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

For the 2013-14 financial reporting period, there are some significant changes to reporting requirements arising from new and revised Australian Accounting Standards (AAS) and Financial Reporting Directions (FRDs). The key standards and FRDs effective from 2013-14 are outlined in this Newsletter, and any implications for departments and agencies are highlighted.

In addition, as part of the yearly review and maintenance of FRDs, further revisions are expected to ensure they remain appropriate and up to date. Also, consistent with previous years, as any government policy changes occur and related reporting issues come to light, further changes to the reporting requirements may need to be communicated through FRDs. Departmental portfolio CFOs will be kept informed of any potential changes resulting from policy changes should they arise. All significant reporting changes arising from the above, in addition to other general improvements for the 2013-14 reporting period, will be considered for illustration in the 2013‑14 *Model Report for Victorian Government Departments*.

For future reporting periods (mostly from 2014-15 onwards), a number of new accounting standards will become effective for the first time. Departments and entities are encouraged to monitor and consider implementation implications for the next few reporting periods to ensure a smooth transition (including requirements for comparative information).

2013-14 reporting year

New and revised Australian accounting standards

Two accounting standards, theAASB 13*Fair Value Measurement* and the revised AASB 119 *Employee Benefits* have become effective since 1 July 2013. Consideration and planning regarding system and data‑collection changes will be required to ensure compliance.

* AASB 13 provides principles and guidance for assets and liabilities measured at fair value. The Standard defines fair value by taking an exit price approach, and focuses on the value from the market participant’s perspective. As a result, a transaction or entry price may not necessarily represent fair value.

In relation to financial assets and liabilities, specific guidance is provided in the Standard where financial assets and liabilities with an offsetting position are exposed to the same market or credit risks. Entities are permitted to measure a group of financial assets and liabilities on a net position in these instances. For non-financial assets (e.g. property, plant and equipment), entities are required to consider the assets’ highest and best use from the perspective of market participants. DTF will further consider implications arising from these principles in due course.

In terms of the disclosure requirements, the three-level hierarchy (first introduced in AASB 7 *Financial Instruments: Disclosures*) for financial instruments is now extended to all fair value measurements. The level of disclosure will be proportionately greater, especially when:

* + - the assets or liabilities are measured at fair value on a **recurring** basis, i.e. the fair value measurement is required or permitted in other Australian Accounting Standards (e.g. assets measured under the ‘revaluation model’ of AASB 116 *Property, Plant and Equipment*); and
		- unobservable inputs (i.e. level 3) are used in the valuation techniques (see Appendix B of AASB 13 for more application guidance).

For example, for buildings measured at fair value using the depreciated replacement cost technique, some disclosures under AASB 13 that would be required include:

* + - the fair value measurement basis of the buildings and the reasons for the measurement basis (paragraph 93(a));
		- the level of the input hierarchy, e.g. Level 3 (paragraph 93(b));
		- a description of the valuation technique(s) and the inputs used, including quantitative information about those inputs (paragraph 93(d));
		- reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to factors listed in paragraph 93 (e)(i)-(iv);
		- the amount of total gains or losses for the period recognised in net result that is attributable to changes in unrealised gains or losses, and the line items in the comprehensive income statement in which those unrealised gains or losses are recognised (paragraph 93(f));
		- a description of the valuation process, e.g. how the entity decides its valuation policies and procedures etc (paragraph 93 (g));
		- a narrative description of the sensitivity of the fair value measurement to changes in the unobservable inputs if listed in accordance with paragraph 93(d)(paragraph 93(h)(i)); and
		- if the highest and best use of the building is not its current use, the fact and the reason should be disclosed (paragraph 93(i)).

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 recommended to liaise with Valuer-General Victoria (VGV) as early as practical to collect the input required for the purpose of AASB 13.

* The revised AASB 119 (issued in Sept 2011) amended several aspects of the former AASB 119, with the most significant changes relating to the stricter classification of short term employee benefits and the removal of ‘options’ in recognising actuarial gains or losses for defined benefit plan liabilities.
	+ Under the revised AASB 119, the classification of short-term employee benefits centres the question as to whether the employee benefits are expected to be **wholly** settled **within 12-months** and if not, whether this expectation of the timing of the settlement is a **temporary** change (see paragraphs 9 & 10 of revised AASB 119). In other words, if the employee benefits are not expected to be **wholly settled** within 12 month and this expectation is permanently so, the employee benefits should be classified as long-term employee benefits and therefore should be measured at a discounted value similar to other long term employee benefits.
	+ Entities are encouraged to reconsider the current classification and measurement of their employee benefit liabilities. Below is a decision-tree for classification and measurement of the annual leave under the revised AASB 119.

Are the employee benefits expected to be **wholly settled** within 12 month?

Yes

No

More likely to be classified as long – term employee benefits

Discounting to present value

Classified as short term employee benefits

No discounting; nominal value

No

Is it a temporary expectation of the timing of settlement?

Yes

* + In relation to the post-employment defined benefit plan liabilities, the revised Standard removes the ‘option’ for recognising actuarial gains or losses in *other economic flows included in net result*, and requires all of the gains or losses to be recognised in *other economic flows-other comprehensive income*. (For the presentation format of these line items in the comprehensive operating statement, please refer to the 2012-13 *Model Report for Victorian Government Departments* available on the DTF website).

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

Since the last newsletter, several FRDs have been amended with relevant requirements applicable for 2013-14. These FRDs 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 ‘other transfers’ as 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;
* FRD 22D *Standard disclosures in the Report of Operations*, which updates the disclosure requirements for consultancy expenditure, and revises the definitions for contractor and consultancy; and
* FRD 25B *Victorian Industry Participation Policy* (pending on Ministerial approval), which provides updated reporting requirements in light of the recent Victorian Industry Participation Policy reform (VIPP).

In addition, several of the existing FRDs will be subject to review during this year, including:

* FRD 21B [*Disclosures of responsible persons, executive officers and other personnel in the financial report,*](http://www.dtf.vic.gov.au/files/df3dfe8a-c682-4635-9262-a1cd00d809a9/FRD-21B-Disclosures-of-Responsible-Persons.doc) pending the AASB’s finalisation of amendments to AASB 124 *Related Party Disclosures*, which extends the requirements of the Standard to not-for-profit entities;
* FRD 22D *Standard disclosures in the Report of Operations*, in response to a recommendation by the Public Accounts and Estimates Committee (PAEC), will consider further detail on disclosure of related Occupational Health and Safety incidents/claims;
* FRD 24C *Reporting of office-based environmental data by government entities*, which considers improving the consistency and efficiency of environmental reporting across departments and agencies;
* FRD 27B *Presentation and reporting of performance information,* which is aiming to improve the efficiency and consistency in the reporting of performance information across all water corporations;
* FRD 112C *Defined benefit superannuation obligations*, including revisions in light of the revised AASB 119; and
* FRD 120G *Accounting and reporting pronouncements applicable to the 2013-14 reporting period,* whichwill contain both the accounting and reporting pronouncements that are applicable to the 2013-14 reporting period and those that are issued but not yet effective.

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

The Department of Treasury and Finance (DTF) is planning towards the release of the 2013-14 Model Report around mid April 2014.

Updates to the Model will include illustrative examples in response to the above‑mentioned new/revised accounting standards (i.e. AASB 13 and AASB 119) and applicable FRDs. In addition, and consistent with previous practice, DTF’s responses to the recommendations from PAEC and the Victorian Auditor-General’s Office (VAGO) will also be considered for illustration where appropriate.

More detail regarding proposed updates and changes for the 2013-14 Model Report will be communicated in the January 2014 Newsletter when the Model is closer to finalisation/Ministerial approval.

Other guidance

Superannuation Guarantee Levy

From 1 July 2013 to 1 July 2019, the Superannuation Guarantee Levy (SGL) will increase from 9 per cent to 12 per cent. 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 30 September 2013 will be published on the DTF website at the beginning of October.

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

AASB 10 *Consolidated Financial Statements*

AASB 10 replaces the part of AASB 127 *Consolidated and Separate Financial Statements* that deals with consolidated financial statements and AASB Interpretation112*Consolidation – Special Purpose Entities.*

Similar to AASB 127, the new Standard focuses on control in determining whether an entity needs to consolidate another entity. However, the definition of control under the new Standard has changed.

More specifically, control is to be assessed based on three criteria:

* power over an investee;
* exposure, or rights, to variable returns from its involvement with the investee; and
* an entity’s ability to use its power over the investee to affect the amount of the investor’s returns.

Consequently, the application of AASB 10 may have significant impacts on entities’ financial statements resulting in:

* consolidation of entities that were previously not consolidated; and/or
* consolidation no longer required for certain subsidiaries that were previously consolidated.

Acknowledging that there are circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective, the AASB has issued an exposure draft ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities,* explaining and illustrating how the principles in AASB 10 should be applied from the perspective of not-for-profit entities in the private and public sectors (see ‘Domestic Projects’ section for more details about ED 238).

In light of the control concept outlined in the new Standard and the expected implementation guidance (visit AASB’s website for a copy of ED 238), 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 paragraphs C2 to C6 of AASB 10.

AASB 11 *Joint Arrangements*

AASB 11 replaces and substantially alters the existing method of accounting for joint ventures, which is currently prescribed by AASB 131 *Interests in Joint Ventures*. The existing three categories of ‘jointly controlled entities’, ‘jointly controlled operations’, and ‘jointly controlled assets’ are replaced by two new classifications – ‘joint operations’ and ‘joint ventures’.

* **Joint operation** – This is defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. It is accounted for using the proportional consolidation method for joint operators’ shares to assets, liabilities, revenue and expenses.
* **Joint venture** – This is defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

This is accounted for using the equity accounting for investments in the joint ventures, meaning that their investment will be a single line- item in the balance sheet, and their share of the joint venture’s profit will be a single line- item in the income statement. The option available under AASB 131 to use proportional consolidation is no longer permitted by AASB 11.

The removal of the option to account for jointly controlled entities using either proportional consolidation or equity accounting will mostly affect entities in the following two scenarios:

* Scenario 1: the joint arrangement is a joint venture under AASB 11 which was previously treated as a jointly controlled entity and proportional consolidation was applied; or
* Scenario 2: the joint arrangement is a joint operation under AASB 11 which was previously treated as a joint controlled entity and equity accounting was used.

Under Scenario 1, entities will need to change to the equity accounting method to account for the joint venture.

Under Scenario 2, entities will need to change to the proportional consolidation method to account for the joint operation.

AASB 12 *Disclosure of Interests in Other Entities*

This Standard requires 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.

The new Standard requires extensive disclosure. For departments and entities that present consolidated financial statements, information about the judgements and assumptions made in determining whether or not it has control over another entity is required to be disclosed, along with further disclosure on the composition of the reporting group and each of the subsidiary with material non-controlling interests.

AASB 127 *Separate Financial Statements*

This revised Standard 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*

This revised Standard prescribes the accounting for investments 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 (see above). When applied, this revised Standard supersedes AASB 128 *Investments in Associates*.

Effective from 2015-16

AASB 9 *Financial instruments*

Reflecting the IASB’s replacement project on IFRS 9 *Financial Instruments*, the AASB 9 of the same name is a new Standard for financial instruments that 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.* For the latest status with each phase of this project, please visit the IASB’s website <http://www.ifrs.org/Pages/default.aspx>

In addition to the key standards mentioned previously, the AASB has issued a series of amending standards and Interpretations that are not yet effective for 2013-14, which are expected to have insignificant impacts on public sector reporting.

Looking forward

International projects

Revenue recognition project

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have completed redeliberation on their proposals in IASB ED/2011/6 *Revenue from Contracts with Customers*. The core principle of this ED focuses on an entity’s performance obligation for revenue recognition. That is, an entity would recognise revenue from contracts with customers when it transfers promised goods or services to the customer (on satisfaction of agreed performance obligations).

The amount of revenue recognised would be the amount of consideration promised by the customer in exchange for the transferred goods or services.

The IASB decided that the forthcoming revenue standard will apply to annual reporting periods beginning on or after 1 January 2017. Drafting of the revenue standard is under way, with the most recent IASB work plan indicating a completion period be in the third quarter of 2013.

Leases

The IASB has issued a revised exposure draft ED/2013/6 *Leases* (equivalently AASB ED 242 of the same name), which is open for comment until 14 September 2013. This ED adopts a “right of use” approach for lease recognition, which will require lessees to recognise the payments arising under the lease contract as a liability and recognise the right to use the underlying asset as an asset in its statement of financial position. This will result in most leases (except those with terms less than 12 months) being recognised on the balance sheet. The IASB is of the view that this is necessary to provide greater transparency about leverage; the assets an organisation uses in its operations, and the risks to which it is exposed from entering into leasing transactions.

IPSASB conceptual framework

Subsequent to the issuance of the two exposure drafts (ED 2 *Elements and Recognition in Financial Statements* and ED 3 *Measurement of Assets and Liabilities in Financial Statements*, the International Public Sector Accounting Standards Board (IPSASB) has undertaken a preliminary assessment on the responses received.

Subsequent to the issuance of the two exposure drafts (ED 2 *Elements and Recognition in Financial Statements* and ED 3 *Measurement of Assets and Liabilities in Financial Statements*, the International Public Sector Accounting Standards Board (IPSASB) has undertaken a preliminary assessment on the responses received.

IPSASB will review the IASB's Discussion Paper on the *Conceptual Framework* in order to avoid differences in definitions and terminology that are unwarranted by public sector circumstances.

Domestic projects

AASB GAAP/GFS harmonisation – Financial reporting for entities within the general government sector

After exploring various alternate approaches, including through the issue of ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS* and ED 212 *Not-for-Profit Entities within the GGS*, the AASB decided there was an insufficient basis for proceeding with Phase 2 of the AASB GAAP/GFS harmonisation project. The Financial Reporting Council has supported the AASB’s decision and has subsequently withdrawn this phase 2 directive. Therefore, the issuance of AASB 1055 *Budgetary Reporting* concludes this project.

ABS GFS Manual revision

Further to the last newsletter, the revision to the ABS GFS Manual is underway and targeted for finalisation in June 2014.

AASB ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities*

As mentioned previously (refer to the AASB 10 *Consolidated Financial Statements* section), AASB has issued ED 238 for not-for-profit entities in March 2013. The ED has now closed for comments, and AASB members will consider them at their September 2013 meeting.

Service concession arrangements: grantor accounting

In September 2011, the AASB started a project on grantor accounting for the service concession arrangements (as known as ‘public private partnerships’). Given that there is no Australian accounting pronouncement that provides explicit guidance for accounting for such arrangements from a grantor’s perspective, the objective of this project is to develop Australian reporting requirements by grantors to help facilitate consistent and comparable reporting.

At its February 2013 meeting, the AASB considered potential modifications that might be made to IPSAS 32 *Service Concession Arrangements: Grantor* to make it suitable for adoption in Australia. A range of specific issues has been considered, including:

* whether the grantor controls the service concession asset when a third party regulator is involved (i.e. neither the grantor nor the operator); and
* to ensure that the grantor recognition and accounting for any licenses issued under the arrangement (e.g. a right to make user charges such as road tolls) will be consistent with the IASB’s revenue recognition project outcomes.

The AASB intends to include additional guidance in an exposure draft on grantor accounting for service concession arrangements, and will continue to monitor the IASB’s revenue recognition project for issues relating to licenses.

AASB ED 243 *Withdrawal of AASB 1031 Materiality*

The AASB is proposing to withdraw AASB 1031 and make consequential amendments in other Accounting Standards and Interpretations in light of the guidance on materiality available in: existing Australian Accounting Standards; the revised IASB Conceptual Framework for Financial Reporting; and the AASB’s policy of not providing unnecessary local guidance on matters covered by IFRSs. This ED was open for comment until 23 August 2013. The Heads of Treasuries Accounting and Reporting Advisory Committee did not support the proposed withdrawal, on the basis that the removal of this Standard could result in a high degree of inconsistency in applying the materiality concept. The Committee suggested that the AASB undertake a review of the materiality practice after three years if the Standard is withdrawn.

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

**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

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.