Accounting policy update – newsletter

Edition No. 41 December 2021

Scope: 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 hopes of simplifying and improving upon the existing Accounting Policy frameworks, the Accounting Policy team has been working on several new developments to the Model Report and Financial Reporting Directions that should make them more timely and user friendly for preparers. This edition of the Accounting Policy update provides detail on some of these updates under the **Developments** section on page 2.

As we are halfway through the June 2021–22 financial year, all entities 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 processes
* assess annually their non-financial assets to ensure these are carried at fair value and consider whether a revaluation is required
* update wage inflation rates, as following the release of the *2021‑22 Budget* the wage inflation rate was revised.

# Developments

## Back-to-basics

The Accounting Policy Team launched an accounting technical initiative in November 2021 entitled **Back-to-basics** with the aim of addressing some fundamental accounting principles in layman’s terms. The purpose of the initiative is to provide a refresher to finance and other staff that work across the broader Victorian public sector and increase financial literacy and understanding of the financial consequences of decisions that impact the public sector.

After an initial consultation with departmental representatives, the initial scope of the presentations was set as:

* Foundations of cost capitalisation – *delivered on 23 November 2021*
* Departmental reporting (controlled vs. administered / transactions vs. other economic flows) – *delivered on 25 November 2021*
* Structuring considerations - control/significant influence/or simply an investment – *delivered on 2 December 2021*
* Capital contributions v operating grants – *delivered on 7 December 2021*

These sessions were presented by Karen Foo and were recorded.

Keep an eye out for more sessions in the new year and feel free to reach out to your departmental representative for more information.

## Model Report for Victorian Government departments

### Guidance on amending reporting requirements of the Model Report and related Financial Reporting Directions

The Accounting Policy team developed a guidance document to help teams understand the process required to make amendments or introduce new disclosure requirements in the Model Report and related Financial Reporting Directions. This document also addresses some of the frequently asked questions the Accounting Policy team receives on this topic.

The guidance document is available on the DTF website at the following address: <https://www.dtf.vic.gov.au/financial-reporting-policy/model-report>

### Anticipated changes to the Model Report

In October 2021, the Accounting Policy Team held a consultation session with the sector on the planned changes to the Model Report. The consultation received an overwhelmingly positive response and the changes were approved by the Assistant Treasurer in December 2021. The changes are as follows:

1. The publishing schedule has been altered to include (at least) two updates per year, with a non-technical update occurring in November/December, a technical update in March/April and other essential updates occurring throughout the year (updates outside of two scheduled timeframes are expected to be extremely rare). This iterative approach will be adopted starting 1 July 2022, with the first non-technical update likely to occur in November/December 2022.
2. Current and comparative years in the Model will be replaced with generic placeholder years (e.g. 20X1 and 20X2) to eliminate the need to update the report periods for every edition of the Model. Note that this change will be made in the upcoming 2021–22 Model Report.

The Summary of Changes document will continue to be published alongside the Model on the DTF website. This document will be expanded on to explain the nature of the changes that have been applied to the Model and will be updated throughout the financial year. A sample version of the Summary of Changes is included below.



### 2021–22 Model Report

The Department of Treasury and Finance (DTF) has commenced preparatory work on the 2021–22 Model Report and has set an anticipated release date of late March 2022.

At the time of issuing this newsletter, no significant new requirements are anticipated to be included in the Model Report, but the Financial Frameworks team are currently reviewing potential changes to the Report of Operations. Any changes occurring as result of this review will be incorporated in the Summary of Changes document and communicated to stakeholders at the earliest opportunity.

## Financial Reporting Directions and guidance notes

### Update to the naming convention of FRDs

In September 2021, the Assistant Treasurer approved an update to the naming convention of FRDs. The alphabetical designation included in the title of each FRD will be removed (i.e. FRD 17B will now be known simply as FRD 17). This update will be reflected on the DTF website in the coming months.

All FRDs will continue to include the month and year of the most recent update in the header, and an up-to-date log of changes will still be maintained at the foot of each document.

## AASB update

At the recent board meeting in November, AASB made key decisions in relation to:

* Income of Not-for-Profit Entities – Narrow-scope Amendments
* Right-of-Use Assets of Not-for-Profit Entities under Concessionary Leases
* First-time Adoption of AASB 1 by a Subsidiary
* Disclosures of Accounting Policies – Amendments to Tier 2 and Other Australian Accounting Standards
* Insurance Activities in the Public Sector
* Not-for-Profit Private Sector Financial Reporting Framework
* Fair Value Measurement for Not-for-Profit Entities
* Disclosure Initiatives

Further details can be found in the action alert: <https://aasb.gov.au/media/byim0vv1/211-actionalert.pdf>

The Accounting Policy team continue to monitor developments and should the need arise to provide more information or issue guidance, departmental representatives will be informed accordingly.

## Tier 3 reporting

The Financial Reporting Council has a working group that is undertaking a review of financial reporting in the public sector, with a proposal to streamline reporting for smaller entities to reduce cost and complexity in reporting. While the scope of application is yet to be determined, more work will be undertaken by the AASB to refine the proposal and a further consultation with its constituents is planned.

Reporters are encouraged to keep a close eye on developments and share any feedback with the Accounting Policy team as the Tier 3 reporting requirements take shape.

## Sustainability reporting

Sustainability Reporting Standards are increasingly becoming a matter of importance and interest at the national and international levels.

On 3 November 2021, the IFRS foundation established the International Sustainability Standards Board (ISSB).

The intention for the ISSB is to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies’ sustainability-related risks and opportunities to help them make informed decisions.

The IFRS foundation published two prototype standards:

* General Requirements for Disclosure of Sustainability-related Financial Information Prototype
* Climate-related Disclosures Prototype, which includes a supplement Technical Protocols for Disclosure Requirements (Climate-related disclosures).

The AASB has subsequently sought constituent feedback on how sustainability reporting standards/requirements should be rolled out in Australia, including whether the AASB or another institution should assume this role and what the roll-out approach should be. Further updates will be provided in future communications as developments unfold.

Further detail can be found here: <https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/>

# Reminders for 31 December 2021

## AASB 124 *Related Party Disclosures*

### Ministerial declarations for the 2021–22 reporting period

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

The first submission of declarations in relation to related party transactions by ministers for 2021–22 covers the period 1 July to 31 December 2021 and is expected to be completed end of January 2022.

The second submission covers the period 1 January 2022 to 30 June 2022 and is expected to be completed by mid-July 2022.

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.

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

Disclosure for the 2021–22 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 2021 indices (covering the calendar year 1 January to 31 December 2021), 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 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 include the 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 has 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 land 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 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).

## Standing Directions – annual report attestation

The Standing Directions 2018 under the *Financial Management Act 1994* (2018 Standing Directions) require a formal attestation statement in your annual reports. Agencies with a 31 December reporting date must complete an attestation statement for the period **1 January 2020** to **31 December 2020**, 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: <https://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).

## Superannuation Guarantee Levy

Consistent with the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014* passed in September 2014, the SGL rates will increase.

The next Superannuation Guarantee Levy (SGL) rate change for departments and agencies will be effective from 1 July 2022 when the rate will increase by 0.5 per cent to 10.5 per cent. These annual increases of 0.5 per cent will continue until the SGL reaches 12 per cent on 1 July 2025.

## 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 2021 calendar year that, all else being equal, will reduce the present value of the annual and long service leave liabilities.

A revised wage inflation rate based on the Budget Update will be published on the DTF website on 4 January 2022 at the following address: <https://www.dtf.vic.gov.au/financial-reporting-policy/wage-inflation-and-discount-rates>

## 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 2021 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 this newsletter’s writing, the 2022–23 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

There are no key AASB standards that become effective in 2021–22.

### AASB 17 *Insurance Contracts*

Information about AASB 17, including implementation issues specific to the public sector, has been included in previous newsletters. Entities should refer to these for details.

## Other new standards issued since 1 July 2021

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 that we view to have limited impact, and these have been omitted from the list below. All amending standards are included on the AASB website, should you need to refer to them.

### AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date*

This standard amends AASB 101 *Presentation of Financial Statements* to defer requirements for the presentation of liabilities in the statement of financial position as current or non-current that were added to AASB 101 in AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* (refer to June 2020 newsletter for details).

The amendments will now apply to annual reporting periods beginning on or after 1 January 2023 instead of 1 January 2022, with earlier application permitted. This amendment is not expected to have a significant impact on the Victorian Public Sector.

### AASB 2021-3 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions beyond 30 June 2021*

This standard amends AASB 16 to extend by one year the application period of the practical expedient added to AASB 16 by AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions*.

The practical expedient permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.

This standard extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. This standard applies to annual periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not authorised for issue at the date this Standard was issued.

### AASB 2021-6 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards*

This Standard makes amendments to AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007), AASB 1054 *Australian Additional Disclosures* (May 2011) and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020).

AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* amended AASB 101 *Presentation of Financial Statements* and three other Standards to address disclosure of material accounting policy information rather than significant accounting policies. These amendments were designed to help entities provide accounting policy disclosures that are more useful to the users of their financial statements.

This Standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted.

# Other developments

## Exposure Draft (ED) 2021/1 Regulatory assets and regulatory liabilities

The International Accounting Standards Board (Board) is proposing an accounting model to supplement the information that an entity already provides by applying IFRS Standards. The proposed model is based on the principle that a rate regulated entity should reflect the total allowed compensation for goods or services supplied in a period as part of its reported financial performance for that period.

To implement that principle, an entity would recognise in its statement of financial position:

1. regulatory assets—enforceable present rights to add an amount in determining future regulated rates because part of the total allowed compensation for goods or services already supplied will be included in revenue in the future
2. regulatory liabilities—enforceable present obligations to deduct an amount in determining future regulated rates because the revenue already recognised includes an amount that will provide part of the total allowed compensation for goods or services to be supplied in the future.

As a result, an entity would recognise in its statement(s) of financial performance:

1. regulatory income to depict a part of the total allowed compensation for goods or services supplied in the current period that was included in revenue in past periods, or will be included in revenue in future periods
2. regulatory expense to depict an amount included in revenue in the current period that provides part of the total allowed compensation for goods or services that were supplied in past periods or will be supplied in future periods.

We will keep you abreast of any developments in this area as the ED progresses.

## Streamlining financial statements

VAGO released an article associated with streamlining of financial statements: <https://www.audit.vic.gov.au/news/streamlining-public-sector-financial-statements-tips-and-tricks-20210127>.

The working sessions that were previously foreshadowed will no longer take place this year. More information will follow on how and when this initiative will be progressed.

# 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.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) 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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