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, the most significant reporting changes relate to the implementation of AASB 13 *Fair Value Measurement* and revised AASB 119 *Employee Benefits*, and the associated Financial Reporting Directions (FRDs).

As we move into the 2014‑15 reporting period, the key changes for not‑for‑profit (NFP) entities relate to consolidation, joint arrangements and disclosure of interest in other entities. While a high level assessment indicates there should be no significant changes for most public sector entities, entities are strongly encouraged to review and document their relationships with other entities to assess the impact of these changes.

Finally, as part of the ongoing review and maintenance of FRDs, revisions will be made to FRDs to incorporate key changes arising from revised and new Australian Accounting Standards (AAS) and Public Accounts and Estimates Committee (PAEC) recommendations the government has committed to implement as they arise.

The 2014‑15 *Model Report for Victorian Government Departments* will be updated to reflect all significant reporting changes that are required to be disclosed.

2013‑14 reporting year

Alerts

* **FRD 11A *Disclosure of Ex gratia Expenses*** was released in June 2013 and applicable from 1 July 2013. It expands the scope to capture non‑monetary benefits and accrued ex gratia expenses and introduces a materiality threshold of $5 000 for ex gratia expense disclosure. The purpose of this alert is to:

a) draw attention that when disclosing the comparative figures of ex gratia expenses, it should be footnoted to reflect the change in scope in the current reporting period and that comparatives are reported on a different basis;

b) clarify that the ex‑gratia payments materiality threshold of $5 000 applies to both individual items and in aggregate;

c) provide further guidance to determine when write‑offs may be applicable under FRD 11A.

It is important to understand the underlying reason for a write‑off when determining whether it meets the definition of 'ex gratia' (i.e. in favour of others) for disclosure.

For trade receivable write‑offs, while the reduction in economic benefits (i.e. receivable) is driven by AASB 136 *Impairment of Assets*, the entity needs to consider whether there is still an intention to pursue the recovery of the receivables from the customer.

If the entity writes off a trade receivable but still has and intends to keep the legal entitlement to payment for services rendered, a write‑off of debtors under such circumstances does not equate to a waiver of the debt. In this instance, trade receivable write‑offs would not be considered as 'ex gratia' expenses.

Conversely, if the entity has voluntarily decided to waive the legal entitlement to the payment, it is reasonable to consider this as a 'benefit' to the debtor, and therefore such a write‑off should be disclosed as 'ex gratia' expenses for reporting purposes under FRD 11A.

* **FRD 22E *Standard Disclosures in the Report of Operations*** now requires departments to disclose their objectives and objective indicators as stated in the budget papers for the relevant period and progress towards achievement of these objectives.

New and revised Australian accounting standards

New and revised accounting standards for the current reporting period include:

* AASB 13 *Fair Value Measurement*
* AASB 119 *Employee Benefits*

Amendments to a number of other standards are expected to have an immaterial impact 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).

Financial Reporting Directions (FRDs) and guidance notes

Since the last newsletter, several FRDs have been amended and are applicable for the 2013‑14 reporting year. These FRDs include:

* FRD 17B *Wage Inflation and Discount Rates for Employee Benefits* now applies to the measurement of other employee benefits, such as annual leave liabilities, that are not expected to be wholly settled within 12 months as a result of the revised AASB 119;
* FRD 22E *Standard Disclosures in the Report of Operations* as referred above;
* FRD 25B *Victorian Industry Participation Policy Disclosures in the Report of Operations* aligns disclosure requirements of the FRD to the revised Victorian Industry Participation Policy;
* FRD 27C *Presentation and Reporting of Performance Information* now includes the three additional metropolitan water retailers to report performance information that is required;
* FRD 112D *Defined Benefit Superannuation Obligations,* which has been updated to align with the requirements of the revised AASB 119;
* FRD 103E *Non‑financial Physical Assets* and FRD 107A *Investment Properties* now incorporate the revised fair value definition as a result of AASB 13 and the impact on the fair value assessment process;
* FRD 120H *Accounting and Reporting Pronouncements applicable to the 2013‑14 Reporting Period* updates the accounting standards and other pronouncements applicable for the 2013‑14 reporting period and those that are issued but not yet effective for the current period.

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.

Other guidance

Superannuation Guarantee Levy1

The Superannuation Guarantee Levy (SGL) will increase in stages from 9 per cent to 12 per cent from 1 July 2013 to 1 July 2019. Departments and entities should take into account 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** | 9.50 |
| **1 July 2015** | 10.00 |
| **1 July 2016** | 10.50 |
| **1 July 2017** | 11.00 |
| **1 July 2018** | 11.50 |
| **1 July 2019** | 12.00 |

1 In the 2014‑15 Federal Budget, the Federal Treasurer announced the intention to change the schedule for increasing the SGL to 12%. The bill for the amendments, the [Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 [No.2](http://www.comlaw.gov.au/Details/C2013B00189)], was accepted by the Senate but disagreed to by the House of Representatives. It is with the House of Representatives to decide how to proceed.

**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. The rates for 30 June 2014 have been published on the DTF website on 1 July. The rates for 30 September 2014 will be published on the DTF website at the beginning of October.

**Budget and Financial Management Guidances (BFMGs)**

Note that the BFMGs are subject to revision.

2014‑15 reporting year

New and revised Australian accounting standards

The following new standards are operative from 1 January 2014, with an earlier operative date of 1 January 2013 applicable to for‑profit entities for those marked with \*:

* **AASB 10 *Consolidated Financial Statements\**** clarifies that it does not introduce new concepts; instead, it builds on the control guidance that existed in AASB 127 *Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities* and adds additional context, explanation and application guidance consistent with the new definition of ‘control’. AASB 10 also provides a more principles‑based approach to the consideration of potential voting rights when assessing control, requiring that they only be considered if substantive. This typically arises in structuring arrangements and is not considered a prevalent characteristic of relationships and arrangements for public sector entities.

While a high level assessment indicates there should be no significant changes for most public sector entities, entities are strongly encouraged to review their relationships with other entities to assess the impact of these changes.

AASB 2013‑8 *Australian Implementation Guidance for Not‑for‑Profit Entities – Control and Structured Entities* provides more guidance for determining whether a NFP entity controls another entity.

* **AASB 11 *Joint Arrangements\****sets out a new principles‑based approach for determining the type of joint arrangements. It eliminates proportionate consolidation as a method to account for joint ventures.

It is anticipated there would be no material impact as public sector entities already apply the equity method when accounting for joint ventures.

* **AASB 12 *Disclosure of Interests in Other Entities\****requires extensive disclosures to enable 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 will require additional disclosures for reporting entities with unconsolidated structured entities. As a result, departments and entities are advised to undertake an assessment of their relationships with other entities and consider whether they need to capture and provide more disclosures going forward.

* **AASB 127 *Separate Financial Statements\****prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements, which has not substantially changed.

The current assessment indicates that there is limited impact on VPS entities.

* **AASB 128 *Investments in Associates and Joint Ventures\**** sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures, which has not substantially changed.

The current assessment indicates that there is limited impact on VPS entities.

* **AASB 1031 *Materiality*** was revised and reissued as an interim measure to achieve withdrawal of the contents of AASB 1031, applicable from 1 January 2014. Once all references to AASB 1031 in other Standards and Interpretations have been removed, AASB 1031 will be completely withdrawn and is not expected to impact practice regarding the application of materiality in financial reporting.
* **AASB 1055 *Budgetary Reporting*** sets out the budgetary reporting requirements for the whole of government (WoS), the general government sector (GGS), 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 impact on reporting.

Where an entity within the GGS presents its 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 Parliament, this Standard would not be applicable.

2014‑15 Model Report for Victorian Government Departments
(2014‑15 Model Report)

The Department of Treasury and Finance (DTF) is planning the release of the 2014‑15 Model Report around mid‑April 2015.

Updates to the Model will include illustrative examples in response to new and revised accounting standards and applicable FRDs. In addition, 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 2014‑15 Model Report will be communicated in the early 2015 newsletter when the Model is closer to finalisation/ministerial approval.

2014‑15 key financial publication dates for the State of Victoria

The following table shows the remaining indicative key publication tabling dates for 2014‑15.

|  |  |  |
| --- | --- | --- |
| **Reporting year** | **Publication** | **Anticipated release dates – actual dates to be confirmed** |
| **2014‑15** | Pre‑Election Budget Update | Anticipated by 14 November 2014. |
| **2014‑15** | September Quarterly Financial Report | Anticipated by 15 November 2014. |
| **2014‑15** | Budget Update | Anticipated by 15 December 2014. |
| **2014‑15** | Mid‑Year Financial Report | Anticipated by 15 March 2015. |
| **2015‑16** | Budget papers | Preliminary date is May 2015, subject to approval.  |
| **2014‑15** | Annual Financial Report | Anticipated for the end of September 2015. Legislated due date is by 15 October 2015. |
| **2014‑15** | Department and entity reporting | Expected to be tabled progressively on or before the last sitting day in September 2015. |

Key AASB Standards issued but not effective for 2014‑15

Effective from 2015‑16

There are no AASB standards that are issued to be effective for 2015‑16.

Effective from 2016‑17 and beyond

AASB 14 *Regulatory Deferral Accounts*

Operative date: 1 January 2016

AASB 14 *Regulatory Deferral Accounts* provides the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

It should be noted that the Standard permits an entity to recognise regulatory deferral account balances and introduces differential reporting in the recognition of assets and liabilities. AASB 14 has been issued as part of AASB’s program to converge with International Financial Reporting Standards (IFRS). There is no known Australian application and the implications of AASB 14 are expected to be minimal.

**AASB 1056 *Superannuation Entities***

Operative date: 1 January 2016

AASB 1056 replaces AAS 25 *Financial Reporting by Superannuation Plans*. The standard was developed in light of changes in recent years, developments in the superannuation industry and Australia’s adoption of IFRS.

The preliminary assessment has not identified any material impact arising from AASB 1056. Superannuation entities are encouraged to assess the impact of the key changes, including use of fair value rather than net market value for measuring assets and liabilities, revised member liability recognition and measurement requirements and revised disclosure requirements.

**AASB 9 *Financial Instruments***

Operative date: 1 January 2018

AASB 9 is ultimately intended to replace AASB 139 in its entirety as part of the International Accounting Standards Board (IASB) replacement project. Issuance of a complete IFRS 9, including amendments on classification and measurement and impairment, is now expected to be in July 2014, superseding IAS 39. The project covers Phase 1‑*Classification and measurement of financial assets and financial liabilities*, Phase 2‑*Impairment methodology* and Phase 3‑*Hedge accounting.*

* **Phase 1‑*Classification and measurement of financial assets and financial liabilities***

The key change introduced in Phase 1 of the project is to simplify and rationalise the categories of financial assets to amortised cost or fair value.

* **Phase 2‑*Impairment methodology***

The main proposal is to consider an ‘expected loss model’, where the expected losses are recognised throughout the life of a loan or other financial asset measured at amortised cost, and not only after a loss event has been identified. Under the expected loss approach, losses are recognised earlier than the currently adopted incurred loss model.

A finalised IFRS on impairment is now expected in the Q3 2014.

* **Phase 3‑*Hedge accounting***

This phase was completed in November 2013 with the [publication of IFRS 9 *Financial Instruments (2013)*](http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-completes-important-steps-in-reform-of-financial-instruments-accounting-November-2013.aspx), incorporating the new general hedge accounting model. Under the new model, there will no longer be a quantitative threshold for hedge effectiveness, and increased eligibility of hedged items and hedging instruments is introduced. However, note that the Standard will require increased hedge accounting disclosures.

It should be noted that macro hedge accounting has been scoped out of the IFRS 9 project and a discussion paper has been issued separately by the IASB due to its complexity.

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.

Looking forward

International projects

Revenue from contracts with customer

IFRS 15 *Revenue from Contracts with Customers* was recently issued, superseding[IAS 11](http://www.iasplus.com/en/standards/ias/ias11) *Construction contract,* IAS 18 *Revenue* and related interpretations*.* This Standard is applicable to the annual reporting period beginning on or after 1 January 2017.

The core principle of IFRS 15 is that an entity will only recognise revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities will need to allocate the transaction price to different performance obligations in the contract and recognise revenue only when they satisfy a performance obligation. This may result in substantial changes in the timing of revenue recognition for some entities.

The AASB expects to issue the corresponding Australian Accounting Standard AASB 15 *Revenue from Contracts with Customers* in Q4 2014.

**Clarification of acceptable methods of depreciation and amortisation**

The amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* clarify that revenue‑based depreciation/amortisation is not allowed. They are effective for annual reporting periods beginning on or after 1 January 2016, with earlier application being permitted.

Domestic projects

Related party disclosure for NFP public sector entities

The AASB meeting in May 2014 broadly confirmed extending the scope of AASB 124 *Related Party Disclosures* to NFP public sector entities.

The project proposes that key management personnel (KMP) remuneration will only be required for disclosure in the annual report of the central agency that remunerates the Ministers. As a result, disclosures on ministerial remuneration would be made to the annual reports of GGS sector and WoS.

What still remains unclear is how the definition of KMP for the public sector extends to other agency executives (e.g., Secretary or Deputy Secretary).

The amended Standard is expected to be released in Q4 2014 and is expected to be applicable for annual reporting periods beginning on or after 1 July 2016.

Income from transactions of NFP entities

‘Non**‑**reciprocal transfers’ of NFP entities that are accounted for under **AASB**1004 *Contributions* would be accounted for differently under the proposed Exposure Draft (ED) if they give rise to a performance obligation (enforceable obligation to provide specific goods or services). Instead of being recognised as income immediately, they would be deferred and recognised as liabilities, with the income only recognised when the performance obligations are satisfied. This will be a significant change for public sector entities with grants and appropriations with enforceable stipulations. In contrast, the treatment of grants and appropriations without enforceable stipulations, and rates and taxes, are expected to generally remain unchanged from the present treatment.

An ED on Income from Transactions of NFP Entities is targeted for issue in Q4 2014.

Service concession arrangements: grantor

The AASB has considered the International Public Sector Accounting Standard (IPSAS) 32 *Service Concession Arrangements: Grantor* as basis for a Standard in Australia, with some modifications where necessary.

A control‑based approach to determine the timing of recognition of assets and liabilities will result in the earlier recognition on a grantor’s balance sheet than under the risk and rewards approach currently adopted.

The AASB has tentatively decided that there is a need to develop additional guidance on whether a grantor controls a service concession asset in circumstances in which a third‑party regulator is involved. It will also consider consistency with the requirements of IPSAS 32 and IFRS 15.

The Board is planning to issue an ED in Q4 2014 or Q1 2015.

Borrowing costs

The project proposes to extend application of AASB 123 *Borrowing Costs* to NFP public sector entities for capitalising borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. As a result, borrowing cost in relation to qualifying assets will need to be capitalised as part of the original cost. Note that we currently expense borrowing costs.

An ED is expected to be issued in Q3 2014.

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.gov.au](http://www.aasb.gov.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.