Accounting policy update – newsletter

Edition No. 45 December 2023

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

New developments covered in this newsletter include:

* An update on the sustainability reporting project;
* Upcoming revisions to the 2023-24 edition of the Model Report for Victorian Government Departments; and
* Feedback on the recent request for comment by the AASB on the post implementation review of *IFRS 15 Revenue from Contracts with Customers* and ITC 49 Post-implementation Review of *AASB 1059 Service Concession Arrangements: Grantors*.

Key reminders include:

* year-end reminders for 31 December 2023;
* related party ministerial declarations;
* year-end valuation assessments; and
* annual attestations required by the standing directions.

In the spirit of the upcoming Christmas festivities, we also would like to take the opportunity to profile a couple of our team members so you can get close and upfront to know them better. We would like to wish you a very Merry Christmas and Happy New Year and look forward to connecting with you in the new year.

# Key Developments

## 2023–24 Model Report

Work is currently underway on the 2023-24 edition of the Model Report for Victorian Government Departments (The Model Report) and is expected to be released in April 2024.

There are no significant changes made in the 2023-24 Model Report. The Report of Operations will require an expanded disclosure in relation to government advertising expenditure. This update has been made due to a recommendation made by the Victorian Auditor-General’s Office (VAGO) to further improve this disclosure. The model will also include a new disclosure on reviews and studies undertaken by Departments. Departments will be required to disclose all non-commercially sensitive reviews and studies undertaken during the reporting period. Examples include feasibility and scoping studies. This disclosure has been added based on a recommendation made by the Public Accounts and Estimates Committee (PAEC).

In line with continuous improvement, minor editorial updates and streamlining improvements will also be made to the model financial statements.

## Retirement of Transitional FRD’s

There is a suite of FRDs that were issued to mandate the transitional accounting requirements upon the implementation of the following AASBs (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*) that will be retired. This includes the following:

* 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*

As a result of the retirement of these FRDs, any ongoing mandated accounting options arising from the implementation of the suite of standards have been relocated to FRD 104 *Leases* which will be released no later than April 2024.

## Sustainability reporting

The Australian Accounting Standards Board (AASB) has released Exposure Draft ED SR1 *Australian Reporting Standards – Disclosure of Climate-related Financial Information* that proposes new climate-related financial disclosures and seeks feedback.

ED SR1 has been developed using the International Sustainability Standards Board’s (ISSB) two inaugural standards – IFRS 1 and IFRS 2 as a baseline. This ED includes three draft Australian Sustainability Reporting Standards (ASRS):

1. ASRS 1 (using IFRS 1),
2. ASRS 2 (using IFRS 2), and
3. ASRS 101 References in ASRS which would be updated periodically to list the relevant versions of non-legislative documents published in Australia and foreign documents that are references in ASRS.

This focus on sustainability reporting has come about because of climate risks, as both physical and transitional risks are considered material to reporting entities in Australia. There has also been a global precedent set by leading economies like the UK and EU for corporations to report on their climate-related risks and opportunities. As a result, the AASB has sought to develop explicit Australian guidance on climate-related disclosures.

At the same time, the Australian Government has also announced its commitment to introducing internationally aligned mandatory climate-related financial reporting for large businesses and financial institutions.

ASRS 2 is limited to climate-related risks and opportunities. It does not apply to other climate-related emissions (e.g. ozone depleting emissions) that are not greenhouse gas (GHG) emissions. At the same time of the release of this ED, the Australian Parliament has not yet passed legislation setting out the private sector entities that would be required to prepare climate-related financial disclosures in accordance with the ASRS Standards. The Australian Treasury has proposed the following entities to be subject to the mandatory climate-related disclosure requirements.

Proposed effective dates,

1. Group 1 entities are required to report under Chapter 2M of the *Corporations Act* if it meets 2 of the 3 thresholds below, and this will apply to annual periods beginning on or after 1 July 2024
2. Have over 500 employees;
3. The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $1 billion or more:
4. The consolidated revenue for the financial year of the company and any entities it controls is $500 million or more.

**AND**

Entities are required to report under Chapter 2M of the *Corporations Act* if they are a ‘controlling corporation’ under the NGER Act and meet the NGER publication threshold.

1. Group 2 entities are required to report under Chapter 2M of the *Corporations Act* if it meets 2 of the 3 thresholds below, and this will apply to annual periods beginning on or after 1 July 2026
2. Have over 250 employees;
3. The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $500 million or more:
4. The consolidated revenue for the financial year of the company and any entities it controls is $200 million or more.

**AND**

Entities are required to report under Chapter 2M of the *Corporations Act* if they are a ‘controlling corporation’ under the NGER Act and meet the NGER publication threshold.

1. Group 3 entities are required to report under Chapter 2M of the *Corporations Act* if it meets 2 of the 3 thresholds below, and this will apply to annual periods beginning on or after 1 July 2027
2. Have over 100 employees;
3. The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $25 million or more:
4. The consolidated revenue for the financial year of the company and any entities it controls is $50 million or more.

**AND**

Entities are required to report under Chapter 2M of the *Corporations Act* if they are a ‘controlling corporation’ under the NGER Act and meet the NGER publication threshold.

The ED draft feedback period concludes 1 March 2024.

# Reminders for 31 December 2023

## AASB 124 *Related Party Disclosures*

### Ministerial declarations for the 31 December 2023 reporting period

To support the preparation of public sector financial reports, information consistent with the requirements of AASB 124 *Related Party Disclosures* is collected twice each financial year from cabinet ministers as we have 30 June year end reporters as well as 31 December year end reporters.

As a result, we collect two cabinet minister declarations covering the period from 1 January 2023 to 30 June 2023 and 1 July 2023 to 31 December 2023 which is expected to be completed by the end of January 2024.

Consistent with previous reporting periods, where any transactions are reported, DTF will give the relevant information extracted from ministerial declarations to the relevant portfolio departments to share with their relevant agencies to assess whether the related party transactions warrants disclosure in the entities’ annual financial report.

Entities are reminded that under the agreed protocols, consultation is required with the relevant minister(s) and DTF where disclosures are proposed, before they can be finalised in your annual financial report.

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

For 31 December year end reporters only, disclosure for the financial year ended 31 December 2023 will need to include information about the movements of all key management personnel during the year. This also includes disclosing any executive appointments or departures during the year.

### Remuneration of key management personnel

Ministers’ remuneration and allowances are set by the *Parliamentary Salaries and Superannuation Act 1968*. Similar to the prior year, this ministerial remuneration disclosure will be reported within the State’s Annual Financial Report for the year ended 30 June 2023. When preparing annual financial reports, please ensure the reference to the information on ministers’ remuneration is referenced to 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)

## Valuation assessments

With the release of the 2023 calendar year VGV indices, entities with a 30 June reporting date are encouraged to perform an interim valuation assessment. This assessment determines if an interim material movement has occurred to the asset fair values.

In instances where the cumulative interim movement is greater than 40%, entities should liaise with the Valuer-General Victoria (VGV) and Victorian Auditor-General’s Office (VAGO). This is to ensure that any exceptional material movements are assessed prior to balance date.

For entities with a 31 December reporting date, the latest indices are used for the valuations assessments at year-end. This is because these updated indices reflect a current view of the valuation movements. Entities with a 31 December balance date are reminded to ensure they have conducted their year-end valuation assessments.

In instances where the cumulative year-end 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 **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.

## Wage inflation and discount rates

DTF publishes the wage inflation and discount rates quarterly for the December, March and September 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 agencies 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.



During the period from July 2023 to September 2023, the annual discount rate exhibited a significant increase, rising from 4.06% to 4.52%.

The annual discount rate experienced an overall net increase during the 2022-23 reporting period, and with all else being equal, this will decrease 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 and Victorian Auditor-General’s Office (VAGO). This is in accordance with FRD 17 *Wage Inflation and Discount Rates for Employee Benefits*.

## 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. The RMF aims to help entities understand the financial management framework to use when goal setting, planning, budgeting and delivering services.

From 1 July 2023, an updated version of the RMF has been in use. This version incorporates several changes to existing policies as directed by Government. The current RMF can be found at the following 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). The FMA is available to view at the following address:

* [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

Since the release of our June 2023 newsletter, there have been no new Australian Accounting Standards issued which impact the Victorian public sector. There also has been no amendments to Australian Accounting Standards.

In collaboration with the IASB, the AASB has conducted several post-implementation reviews. A select number of these post-implementation reviews have been discussed below.

## ITC 53 Request for Comment on IASB Post-implementation Review of *IFRS 15 Revenue from Contracts with Customers*

In July 2023, the AASB released a request for comment on the post implementation review of IFRS 15 *Revenue from Contracts with Customers* to assess the effectiveness of the recently adopted revenue accounting standard.

The post-implementation review (PIR) requested feedback on whether the requirements for identifying performance obligations and determining the transaction price of eligible contracts. were clear and easy to apply consistently. It also covers other matters including principal and agent considerations as well as intellectual property licences.

The feedback consultation period has closed and we expect the outcomes of this post-implementation review to be released in the 2024 calendar year.

## ITC 49 Post-implementation Review of *AASB 1059 Service Concession Arrangements: Grantors*

In September 2022, the AASB conducted a post-implementation review of AASB 1059 *Service Concession Arrangements: Grantors.* The purpose of this review was to seek feedback from stakeholders that will assist the AASB in determining whether the standard continues to meet its objectives.

This comment period for this post-implementation review closed on 28 February 2023.

Since the post-implementation review, the AASB are now liaising with key stakeholders on the feedback received which has culminated in the request for further input.

DTF including the other members of the Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) are involved in providing further feedback to the AASB and the review is expected to continue into the 2024 calendar year.

# Team member profiles

A new feature of the newsletter is the introduction of getting to know a couple of team members in the Accounting Policy team.

 **Name:**

 Raditya (Didi) Santoso

 **Role:**

Senior Analyst

 **Favourite Food:**

KFC (Korean Fried Chicken). It's just like Kentucky Fried Chicken but better. It’s crispy and really spicy. In my opinion, all food tastes better with chilli. The more chilli, the tastier it is!!!

 **Favourite Holiday Destination:**

TheLimestone Coast in South Australia. It has countless remote beaches all nestled within rugged rocky landscape**.**

 **Why you enjoy working at AccPol:**

I enjoy answering accounting queries from public sector stakeholders. Having spent more than 10 years in accounting operations, I know how difficult it can be to interpret accounting standards. I'm here to help bridge that gap.

 **Name:**

Aloka Seneviratne

 **Role:**

Senior Analyst

 **Favourite Food:**

 Though I don't have a particular favourite dish, I love trying new cuisines. Cooking, to me, is crafting a unique experience with every dish—a pinch of creativity, a dash of precision, and the joy of savouring something novel.

 **Favourite Holiday Destination:**

Vietnam. It’s such a beautiful place to explore.

 **Why you enjoy working at AccPol:**

 Working at AccPol gives you a unique perspective on the finances of the Victorian public sector. You have the opportunity to meet beautiful people behind the numbers you see.

# How to contact us

## AccPol mailbox

When directing accounting policy enquiries to DTF at 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

## 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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