Accounting policy update

Newsletter – Edition No. 37, December 2019

#### Scope: This bi‑annual newsletter outlines areas of 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

Work on the 2019-20 Model Report is now underway, with an anticipated release in May 2020. The key changes this year will include disclosures to meet the requirements of the new accounting standards: AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 1059 *Service Concession Arrangements: Grantors* operative from 1 July 2019 for 30 June year-end reporters (1 January 2019 for 31 December year-end reporters).

There is a suite of FRDs that will be released, prescribing the transitional requirements for the new accounting standards. They include:

* FRD 121 *Transitional requirements on the application of AASB 15 Revenue from Contracts with Customers*;
* FRD 122 *Transitional requirements on the application of AASB 1058 Income of Not-for-Profit Entities*;
* FRD 123 *Transitional requirements on the application of AASB 16 Leases*; and
* FRD 124 *Transitional requirements on the application of AASB 1059 Service Concession Arrangements: Grantors*.

Preparers are reminded to ensure they continue to roll out their key management personnel AASB 124 *Related Party Disclosures* declarations and attestation statements to support their annual reporting process.

To aid your implementation planning considerations, we have noted the following enacted changes and changes on the horizon from the Australian Accounting Standards Board (AASB) that may impact your annual reporting requirements:

* amending standards to AASB 15/AASB 1058 and AASB 16;
* key AASB standards issued but not effective for 2019-20; and
* other new standards issued since 1 July 2019.

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

# 2019‑20 reporting year

## Major updates/reminders

#### *2019‑20 Model Report* for Victorian Government Departments

The Department of Treasury and Finance (DTF) has commenced preparatory work on the *2019‑20 Model Report* and has set an anticipated release date of around mid-May 2020. The key changes proposed for the 2019‑20 Model Report include:

* incorporation of the first-time adoption,including transition disclosures in the financial statements and associated notes for the new suite of accounting standards*:*
  + AASB 15 *Revenue from Contracts with Customers*;
  + AASB 1058 *Income of Not-for-Profit Entities*;
  + AASB 16 *Leases*; and
  + AASB 1059 *Service Concession Arrangements*.
* updated and amended appendices incorporating information that was provided in the ‘New Accounting Standards Instruction’ pack, including implementation checklists for the new accounting standards which are retained on the secured DTF website (<https://www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists>).

No significant changes are anticipated in the report of operations.

Further communication will be provided when the changes are approved for the 2019-20 Model Report and a workshop will be held with departments to cover the new disclosure requirements for the new suite of accounting standards. The DTF Consolidated Reporting and Analysis team will also provide ‘FINSI’ training at the end of June to run through the new ‘FINSI’ templates in relation to the new accounting standards.

A comprehensive list of the significant changes will be detailed in the ‘summary of changes’, which will accompany the *2019-20 Model Report*.

### AASB 124 *Related Party Disclosures* project

#### Ministerial declarations for the 2019‑20 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, as not all Victorian public sector not-for-profit entities have a 30 June year-end. For example, the year-end for Alpine Resort entities, TAFEs and schools is 31 December.

Cabinet ministers were requested to complete and return their certificates for the period 1 July to 31 December 2019 to the Department of Premier and Cabinet no later than **24 January 2020**.

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.

Entities are reminded that, under the agreed protocols, consultation is required with the relevant Minister(s) and DTF, where disclosures are proposed.

#### Movements in key management personnel

Entities with a 31 December 2019 reporting date are reminded disclosure for the 2019 reporting period will need to include information relevant to all key management personnel appointed during the period, including any executive appointments and departures.

#### Guidance information

A declaration certificate, checklist and summary guidance are included in Appendices 9 and 10 of the *2018-19 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: [www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures](https://www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures).

### Interim valuation assessments

You should have already conducted your 2019‑20 interim valuation assessments using the October 2019 indices or other relevant information as a preliminary indicator to assess how the fair values for land assets have moved for the period. The Valuer-General’s land indices can be found at: <https://www.dtf.vic.gov.au/financial-reporting-policy/valuer-general-land-indices>

Victorian Government departments, agencies and entities should contact their portfolio department in the first instance for the login details to access the land indices. 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).

## Machinery of government manual

The revised *Victorian public sector operating manual on machinery of government changes* (MOG Manual) is scheduled for release in January 2020, it outlines the agreed framework and protocols for working through MOG changes across government.

## Financial reporting directions and guidance notes

The following new FRDs will be issued in early 2020 prescribing the transition requirements on the application of the new accounting standards:

* FRD 121 *Transitional requirements on the application of AASB 15 Revenue from Contracts with Customers*;
* FRD 122 *Transitional requirements on the application of AASB 1058 Income of Not-for-Profit Entities*;
* FRD 123 *Transitional requirements on the application of AASB 16 Leases*; and
* FRD 124 *Transitional requirements on the application of AASB 1059 Service Concession Arrangements: Grantors*.

The transitional elections are all consistent with the elections communicated as part of the 2019‑20 Budget process. The Accounting Standards Checklists are available on the DTF website at: <https://www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists>.

### FRD 103H *Non-financial physical assets*

Minor editorial amendments have been made to FRD 103H. These include:

* entities being referenced by their new classifications. Entities are now classified by functions of government (COFOG) which have been issued by the ABS;
* an updated schedule of asset revaluations (as from 2019-20) following the last machinery of government changes and for consistency with the new COFOG classifications. The schedule has been included in the guidance paper ‘Guidance on the application of FRD 103H *Non-financial physical assets’*, to provide a reference point on entities revaluation years, and is available on the DTF website [here](https://www.dtf.vic.gov.au/financial-reporting-policy/financial-reporting-directions-and-guidance); and
* clarifying that assets under construction/development shall be measured at cost and are not subject to revaluation until the construction/development phase has been completed for those assets.

# 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. All agencies with a 31 December reporting date must complete an attestation statement for the period **1 January 2019** to **31 December 2019,** covering **all** applicable 2016 Standing Directions and Instructions as required and in a 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.

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 and 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.

The wage inflation and discount rates are published for both the 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.

The graph above shows that the annual discount rate has continued a downward trend through the majority of the 2019 calendar year (considerable decrease of 130.5 basis points from December 2018 to September 2019), which increases the present value of the annual and long service leave liabilities, with all else being equal.

During the last quarter of 2019, the annual discount rate has started to slightly trend upward (increase of 36.2 basis points from September to December 2019); which will slightly decrease the present value of both the annual and long service leave liabilities, with all else being equal.

The wage inflation rate has remained relatively flat over the 2019 year. Moreover, the recently released *2019‑20 Budget Update* shows that the wage inflation rate has slightly decreased to 4.25 per cent from 4.313 per cent at 30 September 2019.

## Proposed amendments to financial management legislation

The Financial Management and Constitution Acts Amendment Bill 2017 lapsed when the previous Parliament expired on 30 October 2018. The Government is currently analysing and assessing various options for financial management reform, which may result in proposals for legislative change. Departments will be consulted on any such proposals as applicable.

## Resource Management Framework

The Resource Management Framework (RMF) assists Victorian Government departments in understanding the legislative and policies for the State’s financial management framework encompassing the areas of goal setting, public sector planning, budgeting, service delivery, accountability and review. The RMF became effective from 1 July 2019. The RMF replaced the former Budget Operations Framework (BOF) and the Performance Management Framework (PMF), merging the policies and procedures of these documents into a single framework document.

As a result of further review, the Financial Reporting Operations Framework (FROF) will be retired at 30 June 2020. Some of the topics in the current FROF will be incorporated into existing Financial Reporting Directions, while other topics will be merged into the current RMF. It is anticipated that a revised RMF incorporating these changes will be issued around March-April 2020 (timing to be confirmed), with the revised RMF to take effect from 1 July 2020. Departments will be advised of the specific details when this occurs.

## Key financial publication dates for the State of Victoria in 2019‑20

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

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| --- | --- | --- |
| Reporting year | Publication | Anticipated release dates –  actual dates to be confirmed |
| 2019-20 | Mid-Year Financial Report | Legislative due date: 15 March 2020 |
| 2020-21 | Budget papers | Anticipated date: 5 May 2020 |
| 2020-21 | March Quarterly Financial Report | Anticipated date: 5 May 2020. Included in the Budget papers |
| 2019-20 | Annual Financial Report | Legislative due date:15 October 2020 |
| 2019-20 | Department and entity reporting | Legislated due date: 31 October 2020. Entities are encouraged to table their annual reports prior to the legislated due date. |
| 2020-21 | September Quarterly Financial Report | Legislative due date:15 November 2020. |
| 2020-21 | Budget Update | Legislative due date:15 December 2020 |

# Net debt impacts of new accounting standards

## Lease liabilities

The introduction of AASB 16 *Leases* resulted in most operating leases being recognised as borrowings on the State’s balance sheet, in turn impacting net debt. Net debt is a crucial key fiscal aggregate for the State. Due to this borrowing lease limits have been imposed to ensure monitoring and control in relation to key fiscal targets. These limits were set based on the *2019-20 Budget* and will be reviewed as part of the annual borrowing approval process.

Entities need to closely monitor the value of their lease portfolio to ensure that borrowings are maintained within their total limit. Entities can enter new leases or change current lease arrangements provided that they both have a limit allocated to them and that the accounting value of total leases does not exceed the total portfolio limit over current and forward estimates.

Any queries regarding the lease liability limit policy should be directed to Stephanie Braun in Balance Sheet Management on 7005 9266 or via email ([stephanie.braun@dtf.vic.gov.au](mailto:stephanie.braun@dtf.vic.gov.au)) and any queries on the estimates update process should be directed to the relevant Portfolio Analysis Relationship Manager.

## Service concession arrangements

Prior to the issuance of AASB 1059, there was no definitive accounting guidance in Australia for service concession arrangements, which include several PPP arrangements. The AASB issued the new standard to address the lack of specific accounting guidance.

For arrangements that are assessed to be within the scope of AASB 1059, the impacts reflected in the Financial Statements are as follows:

* for certain availability-based PPPs (predominantly social infrastructure), the new standard requires the recognition of a service concession asset and a financial liability progressively over its construction term. The financial liability recognition increases the net debt fiscal aggregate; and
* for economic PPP arrangements (i.e. user pays arrangements such as toll roads) that are currently not recognised on the State’s balance sheet, AASB 1059 requires the recognition of the asset and a corresponding ‘accrued revenue’ liability (referred to as the ‘Grant of Right to the Operator’ liability) that will not have an impact on the net debt aggregate. The accrued revenue is recognised over the remaining service concession term, whereas the assets are depreciated over their useful lives.

## Centralised Accommodation Management

In October 2019, DTF’s Shared Service Provider (SSP) commenced a phased transition to the Centralised Accommodation Management (CAM) model. From this date all SSP clients are mandated to use SSP office accommodation management services (including real estate, facilities, projects and security) in all locations (CBD, metropolitan and regional areas).

Since 1 July 2019, property leases have been recorded as both right of use asset (ROU) and an associated ROU liability by each CAM department or agency. With the transfer of control of these under CAM to DTF, these must be derecognised by departments and recognised by DTF as at 1 November 2019. The transfer of these leased assets and associated liabilities have been approved to be designated as a transfer of capital contribution from 1 November 2019 under FRD 119 5(d).

DTF have recorded these at the exact value departments de-recognised at 31 October 2019. SSP are following the same assumptions for the November movement journal under AASB 16 as departments used and are analysing where entities have used differing assumptions on lease term/options/holdovers.

DTF are currently working through the following:

* Department reporting implications re: use of space – these will be dependent on the rights the occupant has under CAM and these will be specified in an occupancy agreement for the space that departments occupy. The occupancy agreement is currently in the process of being finalised. Further advice will follow in due course.
* Finalising a submission to ERC as part of this budget process which will confirm the departmental budgets that are to be transferred to the Shared Services Provider (SSP), the departments’ accommodation and FTE savings, and resolve some of the issues identified by departments as part of the early engagement with SSP and DTF Budget and Finance. DTF will provide further information once the ERC decision has been finalised, however we will engage earlier if we require estimate variation journals prior to the confirmation of the ERC decision.
* 2019-20 Invoicing arrangements: To meet the full cost of department’s rent and other associated costs incurred by DTF since 1 October 2019, SSP will issue invoices to all clients for their 2019-20 accommodation expenses (it will not be affected through a budget transfer). These expenses will be invoiced in two separate instalments calculated using actual costs for 2019-20. The 2019-20 SSP management fee will be waived for SSP clients to assist with the CAM transition. However, in contrast to the previous practice whereby the outsourced provider fee was paid by the Government Accommodation Trust (GAT), in 2019-20 there is insufficient capacity to absorb this obligation and therefore it will need to be recovered from SSP clients. Since 1 October, these costs have been recognised in DTF’s books, so this recovery mechanism will be eliminated at a whole of government level. SSP won’t be sending invoices until clear advice can be provided on how each department accounts for these to ensure they are cost neutral. DTF Budget and Finance and SSP are working together on the requirements for this and will be in contact.

DTF Budget and Finance division and SSP are working together on the requirements for this and will be in contact with departmental representatives. Any queries regarding CAM should be directed to your DTF relationship manager.

# AASB update

## Key AASB standards effective for 2019‑20

#### AASB 15, AASB 1058 and AASB 16

For not-for-profit entities, the following accounting standards apply to reporting periods beginning on or after 1 January 2019:

* AASB 15 *Revenue from Contracts with Customers*;
* AASB 1058 *Income of Not-for-Profit Entities*; and
* AASB 16 *Leases*.

For Victorian Government entities with a 30 June year end, the initial application date was 1 July 2019.

Information about the standards have been included in previous newsletters and entities should refer to these for guidance. Entities can refer to FRD 121, 122 and 123 which prescribe the transition requirements on the application of the new standards.

Amending standards have been recently issued to amend the application of these:

#### AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities*

This Standard makes amendments to AASB 15 and AASB 1058 to permit not-for-profit entities to apply the Standards to research grants for annual reporting periods beginning on or after 1 July 2019 instead of 1 January 2019. This provides for an extended implementation period for entities with December year-ends for research grants received, if an entity chooses to apply the extension. The option to extend applies at an entity level and is not available on an individual research grant basis.

The application of AASB 15 and AASB 1058 to other sources of income is not extended and this only applies to research grant funding. FRD 121 and 122 will mandate that this extension option not be used and therefore those with a December year-end will apply the standards to all income sources from 1 January 2019.

The Standard also makes amendments to Illustrative Examples 4A and 4B accompanying AASB 15 to clarify the analysis of how paragraph 35(a) applies in respect of research grants and the transfer of research findings. Paragraph 35(a) addresses whether a customer simultaneously receives and consumes the benefits provided by an entity’s performance as the entity performs, therefore allowing revenue to be recognised over time. The amendments do not change the requirements of paragraph 35(a) or the conclusions of the Illustrative Examples.

Example 4D has also been added to illustrate a case with periodic performance obligations.

#### AASB 2019-8 *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases*

The Standard makes amendments to AASB 16 and AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to:

1. specify that not-for-profit entities right-of-use assets arising under concessionary leases can be treated as a separate class of right-of-use assets from right-of-use assets arising under other leases; and
2. provide an option for the whole of government and general government sector to measure right-of-use assets arising under concessionary leases at cost or at fair value in subsequent measurements.

The amendments will apply to annual reporting periods beginning on or after 1 January 2019.

This followed from the temporary option granted in AASB 2018-8 *Right-of-Use Assets of Not-for-Profit Entities* to not measure a class or classes of concessionary leases right-of-use assets at initial recognition at fair value, therefore allowing these to be measured at cost.

FRD 123 will mandate that entities apply the temporary option and measure concessionary leases at cost.

You should also refer to AASB 2019-2, in the AASB 1059 section below, for amendments affecting the application of AASB 16.

#### AASB 1059 Service Concession Arrangements: Grantors

AASB 1059 *Service Concession Arrangements: Grantors* applies to reporting periods beginning on or after 1 January 2020 however the State has adopted it one year earlier. This means that for entities with a 30 June year end, the initial application date was 1 July 2019.

Information about AASB 1059 has been included in previous newsletters and entities should refer to these for guidance.

**Amendments to AASB 1059 during the year are noted below:**

#### AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*

Since the last newsletter, this amending standard has been issued. The standard makes amendments to AASB 16 and AASB 1059 to:

1. amend the modified retrospective method set out in paragraph C4 of AASB 1059;
2. modify AASB 16 to provide a practical expedient to grantors of service concession arrangements so that AASB 16 would not need to be applied to assets that would be recognised as service concession assets under AASB 1059; and
3. include editorial amendments to the application guidance and implementation guidance accompanying AASB 1059.

Entities can refer to FRD 124 which prescribes the transition requirements for applying the standard. These include the application of AASB 1059 retrospectively to each prior period and early adoption at the same time as AASB 16.

Due to the transition options the State has adopted, the amendments in (a) and (b) above are not relevant to Victorian public sector reporting.

#### AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations*

Following concerns raised by the Heads of Treasuries Accounting and Reporting Advisory Committee, this Standard makes amendments to AASB 1049 to:

1. provide optional relief, for the general government sector financial statements and the whole of government financial statements (including the public non-financial corporations and public financial corporations sectors) from:
   1. disclosure of the key fiscal aggregates measured in accordance with the ABS GFS Manual where they differ from the key fiscal aggregates measured consistently with Australian Accounting Standards, which are disclosed pursuant to paragraph 16 of AASB 1049; and
   2. a reconciliation of the two measures of key fiscal aggregates; and
2. where the entity elects to adopt the optional relief – require additional disclosure to explain how each key fiscal aggregate is calculated and how it differs (not necessarily quantitatively) from its corresponding GFS measure.

The Standard applies to annual periods beginning on or after 1 January 2020, with earlier application permitted. The Victorian government will early adopt the optional relief in 2019-20.

## Key AASB Standards issued but not effective for 2019‑20

#### AASB 17 Insurance Contracts

AASB 17 *Insurance Contracts* applies to reporting periods beginning on or after 1 January 2021.

Information about the standard, including implementation issues specific to the public sector, has been included in previous newsletters. Entities should refer to these for details.

ED 292 *Amendments to AASB 17* was issued for comment in July 2019. It was issued by the International Accounting Standards Board (IASB) in response to concerns and challenges raised by stakeholders. The ED includes targeted amendments including deferring the effective date of the standard to annual reporting periods beginning on or after 1 January 2022.

Comments on the ED have closed and the AASB have communicated that the Board, at its September meeting, agreed on key recommendations to feedback to the IASB.

It is anticipated that AASB 17 will have limited impact on Victorian public sector reporting.

## Other new standards issued since 1 July 2019

We have only included amending standards below that may have an impact on Victorian public sector reporting. There have been other amending standards issued by the AASB however information has not been included below because we deem them to have no impact.

#### AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*

This Standard amends AASB 7 *Financial Instruments: Disclosures*, AASB 9 *Financial Instruments* and AASB 139 *Financial Instruments: Recognition and Measurement*. It modifies some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by the interest rate benchmark reform. It also requires entities to provide additional information about their hedging relationships that are directly affected by these uncertainties.

This will have limited impact on Victorian public sector reporting.

## Exposure drafts issued for comment by the AASB

We have only included exposure drafts below that may have an impact on Victorian public sector reporting. There have been other exposure drafts issued however information has not been included below because we deem them to have no impact.

#### ED 296 *Disclosure of accounting policies*

This ED was issued by the IASB and proposes amendments to IAS 1 *Presentation of Financial Statements* (AASB 101) and IFRS Practice Statement 2 *Making Materiality Judgements* (AASB Practice Statement 2) to help entities provide accounting policy disclosures that are more useful to primary users of financial statements. Amendments are also intended to help entities apply the concept of materiality in making decisions about accounting policy disclosures.

At present IAS 1/AASB 101 requires entities to disclose their ‘significant’ accounting policies. The ED proposes to replace this with a requirement to disclose ‘material’ accounting policies.

Comments on the ED have closed however an amending standard has not been issued.

#### ED 294 *Deferred tax related to assets and liabilities arising from a single transaction*

This ED proposes to amend IAS 12 *Income Taxes* (AASB 112) and would require an entity to recognise deferred tax on initial recognition of particular transactions to the extent the transaction gives rise to equal amounts of deferred tax assets and liabilities. These will apply to particular transactions for which an entity recognises both an asset and a liability, such as leases and decommissioning obligations.

Comments on the ED have closed however an amending standard has not been issued.

#### ED 291 *Not-for-profit entity definition and guidance*

As part of consultation undertaken in relation to the AASB’s standard-setting frameworks in 2017, respondents requested more guidance from the AASB in determining whether an entity is for-profit or not-for-profit. During this process, respondents supported the AASB monitoring and working with the New Zealand Accounting Standards Board (NZASB) on its project to update the definition of a public benefit entity (PBE).

Respondents also noted the potential usefulness of the definition of a PBE as having a greater focus on the nature and purpose of a not-for-profit. The PBE definition is a positive statement of what a PBE is whereas the current definition of a not-for-profit, applying Australian accounting standards, is a negative statement of what it is not.

Noting the feedback received, the Board decided in February 2018 to retain the term ‘not-for-profit entity’ but to consider, at a later time, amending the definition and guidance through monitoring the NZASB’s project on improving the guidance on its definition of PBE. The NZASB have since issued and finalised guidance to assist an entity in determining whether it is a PBE or for-profit entity.

The AASB have reviewed this, and with limited amendments to adapt it for the Australian context, issued the ED for comment. Comments have closed and it is expected the Board will further consider the comments received at its next board meeting.

# Other developments

## Climate-related and other emerging risks disclosures

Interest among users in understanding climate-related risk from an entity’s management is increasing. These risks are currently not included in financial statements.

Climate-related risks include those from potential acute or chronic natural disasters, change in climate patterns and the related technology, market, legal and changes in government policies risks.

Although not mandatory, Making Materiality Judgements (AASB Practice Statement 2) is the AASB’s best practice guidance for making materiality judgements. It sets out that qualitative external factors such as the industry in which an entity operates, and user expectations may make such risks material and warrant disclosures when preparing financial statements, regardless of the numerical impact.

Given the growing importance of climate-related risks to user decision making and Practice Statement 2, entities may need to consider whether disclosures should be included in their financial statements.

The AASB and Auditing and Assurance Standards Board expect that responsible officials , preparers and auditors will be considering Practice Statement 2 in the next year. Guidance has been issued covering what preparers should consider in relation to climate-related risks, financial implications and whether disclosures should be included in financial statements.

Further information can be found on the AASB website and entities should consider whether this is applicable to them (<https://www.aasb.gov.au>).

## Environment protection legislation

New environment protection legislation will commence on 1 July 2020. It focuses on preventing the waste and pollution impacts of human activities and holds duty holders more accountable for managing their effects, introducing criminal penalties for serious breaches and recovery of costs for remediation.

The legislation may impact some entities and more information can be accessed via a factsheet at <https://www.environment.vic.gov.au/__data/assets/pdf_file/0019/334450/Factsheet_Environment-Protection-Amendment-Act-2018.pdf>. Further information is also available on the [EPA website](https://www.epa.vic.gov.au/), and will expand in the lead up to commencement. The changes will not affect the reporting obligations included in FRD 24D *Reporting of office-based environmental data by government.*

## Gender Equality Bill 2019

The Gender Equality Bill 2019 was introduced to Parliament on 29 November 2019. It aims to:

* improve workplace gender equality across the Victorian public sector, universities and local councils
* level the playing field so that Victorians have equal rights, opportunities, responsibilities and outcomes.

The Bill will:

* require entities to develop a Gender Equality Action Plan that includes:
  + activities to be undertaken by the entity to address gender equality internally
  + policies, programs and services they can adopt that further improves gender equality amongst their direct stakeholders and the wider community.
* require entities to make reasonable progress against any set targets and quotas. These will be set in future regulations and tailored to an industry or sector
* require entities to report publicly every two years on their progress
* establish the Public Sector Gender Equality Commissioner.

The Bill was passed on 6 February 2020 and the legislation will commence on 31 March 2021. It is anticipated going forward that the Minister for Women will prescribe the reporting requirements which will be reflected in the FRDs relating to workforce data.

### Social Procurement Framework

While the reporting framework for social procurement is currently in place, FRD 31 *Social Procurement Framework Disclosures* is still in the process of being finalised and is not expected to be in place for reporting purposes in 2020-21.

Additional updates will be provided in future newsletters.

# 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 Financial Management of Government, 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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