Accounting policy update – newsletter

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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.

### Inside this edition

[Overview 1](#_Toc138149330)

[Developments 2](#_Toc138149331)

[Reminders for 30 June 2023 3](#_Toc138149332)

[Australian Accounting Standards update 6](#_Toc138149333)

[Other updates 8](#_Toc138149334)

[How to contact us 9](#_Toc138149335)

# Overview

In this newsletter we highlight a range of recent financial reporting developments relevant to Victorian public sector entities and provide several important reminders for year-end reporting.

New developments covered in this newsletter include:

* The release of the 2022-23 Model Report and highlights of the key changes made to the model
* Public sector-specific amendments to Australian Accounting Standards in relation to the fair value measurement and insurance accounting requirements
* Proposed amendments to the classification and measurement of financial instruments arising from the post-implementation review of AASB 9 *Financial Instruments* (IFRS 9 internationally).

Key reminders for the year-end include related party ministerial declarations, year-end valuation assessments and annual attestations required by the standing directions.

# Developments

## Release of *2022–23 Model Report for Victorian Government Departments*

The *2022-23 Model Report for Victorian Government Departments* was released in April 2023. This Model Report is available on the DTF website along with a list of key changes from the previous year’s publication.

The Model Report can be found at the following link

<https://www.dtf.vic.gov.au/model-report/2022-23-model-report>

Key changes to the Model Report include:

* revised and expanded environmental disclosures required by FRD 24 *Reporting of environmental data by government entities*
* addition of new disclosures on emergency procurements arising from Victorian Government’s *Governance – goods and services policy.*

Post the release of the Model Report, the Accounting Policy team hosted a workshop *What’s new for 30 June 2023 year-end reporting*. This workshop was aimed at informing the public sector about the Model Report changes and other key developments relevant for 30 June 2023 year-end reporting and beyond.



## Sustainability reporting

In April 2023, we released a bulletin on sustainability reporting. This bulletin can be found at the following link:

[https://www.dtf.vic.gov.au/financial-management-government/accounting-policy-update-newsletters](https://www.dtf.vic.gov.au/sites/default/files/document/Accounting%20Policy%20Bulletin%20-%20edition%201%20-%20Sustainability%20reporting%20developments%20-%20April%202023.pdf)

There have been no major sustainability reporting related developments since the release of our bulletin in late April.

As noted in our bulletin, two new global sustainability standards are expected to be issued by the International Sustainability Standards Board (ISSB) by the end of June 2023.

# Reminders for 30 June 2023

## AASB 124 *Related Party Disclosures*

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

To support the preparation of financial reports by public sector entities, information consistent with the requirements of AASB 124 *Related Party Disclosures* is collected twice each financial year from cabinet ministers.

The first submission of the declarations (covering the period from 1 July 2022 to 31 December 2022) was completed in January 2023.

The second submission covering the period from 1 January 2023 to 30 June 2023 is expected to be completed by mid-July 2023. Due to the recent machinery of government changes, declarations from outgoing and new incoming ministers are currently being sought.

If any related party transactions are identified, DTF will provide the information to the relevant portfolio entities. The portfolio entity should perform a ‘significance’ and ‘materiality’ assessment on the nature and amount of the transaction identified. Prior to any related party disclosures occurring in the financial report, DTF and the relevant ministers need to be consulted.

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

Entities will need to include information relevant to movements of all key management personnel during the financial year, including any executive appointments and departures. Due to the machinery of government changes that occurred in the 2022-23 financial year, entities are encouraged to ensure the disclosures include all relevant ministers for the current year.

### Remuneration of key management personnel

Ministers’ remuneration and allowances are set by the *Parliamentary Salaries and Superannuation Act 1968*. Similar to the prior financial year, this ministerial remuneration disclosure will be reported within the State’s Annual Financial Report. When preparing annual financial reports, entities should include a reference to the information on ministers’ remuneration in the State’s Annual Financial Report.

### Guidance information

A declaration certificate, checklist and comprehensive guidance are included on DTF’s website to assist entities to comply with AASB 124. Please refer to the following link to access this information.

[www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures](http://www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures)

## Year-end valuation assessments

Entities are reminded to ensure they have conducted their year-end valuation assessments for the end of the financial year.

Entities would have already conducted their 2022-23 interim valuation assessments, using the 31 December 2022 indices that were released in November 2022 as a preliminary indicator to assess how the fair values for land have moved for the period. For **30 June 2023**, entities will need to finalise their valuation assessments using the **30 June 2023** indices released in May 2023.

In instances where the cumulative fair value movement is greater than 40 per cent, entities should liaise with the Valuer-General Victoria (VGV) and Victorian Auditor-General’s Office (VAGO) as soon as practical.

The Valuer-General’s land indices can be found at the following link.

[www.dtf.vic.gov.au/financial-reporting-policy/valuer-general-land-indices](http://www.dtf.vic.gov.au/financial-reporting-policy/valuer-general-land-indices).

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

## Standing Directions – annual report attestation

The Standing Directions 2018 under the *Financial Management Act 1994* (2018 Standing Directions) require a formal financial management compliance attestation statement in an agency’s annual report. Agencies with a **30 June** reporting date must complete an attestation statement for the period **1 July 2022** to **30 June 2023**, and agencies with a **31 December** reporting date must complete an attestation statement for the period **1 January 2023** to **31 December 2023** covering all applicable Standing Directions and Instructions as required and prescribed by Instruction 5.1, clause 2.2.

The 2018 Standing Directions are available on the DTF website. Please refer to the following link.

[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).

## Superannuation Guarantee Levy

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

The next SGL rate change for departments and agencies will be effective from 1 July 2023 when the rate will increase by 0.5 per cent to 11 per cent. The subsequent rate increase will be effective from 1 July 2024 and will increase by 0.5 per cent to 11.5 per cent. There will be a final increase of 0.5 per cent on 1 July 2025 where the SGL will then remain at 12 per cent.

## Wage inflation and discount rates

DTF publishes the wage inflation and discount rates quarterly for the September, December and March quarters. Rates are then released monthly for the months of April, May and June. The most recently published rates should be used to remeasure an agency’s employee provision balance for the current year.

Wage inflation rates reflect current economic assumptions made in the preparation of the Victorian State Budget. The discount rates are representative of the yields earned on Commonwealth Treasury bonds.

The annual discount rate saw a gradual increase until December 2022. The discount rate decreased post December 2022, and this can largely be explained due to the change in economic environment.

The annual discount rate experienced a marginal net decrease during the 2022-23 reporting period, and, with all else being equal, this will increase the present value of the annual and long service leave liabilities.

Based on the estimates published in the *2023-24 Victorian State Budget*, the wage inflation rate is currently at 4.35 per cent. Current and historical data for the wage inflation and discount rates are available on the DTF website at the following address:

[www.dtf.vic.gov.au/financial-reporting-policy/wage-inflation-and-discount-rates](http://www.dtf.vic.gov.au/financial-reporting-policy/wage-inflation-and-discount-rates)

If agencies wish to use an alternative discount or wage inflation rate, they should seek the approval of the Assistant Treasurer. In addition to approval from the Assistant Treasurer, agencies are also encouraged to consult with the Victorian Auditor-General’s Office (VAGO) prior to using an alternative rate. This is in accordance with FRD 17 *Wage Inflation and Discount Rates for Employee Benefits*.

## Key financial dates for 2022-23 Financial Report of the State of Victoria

The State’s Annual Financial Report (AFR) is required to be tabled in Parliament no later than 15 October 2023 for the 2022-23 reporting period. Here are some important key dates:

| Date | Event | Further Information |
| --- | --- | --- |
| Thursday 3 August 2023 | Draft accounts that have been provided to VAGO are to be submitted to your DTF relationship manager. | *For material entities only.* |
| Tuesday 5 September 2023 | The following items are to be submitted to your DTF relationship manager:   * + 1. Confirmation that audit opinions have been signed by VAGO     2. Any subsequent events that will be published in an entity’s annual financial report     3. Departmental Financial Statements (final or most updated draft). | *For material entities only*. |

Department and material entity financial reports will need to be completed ahead of these dates to allow the State’s AFR to be prepared, audited, and transmitted to Parliament by its legislated date of 15 October 2023.

To aid in achieving this, departments and material entities should follow the financial reporting timelines specified in the 2023 DTF Information Request released in December 2022, to ensure that relevant information is provided to audit teams by 3 August 2023.

As with every reporting cycle, entities should take steps to ensure that the information provided to auditors and for consolidation into the State’s Annual Financial Report, is comprehensive, complete, and has been subject to robust quality assurance procedures.

The legislative due dates for other publications are included in the *Financial Management Act* 1994 (FMA).

The FMA is available to view at [www.legislation.vic.gov.au/in-force/acts/financial-management-act-1994/066](http://www.legislation.vic.gov.au/in-force/acts/financial-management-act-1994/066).

# Australian Accounting Standards update

There were no major AASB standards that became effective in 2022–23. While there were no new standards introduced, the AASB initiated several projects. This included releasing a number of exposure drafts.

We have only included amending items below that may have an impact on Victorian public sector reporting. There have been other amending standards issued by the AASB that we consider having a 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 2022-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants*

An amendment has been released to modify AASB 101 *Presentation of Financial Statements.* The purpose of this amendment is to provide further clarification around the current and non-current classification of liabilities with covenants.

Further information around the specific modification’s made can be found on the AASB website.

We are not expecting this amendment to have a material impact on Victorian public sector entities. If entities are in doubt, please reach out to the Accounting Policy team for further information.

## Exposure Draft (ED) 324 – *Amendments to the Classification and Measurement of Financial Instruments*

The International Accounting Standards Board (IASB) recently undertook a Post-Implementation-Review of the classification and measurement requirements in IFRS 9 *Financial Instruments* (AASB 9 locally)*.* While this review concluded that the requirements of this standard can be applied consistently, it identified that there were several items that could benefit from further clarification.

Following this review, the IASB released an Exposure Draft (ED) *Amendments to the Classification and Measurement of Financial Instruments* in March 2023. The AASB also released the equivalent local ED for public feedback by 31 May 2023. This ED can be found at the following link:

<https://www.aasb.gov.au/admin/file/content105/c9/ACCED324_03-23.pdf>

The items that were identified as requiring further clarification include:

### Derecognition of financial assets and liabilities settled by electronic payment systems

This ED provides further guidance on derecognising financial assets and financial liabilities which are settled by electronic payment systems. This ED clarifies that an entity is required to use the settlement date when financial assets and financial liabilities are settled by electronic payment systems.

The ED does provide options for entities to derecognise a financial liability that is settled by electronic payment prior to the settlement date, if specific criteria is met.

### Classification of financial assets

The ED provides further guidance on assessing the contractual cash flow characteristics of financial assets, including:

* guidance on how entities assess if the contractual cash flows of a financial asset are consistent with a basic lending arrangement
* recommendations to consider the different cash flow elements separately when assessing the contractual cash flows.

The ED also proposes:

* amendments to include references to financial assets that have non-resource features. It provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features
* changes to contractually linked financial instruments. In particular, the ED proposes that the underlying pool for assessing the contractually linked financial instruments can now include financial instruments that are not within the scope of AASB 9
* disclosures in the financial report if the contractual cash flows of a financial asset change. This includes amending the disclosures required if a contingent event occurs that changes the contractual cash flows.

## Changes to public sector fair value measurement requirements

The AASB released AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* in December 2022.

AASB 2022-10 amends AASB 13 *Fair Value Measurement* by adding authoritative implementation guidance and illustrative examples for fair value measurements of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows.

The Standard:

* specifies that an entity needs to consider whether an asset’s highest and best use differs from its current use only when it is held for sale or held for distributions to owners under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations,* or if it is highly probable that it will be used for an alternative purpose
* clarifies that an asset’s use is ‘financially feasible’ if market participants would be willing to invest in the asset’s service capacity, considering both the capacity to provide needed goods or services and the resulting costs of those goods and services
* specifies that if both market selling price and some market participant data required to fair value the asset are not observable, an entity needs to start with its own assumptions and adjust them to the extent that reasonably available information indicates that other market participants would use different data
* provides guidance on the application of the cost approach to fair value, including the nature of costs to be included in a reference asset and identification of economic obsolescence.

This amendment applies prospectively to annual periods beginning on or after 1 January 2024 (early application is permitted).

We encourage public sector entities to:

* review the revised requirements, assess if there is any impact on your fair value measurement practices and, if so, start formulating an implementation plan for FY2025
* consider level of disclosure necessary in your 30 June 2023 financial reports to comply with AASB 108 requirements to disclose accounting standards issued but not yet effective
* consult with DTF Accounting Policy team and VAGO as appropriate where the changes are likely to have a material impact.

## Changes to public sector insurance accounting requirements

In late December 2022, the AASB released a package of insurance-related amendments, including AASB 2022‑9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector* and AASB 2022‑8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments*.

Under the amendments, AASB 17 replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* for not-for-profit public sector entities for annual reporting periods beginning on or after 1 July 2026.

AASB 2022-9 amends AASB 17 to make public sector-related modifications (for example, it specifies the pre‑requisites, indicators and other considerations in identifying arrangements that fall within the scope of AASB 17 in a public sector context). This Standard applies for annual reporting periods beginning on or after 1 July 2026.

AASB 2022-8 makes consequential amendments to other Australian Accounting Standards so that public sector entities are permitted to continue to apply AASB 4 and AASB 1023 to annual periods before 1 July 2026.

# Other updates

## DTF 2004 Long Service Leave model update

As communicated previously as part of our monthly discount rate releases, the Accounting Policy team will no longer be releasing data to support the 2004 Long Service Leave (LSL) model. This change will be effective from 1 July 2023.

Any entities who are still using this dated model should consider adapting a more up-to-date LSL model.

If you’d like to discuss this further, please get in touch with the Accounting Policy team.

# 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 based on information contained in this Newsletter nor for any errors or omissions in that information.

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