2014, the future SGL rates will remain at 9.5 per cent until 2021, before increasing by 0.5 per cent annually between 2021‑2025.

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

DTF publishes the wage inflation and discount rates quarterly for the September, December and March quarters. Rates are released monthly for the June quarter of each financial year. The current rates should be used by entities to remeasure their employee benefit provisions in the 2017‑18 reporting period.

The wage inflation and discount rates are published for both 2004 and 2008 Long Service Leave Models. Wage inflation rates reflect current economic assumptions made in the preparation of the State Budget. The discount rates are representative of the yield of Commonwealth Treasury bonds, published by the Reserve Bank of Australia.

## Proposed amendments to the *Financial Management Act 1994* and *Constitution Act 1975*

The Financial Management and Constitution Acts Amendment Bill 2017 is currently before the Legislative Assembly. For information, a copy of the Bill can be accessed under ‘Parliamentary Documents’ at <http://www.legislation.vic.gov.au>.

The Bill seeks to amend the Financial Management Act 1994 (FMA) to clarify the legislative basis for applying appropriations, to consolidate, clarify and simplify other provisions, and to strengthen accountability. Other changes include new and revised provisions relating to money received from other governments, establishing a working account for each department and providing appropriation authority for previously incurred, but unfunded, departmental liabilities.

The Bill also seeks to amend Part V of the Constitution Act 1975 to modernise it as the basis for the structure of Victorian public finances.

Subject to approval of proposed House amendments, the Bill will take effect from 1 July 2020 although some amendments will come into effect beginning 1 July 2019.

Changes to subordinate legislation, policies and guidance issued by DTF will be required. Development work has commenced and will continue during the Bill’s passage through Parliament. Departments will be contacted when the debate resumes on the Bill regarding their participation in this program.

## Key financial publication dates for the State of Victoria in 2017‑18

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 |
| 2017‑18 | The State’s Financial Report | Legislated due date: 15 October 2018. |
| 2017‑18 | Department and entity reporting\* | Legislated due date: 15 October 2018. Premier’s expectation is that departments and material portfolio entities table their annual reports by 20 September✝. All other entities are encouraged to table their annual reports prior to the legislated due date. |
| 2018-19 | Victorian Economic and Fiscal Update | Expected to be released prior to Pre‑election update |
| 2018‑19 | Pre‑election budget update | Anticipated due date: 9 November 2018. |
| 2018-19 | September Quarterly Financial Report | Legislative due date: 15 November 2018 |
| 2018-19 | Budget Update | Legislative due date: 15 December 2018 |
| 2018-19 | Mid-Year Financial Report | Legislative due date: 15 March 2019 |
| 2019-20 | Budget Papers | Anticipated date:7 May 2019 |
| 2018-19 | Annual Financial Report | Legislative due date:15 October 2019 |
| 2018-19 | Department and entity reporting | Legislated due date: 31 October 2019. Entities are encouraged to table their annual reports prior to the legislated due date. |

\*At this point, the last scheduled parliamentary sitting date is 20 September 2018.

✝ Letter outlining expectations and requirements sent from DPC to departments dated 28 May 2018.

# AASB update

## Key AASB Standards issued but not effective for 2017‑18

### AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* will supersede previous versions of the standard (AASB 9 (2014)) and AASB 139 *Financial Instruments: Recognition and Measurement*. It will apply to annual reporting periods beginning on or after 1 January 2018, with retrospective application. AASB 7 *Financial Instruments: Disclosures* complement the principles for recognising, measuring and presenting financial assets and financial liabilities in AASB 132 *Financial Instruments: Presentation* and AASB 9 *Financial Instruments*.

Transitional disclosure requirements and new ongoing disclosure requirements at both the Whole of State, Departmental and entity/agency level are being determined. New FINSI packs will be created with disclosure requirements in line with the new standards, with consideration to the expected materiality of the Whole of State and GG Sectors based on the recent impact assessment data collection. These reporting requirements will be applicable from 1 July 2017 for the reporting periods including the 2018-19 financial year actuals and comparative data for the 2017-18 financial year.

Guidance has been provided in the Appendices of the 2017-18 Model Report. The next Model will contain the updated disclosure requirements and further guidance material.

### AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not‑for‑Profit Entities*)

AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not‑for‑Profit Entities* are applicable for all **not‑for‑profit entities** for annual reporting periods commencing on or after 1 January 2019 (i.e. the 2019‑20 reporting period). DTF has provided a high level summary of the requirements of AASB 15 and AASB 1058 and a series of progressive updates of the project in the last four editions of the newsletter. Refer to previous newsletters for information on the new revenue standards.

A preliminary checklist to assist entities with determining whether particular transactions are caught within the scope of AASB 15 or AASB 1058, which also includes information on the proposed transitional approaches for implementation, has been included in the 2017-18 Model Report Appendix 11.

### Accounting for public sector licences

During the AASB’s agenda consultation, it was flagged that AASB 15 *Revenue from Contracts with Customers* did not have sufficient guidance for not‑for‑profit public sector licensors. AASB 15 provides guidance for licences of intellectual property (IP) however, unlike for‑profit entities, licences issued by not‑for‑profit (NFP) public sector entities extend beyond IP licences.

ED 283 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not‑for‑Profit Public Sector Licensors* has been issued to provide guidance in the accounting for revenue from licences issued by not‑for‑profit licensors. Feedback submissions closed on 31 March 2018. The Board met in June 2018 to consider the submissions from stakeholders. The board determined that the principles of AASB 15 *Revenue from Contracts with Customers* will apply to guide the assessment of revenue recognition for license. AASB 15 will include a flowchart and expand the examples to illustrate different licensor activities, such as:

* administration and activities to maintain exclusivity of the contract, which would not be performance obligations;
* ongoing activities that support or maintain the value of the licence; and
* activities that are distinct services to the licensee, separate from the granting of the licence (for example, maintenance activities performed by the licensor that the licensee would otherwise engage a third party to do).

Accounting for public sector licences will be implemented as part of the suite of AASB 15 *Revenue from Contracts with Customers.*

### AASB 16 *Leases*

AASB 16 *Leases* will supersede the existing AASB 117 *Leases.* The effective date is for annual reporting periods beginning on or after 1 January 2019 (the 2019-20 reporting period). Ongoing workshops are occurring at the Department and portfolio entity and agency levels. Please contact your departmental finance teams for further information.

DTF has developed a preliminary checklist to assist entities with determining whether particular transactions are caught within the scope of AASB 16, and includes information on the proposed transitional approach for implementation. Contact your departmental representative for copies of the preliminary guidance information shared at the working groups.

### AASB 1059 *Service Concession Arrangements*

This new accounting standard, effective for annual reporting periods beginning or after 1 January 2019, i.e. the 2019-20 financial year, will address the lack of a specific Australian Accounting Standard for service concession arrangements from the grantor’s perspective. It provides accounting guidance for public sector entities (grantors) who have entered into service concession arrangements with private sector operators.

AASB 1059 applies to arrangements that meet the following criteria:

* an operator is providing public services using a concession asset;
* operator manages at ‘least some’ of public services under its own discretion;
* the State controls/regulates:
  + what services are to be provided
  + to whom; and
  + at what price; and
* State controls any significant residual interest in the asset.

#### Grantor accounting requirements

##### Service concession assets

* Under AASB 1059, the grantor recognises a service concession asset in a service concession arrangement where it controls the asset.

Where the asset is provided by the operator, or is an upgrade to or a major component replacement of an existing asset of the grantor, the asset is recognised at current replacement cost based on AASB 13 Fair Value Measurement principles.

Where the asset is an existing asset of the grantor, the asset is reclassified as a service concession asset and remeasured at current replacement cost at the date of reclassification. This requirement applies to, for example, previously unrecognised intangible assets, excluding goodwill, and land under roads. Any difference between the previous carrying amount and current replacement cost is recognised as if it is a revaluation of the asset. AASB 1059 clarifies that this does not mean that the grantor has adopted the revaluation model and is the prescribed accounting for the difference on reclassification only.

Subsequent to initial recognition or reclassification, the grantor accounts for the asset under either AASB 116 Property, Plant and Equipment or AASB 138 Intangible Assets, with any impairment recognised in accordance with AASB 136 Impairment of Assets. The depreciation or amortisation expense is recognised over the asset’s useful life rather than the concession term. Where the grantor follows the revaluation model, fair value is determined using current replacement cost as the measure of fair value. Furthermore, for the duration of the arrangement, the active market requirements of AASB 138 for revaluation of intangible assets do not apply.

At the end of the service concession arrangement:

* the grantor accounts for the asset in accordance with other accounting standards, with the grantor reclassifying the asset based on its nature or function;
* reference to fair value reverts from the mandated current replacement cost under AASB 1059 to any of the approaches in AASB 13; and
* the asset is only derecognised when the grantor loses control of the asset in accordance with AASB 116 or AASB 138 (and not necessarily at the end of the term of the service concession arrangement).

##### Service concession liabilities

The grantor recognises a liability relating to the service concession asset, except when the asset is an existing asset of the grantor, and no additional consideration is provided by the operator.

Depending on the nature of the consideration given to the operator, the grantor applies either the ‘financial liability’ model or the ‘grant of right’ model.

Operator receives specified or   
determinable amounts from the grantor\*

Grantor provides the operator with a right to charge users if the asset

**Financial liability**

**Grant of right liability** – recognised   
as unearned portion of revenue

Recognise interest expense over   
the term of the concession period   
as payments are made

Recognise revenue and reduce the   
liability according to economic substance   
of service concession arrangement

##### Transition requirements

An entity may choose to adopt the new standard either:

* fully retrospectively to each prior period; or
* by recognising and measuring the service concession assets and related liabilities at the date of initial application (DIA). The DIA is the beginning of the earliest period for which comparative information is presented in the financial statements.

A series for working group meetings were held in June 2018 with relevant stakeholders as part of the Accounting Standards implementation project.

### AASB 17 *Insurance contracts*

AASB 17 *Insurance Contracts* was issued in July 2017, fully incorporating the international standard IFRS 4, which was issued as an interim standard pending completion of a comprehensive standard. The new Australian standard is effective for annual reporting periods beginning on or after 1 January 2021.

The issue in applying AASB 17 in the public sector is whether AASB 17 would appropriately capture all schemes with economically similar insurance risk, once it is applicable to not‑for‑profit public sector entities, ensuring there is no understatement of insurance liabilities.

At its August 2016 meeting, the Board decided that it will clarify the scope of the forthcoming new AASB insurance standard for public sector entities, to ensure similar activities are treated similarly. The Board asked staff to:

* conduct more thorough outreach through HoTARAC members and with the affected entities directly; and
* prepare a possible exposure draft that would make proposals about the types of arrangements to be accounted for using insurance standards, which would be intended to take effect under the forthcoming AASB standard.

The Board noted that there may be a need to address the interaction of the likely contract boundary and onerous contract requirements. If the impact of the forthcoming new AASB insurance standard would be to require public sector insurers to account for some subgroups of annual contracts as if they were long-term (possibly perpetual) contracts using the ‘general model’ for liability measurement, there should be a public sector-specific paragraph to avoid this consequence. The Board asked staff to draft a relevant paragraph in case it is needed.

The Board also noted that similar issues around the interaction of the likely contract boundary and onerous contract requirements may arise for health insurers because of the Australian regulatory regime of ‘community rating’.

## Accounting Standards project implementation status

As previously advised, all departments and their portfolio agencies will be required to submit updated data templates reflecting the above suite of new accounting standards applicable from 2019-20 by December 2018 in preparation for the coming 2019-20 budget.

Initial data submissions for Departments and material entities were submitted in November and revised in early March. The next data submission which will include all portfolio entities and agencies consolidated to the Whole of State, is **due 18 August** to DTF. The departments may require an earlier submission of data in order to present a fully consolidated and reviewed position to DTF. We encourage you to check with your departmental finance teams for timing for providing the information.

DTF is in the process of developing series of policy papers and guidance materials to assist in the implementation of the new accounting standards in line with the indicative time lines below.

Project timelines for new Standards implementation

### AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not‑for‑Profit Entities*)

In preparation for briefings and the 2019-20 Budget, a departmental working group meeting was held at the end of June 2018. The agenda for the meeting covered a debrief of the preliminary data submission process and sought to identify issues and challenges in assessing the impact of the changes arising from the new revenue standards. This forms the basis for identifying any changes that entities may need to address in complying with the requirements of the accounting standards. DTF also covered the series of policy papers and guidance it will be developing as part of the project plan.

### AASB 16 *Leases*

The differences to note between the initial data submission request and the request due now, are the following:

* the data collection will be based on the 30 June 2018 position,
* an updated incremental borrowing rate will be required, and an updated TCV calculation tool and revised margin will be provided to the Departmental Finance Teams by the first week of July,
* the display of information to be collected into Estimated Financial Statement (EFS) years being; 2019‑20, 2020‑21, 2021‑22, 2022‑23 for both balance sheet and profit and loss impacts,
* identification of peppercorn leases,
* identification and quantification of ‘right of use’ assets contained in service contracts,
* identification, flagging and elimination of intra-entity and inter-entity leases,
* requirement to submit a lease amortisation sheet data for every lease (excluding bundles) as support with your submission; and
* requirement to reconcile your submission to your commitments note.

For those departments and entities that have Shared Service Provider (SSP) accommodation leases, this information will be supplied by the SSP in July (in line with the new TCV calculation tool).

Departments have a deadline of 18 August and will be responsible for ensuring the data is representative of the expected financial impacts.

# VAGO communication

## Key audit matters

VAGO is continuing its staged implementation approach to the voluntary adoption of ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (KAMs).

KAMs are, in the auditor’s professional judgement, those matters identified as being of most significance in the audit of the financial statements for the period.

The KAM section of the audit report includes:

* a brief description of the key audit matters;
* why VAGO considered them to be a key audit matter; and
* what key procedures have been performed to address the matter.

VAGO is implementing this process during 2017-18 by:

* disclosing KAMs in the independent auditor's report for the State of Victoria;
* reporting KAMs in the independent auditor's report of all departments and those material and other entities that were selected in 2016-17 to report KAMs in their closing reports; and
* reporting KAMs in selected additional entities in their closing report.

If you would like any further information, please speak to your VAGO engagement leader.

## Data Analytics strategy

VAGO have established a Data Analytics business unit which is responsible for identifying and implementing improvements to the way in which data is collected, analysed and interpreted. The aim is to:

* further streamline data collection on audits of financial reports; and
* improve the quality of the insights that can be provided to audit clients and other VAGO stakeholders.

VAGO is currently implementing the five-year data analytics strategy for audits. An initial pilot for 2017-18 is ongoing across a targeted and small selection of audit clients and includes streamlining of data collection processes to ensure that the data feeding into analytics procedures and dashboards is complete and up to date. VAGO will also be building dashboards that provide better insights into their audits. VAGO will continue to engage with the selected departments and agencies on this pilot and on the data analytics plan for 2018-19.

If you would like any further information about VAGO’s Data Analytics strategy, please speak to your VAGO engagement leader.

# How to contact us

## AccPol mail box

When directing accounting policy enquiries to DTF at [accpol@dtf.vic.gov.au](mailto: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.ipsasb.org](http://www.ipsasb.org) for information on IPSASB and IPSAS-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, long service leave models and related data input, including 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 and/or, 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](mailto: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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