Scope: this bi‑annual newsletter outlines areas of particular importance in public sector financial reporting. The newsletter is applicable to both budget and financial reporting areas of Victorian public sector entities.

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Overview

Further information is provided in this edition of the newsletter, regarding the key implementation considerations for AASB 13 *Fair Value Measurement* and the potential changes to the measurement requirements for annual leave under the revised AASB 119 *Employee Benefits.*

Proposed revisions to Financial Reporting Directions (FRDs) for 2013‑14 reporting period are further outlined, together with the key changes required in FRD 11A *Disclosure of Ex‑gratia Expenses* and FRD 22D *Standard Disclosures for the Report of Operations*. Any related disclosure changes will be reflected in the updated 2013‑14 Model Report for Victorian Government Departments, anticipated to be issued by mid‑April 2014.

Highlights of the requirements in the ‘package of five’ new accounting standards that will come into effect for most public sector entities from 2014‑15, as well as discussion around the ongoing projects for revenue recognition, leases and service concession arrangements are also covered.

2013‑14 reporting year

AASB 13 *Fair Value Measurement*

* *Unchanged principles for fair value*: AASB 13 provides a single source of guidance for measuring the fair value of assets and liabilities. Despite wording differences, the underlying principles related to the new definition of fair value remain unchanged. The key considerations required in determining fair value include:
  + the particular asset or liability that is the subject of the measurement (consistently with its unit of account);
  + for a non‑financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use);
  + the principal (or most advantageous) market for the asset or liability; and
  + the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.
* *Considering the highest and best use* (HBU) *for non‑financial physical assets*: AASB 13 explicitly requires consideration of HBU in fair value measurement. DTF is currently working with Valuer‑General Victoria and the Victorian Auditor‑General’s Office (VAGO) to develop and agree on the application of this requirement. DTF will further advise entities on the finalised position once available. The agreed outcomes with VAGO will form the basis of DTF’s revision to FRD 103D *Non‑financial physical assets*.
* *Additional disclosures on fair value*: In light of AASB 13, the asset classes that are most likely to be affected include:
  + non‑financial physical assets held for sale;
  + property, plant and equipment;
  + biological assets;
  + investment properties; and
  + financial instruments.

More details on the guidance to the fair value disclosure requirements under AASB 13 will be included in the 2013‑14 Model Report for Victorian Government Departments.

Departments and entities are strongly encouraged to liaise with valuers as early as practicable to collect information and inputs required for the implementation of AASB 13.

AASB 119 *Employee Benefits* (Sept 2011, as amended)

For the 2013**‑**14 reporting period, the revised AASB119 and the consequential amendments will be applied for the first time.

* The most significant changes include the accounting for changes in defined benefit obligations and plan assets. The current accounting policy in Victoria is that DTF recognises and discloses the State’s defined benefit liabilities in its financial statements. As such, changes in defined benefit obligations and plan assets will have limited impacts on departments and most VPS entities.
* Another key change introduced by the revised AASB 119 that could affect VPS entities is the tightened definition of short term employee benefits. Consequential implications arising from this change include:
  + review of certain employee benefits is considered necessary to ensure they will remain qualified as short term employee benefits under the revised definition. If reclassification to long‑term employee benefits is required, it would change the measurement basis from nominal to a discounted basis. For example, provision for annual leave is generally not expected to be wholly settled within 12 months after the end of the report period within which employees render the related services. Therefore, provision for annual leave is more likely to be classified as long‑term employee benefits and measured at a discounted value;
  + changes in comparatives where reclassification to long‑term employee benefits is made; and
  + consequential disclosure relating to changes in accounting policy in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Other amending standards effective for 2013-14

Amendments to a number of other standards are expected to have immaterial impacts on most entities’ 2013‑14 financial reporting. For a comprehensive list of all accounting standards applicable for the 2013‑14 reporting period, please refer to the AASB’s website at [www.aasb.gov.au](http://www.aasb.gov.au).

2013‑14 financial reporting legislation

The *Financial Management Act 1994* continues to be the principal legislation governing Victorian public sector financial reporting for 2013‑14.

Financial Reporting Directions (FRDs) and guidance notes

As outlined in the previous newsletter, the revised FRDs effective for 2013‑14 include:

* FRD 119A *Transfers through contributed capital* (formerly FRD 119 *Contributions by owners*), with key changes that simplify the designation process required for accounting for contributions by or distributions to owners;
* FRD 11A *Disclosure of ex‑gratia expenses* (formerly FRD 11 *Disclosure of ex‑gratia payments*)*,* which requires disclosure of the purpose, in addition to the nature and amount, for any ex‑gratia expenses; and
* FRD 22D *Standard disclosures in the Report of Operations*, which revises the definitions for contractor and consultancy, and also updates the disclosure requirements for consultancy expenditure.

In addition, several of the existing FRDs are planned to be revised for application in 2013‑14, including:

* FRD 22D *Standard disclosures in the Report of Operation,* acknowledging the application of *Carers Recognition Act* *2012*, and incorporating certain PAEC recommendations, as detailed below in the next section;
* FRD 25A *Victorian Industry Participation Policy* is planned to be revised to reflect recent reforms to the Victorian Industry Participation Policy;
* FRD 27B *Presentation and reporting of performance information,* to update Appendix 1 to reflect recent changes to the list of applicable water entities;
* FRD 103D *Non‑financial physical assets,* mainly aligning the requirements and implementation guidance on fair value measurement with AASB 13;
* FRD 112C *Defined benefit superannuation obligations*, to remove the requirement that all movements in the defined benefit liabilities or surpluses are recognised in other comprehensive income, as this treatment is now mandated in the revised AASB 119, following removal of the previous alternative treatments; and
* FRD 120G *Accounting and reporting pronouncements applicable to the 2012‑13 reporting period,* updating the accounting standards and other pronouncements that are applicable to the current reporting period (i.e. 2013‑14) and those that are issued but not yet effective.

2013‑14 Model Report for Victorian Government Departments (2013‑14 Model Report)

DTF is planning the release of the 2013‑14 Model Report around mid‑April 2014. Key changes to the Model include:

* Additional note disclosures in response to AASB 13:
  + Note 1 Summary of key accounting policies;
  + Note 15 Non‑financial physical assets held for sale;
  + Note 17 Property, plant and equipment;
  + Note 18 Biological assets;
  + Note 19 Investment properties; and
  + Note 33 Financial instruments.
* Additional illustrations and guidance in response to the revised definition of short‑term employee benefits under AASB 119 (Sept 2011, as amended), as well as consequential disclosures regarding changes in accounting policy (Note 1 and Note 24 *Provisions*);
* Illustrations and guidance reflecting the implementation of the revised FRDs for 2013‑14;
* Implementation of PAEC recommendations, including:
  + progress updates against an entity’s strategic goals, objectives and targets outlined in an entity’s planning and policy documents;
  + reference to the past and to the future (i.e. expectations) regarding an entity’s key initiatives and projects, thereby providing sufficient historic context of the entity’s activities;
  + where an entity has a workforce inclusion policy/plan, the entity is required to disclose at least one measurable target on this policy/plan, and the statistics on the target(s);
  + further disclosure in the Occupational Health and Safety (OH&S) section where fatalities occurred, requiring explanations of circumstances that led to the fatality and actions taken to prevent recurrences; and
  + disaggregation of financial line items into Public Private Partnership (PPP) and non‑PPP related where relevant.
* Responses to VAGO recommendations, with enhanced guidance on current disclosure requirements (e.g. commitments disclosures, provision for on‑costs etc.).

A comprehensive list of all the significant changes will be detailed in the *Summary of Changes* when the 2013‑14 Model Report is issued in mid‑April 2014.

Other guidance

Superannuation Guarantee Levy

As updated in the previous newsletter, the Superannuation Guarantee Levy (SGL) will increase progressively from 9 per cent to 12 per cent from 1 July 2013 to 1 July 2019. Departments and entities should take into account of these future changes when estimating and measuring their employee benefits liabilities and expenses for financial reporting and future budget estimates.

|  |  |
| --- | --- |
| **Date** | **Levy (per cent)** |
| **1 July 2013** | 9.25 |
| **1 July 2014** | 9.5 |
| **1 July 2015** | 10 |
| **1 July 2016** | 10.5 |
| **1 July 2017** | 11 |
| **1 July 2018** | 11.5 |
| **1 July 2019** | 12 |

Long service leave discount rates

The long service leave (LSL) discount rates are published by DTF quarterly (and monthly during the last quarter of 2013‑14) to assist entities in ascertaining their financial position prior to and at year end. The rates for 31 March 2014 will be published on the DTF website at the beginning of April.

Budget and Financial Management Guidance (BFMGs)

There have been no amendments to or new BFMGs issued since the last newsletter.

2013‑14 key financial publication dates for the State of Victoria

The following table shows the remaining indicative key publication tabling dates for 2013‑14.

|  |  |  |
| --- | --- | --- |
| **Reporting year** | **Publication** | **Preliminary tabling dates –  actual dates to be confirmed** |
| **2013‑14** | Mid‑Year Report | The legislative due date is 15 March 2014. |
| **2014‑15** | Budget papers | 6 May 2014. |
| **2013‑14** | Annual Financial Report | To be advised, but anticipated for the end of September, consistent with recent practice. Legislated due date is 15 October 2014. |
| **2013‑14** | Department and entity reporting | To be advised, but expected to be tabled progressively on or before the last sitting day in September 2014. |

Key AASB Standards issued but not effective for 2013‑14

Effective from 2014‑15

The ‘package of five’

The IASB issued the ‘package of five’ standards in 2011, including:

* AASB 10 *Consolidated Financial Statements,* which retains the focus of the control principle in determining whether an entity needs to consolidate another entity. The Standard revises the definition of ‘control’, with three key criteria including:
  + power over the investee;
  + exposure, or rights, to variable returns from an investee; and
  + investor’s ability to use its power to affect the amount of investee’s returns.

VPS entities will need to evaluate the impact of AASB 10 in the assessment of the entities that they are required to consolidate. Assessment is also required as to the relationship with any structured entities and whether the disclosure in AASB 12 applies.

* AASB 11 *Joint Arrangements,* which replaces and alters the existing method of accounting for joint ventures, which is currently prescribed by AASB 131 *Interests in Joint Ventures*.
* AASB 12 *Disclosure of Interests in Other Entities*, which requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the financial statements.
* AASB 127 *Separate Financial Statements,* which prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
* AASB 128 *Investments in Associates and Joint Ventures*, which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The revision to AASB 128 aligns with the requirements for joint ventures introduced in AASB 11. When applied, this revised Standard supersedes the existing AASB 128 *Investments in Associates*.

For entities that report on a calendar year basis, the above five standards became effective from 1 January 2014. However, for most VPS entities, the five standards will be applicable from the 2014‑15 reporting period onwards.

Accordingly, entities are encouraged to review/reassess the relationships they have with other entities and the potential reporting implications, in light of the transition requirement set out in the standards. Refer to the August 2013 *Accounting Policy Update*, Edition No. 24 for more details on the requirements related to the ‘package of five’ standards.

Implementation guidance to AASB 10 and AASB 12

The AASB 2013‑8 *Australian Implementation Guidance for Not‑for‑Profit Entities – Control and Structured Entities* adds authoritative implementation guidance to AASB 10 and AASB 12, and also makes related amendments to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. Key aspects addressed in this guidance include:

* clarification of the basic term: investor vs. investee – generally means entities that have a relationship in which control of one entity (the investee) by the other (the investor) might arise;
* investor’s power over investee – the guidance in paragraphs IG 5 – IG 17 addresses when a not-for-profit (NFP) entity has rights (other than voting rights or rights arising from contractual arrangements) that give it the current ability to direct the relevant activities of another entity, including possible sources of decision‑making rights relevant for NFP entities, and when rights would be considered substantive or protective rights;
* broad nature of returns from a controlled NFP entity – the guidance in paragraphs IG 18 and IG 19 explains that in application to NFP entities, the broad scope of the nature of returns encompasses financial, non‑financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor’s objective;
* qualification as ‘structured entities’ in the NFP context – the principles underlying ‘structured entities’ mean that the structured entities are designed/controlled through *less* ‘conventional means’. In the NFP context, the ‘conventional means’ in which one entity directs another entity typically includes administrative arrangements or statutory provisions. Therefore such ‘conventional means’ in the NFP context are considered as dominant factors in determining control, similar to voting or other similar rights in the for‑profit context. Conversely, where an entity’s relevant activities are directly by means of contractual arrangements (i.e. less conventional means in NFP), such entities would qualify as ‘structured entities’; and
* general government sector (GGS) exemption under AASB 12 – Prior to the issuance of AASB 12, any of the requirements in the superseded AASB 127 *Consolidated and Separate Financial Statements* were not required for inclusion in the GGS financial statements. The same exemption extends now to the application of AASB 12 at GGS level, on the basis that such disclosure on relationships with structured entities under AASB 12 would essentially duplicate at the whole of government level.

AASB 1055 *Budgetary Reporting*

AASB 1055 *Budgetary Reporting* is operative from 1 January 2014. This Standard sets out the budgetary reporting requirements for the whole of government, the general government sector, as well as for NFP entities within the general government sector to the extent that separate budgetary information is presented to Parliament.

From the whole of government and general government sector’s perspective, this Standard replicates the budgetary disclosure requirements that currently exist in AASB 1049 and therefore will not result in any impacts on reporting.

Where an entity presents budget separately to the parliament, the entity will be required to restate in the financial statements the budgetary information in accordance with the presentation format prescribed in Australian Accounting Standards and explain the significant variances from the original budget. However, where no separate budget is presented to the parliament, this Standard would not be applicable.

Withdrawn of AASB 1031 *Materiality* (Effective from 1 January 2014)

As proposed in the AASB ED 243 *Withdrawal of AASB 1031 Materiality,* the AASB has recently issued AASB 2013‑9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, withdrawing the Australian guidance on materiality that is not available in IFRSs. It also directs entities to other Australian pronouncements that contain guidance on materiality.

The withdrawal of AASB 1031 is not expected to impact practice regarding the application of materiality in financial reporting. Specifically, the withdrawal of AASB 1031 would not change the level of disclosure presently specified by other accounting standards.

The revised AASB 1031 (December 2013) will be withdrawn once all references to AASB 1031 in other accounting standards have been removed.

Effective from 2015‑16

AASB 9 *Financial instruments*

Reflecting the International Accounting Standards Board’s (IASB) replacement project on IFRS 9 *Financial Instruments*, AASB 9 is ultimately intended to replace AASB 139 in its entirety. This three‑stage project covers Phase 1‑*Classification and measurement of financial assets and financial liabilities*, Phase 2‑*Impairment methodology* and Phase 3 *Hedge accounting.*

The key change introduced in Phase 1 of the project is to simplify and rationalise the categories of financial assets, reducing the previous ‘four categories’ into two, based on asset’s measurement basis – either at amortised cost or at fair value.

In relation to other aspects of the project, one main proposal is to consider an ‘expected loss model’, as compared with the current ‘incurred loss model’ for the recognition of impairment losses. Under the expected loss approach, it may mean that entities will need to recognise losses earlier than the ‘incurred loss model’.

Due to the significant changes expected from this project, entities are encouraged to monitor the development of the AASB 9 project, including the assessment of the potential implications where relevant.

Amending Standards issued but not effective in 2013‑14

In addition to the key standards mentioned above, the AASB has issued a series of amending standards and interpretations that are not yet effective for 2013‑14. The majority of these amending standards are considered insignificant for the public sector reporting, with some exceptions outlined below:

* AASB 2012‑3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (effective from 1 January 2014). The Standard removes the current inconsistency in applying some of the offsetting criteria of AASB 132 *Financial Instruments: Presentation*, including clarifying the meaning of “currently has a legally enforceable right of set‑off” and that some gross settlement systems may be considered equivalent to net settlement.
* AASB 2013‑3 *Amendments to AASB 136 – Recoverable Amount Disclosure for Non‑financial Assets* (effective from 1 January 2014). This Standard amends the disclosure requirements in AASB 136, including additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. In addition, disclosure is required of the discount rates that have been used in the current and previous measurements, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique.

Looking forward

International projects

Revenue recognition project

The joint project on revenue by the (IASB) and the Financial Accounting Standards Board (FASB) has now reached the finalisation stage, with the anticipated issuance of the Standard in quarter one of 2014.

In their joint October 2013 meeting, the two Boards considered a number of outstanding issues prior to the finalisation of the drafted Standard, including:

* collectability, specifically how assessments of a customer’s credit risk should be reflected in accounting for contracts with customers; and
* the implementation guidance on accounting for revenue arising from licences.

Once issued, this revenue standard will apply to annual reporting periods beginning on or after 1 January 2017.

Leases

The leases project is another joint project carried out by the IASB and the FASB. The objective of the project is to develop a standard that establishes the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease.

To meet this objective, the Boards issued ED/2013/6 *Leases* in May 2013. The key change proposed was a new classification system for leases, based on the nature of the asset being leased and also amends the definition of a lease. The most significant implication for most VPS entities is that most leases (the exception is for those with terms less than 12 months) will now require recognition of assets and liabilities on the balance sheet.

Since the last update, the IASB has received submissions on the revised exposure draft. Based on these submissions, a redeliberation plan has been undertaken, with five main topics identified:

* definition and scope;
* lease classification;
* lessor accounting model;
* lessee accounting model; and
* measurement.

The completion of the redeliberation is anticipated in quarter one of 2014.

Domestic projects

Service concession arrangements: grantor accounting

Subsequent to AASB’s meeting in February 2013, the Board is planning to issue an Exposure Draft in quarter one of 2014. While the AASB generally considered the international public sector standard IPSAS 32 *Service Concession Arrangements: Grantor* as an appropriate basis for a Standard in Australia, some modifications were considered necessary.

Specifically, the AASB tentatively decided that there is a need for additional guidance on whether a grantor controls a service concession asset in circumstances in which a third‑party regulator is involved. In addition, it will need to consider consistency with the requirements of IPSAS 32 and the IASB’s revenue recognition project, in particular, the guidance on accounting for licenses.

How to contact us

AccPol mail box

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.ifac.org/PublicSector/](http://www.ifac.org/PublicSector/) for information on IPSASB and IPSASB pronouncements.

DTF website

**The DTF website (for all internet users)** – <http://www.dtf.vic.gov.au>, covers FRDs and guidance, the Model Report, accounting policy updates, long service leave discount rates. From the menu on the top of the home page, users should select Government Financial Management, 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 LSL Model, 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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