Accounting policy update

Newsletter – Edition No. 33, December 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

The AASB update section in this newsletter includes a reminder to entities about the new suite of accounting standards applicable for the first time from 2019‑20. Although the application date is still a way off, a significant amount of preparatory work is required to successfully implement these complex standards, including understanding and advising the Treasurer of the potential impact on the forward estimates, based on information provided by departments.

In preparation for this year’s annual report, entities should note the streamlining of departmental annual financial reports, introduced last year, has led to some further minor changes for the 2017‑18 Model Report for Victorian Government Departments.

No updates have been made to financial reporting directions (FRDs) since the last newsletter. However, proposed changes applicable for 2017‑18 are to FRD 15D *Executive officer disclosures in the Report of Operations*, FRD 29B *Workforce data disclosures in the Report of Operations*, FRD 24C *Reporting of office‑based environmental data by government entities,* andFRD 103F *Non-financial physical assets.* An outline of these proposed changes can be found in this newsletter.

The outcome of the data collection and reporting process against Ministerial declarations for the 2016‑17 reporting period in relation to AASB 124 *Related Party Disclosure* is included in this newsletter. The data collection process for 2017‑18 is already under way, with a request issued in early December 2017 for Ministers to complete the first of two possible declaration certificates. Victorian Public Sector (VPS) entities are required to conduct and document fair value assessments annually for each class of non‑financial physical assets. A summary of the key points for conducting interim assessments is provided as a quick reference for departments and agencies.

A number of key financial publications are due in the coming months. A table of anticipated publication dates is included.

Departments and agencies are reminded that amendments to the FMA are currently being debated in the Parliament. When enacted, these proposed amendments will have significant flow-on impacts on existing accounting, financial and budget policies.

VAGO’s recent communications outline the next steps in the staged implementation of the new Key Audit Matters section of its independent audit report. VAGO has also introduced a five-year data analytics strategy as part of the establishment of a new business unit.

# 2017‑18 reporting year

## Major updates/reminders

### 2017‑18 Model Report for Victorian Government Departments

The preparatory work on the 2017‑18 Model Report has started. Following the successful streamlining of the *2016‑17 Model Report for Victorian Government Departments* (Model Report), the 2017‑18 Model Report will again be presented in the streamlined format. This revision takes into account stakeholder expectations such as those of the Victorian Auditor‑General’s Office (VAGO) and will continue to fully comply with the relevant reporting standards and legislative requirements,.

The Department of Treasury and Finance (DTF) has set a target date to release the 2017‑18 Model Report around mid‑April 2018. Key changes to the 2017‑18 Model Report include:

* updated disclosures of, and additional guidance on sections of the Report of Operations incorporating changes in FRDs, including:
	+ disclosure of office-based environment impacts, required by FRD 24C *Reporting of office‑based environmental data by government entities*;
	+ disclosure of executive officer data, required by FRD 15E *Executive officer disclosures in the Report of Operations;* and
	+ disclosure on workforce data, required by FRD 29C *Workforce data disclosures in the Report of Operations – Public Service Employees*;
* enhanced guidance on general criteria in determining a significant variance in output performance in the portfolio reporting section of the Report of Operations following the Public Accounts and Estimate Committee’s recommendation; and
* additional appendices containing implementation checklists for upcoming new accounting standards, including:
	+ AASB 16 *Leases*;
	+ AASB 15 *Revenue from Contracts with Customers*; and
	+ AASB 1058 *Income of Not‑for‑Profit Entities*.

A comprehensive list of the significant changes will be detailed in the “Summary of Changes”, which will accompany the 2017‑18 Model Report.

### AASB 124 Related Party Disclosure project

#### Outcomes of Ministerial declarations for the 2016‑17 reporting period

There was a positive response from all cabinet ministers for the first year of implementation for AASB 124 *Related Party Disclosures.* The majority of declarations submitted by ministers had no related party transactions.

Where transactions were declared, they were extracted from the respective ministers’ declaration certificates by DTF and provided to the relevant portfolio entities to perform a materiality assessment. The assessments considered whether the nature and amount of the related party transactions were significant or material for disclosure in the entities’ annual financial reports, either separately or in aggregate.

Based on the assessments performed, no related party transactions were identified as being quantitatively or qualitatively material for disclosure in the portfolio entities’ annual financial reports. As a result, no related party transactions that involved ministers, their close family members or their personal business interests were disclosed in the *2016‑17 State of Victoria’s Annual Financial Report*.

#### Data collection process for 2017‑18

As not all not‑for‑profit public sector entities within the State have 30 June year ends (e.g. 31 December for TAFES and Alpines), information from cabinet ministers must be collected twice in each financial year to support the compliance and preparation of financial reports.

The first submission covers the period 1 July 2017 to 31 December 2017. A request to complete the declaration certificates was issued to all ministers in early December 2017 and is required to be completed and submitted in the secure portal by **29 January 2018**. The second submission will cover the period 1 January 2018 to 30 June 2018. All ministers will be required to complete and submit their certificates by **13 July 2018**.

Entities are encouraged to implement a similar data collection process for their executive key management personnel (KMP).

#### Capturing KMP movements

Entities are reminded that the disclosure for the 2017‑18 reporting period will need to capture all KMP appointed during the period, including any recent appointments and departures. As such, a process will need to be implemented to ensure declarations can be adequately obtained.

DTF is working with the Department of Premier and Cabinet (DPC) to obtain completed declarations from ministers who have departed since 1 July 2017. Going forward, DTF and DPC will seek to facilitate a process to ensure declarations are obtained prior to, and following the state election in November 2018.

#### Guidance information

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

### Interim valuation assessments

The increased granularity in the land indices for selected metropolitan areas provided by the Valuer‑General Victoria (VGV) since December 2016 to provide a more representative indicator of land values for each postcode, has resulted in the cumulative fair value movements for land exceeding the 40 per cent threshold for some departments, triggering the need to undertake a formal valuation for that class of assets immediately (which may be earlier than the formal fifth valuation year). In most instances, this seems to occur most frequently in the fourth year of the five year formal valuation cycle. You are reminded that you should have already conducted your 2017‑18 interim valuation assessments using the October 2017 indices as a preliminary indicator to assess how the fair values for land have moved for the period, prior to finalising your valuation assessment using the April indices.

For more information on interim valuation assessments and an example of how to assess your fair value movements on a cumulative basis, please refer to our December 2016 Newsletter, Edition No. 31 at [www.dtf.vic.gov.au/Accounting-policy-newsletters](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Accounting-policy-update-newsletters).

## Financial reporting directions and guidance notes

Since the last newsletter, no further updates have been made to Financial Reporting Directions (FRDs).

Changes are proposed for the following FRDs, applicable for the 2017‑18 reporting period:

* FRD 15D *Executive officer disclosures in the Report of Operations*;
* FRD 29B *Workforce data disclosures in the Report of Operations*;
* FRD 24C *Reporting of office‑based environmental data by government entities*; and
* FRD 103F *Non‑financial physical assets*.

### FRD 15D and FRD 29B

The Integrity and Corporate Reform Subcommittee of the Victorian Secretaries Board endorsed a new policy and standard model for collecting and reporting on staff gender information in the VPS. The policy and standard model provides a framework for VPS organisations to collect and report on staff who identify as gender diverse.

In line with the policy, the proposed revisions will recognise three gender categories: women, men and self‑described when reporting on gender for executive officers under FRD 15D, and the workforce under FRD 29B.

The proposed revisions will be recommended for the 2017‑18 and 2018‑19 reporting periods, and will be mandatory for all public service bodies from 2019‑20 onwards.

### FRD 24C

FRD 24C requires entities to report on the consumption of resources and greenhouse gas emissions. DTF will work with the Department of Environment, Land, Water and Planning (DELWP) to update references in the FRD to align with the Commonwealth’s revised environmental benchmarks.

### FRD 103F

DTF will be making some general improvements to FRD 103F to enhance clarity and readability. The FRD will be streamlined to ensure it focuses on mandatory requirements, and other information will be moved into supporting guidance/appendices. Updates will also be made to reflect any relevant changes in accordance with current accounting standards.

# 2017‑18 financial reporting legislation

## Standing Directions – annual report attestation

The *Standing Directions of the Minister for Finance 2016* (2016 Standing Directions) require formal attestation statements in agency annual reports. In the current 2017‑18 reporting period, the requirements differ depending on the agency's annual reporting date.

### 31 December 2017 reporting date agencies

These agencies are required to make **two** separate attestation disclosures, one for each half-year period, within their 2017-18 annual report.

For the period **1 January 2017** to **30 June 2017**, agencies must complete an attestation statement for risk management and insurance as set out in the Victorian Government Risk Management Framework (VGRMF) mandated by Standing Direction 3.7.1. An attestation template is provided in the *2016‑17 Model Report for Victorian Government Departments.*

For the period **1 July 2017** to **31 December 2017**, agencies must complete an attestation statement in relation to **all** applicable 2016 Standing Directions and Instructions as required and in the form prescribed by [Instruction 5.1, clause 2](http://www.dtf.vic.gov.au/files/0b43b325-68cc-4285-9055-a5a6010a5a01/Standing-Directions-Instructions-2016.docx).2.

2017 is the final year that a separate risk management and insurance attestation is required.

### 30 June 2018 reporting date agencies

For these agencies, only **one** attestation disclosure is required within the 2017‑18 annual report.

For the period **1 July 2017** to **30 June 2018,** agencies must complete a full year attestation statement in relation to **all** applicable 2016 Standing Directions and Instructions as required and in the form prescribed by [Instruction 5.1, clause 2](http://www.dtf.vic.gov.au/files/0b43b325-68cc-4285-9055-a5a6010a5a01/Standing-Directions-Instructions-2016.docx).2.

Accordingly, the previous risk management and insurance attestation (under Standing Direction 3.7.1) will cease in the 2017‑18 year and become part of the overarching attestation statement with all applicable directions and instructions.

If you have any further queries on the Standing Directions, please direct your queries to the DTF Financial Frameworks team mailbox: standing.directions@dtf.vic.gov.au.

## Superannuation Guarantee Levy

There has been no change to the Superannuation Guarantee Levy (SGL) schedule since the last update on the SGL in the December 2016 newsletter edition. Consistent with the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014* passed in September 2014, the future SGL rates will remain at 9.5 per cent until 2021, before increasing by 0.5 per cent annually between 2021‑2025.

The next SGL rate change for departments and agencies will be effective from 1 July 2021 when the rate will increase to 10 per cent.

## Wage inflation and discount rates

DTF publishes the wage inflation and discount rates quarterly for the September, December and March quarters. Rates are released monthly for the June quarter of each financial year. The current rates should be used by entities to remeasure their employee benefit provisions in the current reporting period.

The wage inflation and discount rates are published for both 2004 and 2008 Long Service Leave Models. Wage inflation rates are changed to reflect current economic assumptions made in the preparation of the State Budget/ Budget Update. The discount rates are representative of the yield of Commonwealth Treasury bonds, published by the Reserve Bank of Australia.

The rates for the December quarter of 2017 were distributed in early January 2018. As shown in the chart below, the rates had a relatively flat trend in the 12-month period to 31 December 2017.

## Proposed amendments to the *Financial Management Act 1994* and *Constitution Act 1975*

The Financial Management and Constitution Acts Amendment Bill 2017 is currently before the Legislative Assembly. For information, a copy of the Bill can be accessed under “Parliamentary Documents” at <http://www.legislation.vic.gov.au>.

The Bill amends the Financial Management Act 1994 (FMA) to clarify the legislative basis for applying appropriations, to consolidate, clarify and simplify other provisions, and to strengthen accountability. Other changes include new and revised provisions relating to money received from other governments, establishing a working account for each department and providing appropriation authority for previously incurred, but unfunded, departmental liabilities.

The Bill also amends Part V of the Constitution Act 1975 to modernise it as the basis for the structure of Victorian public finances.

The majority of amendments are expected to be implemented from 1 July 2019, with a number of relatively minor amendments proposed to come into effect beginning 1 July 2018.

Changes to subordinate legislation, policies and guidance issued by DTF will be required. Development work has commenced and will continue during the Bill’s passage through Parliament. Departments will be contacted in February 2018 regarding their participation in this program.

## Key financial publication dates for the State of Victoria in 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 |
| 2017‑18 | Mid‑Year Financial Report | Legislated due date: 15 March 2018. |
| 2018‑19 | Budget papers | Anticipated due date: 2 May 2018. |
| 2017‑18 | The State’s Financial Report\* | Legislated due date: 15 October 2018.  |
| 2017‑18 | Department and entity reporting\* | Legislated due date: 15 October 2018. Entities are encouraged to table their annual reports prior to the legislated due date. |
| 2017‑18  | Pre‑election budget update | Anticipated due date: 9 November 2018.  |

\*At this stage, the last scheduled parliamentary sitting date is 20 September 2018.

# AASB update

## Key AASB Standards effective for 2017‑18

### AASB Agenda Decision on the definition of residual value in relation to infrastructure assets.

The AASB was asked to clarify whether residual value, as defined in AASB 16 *Property, Plant and Equipment*, included costs savings from the re-use of a part of an asset by the entity. The issue was raised primarily in relation to infrastructure assets held by not-for-profit public sector entities that are subject to rehabilitation activity over the course of the asset’s useful life.

The AASB has clarified that cost savings from the re-use of part of an infrastructure asset should not be included in ‘recoverable amounts’. Residual value should reflect the consideration receivable for an asset at the end of its useful life, and accordingly, does not include cost savings from the re-use of parts of an asset by the entity. Consideration receivable is the estimated amount that an entity would currently obtain from disposal of the assets at the end of its useful life to the entity. This decision by the AASB is effective immediately and is **mandatory for all December 2017 reporters** with infrastructure assets.

### AASB 124 *Related Party Disclosures*

The objective of AASB 124 is to ensure that the department’s or entity’s financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

The Australian Accounting Standards Board (AASB) recently extended the scope of AASB 124 Related Party Disclosures to include not-for-profit (NFP) public sector entities.

This revised reporting requirement applied to departments and not-for-profit agencies for the first time from 1 July 2016 (i.e. from 2016-17), with no comparatives required for the first period to which these changes apply. As a result, all NFP public sector entities are now required to disclose related party transactions in the same way as private sector entities. Please note that this accounting standard is **mandatory for all December 2017 reporters.**

For more information on AASB 124 *Related Party Disclosures*, please refer to our December 2016 Newsletter, Edition No. 31 and July 2017 Newsletter, Edition No. 32 at [www.dtf.vic.gov.au/Accounting-policy-newsletters](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Accounting-policy-update-newsletters).

For guidance information, AASB 124 Declaration certificate and frequently asked questions, please refer to [www.dtf.vic.gov.au/AASB-124-Related-Party-Disclosures](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-reporting-policy/AASB-124-Related-Party-Disclosures).

## Key AASB Standards issued but not effective for 2017‑18

### AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* will supersede previous versions of the standard (AASB 9 (2014)) and AASB 139 *Financial Instruments: Recognition and Measurement*. It will apply to annual reporting periods beginning on or after 1 January 2018, with retrospective application.

Educational workshops and materials were prepared and delivered to departments and their material entities mid-2017. Impact assessment templates were distributed, with departments and portfolio entities completing self-assessments and submitting to DTF for both classification and measurement and impairment under the ‘expected loss’ model assessment. Based on these assessments the initial application of AASB 9 is not expected to have a significant impact on the State’s financial position.

Since the new standard will not be in place until 1 July 2018, this means that Departments and Portfolio Agencies systems will need to be re‑mapped from this date for 30 June 2019 financial reporting purposes. In addition, comparative data for the prior year (1 July 2017 to 30 June 2018) will be required to be disclosed on the new basis.

DTF will update FINSI data collection templates under the new AASB 9 requirements for both actuals and comparative data collection as at 30 June 2019.

### AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not‑for‑Profit Entities*

AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not‑for‑Profit Entities* is applicable for all **not‑for‑profit entities** for annual reporting periods commencing on or after 1 January 2019 (i.e. the 2019‑20 reporting period). Note that AASB 15 is applicable one year earlier for **for‑profit entities** (i.e. the 2018‑19 reporting period). Refer to previous newsletters for information on the new revenue standards.

As part of the analysis of the new accounting standards, the Treasurer has requested information on the indicative financial impacts on the forward estimates with a view to possible inclusion in a quantitative disclosure table in the 2018‑19 Budget Papers and to inform preparation of future budgets. The information will also be available to support DTF’s Secretary, who is responsible for preparation of the Pre‑Election Budget Update in November 2018.

DTF has commenced working group consultations with departmental representatives to collect data from a consolidated portfolio perspective using a data submission template. The template is designed to assesschanges in revenue recognition under AASB 15 and AASB 1058 using the entity’s 2016‑17 actuals and 2017‑18 budget estimate figures.

An initial submission process was performed in November 2017 to collect data on material revenue items from all departments and their material portfolio agencies. **All** departments andportfolio entities are now required to complete the data submission template to assess **all** of their income items (not just material items) to assist DTF in compiling a complete impact assessment for the whole of State.

Key points to note when completing the data submission template:

#### Commonwealth capital grants

Entities will need to include data for all their Commonwealth capital grants that are receipted by DTF and appropriated to the department via section 29 of the *Financial Management Act 1994*. As these grants are not recorded as capital grants from a departmental perspective, DTF will need to centrally defer and amortise the capital grant revenue from the Commonwealth, consistent with the revenue recognition for the construction of the asset. Therefore, entities via departmental representatives will need to provide work‑in‑progress milestones to DTF.

#### Lease rental revenue

While the recognition requirements for rental revenue is outside the scope of AASB 15 and AASB 1058, entities will be required to include data for rental revenue in the designated ‘out‑of‑scope’ section of the template for completeness purposes only. Note, lessors should be recognising lease rental revenue, and will need to consider options/methodology for valuing their peppercorn leases from a lessor/lessee perspective.

#### Volunteer services

Where volunteer services form an integral part of the business, entities will need to assess whether they would be required to recognise their volunteer services, as this is likely to be a potential area of focus by audit.

Departmental representatives will be required to submit completed data templates for their consolidated portfolio to DTF by **5 February 2018**, and will be responsible for ensuring the data is representative of the expected financial impacts.

DTF has developed a preliminary checklist to assist entities with determining whether particular transactions are caught within the scope of AASB 15 or AASB 1058, and includes information on the proposed transitional approaches for implementation. Contact your departmental representative for copies of the preliminary guidance information shared at the working groups.

### AASB 16 *Leases*

AASB 16 *Leases* will supersede the existing AASB 117 *Leases.* The effective date is for annual reporting periods beginning on or after 1 January 2019 (the 2019-20 reporting period).

To determine the financial impact for the State of Victoria, a lease register template was designed and distributed to recognise operating leases in order to calculate the financial impact of the new standard.

An initial submission process was performed in November 2017 to collect data on material lease items from all departments and their material portfolio agencies. **All** portfolio entities will now be required to complete the lease register template to assess **all** their operating leases (not just material items) to assist DTF in compiling a complete impact assessment for the whole of State.

Key points to note when completing the lease register:

* exclude intra-group leases
* exclude lease terms of less than 12 months or with underlying assets worth less than USD 5 000 (DTF proposed a consideration of AUD 10 000).
* include all shared services accommodation leases (as lessee)
* include operating leases (as lessee)
* include right of use assets contained in service contracts
* identify peppercorn leases (as both lessee and lessor)
* separate lease and non-lease components

Departments have been requested to submit completed lease registers for their consolidated portfolio (GGS and PNFC sectors) to DTF by **5 February 2018**, and will be responsible for ensuring the data is representative of the expected financial impacts.

DTF has developed a preliminary checklist to assist entities with determining whether particular transactions are caught within the scope of AASB 16, and includes information on the proposed transitional approach for implementation. Contact your departmental representative for copies of the preliminary guidance information shared at the working groups.

## Other upcoming AASB standards

### AASB 1059 *Service Concession Arrangements*

The AASB has issued a new standard for public sector entities that are grantors of service concession arrangements. This new standard will address the lack of a specific Australian Accounting Standard for the accounting for service concession arrangements from the grantor’s perspective. These are arrangements that involve a private sector entity operating a service concession asset to deliver public services on behalf of a public sector entity. The accounting standard is effective for annual reporting periods beginning or after 1 January 2019 i.e. 2019-20 financial year.

For background information on ED 261 Service Concession Arrangements, please refer to our December 2016 Newsletter, Edition No. 31 and July 2017 Newsletter, Edition No. 32 at DTF’s website:

<http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Accounting-policy-update-newsletters>.

More detailed guidance will be issued separately.

### AASB 17 *Insurance contracts*

The AASB issued AASB 17 *Insurance Contracts* in July 2017, fully incorporating the international standard IFRS 4, which was issued as an interim standard pending completion of a comprehensive standard.

The new Australian standard eliminates inconsistencies and weaknesses in existing practices by providing a single principle‑based framework to account for all types of insurance contracts, including reissuance contract that an insurer holds. It also provides requirements for presentation and disclosure to enhance comparability between entities. The standard is effective for annual reporting periods beginning on or after 1 January 2021.

The issue in applying AASB 17 in the public sector is whether AASB 17 would appropriately capture all schemes with economically similar insurance risk, once it is applicable to not‑for‑profit public sector entities, ensuring there is no understatement of insurance liabilities. The Board has noted there is inconsistency in how the current insurance standards AASB 1023 *General Insurance Contracts* and AASB *1038 Life Insurance Contracts* are being applied by public sector entities. It appears that some public sector entities are applying AASB 1023, or are applying accounting consistent with AASB 1023, while others, with similar activities and risks, are not. Those who do not apply AASB 1023, identify that they apply AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as the insurance‑like risk arises from statute rather than a contract.

The Board is concerned the same issues around inconsistent reporting could remain under AASB 17 with a risk that public sector insurance liabilities would be understated. It therefore considers that there is justification for modifying AASB 17 for public sector issues identified above. A discussion paper presenting a draft amending standard AASB 2018‑X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Public Sector Entities – Insurance* with draft guidance for the public sector, and draft illustrative examples of applying the proposed guidance has been issued for feedback by 28 February 2018.

### Accounting for public sector licences

During the AASB’s agenda consultation, it was flagged that AASB 15 *Revenue from Contracts with Customers* might not have sufficient guidance for not‑for‑profit public sector licensors. AASB 15 provides guidance for licences of intellectual property (IP) however, unlike for‑profit entities, licences issued by not‑for‑profit public sector entities extend beyond IP licences. The Board consequently identified divergence in practice in the accounting for revenue from licences issued by not‑for‑profit licensors, leading to some revenue being deferred when it should be recognised immediately or recognised immediately, when it should be recognised over time.

ED 283 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not‑for‑Profit Public Sector Licensors* has been issued to provide guidance and feedback is due 31 March 2018. DTF will seek feedback from relevant entities shortly.

# VAGO communication

## Key audit matters

Since the last newsletter, VAGO has continued its staged implementation approach to the voluntary adoption of the new auditing standard, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

In 2016‑17, key audit matters (KAMs) were incorporated into the independent auditor’s report for the State of Victoria’s Annual Financial Report (AFR), and closing reports of all departments and a selection of additional material entities.

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 audit report includes:

* 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.

For the 2017‑18 reporting period, VAGO will continue to disclose KAMs in the independent auditor's report for the State of Victoria’s AFR, closing reports for all departments and those material entities that were selected in 2016‑17.

VAGO will seek to select additional entities to report KAMs in 2017‑18 and will discuss this further with relevant departments and agencies during the planning stage for the upcoming audits. Questions can be directed to your VAGO engagement leader.

## Data Analytics Strategy

In 2017, VAGO established a Data Analytics business unit, which is responsible for identifying and implementing improvements to the way in which data is collected, analysed and interpreted. VAGO’s five-year data analytics strategy for audits seeks to:

* streamline the collection of data on audits of financial reports; and
* improve the quality of insights provided to clients and other key stakeholders.

An initial pilot will be administered for the 2017‑18 reporting period across a small, targeted selection of audit clients and will include streamlining of data collection and the reporting of audit insights on digital dashboards used by VAGO auditors.

VAGO will discuss the pilot further with relevant departments and agencies during the planning stage for the upcoming audits. Questions on the strategy can be directed to your VAGO engagement leader.

# 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/public‑sector/](http://www.ifac.org/publicsector/) for information on IPSASB and IPSASB pronouncements.

## DTF website

**The DTF website (for all internet users)** – [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au/Government-Financial-Management/Financial-reporting-policy), covers FRDs and guidance, the Model Report, accounting policy updates, wage inflation and 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 Long Service Leave 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.

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