

Accounting Policy Update – bulletin

Simplification of public sector financial reports

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This bulletin outlines our proposal to simplify Victorian public sector financial reports by introducing a tiered approach to entity financial reports.

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In brief

- DTF is proposing to introduce a tiered approach to entity financial reports and simplify Victorian public sector financial reports from financial year ending 30 June 2025.
- Under the proposed approach, the vast majority of the State's entities will transition to a shorter and more simpler form of financial reports with significant reductions in the required level of disclosures.
- DTF is currently undertaking stakeholder consultations on the proposals, including two sector-wide roundtables on 29 February and 13 March 2024.
- Subject to stakeholder feedback, DTF will finalise and release the final requirements around May 2024, effective for financial year ending 30 June 2025 (with a likely option for voluntary early adoption for financial year ending 30 June 2024).

Introduction

Australian Accounting Standards (AAS) have allowed two tiers of general purpose financial reports (GPFR) for some time. Tier 1 financial reports comply with all AAS recognition, measurement, presentation and disclosure requirements. Tier 2 financial reports are identical to Tier 1, except that they benefit from substantially reduced disclosure requirements. Tier 1 and Tier 2 are both legitimate forms of GPFR under AAS.

Currently, all Victorian public sector entities prepare the full Tier 1 financial reports. Recognising the benefits of shorter, simpler and more understandable entity financial reports and the potential time and cost savings for financial statement preparers and auditors, DTF is proposing to implement a differential reporting framework within the Victorian public sector from financial year ending 30 June 2025.

This bulletin provides more background context around the evolution of tiered financial reporting in Australia, explains the Tier 2 framework and our proposal to implement tiered reporting within the Victorian public sector.

The evolution of tiered reporting in Australia

Pre-2013, GPFRs produced in Australia needed to comply with all the requirements of Australian Accounting Standards (AAS). This meant GPFRs complied in full with all AAS recognition, measurement and disclosure requirements.

This single GPFR landscape changed when the Australian Accounting Standards Board (AASB) released a differential reporting framework in July 2010, applicable for financial years beginning on or after 1 July 2013. Under this differential reporting framework, eligible entities were able to adopt the so called 'Reduced Disclosure Requirements' (RDR). RDR represented Tier 2 financial reports which complied with all recognition and measurement requirements in AASs, however with reduced disclosure requirements.

In March 2020, the AASB released the so called 'Simplified Disclosures' (SD) replacing the RDR regime, applicable for financial years beginning on or after 1 July 2021. SD further refined the Tier 2 framework through significant additional disclosure reductions, making Tier 2 a much more attractive option for entities. Key areas of disclosure relief under Tier 2 include disclosures around fair value measurement, financial instruments, accounting standards issued but not yet effective, leases, revenue, joint ventures, associates, key management personal remuneration, property, plant and equipment and intangible assets.

AAS permit Tier 2 financial reports for all public sector entities (whether for-profit or not-for-profit), other than whole of government financial reports of the Australian government and state, territory and local governments.

Victorian public sector context

Victoria has continued the historic practice of preparing Tier 1 financial reports and thus all our Victorian public sector entities currently prepare full Tier 1 financial reports. Victoria did consider the viability of adopting Tier 2 in the past, however decided against it for a number of reasons. However, having undertaken more research (including around cost/benefit considerations) and reflecting on the positive Tier 2 journey of some of the other Australian jurisdictions, we now feel the time is right for Victoria to embrace tiered reporting and simplify Victorian public sector financial reports.

Our proposed approach to implementing tiered reporting within Victoria

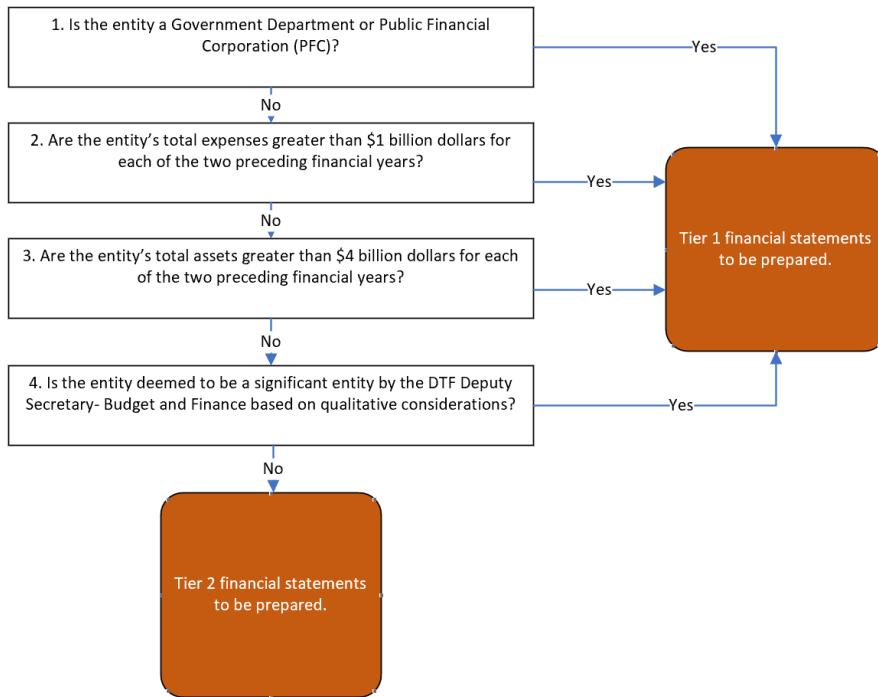
We're proposing to implement a tiered financial reporting framework within Victoria, with eligibility for Tier 2 determined based on a principle-based criteria reflecting entity size and risk considerations.

To facilitate easier and objective classification between Tier 1 and Tier 2, we have come up with the term 'significant entity'.

An entity is a 'significant entity' if any of the following are met:

- (a) the entity is a Government Department or Public Financial Corporation;
- (b) the entity's total expenses are greater than \$1 billion for each of the two preceding financial years;
- (c) the entity's total assets are greater than \$4 billion for each of the two preceding financial years; or
- (d) the entity is deemed to be a significant entity by the DTF Deputy Secretary - Budget and Finance based on qualitative considerations.

Decision Tree



Entities that meet the significant entity definition will continue their current practice of preparing Tier 1 financial reports. Entities that do not meet the 'significant entity' definition will prepare the more simpler Tier 2 financial reports.

Under our proposed approach, the State's 45 largest (or higher risk profile) entities will continue to prepare Tier 1 financial reports, with the remaining 239 entities transitioning to Tier 2 financial reports. Appendix A provides a list of entities that will continue Tier 1 financial reports under the proposals. All other Victorian public sector entities will transition to Tier 2 should the proposals be finalised in their current form.

As all Victorian public sector entities currently prepare the full Tier 1 financial reports, practically this would mean that those entities that transition to Tier 2 will simply reduce the level of disclosures in their financial reports going forward.

The logistics

DTF is currently in the process of undertaking stakeholder consultations on its proposals, including two sector-wide roundtables on 29 February and 13 March 2024. If you would like to register to attend one of these roundtables, please contact the Accounting Policy team.

Subject to stakeholder feedback, DTF will finalise and release the final requirements around May 2024, effective from financial year ending 30 June 2025. If there is stakeholder support for allowing voluntary early adoption for financial year ending 30 June 2024, we will consider permitting voluntary early adoption.

As this is an accounting policy decision within the existing legislative framework and AAS, no changes are required to existing legislation or Financial Reporting Directions (FRDs). Upon a final "go" decision in mid-2024, a new FRD will be issued to give effect to the rollout of tiered financial reporting for Victorian public sector entities.

There will be no need for changes to the *Audit Act 1994* or audit requirements as both Tier 1 and Tier 2 financial reports will continue to be subject to audit. There will also be no changes to entity level systems or record keeping requirements as entities will continue to keep existing systems and data and provide the necessary data feeds for the whole of state financial publications as per the normal practice.

DTF will release a Tier 2 model report and provide the necessary training/resources in due course to help facilitate the transition to Tier 2 financial reports.

How to contact us?

If you have any questions on the project, please contact us at accpol@dtf.vic.gov.au.

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Appendix A- Proposed list of Tier 1 entities

Entity Name	Government Department or Public Financial Corporation?	Total expenses greater than \$1 billion for the two preceding financial years?	Total assets greater than \$4 billion for the two preceding financial years?	Deemed to be a significant entity based on qualitative considerations?
Government Departments				
Department of Education	✓	✓	✓	
Department of Energy, Environment and Climate Action	✓	✓	✓	
Department of Families, Fairness and Housing	✓	✓	✓	
Department of Health	✓	✓	✓	
Department of Jobs, Skills, Industry and Regions	✓	✓		
Department of Justice and Community Safety	✓	✓	✓	
Department of Premier and Cabinet	✓			
Department of Transport and Planning	✓	✓	✓	
Department of Treasury and Finance	✓	✓	✓	
Department of Government Services	✓			
Public Financial Corporations				
Transport Accident Commission	✓	✓	✓	
Treasury Corporation of Victoria	✓		✓	
Victorian Managed Insurance Authority	✓			
Victorian WorkCover Authority	✓	✓	✓	

Entity Name	Government Department or Public Financial Corporation?	Total expenses greater than \$1 billion for the two preceding financial years?	Total assets greater than \$4 billion for the two preceding financial years?	Deemed to be a significant entity based on qualitative considerations?
Breakthrough Victoria Pty Ltd	✓			
State Trustees Limited	✓			
Victorian Funds Management Corporation	✓			
Health Portfolio Agencies				
Eastern Health		✓		
Melbourne Health		✓		
Monash Health		✓		
Alfred Health		✓		
Ambulance Victoria		✓		
Austin Health		✓		
Barwon Health		✓		
The Royal Children's Hospital		✓		
Western Health		✓		
Water Corporations				
Goulburn–Murray Rural Water Corporation			✓	
Greater Western Water Corporation		✓		
Melbourne Water Corporation		✓	✓	
South East Water Corporation			✓	
Yarra Valley Water Corporation			✓	

Entity Name	Government Department or Public Financial Corporation?	Total expenses greater than \$1 billion for the two preceding financial years?	Total assets greater than \$4 billion for the two preceding financial years?	Deemed to be a significant entity based on qualitative considerations?
Justice and Community Safety Agencies				
Office of the Chief Commissioner of Police		✓	✓	
Victorian Gambling and Casino Control Commission		✓		
Victorian Legal Services Board			✓	
Fire Rescue Victoria		✓		
Transport and Planning Portfolio Agencies				
Victorian Rail Track		✓	✓	
Suburban Rail Loop Authority				✓
Northeast Link State Tolling Corporation				✓
V-Line		✓		
Melbourne Port Lessor Pty Ltd			✓	
Creative Industries & Tourism Agencies				
National Gallery of Victoria			✓	
Melbourne Arts Precinct Corporation				✓
Australian Grand Prix Corporation				✓
Environmental Portfolio Agencies				
Parks Victoria			✓	
State Electricity Commission				✓