Accounting policy update

Newsletter – Edition No. 32, July 2017

#### Scope: This bi‑annual newsletter outlines areas of particular 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

As we head into the year‑end reporting season for 2016‑17, this newsletter outlines key updates and reminders to assist with your preparations for this year‑end. The *2016‑17* *Model Report for Victorian Government Departments* (the Model) has been released in a streamlined format, with amended related party disclosures based on the revised AASB 124 *Related Party Disclosures*, among other updates. The use of the Model is mandatory for departments and other Victorian public sector (VPS) entities are encouraged to use the Model as a guide for preparing their financial reports.

With 2016‑17 being the first year for implementing the revised AASB 124 disclosure requirements for not‑for‑profit (NFP) 30 June reporters, relevant financial reporting directions (FRDs) have been amended accordingly. Departments and agencies are encouraged to engage and consult with the Victorian Auditor‑General’s Office (VAGO) and undertake appropriate due diligence processes to identify, collect and (where appropriate) disclose related party information as required by AASB 124 from 2016‑17 onwards, with the assistance of relevant checklist and guidance available on DTF’s website.

Entities are also reminded there are a number of new Australian Accounting Standards (AAS) on the horizon, including AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income for Not‑for‑Profit Entities*, AASB 16 *Leases* and AASB 10XY *Service Concession Arrangements*. While these new standards will come into effect from the 2018‑19 and 2019‑20 financial years, entities are strongly encouraged to commence assessing the impact of these new standards, as they will potentially have a significant impact on financial statements, disclosures, data collection process and information systems. The Accounting Policy team has commenced consultation workshops to facilitate departments/entities’ impact assessments. VPS entities are strongly encouraged to liaise with their portfolio departments to develop a plan to assess the financial and operational implications and provide timely advice to relevant stakeholders within the next six to eight months.

# 2016‑17 reporting year

## Major updates/reminders

### 2016‑17 *Model Report for Victorian Government Departments*

The 2016‑17 Model has been released and is available on DTF’s website. Compliance with the Model is mandatory for departments. Other public sector agencies are strongly encouraged to use the Model as the authoritative guide to assist them in preparation of their annual reports.

The 2016‑17 Model has been updated in a streamlined format, consistent with the new format adopted for the 2015‑16 *State of Victoria’s Annual Financial Report*. While presented in a streamlined format, the financial statements still fully comply with the relevant legislative requirements and take into account stakeholder expectations, such as those of the Public Accounts and Estimates Committee (PAEC), VAGO and users of public sector financial reports.

Further to streamlining the structure of the financial report, departments and agencies are also encouraged to apply a materiality overlay in preparing their financial statements. Guidance materials have been included in the Model to facilitate departments and agencies in streamlining their respective financial reports, including a ‘How to’ guide on the key aspects in financial statements preparation in regards to materiality and aggregation. For the streamlining process to be successful, it is important to ensure all key stakeholders, such as executive management, audit committees, preparers of the financial report, have an appreciation of the principles, objectives and benefits of streamlining. VAGO should also be consulted on the proposed changes from the streamlining exercise.

The 2016‑17 Model has also incorporated updates and revisions from relevant AASs, FRDs, PAEC and VAGO recommendations, including:

* amended related party disclosures based on the revised AASB 124 *Related Party Disclosures*;
* new disclosure on entities consolidated under Section 53(1)(b) of the *Financial Management Act 1994* (FMA);
* new disclosure on the direct costs attributable to machinery of government changes;
* revised disclosure requirements on executive officers, responsible persons and other personnel; and
* new disclosure of transfers between items of departmental appropriations greater than $10m under section 30 of the FMA.

More details regarding updates and changes for the 2016‑17 Modelcan be found in the *Summary of Changes,* accessible on DTF’s website at [www.dtf.vic.gov.au/Publications/Government‑Financial‑Management‑publications/Financial‑reporting‑policy/2016‑17‑Model‑Report](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-reporting-policy/2016-17-Model-Report).

### AASB 124 *Related Party Disclosures*

The scope of AASB 124 has been extended to include all NFP entities, applicable from 1 July 2016 (i.e. the 2016‑17 reporting period), with no comparatives required. December year‑end reporters will apply the accounting standard from 1 January 2017.

Guidance information to assist entities with the implementation of this standard is now available in the ‘Financial Reporting Policy’ section of DTF’s website at [http://www.dtf.vic.gov.au/Publications/Government‑Financial‑Management‑publications/Financial‑reporting‑policy/AASB‑124‑Related‑Party‑Disclosures](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-reporting-policy/AASB-124-Related-Party-Disclosures).

#### Identifying key management personnel (KMP)

AASB 124.9 defines KMP as those people with the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, i.e. those charged with strategic decision making responsibilities.

As Cabinet is the principal decision making body of the government, all cabinet ministers are considered KMP of the State. Portfolio ministers are responsible for the oversight of their portfolio departments and entities, and are therefore considered KMP of their respective portfolio entities.

In addition, all departments and agencies need to determine which of their executives meet the definition of a KMP under AASB 124. As a rule of thumb, the number of KMPs will be driven by the entity's governance structure and how the entity makes decisions on its operations as a whole.

Generally, the expectation is that executive KMP will include members of the Governance Board as they are the governing body responsible for the delivery of the entity’s service. Departments and agencies then need to assess whether **some or all** of the members of their leadership team meet the definition of a KMP under AASB 124.

For executives or senior managers who have only beendelegated operational authority for a discrete function of the entity and not responsibilities for the activities of the entity as a whole, they will not be considered KMP for the purposes of AASB 124.

Guidance has been included on page 210 of the 2016‑17Model of other considerations for departments in their assessment of KMP, including section 53(1) entities, administrative offices and statutory appointees.

#### Undertaking due diligence processes

The information collected from the KMP declaration certificates only forms part of the broader process for collecting data required for their AASB 124 disclosures. Entities will also need to ensure they complete due diligence processes using the ‘entity management checklist’ to validate and ensure completeness of the related party transactions declared, and ensure sufficient documentation is maintained for audit certification.

Departments and agencies should complete their due diligence processes using available information including the ‘Register of members interests’ for Ministers and ‘Declaration and management of private interests form’ for executives. Note that due diligence processes will need to be performed for **all** Cabinet Ministers as they are considered related parties of all entities controlled by the State.

A copy of the ‘Entity management checklist’ is included in Appendix 10 of the 2016‑17 Model and can be downloaded from DTF’s website.

#### Disclosures

* Related party transactions

While KMP have to **declare** all related party transactions for the period, only material related party transactions and outstanding balances will be **disclosed** in entities’ financial statements.

When assessing materiality, related party transactions will need to be considered either separately or in aggregate. As a rule of thumb, regard is given to a quantitative threshold of 10 per cent of the entity’s key line items such as net results from transactions, total revenue, total expenses, total assets and total liabilities, depending on the nature of the transaction. Transactions in excess of 5 per cent of the relevant line items should also be considered for potential disclosure. Items of a similar nature may be disclosed in aggregate except where separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the department or entity (i.e. individual transactions that are unusual in nature or significantly material by amount).

Illustrative examples of a separate disclosure and an aggregate disclosure are included on page 209 of the Model.

* Remuneration of KMP

Under AASB 124, the scope of remuneration is extended to include all employee benefits (as defined in AASB 119 *Employee Benefits*), which includes all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered. It also includes amounts paid on behalf of a parent of the entity in respect of the entity.

Remuneration will therefore include **non‑monetary benefits** such as a motor vehicle, private health insurance, accommodation/relocation allowances, study and free or subsidised goods.

In addition, the standard requires remuneration of KMP to be disaggregated between five specified categories according to the nature of the payment. These categories include:

* short‑term benefits;
* post‑employment benefits;
* other long‑term benefits;
* termination benefits; and
* share‑based payments.

The changes to the definition of ‘remuneration’ and the disclosure table will require entities to:

* engage with their respective payroll teams to capture the relevant monetary and non‑monetary payments, benefits and allowances (in addition to wages and salaries) provided to KMP;
* implement data collection processes to capture the additional information on amounts paid, payable or provided by the entity during the reporting period for inclusion in the note disclosure; and
* perform an assessment to determine how the data will be split into the remuneration categories in accordance with the reporting requirements in AASB 124.

Revisions have been made to FRD 21C *Disclosure of responsible persons and executive officers in the financial report* to align the definition of ‘remuneration’ and the disclosure table for executive officers with the requirements in AASB 124, and ensure consistency between the respective disclosures in the financial statements.

Guidance on the remuneration disclosure is now available on DTF’s website, and includes a ‘Frequently asked questions’ section to address disclosure of specific benefits and employment arrangements (i.e. non‑monetary benefits, secondments and higher duties arrangements).

## Financial reporting directions and guidance notes

Several FRDs have been amended and are applicable for the 2016‑17 reporting year. These FRDs include:

* FRD 21C toalign the reporting requirements for responsible persons and executive officers with AASB 124 as described above*;*
* FRD 29B *Workforce data disclosures in the Report of Operations* to extend the reporting requirements for senior staff to improve transparency, following a review by the Victorian Public Sector Commission on the *Executive Officer Employment and Remuneration Framework*; and
* FRD 15D *Executive officer disclosures in the Report of Operations* to align the reporting requirements for executive officers with the changes reflected in FRD 21C and FRD 29B and simplify the disclosures required.

In addition, the following FRDs have been updated for general improvements, which are largely editorial in nature:

* FRD 108C Classification of entities as for‑profit;
* FRD 9B Departmental disclosure of administered assets and liabilities by activity;
* FRD 26B Accounting for VicFleet motor vehicle lease arrangements; and
* FRD 30D Standard requirements for the publication of annual reports.

FRD 120K *Accounting and reporting pronouncements applicable to the 2016‑17 reporting period* will be available on DTF’s website before the end of July 2017 and provides a summary of accounting standards that apply to the current reporting period and future reporting periods.

# 2016‑17 financial reporting legislation

### Standing Directions – Transitional Arrangements for Financial Management Compliance Attestation

The *Standing Directions of the Minister for Finance 2016* (2016 Directions) and associated *Instructions* mandate financial management compliance attestation requirements in an agency’s annual report (see Direction 5.1.4 (subject to transitional arrangements) and Instruction 5.1).

For 30 June balance date agencies, in relation to the 2016‑17 financial year, the Responsible Body must include a statement of attestation in the agency’s annual report that the agency has complied with the mandatory requirements of the *Victorian Government Risk Management Framework* (VGRMF) under Direction 3.7.1 of the 2016 Directions (Instruction 5.1, Clause 5.4). A template attestation is provided in the 2016‑17 Model.

For the 2016‑17 transitional year, the compliance report required to be provided annually by portfolio agencies to their portfolio department (Instruction 5.1, Clause 1) must also include a trial attestation in the form set out under Clause 2.2 of Instruction 5.1. The trial attestation covers compliance with all applicable 2016 Directions and Instructions (taking into account transitional arrangements under Direction 1.4). The trial attestation is designed to assist agencies to prepare for public attestation in future years. It will not be published in the 2016‑17 annual report or elsewhere.

In relation to the 2017‑18 financial year, an agency’s Responsible Body must complete a full public attestation in relation to all applicable 2016 Directions and Instructions in the agency’s annual report. The stand‑alone risk management framework and processes attestation (Direction 3.7.1 and the VGRMF) will cease in 2018 and become part of the overarching public attestation with the Directions.

Further advice regarding 31 December balance date agencies’ 2017 annual report financial management compliance attestation arrangements will be provided in the next newsletter.

If you have any further queries on the Standing Directions, please contact DTF’s Financial Frameworks team at standing.directions@dtf.vic.gov.au

### Financial Reporting Operations Framework

The *Financial Reporting Operations Framework* (FROF) is mandated through the 2016 Directions (Direction 4.4). It has mandatory requirements for departments on matters, including financial reporting requirements and specific technical accounting guidance.

Currently, there are two versions of FROF available on DTF’s website, one released in March 2016 and one in March 2017. For the 2016‑17 financial year, departments are required to refer to the March 2016 version (the section ‘*Financial Reporting Operations Framework – released March 2016 and applicable to the 2016‑17 financial year*’ on DTF’s website) for guidance and attestation requirements.

For the 2017‑18 financial year and onwards, departments are required to refer to the March 2017 version (the section ‘*Financial Reporting Operations Framework – released March 2017 and applicable to the 2017‑18 financial year onwards’* on DTF’s website*)*.

## Other guidance

### Wage inflation and discount rates

The wage inflation and discount rates are published quarterly (monthly in the last quarter of each financial year), to assist entities in ascertaining their financial position for the year‑end.

Entities are reminded to **remeasure their provisions** for employee benefits to ensure any material movements arising from the wage inflation rate and discount rates are reflected during the current reporting period.

The rates for 30 June 2017 were distributed at the beginning of July. While the wage inflation rate has marginally decreased since 30 June 2016, the discount rates have significantly increased from 1.990 per cent for 30 June 2016 to 2.612 per cent for 30 June 2017, which is expected to result in a decrease in the provision, given all other factors equal.

DTF will continue to provide wage inflation and discount rates to be used with the 2008 Long Service Leave (LSL) Model and the previously released 2004 LSL Model. The discount rates applicable for the 2004 LSL Model are based on bond rates with different maturity periods, while the 2008 LSL Model applies a single 10‑year effective bond rate with an assumption that the average long service leave settlement duration is 10 years.

## Key financial publication dates for the State of Victoria up to 2017‑18

The following table shows the indicative key publication tabling dates for some of the State’s upcoming financial publications.

|  |  |  |
| --- | --- | --- |
| Reporting year | Publication | Anticipated release dates – actual dates to be confirmed |
| **2016‑17** | The State’s Financial Report | Legislative due date is 15 October 2017. |
| **2016‑17** | Department and entity reporting | Legislative due date is the last sitting day in October 2017 (31 Oct) or first sitting day in November 2017 (1 Nov).  |
| **2017‑18** | September Quarterly Financial Report | Legislative due date is 15 November 2017. |
| **2017‑18** | Budget Update | Legislative due date is 15 December 2017. |
| **2017‑18** | Mid‑Year Financial Report | Legislative due date is 15 March 2018. |
| **2018‑19** | Budget papers | Anticipated date is 1 May 2018. |
| **2017‑18** | Annual Financial Report | Legislative due date is 15 October 2018. |
| **2017‑18** | Department and entity reporting | Legislative due date is the last sitting day in October 2018 or first sitting day in November 2018.  |

# AASB update

## Transitional projects for the upcoming AASB standards

The Australian Accounting Standards Board (AASB) released a number of new standards effective from 2018**‑**19 and 2019‑20 for the State. A preliminary assessment indicates these standards may have significant impacts on the financial statements and disclosures, and the transition will require changes to data collection procedures, and systems. The Accounting Policy team has commenced consultation workshops to facilitate departments/entities’ impact assessments. VPS entities are strongly encouraged to liaise with their portfolio departments to develop a plan to assess the financial and operational implications and provide timely advice to relevant stakeholders within the next six to eight months.

For more details on the major changes introduced by the new standards, please refer to previous editions of the Accounting Policy newsletters, especially Edition No. 30 and Edition No. 31, which are available on DTF’s website at [http://www.dtf.vic.gov.au/Publications/Government‑Financial‑Management‑publications/Financial‑reporting‑policy/Accounting‑policy‑update‑Newsletters](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-reporting-policy/Accounting-policy-update-Newsletters).

### AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* will supersede previous versions of the standard (AASB 9 (2014)) and certain parts of AASB 139 *Financial Instruments: Recognition and Measurement.* It will apply to annual reporting periods beginning on or after 1 January 2018, with retrospective application. The first applicable annual reporting period for the State will be 2018‑19, with the comparative figures of 2017‑18 required to be restated.

#### Preliminary assessment of the implications

The actions to be taken by VPS departments/entities for transitioning to AASB 9 include:

* assess the business model for managing the existing financial assets and determine the new categories of the financial assets and liabilities. New categories of financial assets are defined under AASB 9, based on the entity’s business model of managing its financial assets, and the contractual cash flow characteristics of the financial asset. The new categorisation may result in a different measuring approach for the assets and liabilities.
* re‑assess the impairment using the new impairment model. The ‘expected loss’ model under the new standard does not require a trigger event to happen before the recognition of impairment provision. Comparing with the existing ‘incurred loss’ model under AASB 139, it is expected to result in an overall increase in the provision for impairment.
* understand the data needed to meet the enhanced disclosure requirements under AASB 9 and make changes to the data collection procedures and systems.

#### AccPol project for AASB 9

The Accounting Policy team has delivered several educational workshops on AASB 9 to departmental working groups and material entities. Based on the self‑assessment outcomes reported to DTF by departments and material entities to date, the initial application of AASB 9 is not expected to have a significant impact on the State’s financial position. The Accounting Policy team’s focus for the next stage of the AASB 9 transitional project will be to reflect the new disclosure requirements in the system and re‑map the existing accounts. DTF will inform departments of the new requirements in due course.

### AASB 15 *Revenue from Contracts with Customers*

AASB 15 *Revenue from Contracts with Customers* will supersede the existing AASB 118 *Revenue* and
AASB111 *Construction Contracts.* The effective date is 1 January 2018 (the 2018‑19 reporting period) for for‑profit entities and 1 January 2019 (the 2019‑20 reporting period) for NFP entities.

#### Preliminary assessment of the implications

The actions to be taken by VPS entities for transitioning to AASB 15 include:

* review the terms and conditions of the existing contracts to identify distinct performance obligations within the agreements, as there may be different timing of revenue recognition for each performance obligation.
* review the existing revenue recognition accounting policy and re‑assess the timing of revenue recognition. Entities will need to apply the concept of performance obligation as defined by AASB 15 to revenue items to determine whether they should recognise the revenue over time or at a point in time, dependent on the timing of fulfilment of the performance obligations. The revenue recognition policy may need to be revised about the timing and basis for revenue recognition. For example, revenue recognition for grants with a specific, enforceable performance obligation will be deferred from upon cash receipt to fulfilment of the performance obligation.
* consider creating new accounts as a result of the new standard, e.g. contract asset and contract liability.
* understand the new disclosure requirements and consider how to collect the relevant qualitative (e.g. descriptive information about performance obligations and significant judgements applied) and quantitative information (e.g. disaggregation of revenue and reconciliation of contract balances).

#### AccPol project for AASB 15

The Accounting Policy team has performed a preliminary analysis of the potential impact of AASB 15 on the financial statements and disclosures. Given the earlier application date of the new standard for for‑profit entities, the team will liaise with material for‑profit entities for their transition and impact analysis. The Accounting Policy team will also host working group consultations with portfolio departmental representatives to assist NFP entities with implementing the standard and to quantify the financial impact of this new standard for the State.

### AASB 1058 *Income of Not‑for‑Profit Entities*

AASB 1058 *Income of Not for Profit Entities* will supersede the majority of income recognition requirements (except for restructures of administrative arrangements) in AASB 1004 *Contributions*. It will apply to annual reporting periods beginning on or after 1 January 2019.

AASB 1058 applies to transactions where the consideration to acquire an asset is significantly less than the fair value, principally to enable a NFP entity to further its objectives, and the receipt of volunteer service. NFP entities will need to assess and verify that the relevant contract does not meet the criteria of a contract with customers as defined by AASB 15, before they apply AASB 1058.

#### Preliminary assessment of the implications

The actions to be taken by VPS entities for transitioning to AASB 1058 include:

* review the existing grant arrangements for identifiable performance obligations and re‑assess the timing for revenue recognition. AASB 1058 aligns with the income recognition principle of AASB 15 upon fulfilment of performance obligation. Therefore, for grants with enforceable specific performance obligations, revenue from the grants will be deferred until the performance obligations are satisfied (based on AASB 15 for contracts defined by AASB 15, or AASB 1058 for other contracts).
* identify existing peppercorn lease arrangements to which the entity is a lessee. The release of AASB 1058 has resulted in consequential amendments to the lessee’s accounting treatment for peppercorn leases. Under the amended approach, the initial recognition of the right‑of‑use asset acquired by the lessee will be made at its fair value, with the difference with the amount of lease liability recognised in the operating statement. Entities will need to collect the data on the fair value of right‑of‑use assets from these arrangements upon transition to the new standard.
* consider the necessity of creating new accounts as a result of the new standard, e.g. the unearned income associated with capital grants with a specific performance obligation.

#### AccPol project for AASB 1058

The Accounting Policy team has commenced preliminary analysis of the potential impact of AASB 1058 on the financial statements and disclosures. Working group consultations with departmental representatives will be conducted in conjunction with those for AASB 15 to assist NFP entities with implementing the standard and to quantify the financial impact of this new standard for the State.

### AASB 16 *Leases*

AASB 16 *Leases* will supersede the existing standard AASB 117 *Leases* for annual reporting periods beginning on or after 1 January 2019. The transitional options are yet to be determined and a final decision will be based on consultations with departments, and analysis of the cost and benefit, practicability and impact of each option.

#### Preliminary assessment of the implications

The actions to be taken by VPS entities for transitioning to AASB 16 include:

* review the terms and conditions of all existing lease and service contracts to identify the lease component(s). Some service contracts may contain a lease in substance, which conveys the entity the right to control the use of an identified asset, which should be accounted for under AASB 16; some lease contracts may contain non‑lease components, which should be accounted for under other applicable standards.
* develop a lease register to capture all leases’ relevant data necessary for financial reporting purpose, including implicit interest rate, payment schedule, extension/termination options, etc. Under AASB 16, lessees will need to recognise a right‑of‑use asset and a lease liability at the lease commencement date using these data, and depreciate the asset and amortise the liability over the lease period. This applies to all leases except for short term leases less than 12 months and low value leases.
* develop a system to perform the lessee accounting. The recognition of all lease assets and liabilities on balance sheet will increase the net debt of lessees. The net impact on their operating surplus is expected to be marginal.

#### AccPol project for AASB 16

The Accounting Policy team has hosted a number of working group consultations with departmental representatives to deliver high‑level educational notes and seek feedback on a proposed lease register. Department and entities are strongly encouraged to commence assessing the impact of the new standard and provide feedback on any challenges or questions to DTF and/or the relevant portfolio department as soon as possible.

To assist entities with the implementation of this new standard, the Accounting Policy team will continue to work with portfolio departments to develop further guidance and host working group consultations, for data collection, and on the selection of elective options on transition.

## Other upcoming AASB standards

### AASB 10XY *Service Concession Arrangements*

A draft fatal flaw review version of AASB 10XY *Service Concession Arrangements* was issued for consultation by the AASB with a potential application date from 1 January 2019 (the 2019‑20 reporting period). It addresses grantor accounting for service concession arrangements and applies to arrangements that involve a private sector operator providing a public service related to a service concession asset on behalf of a public sector grantor.

The new standard would require the recognition of the service concession asset at its fair value by the grantor when the grantor controls the asset, and recognition of the corresponding liability, the nature of which is dependent on the consideration model.

The major updates related to the draft standard since the last newsletter include:

* clarification of the treatment for the use of existing intangible assets in a service concession arrangement. This clarification is specific to those existing intangible assets but not previously recognised as an intangible asset as they don’t meet the recognition criteria of AASB 138 *Intangible Assets*. AASB 10XY would override AASB 138 if these intangible assets are used in service concession arrangements so that AASB 138 recognition criteria does not apply. The assets would be recognised as a service concession asset at current replacement cost and their subsequent measurement would be accounted for according to AASB 138 until they cease to be a service concession asset.
* clarification of the treatment for variable payments made to an operator in a service concession arrangement. The Board agreed the accounting for variable payments forming part of the financial liability are accounted for using AASB 9 (i.e. to be recognised as a financial liability) instead of
AASB 16 (where most variable lease payments are not recognised as a liability but recognised as expenses as incurred). This is because service concession arrangements involve the acquisition of an asset, not a lease.

A final standard is expected to be issued shortly.

### Public sector licences

Public sector licenses are currently scoped out of AASB 15 and AASB 1058. Typical public sector licences include regulatory licences (e.g. gambling, liquor, taxi licences) and licences for the use of non‑produced assets (e.g. mineral and water rights, fishing licences).

The AASB is reviewing the accounting for non‑intellectual property licenses granted by public sector NFP entities, including the nature of the right created by the licence (i.e. the right to use or access an asset, or a right to perform an activity) and whether they should be within the scope of AASB 15, and if not, whether there is a need to develop specific accounting requirements.

# VAGO communication

### 2016‑17 sector specific audit focus areas

As part of VAGO’s annual financial audits, it identifies key areas of focus for its parliamentary reporting program, targeting matters that provide the greatest value to Parliament and the citizens of Victoria. In 2016‑17, VAGO plans to table seven reports in Parliament arising from the conduct of its annual financial audits.

The following table lists the reports to Parliament and areas of focus for the current reporting period.

|  |  |
| --- | --- |
| Reports to Parliament | Area of focus for 2016‑17 |
| **Sector‑wide** |
| Auditor‑General’s Report on the Annual Financial Report (AFR) of the State of Victoria  | Report on the outcomes and issues arising from the financial audit of the AFR of the State of Victoria  |
| **Education** |
| Technical and further education institutes: Audit snapshot  | Asset maintenance  |
| Universities: Audit snapshot | International students  |
| **Environment** |
| Water entities: Audit snapshot | Asset valuations  |
| **Health** |
| Public hospitals: Audit snapshot | Capital funding  |
| **Local Government** |  |
| Local Government: Audit snapshot | Asset valuations  |

### Changes to auditor’s reports

VAGO has advised there will be changes to the layout and content of auditor's reports for the 2016‑17 reporting period and periods going forward. The changes reflect an update to the relevant AASs.

All entities will receive an auditor's report with the following key changes:

* the opinion paragraph will now be presented at the start of the auditor’s report;
* increased detail of auditor’s responsibilities;
* explicit commentary on management’s responsibilities in relation to going concern;
* potential for an increased number of pages; and
* additional design changes will be made to improve the report’s readability.

A sample auditor’s report is included in the 2016‑17 Modeland a guide for understanding the independent auditor’s report is included in Appendix 3.

### Key Audit Matters

VAGO is taking a staged approach to the voluntary adoption of the new auditing standard, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, starting with departments and a selection of material entities.

The 2016‑17 Closing Reports of selected entities will include a section on key audit matters (KAMs). KAMs are matters the auditor determines are of most significance in the audit of the financial statements of the current period, and are selected by taking into account areas of higher assessed risk, involved significant auditor judgements, and the effect on the audit of significant events or transactions that occurred during the period.

The KAM section of the report will include:

* a brief description of the key audit matters;
* why VAGO considered them to be a key audit matter; and
* what key procedures have been performed to address the matter.

In future years, VAGO plans to include KAMs in the auditor’s reports of selected material entities to improve transparency of the audit process. VAGO will discuss this further with the relevant departments and agencies during its individual audit engagements.

# How to contact us

## AccPol mail box

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

## DTF website

**DTF’s 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 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 DTF’s website, e.g. broken links, please contact dtfweb@dtf.vic.gov.au

## About the Accounting Policy Update

Accounting Policy Update is published by DTF’s Accounting Policy team twice a year. The newsletter’s aim 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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