Accounting policy update – newsletter

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This biannual 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

In this newsletter, we highlight a range of recent financial reporting developments that are relevant for Victorian public sector entities and provide a number of important reminders.

New developments covered in this newsletter include:

* forthcoming new fair value measurement and insurance-related requirements for public sector entities
* AASB’s post-implementation review of major not-for-profit accounting standards
* recent amendments to sale and leaseback accounting requirements
* Commonwealth Treasury’s consultation on sustainability reporting standard setting framework in Australia
* A DTF initiative to further strengthen collaboration and engagement between DTF and departmental financial reporting teams.

Key reminders include:

* reminders for 31 December 2022, including AASB 124 *Related Party Disclosures* ministerial declarations, interim valuation assessments and annual attestations required by standing directions
* accounting for cloud-computing arrangements in light of IFRS Interpretation Committee’s 2021 agenda decision.

# Developments

## Departmental engagement

The Accounting Policy team will be launching a series of quarterly departmental liaison meetings in 2023 in conjunction with our Consolidated Reporting and Analysis and Portfolio Analysis teams. The objective of these liaison meetings is to further strengthen our collaboration and engagement on financial reporting matters. This will be individual liaison with each department at two levels, one with CFOs and Deputy CFOs, and the other focused on directors and managers in the financial reporting area.

There are also plans to relaunch our annual departmental workshop in 2023 in the lead-up to 30 June, covering changes to the Model Report, recent changes to FRDs and other financial reporting developments. This workshop is expected to be held around April/May 2023.

## Model Report for Victorian Government Departments

### 2022-23 Model Report

Work is currently underway on the 2022-23 edition of the *Model Report for Victorian Government Departments*.

The updated model will include, among other changes, the new environmental disclosures required to comply with the revised FRD 24 *Reporting of environmental data by government entities* (June 2022).

The updated model is expected to be released in late March 2023.

## Machinery of government changes

On [5 December 2022](http://www.gazette.vic.gov.au/gazette/Gazettes2022/GG2022S673.pdf), the re-elected Government announced its machinery of government changes (MoG). Affected departments and agencies are encouraged to refer to [*The Machinery of government changes - VPS operating manual*](https://www.dtf.vic.gov.au/financial-management-government/machinery-government-changes-vps-operating-manual) (MoG Manual) as it outlines the agreed framework and protocols for working through the changes across government.

# Reminders for 31 December 2022

## AASB 124 *Related Party Disclosures*

### Ministerial declarations for the 2022-23 reporting period

To support the finalisation 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 entities have a 30 June year‑end.

Typically, the first submission of declarations by ministers covers the period 1 July to 31 December (completed in January), followed by a second submission covering 1 January to 30 June (completed in July).

However, with the recent election and caretaker period, there will be two declarations collected for the period between 1 July and 31 December 2022 – the first covers the period 1 July to 31 October (caretaker commenced 1 November) and the remaining period covers the period when Cabinet ministers were appointed, i.e. 5 December to 31 December 2022. For ministers who were subsequently appointed, their declarations commence from their appointment date.

The second submission will cover the period 1 January 2023 to 30 June 2023 and is expected to be completed by mid-July 2023.

It should be noted that the composition of the Cabinet and ministerial appointments have changed following the state election on 26 November 2022. Therefore, the ministers that will complete the relevant portfolio declarations for parts of the year may be different.

Consistent with previous reporting periods, where there are any transactions reported, DTF will give the relevant 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, before they are finalised in your annual financial report.

### Movements in key management personnel for departments and agencies

Disclosures for the 31 December 2022 reporting period will need to include information relevant to movements of all key management personnel during the relevant financial reporting period, including any executive appointments and departures.

### Guidance information

A declaration certificate, checklist and comprehensive guidance are included on DTF’s website to assist entities to comply with AASB 124 at: <https://www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures>

## Interim valuation assessments

With the release of the October 2022 indices, entities with 30 June reporting periods are encouraged to use these indices to perform interim assessments of their assets to determine whether any material movements in fair value have occurred. For entities with 31 December reporting periods, the October indices are used for the valuations assessments at reporting date, as these indices reflect a more current view of valuation movements than the April indices previously published.

Key points for Victorian public sector (VPS) entities to note when performing interim assessments include:

1. fair value assessments should be conducted annually (between formal scheduled revaluations) using appropriate fair value indicators, which includes the Valuer-General Victoria (VGV) land and building indices and other relevant factors
2. this assessment should take into consideration the appropriate fair value indicators to determine whether any material (greater than 10 per cent but less than 40 per cent) or exceptionally material (greater than 40 per cent) changes in the asset’s value have occurred
3. for land, entities may use the VGV land indices, which are based on the postcode of each property. Indices are provided for each of the land types – residential, industrial, commercial and Englobo (development land). Entities should adopt the appropriate indices depending on the zoning of land, rather than what it is being used for
4. infrastructure assets valued on a current replacement cost (CRC) basis should be assessed against relevant indices for the cost of construction
5. for non‑specialised buildings valued on a market value basis, no separate indices are produced by the VGV. Entities may use the building indices, which are based on market values, as a guide for their assessment
6. for specialised buildings valued on a CRC basis, entities may use the VGV building cost indexation factors on the DTF website for their assessment
7. assessment of movements in asset values against the appropriate indices is on a compounding or cumulative basis. This means movements should be considered in aggregate for the interim years between last managerial/formal scheduled revaluations (i.e. years one to four).

For further guidance on information on interim valuation assessments, including an example of how to assess fair value movements on a cumulative basis, refer to the *Guidance on application of FRD 103* document available on <https://www.dtf.vic.gov.au/financial-reporting-policy/financial-reporting-directions-and-guidance>.

The VGV’s land indices can be found at: <https://www.dtf.vic.gov.au/financial-reporting-policy/valuer-general-land-indices>

Victorian government 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 31) contained 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).

## Standing Directions – annual report attestation

The Standing Directions 2018 under the *Financial Management Act 1994* (2018 Standing Directions) require a financial management compliance formal attestation statement in an entity’s annual report. Agencies with a **31 December** reporting date must complete an attestation statement for the period **1 January 2022** to **31 December 2022** covering all applicable Standing Directions and Instructions as required and as prescribed by Instruction 5.1, clause 2.2.

The 2018 Standing Directions are available on the DTF website at: [www.dtf.vic.gov.au/financial-management-government/standing-directions-2018-under-financial-management-act-1994](http://www.dtf.vic.gov.au/financial-management-government/standing-directions-2018-under-financial-management-act-1994)

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).

## 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 most recently published rates should be used by entities to remeasure their employee benefit provisions for the current reporting period.

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 budget. The discount rates are representative of the yield of Commonwealth Treasury bonds, published by the Reserve Bank of Australia.

The annual discount rate had a net increase during the 2022 calendar year that, all else being equal, will reduce the present value of the annual and long service leave liabilities.

The 31 December wage inflation rate is expected to be released on the DTF website on 3 January 2023.

## Resource Management Framework

The Resource Management Framework (RMF) assists Victorian Government departments in understanding and implementing the legislative and administrative 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 was last updated in June 2022 and is available on the DTF website at this link: <https://www.dtf.vic.gov.au/planning-budgeting-and-financial-reporting-frameworks/resource-management-framework>

## Key financial publication dates for the State of Victoria

At the time of writing this newsletter, the 2023-24 budget date has not yet been announced. The legislative due dates for other publications are included in the *Financial Management Act 1994* (FMA), available at the following address: <https://www.legislation.vic.gov.au/in-force/acts/financial-management-act-1994/065>

# Australian Accounting Standards update since 1 July 2022

There are no major Australian Accounting Standards that become effective for the first time in 2022-23. However, there have been some developments that may have an impact on Victorian public sector reporting. The Accounting Policy team continues to monitor developments and should the need arise to provide more information or issue guidance, departmental representatives will be informed accordingly.

## AASB 2022-5 *Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback*

On 10 November 2022, the Australian Accounting Standards Board (AASB) issued AASB 2022-5 *Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback*.

This Standard amends AASB 16 *Leases* to add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in AASB 15 *Revenue from Contracts with Customers* to be accounted for as a sale.

AASB 16 already requires a seller-lessee to recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The amendments made by this Standard ensure that a similar approach is applied by also requiring a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that does not recognise any amount of the gain or loss related to the right of use it retains.

This Standard applies to annual periods beginning on or after 1 January 2024, with earlier application permitted.

Further details can be found at this link : [*AASB 2022-5 Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback*](https://www.aasb.gov.au/admin/file/content105/c9/AASB2022-5_11-22.pdf).

## Not-for-profit domestic post-implementation reviews

The AASB is seeking feedback from stakeholders to assist its assessment of whether certain requirements of Australian Accounting Standards that apply to not-for-profit (NFP) public and private sector entities continue to meet their original objectives, including whether the requirements remain appropriate.

[ITC 49 *Post-implementation Review of AASB 1059 Service Concession Arrangements: Grantors*](https://aasb.gov.au/admin/file/content105/c9/ITC49_09-22.pdf) seeks feedback from stakeholders whether there are:

* application issues causing divergence in how service concession arrangements are being recognised by public sector entities
* emerging issues that were not contemplated when the Standard was developed.

[ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities*](https://www.aasb.gov.au/admin/file/content105/c9/ITC50_11-22.pdf) considers the accounting for income of NFP entities set out in:

* AASB 1058 *Income of Not-for-Profit Entities*
* Appendix F of AASB 15 *Revenue from Contracts with Customers*.

[ITC 51 *Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements*](https://www.aasb.gov.au/admin/file/content105/c9/ITC51_11-22.pdf) considers:

* Appendix E of AASB 10 *Consolidated Financial Statements*
* Appendix E of AASB 12 *Disclosure of Interests in Other Entities*
* AASB 124 *Related Party Disclosures* by NFP public sector entities
* AASB 1054 *Australian Additional Disclosures* requirements relating to special purpose financial statements.

ITC 49 is open for comment until 28 February 2023 while ITC 50 and ITC 51 are open until 31 March 2023.

## Sustainability reporting – empowering the AASB to deliver sustainability reporting standards

After publishing its proposed standards in March 2022, the International Sustainability Standards Board (ISSB) has received more than 1 400 comment letters from all over the world and from a wide range of stakeholders on its Exposure Drafts:

* IFRS S1 *General requirements for disclosure of sustainability-related financial information*
* IFRS S2 *Climate-related disclosures*.

The ISSB is currently in the process of redeliberating its proposals, with a view to issuing the final standards in 2023.

The AASB also consulted locally on the ISSB exposure drafts to gather feedback and provide input into the ongoing work of the ISSB. The feedback expressed a strong demand from Australian businesses, investors, financial institutions and the public sector for Australian sustainability standards to align with the ISSB baseline.

To facilitate the development of sustainability standards and climate disclosure, the Commonwealth Treasury has recently published for comment [Exposure Draft Legislation](https://treasury.gov.au/consultation/c2022-340878) which seeks to amend parts of the *Australian Securities and Investment Commission (ASIC) Act 2001* that will empower:

* The AASB to develop and formulate sustainability standards
* The Auditing and Assurance Standard Board (AUASB) to develop and maintain relevant assurance standards for sustainability purposes
* The Financial Reporting Council (FRC) to provide strategic oversight and governance functions in relation to the AASB’s and AUASB’s sustainability standards functions.

This amendment will extend the Australian financial reporting system to include the development and assurance of sustainability standards. It will also allow the AASB to establish, in the first instance, non‑binding reporting requirements for sustainability that will align with international standards developed by the ISSB. The FRC will have oversight of sustainability standard-setting processes and governance of the standard‑setting bodies.

Comments on Treasury’s Exposure Draft are due on 16 December 2022.

# Other developments and reminders

## Forthcoming amendments – fair value measurement and insurance activities in the public sector

The AASB has substantially completed the redeliberation of its proposals in Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* and ED 319 *Insurance Contracts in the Public Sector* (refer to the July 2022 edition of Accounting Policy Newsletter for more information on EDs 320 and 319).

The AASB is expected to finalise the resulting amendments to AASB 13 *Fair Value Measurement* and AASB 17 *Insurance Contracts* at its 14–15 December 2023 board meeting. The amending standards are anticipated to be released in the coming weeks.

It is expected that the amendments to AASB 13 will apply to annual reporting periods beginning on or after 1 January 2024 whereas the amendments to AASB 17 will apply to annual reporting periods beginning on or after 1 July 2025 (with early application permitted for both standards).

## Accounting for cloud computing arrangements

With the increased use of cloud computing arrangements within the Victorian public sector, this is a reminder that entities need to consider the effect of the [March 2021 IFRS Interpretations Committee (IFRIC) agenda decision](https://www.ifrs.org/news-and-events/updates/ifric/2021/ifric-update-march-2021/#5) when accounting for such arrangements.

The agenda decision clarifies how a customer should account for costs of configuring or customising a supplier’s application software in a cloud computing arrangement (such software as a service [SaaS] arrangement). This needs to be considered in relation to your existing as well as new cloud computing arrangements.

If you would like more about the IFRIC agenda decision or the impact it may have on your department or agency, there are plenty of resources freely available on the internet. We have listed below a number of publications released by professional services firms that you may find useful:

* Deloitte: [Clarity in financial reporting – Software as-a-Service arrangements](https://www2.deloitte.com/content/dam/Deloitte/au/Documents/audit/deloitte-au-audit-clarity-software-as-a-service-arrangements-200521.pdf)
* Grant Thornton: [IFRS Viewpoint – Configuration or customisation in a cloud computing arrangement](https://www.grantthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/2021/ifrs-viewpoint-12.pdf)
* BDO: [SAAS implementation costs – Do you need to write these off at 30 June 2021](https://www.bdo.com.au/en-au/accounting-news/accounting-news-may-2021/saas-implementation-costs)
* KPMG: [Reporting Update – Cloud computing arrangement costs](https://assets.kpmg/content/dam/kpmg/au/pdf/2021/21ru-005-cloud-computing-arrangement-costs.pdf)
* EY: [Applying IFRS – Accounting for cloud computing costs](https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/ifrs/ey-apply-ifrs-cloud-computing-july-2021.pdf?download)

# How to contact us

## AccPol mailbox

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.gov.au](http://www.aasb.gov.au) for information on AASB pronouncements, invitations to comment, discussion papers and exposure drafts.

**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) 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 at 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 relevant developments.

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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