

Tech alert

Significant accounting developments

2024–2 | 18 December 2024

Find out about the latest updates to financial reporting and our recommendations for how you should respond to them.

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Update 1: Tiered financial reporting is being implemented for eligible entities in the Victorian public sector

Tiered financial reporting In June 2024, the Assistant Treasurer approved Financial Reporting Direction 101 ([FRD 101](#)) *Application of Tiers of Australian Accounting Standards*.
The direction prescribes 2 tiers of reporting requirements for preparing general purpose financial reports.

Entities this applies to The direction applies to all departments and public bodies (except universities), as defined in section 3 of the *Financial Management Act 1994*.

Tiered reporting applies from 1 July 2024 This direction applies for annual reporting periods starting on or after 1 July 2024.
Entities may adopt tiered reporting early for annual reporting periods ending 31 December 2024. We are not aware of any December 2024 reporters that are adopting the Tier 2 framework early.

Key requirements of FRD 101

Your entity must prepare a ...	if it ...
Tier 1 financial report	is a government department.
	is a public financial corporation.
	is above the quantitative thresholds, which means either its: <ul style="list-style-type: none"> total expenses were greater than \$1 billion for each of the 2 preceding financial years or total assets were greater than \$4 billion for each of the 2 preceding financial years.
	is deemed a significant entity by the Department of Treasury and Finance (DTF).
Tier 2 financial report	does not meet any of the above criteria.

DTF lists the entities it deems significant on its [website](#).

Reporting requirements

Tier 1 financial reports must comply with the full recognition, measurement, presentation and disclosure requirements of the Australian Accounting Standards (the standards).

Tier 2 financial reports must comply with the full recognition and measurement requirements in the standards. However, their disclosure requirements are significantly reduced, and there are a few differences related to presentation as compared to the Tier 1 framework.

Tier 2 disclosure requirements are contained in [AASB 1060](#) *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

DTF's Tier 2 model report and education sessions

DTF expects to release the new Tier 2 model report in January 2025. They will also be running an education session on 25 February 2025 to help facilitate the transition to tiered financial reporting.

Things to consider while adopting tiered reporting the first time

2024–25 will be the first year that June reporters will apply the Tier 2 reporting requirements. This is a good opportunity for entities to simplify their financial reports.

Given the simplification/reduction in disclosures in AASB 1060 as compared to the Tier 1 disclosures, it is possible for an entity that transitions to Tier 2 to omit some information in its financial report that may otherwise be valuable to its users.

Following our recommendations below will help you ensure the transparency and accountability of your financial report.

What we recommend

First, your entity should determine if it needs to continue with Tier 1 reporting requirements or adopt the simplified Tier 2 reporting.

Recommendations for entities required to prepare Tier 2 financial statements

You should prepare early for the simplified disclosures, including by:

- informing internal and external stakeholders about the changes
- assessing the needs of the users of your financial report
- creating a plan detailing the main changes to your financial report and how you plan to implement them
- reviewing DTF's Tier 2 model report and attending its education session
- preparing your shell financial report early and arranging for your audit committee to review it early
- consulting with your auditors early
- establishing ongoing processes to annually assess the tiered reporting status.

We also encourage impacted entities to take a 'stand back' approach and assess:

- if your financial report continues to provide a comprehensive and impartial representation of significant transactions, events and outcomes
- whether the disclosures offer valuable insights that help users understand your entity and its operations over the financial year.

For example:

- If AASB 1060 does not require a particular disclosure but it relates to a significant aspect of the financial story, we encourage you to reconsider removing it.
 - If there is immaterial content in your financial report, we encourage you to consider streamlining and removing such content, unless mandatorily required.
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Update 2: DTF has approved the revised FRD 103 allowing a phased approach for adopting amendments to AASB 13

Amendments to fair value measurement

In December 2022, the Australian Accounting Standards Board added [authoritative implementation guidance](#) to AASB 13 *Fair Value Measurement*.

It did this to address the challenges not-for-profit public sector entities face in applying the standard's requirements when measuring fair value.

The amendments covered ...	to ...
highest and best use	specify circumstances where an entity needs to consider whether the highest and best use of its non-financial assets differs from its current use.
developing unobservable inputs	clarify circumstances where an entity can use its own assumptions to develop unobservable inputs.
application of the cost approach	clarify how entities should apply the 'cost approach' to measure the fair value of their non-financial assets.

We gave an overview of these amendments in our [Tech Alert 2023–1](#), including recommended steps for preparers and auditors.

We also anticipated that the extent of the impact of these amendments on individual entities will depend on the nature of their assets and current valuation methodologies.

Potential implementation challenges and possible solutions

In our [Tech Alert 2024–1](#) we highlighted practical challenges in complying with the amendments for entities that are not in their full revaluation year and governed by Financial Reporting Direction (FRD 103) *Non-financial physical assets*. This is because:

- such entities only need to undertake fair value assessments as per FRD 103
- such fair value assessments (which is primarily conducted by use of Valuer-General Victoria (VGV) indices or other indicators) do not take into account the specific amendments to AASB 13. This could make it difficult for entities to fully determine the impact of the amendments and estimate-related adjustments to the asset values in the interim years leading up to the full revaluation year.

We had raised this with DTF and were exploring the possibility of a practical expedient to help entities not in their revaluation year.

FRD 103 prescribes ongoing requirements for the classification and subsequent revaluation of non-financial physical assets for public bodies and departments under *Financial Management Act 1994* and state-controlled education providers.

Overview of the phased approach to the AASB 13 amendments

DTF considered these practical challenges. It recently approved a revised FRD 103, to include a phased approach for applying the AASB 13 amendments, as briefly described below.

The amendments related to ...	
highest and best use	must be applied by entities in their December 2024 or June 2025 financial reports. This is because the amendments provide relief to entities by aligning the requirements related to assessing the highest and best use of assets with AASB 5 <i>Non-current Assets Held for Sale or Discontinued Operations</i> .
developing unobservable inputs and application of the cost approach	are permitted to be applied by entities in their next scheduled revaluation or interim revaluation year (whichever is earlier). This means that there is no requirement for entities to reflect these amendments in their annual fair value assessments until the next scheduled revaluation or interim revaluation. All annual fair value assessments thereafter must comply with the amendments.

What we recommend

Recommendation for entities not governed by FRD 103 or who are governed by FRD 103 and are in their revaluation year in June 2025

- We would expect you have already started planning to implement the amendments.
- You can refer to our past tech alerts ([Tech Alert 2023–1](#) and [Tech Alert 2024–1](#)) where we discussed steps entities can undertake to conduct impact assessments.
- For such entities, non-financial asset valuation and the applicability of AASB 13 amendments will be key focus areas for our 2025 audits, as mentioned in our past tech alerts.
- In addition, for local councils, FinPro have formed a working group to help the sector incorporate the amendments of AASB 13 into their 2024–25 asset valuation approaches. We encourage councils to stay alert to any notifications from this group and engage with the relevant stakeholders, including the auditors, in a timely manner.

Recommendations for entities who are governed by FRD 103 and are not in their revaluation year in December 2024 or June 2025

The revised FRD 103 provides immediate relief to entities that are not in their revaluation year in December 2024 or June 2025 reporting periods.

However, these entities, especially who have complex assets valued as per the current replacement cost approach, should continue to prepare, and plan for implementing the amendments before their next revaluation cycle.

Update 3: Key developments in the climate reporting space

AASB sustainability reporting standards

The Australian Accounting Standards Board has finalised the Australian Sustainability Reporting Standards: [AASB S1 General Requirements for Disclosure of Sustainability-related Financial Information](#), which is a voluntary standard and [AASB S2 Climate-related Disclosures](#), which is a mandatory standard effective for annual periods beginning on or after 1 January 2025.

The Australian Accounting Standards Board is conducting a research project to assess the needs of users of climate-related public sector information. It will consider whether it needs to modify AASB S2 or develop guidance for not-for-profit public sector entities based on the outcomes of the research project.

IPSASB sustainability reporting standards

The International Public Sector Accounting Standards Board (IPSASB) has released its exposure draft [SRS ED 1 Climate-Related Disclosures](#).

The exposure draft builds on the international sustainability standards (IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*). However, the IPSASB exposure draft has an additional focus on disclosures related to climate-related public policy programs and their outcomes including their effects on the economy, environment and people.

VAGO will be submitting a comment letter via our Australasian Council of Auditors-General (ACAG) network and we encourage you to consider the proposals and share any feedback that you may have. The comments on the exposure draft are due by 28 February 2025.

AUASB sustainability assurance standards

The Auditing and Assurance Standards Board had released the following documents for stakeholder comments:

- [ED 02/2024](#): Proposed Australian Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports Under the Corporations Act 2001*
- Consultation paper on [Prohibiting Sustainability Assurance Practitioners from Using Direct Assistance by Internal Auditors](#).

We have provided feedback via our ACAG network for onward submission to the Auditing and Assurance Standards Board.

Climate reporting requirements for some Corporations Act entities

The [Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Act 2024](#) received the Royal Assent in September 2024.

This Act requires a phased adoption of mandatory climate-related financial disclosures by entities governed by the *Corporations Act 2001* based on their size and nature.

VAGO has conducted an impact assessment of these changes, and we expect only a small number of entities across the Victorian public sector will be mandatorily required to make these disclosures.

DTF has also acknowledged that the impact will be limited. It plans to work with the impacted entities as appropriate to help facilitate the implementation of the mandatory climate reporting requirements.

Climate reporting requirements for FMA-governed and other state-controlled entities

There are no changes to the updates that we covered in our [Tech Alert 2024-1](#).

DTF has formed a strategic working group along with the Department of Energy, Environment and Climate Action. It is actively monitoring the developments in the standard setting space and the progress of other jurisdictions.

The working group is considering the broader Victorian roadmap for climate-related disclosures. Among other things, they are taking into account:

- current reporting requirements (such as those in [FRD 24 Reporting of Environmental Data by Government Entities](#))
- user needs
- costs and benefits of potential options.

You may also refer to the [December 2024 DTF newsletter](#), which gives an update on sustainability reporting.

Climate reporting requirements for local councils and universities

Except for the entities impacted by the mandatory Corporations Act requirements:

- Local Government Victoria has indicated that it may consider revising the current environmental performance measures in a future review of the current performance reporting framework given the recent developments in climate reporting. It will consult with the sector before it makes any changes to the reporting requirements or best practice suggestions
 - we are checking with the Australian Government to understand if universities will have mandatory reporting requirements for climate related disclosures.
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Next steps and what we recommend

VAGO is closely monitoring developments relating to climate reporting and broader sustainability reporting requirements to prepare for future impact to public sector reporting requirements and our audit services.

Recommendations for Corporations Act entities

- You should continually monitor your circumstances against climate reporting requirements under the recent amendments. Determine if you may be required to do mandatory reporting and ensure compliance.
- Impacted entities should reach out to your respective regulator to seek any clarification you may need for mandatory reporting.

Recommendations for entities not impacted by the Corporations Act amendments

- You should await direction from your respective regulators before you plan to undertake work related to climate reporting.
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Update 4: Other key developments for 2024–25

Other amendments to the accounting standards

In addition to the changes covered above, there are other key accounting amendments worth noting.

In our [Tech Alert 2023–1](#), we gave an overview of amendments to:

- AASB 101 *Presentation of Financial Statements* relating to classifying a liability as current or non-current
- AASB 16 *Leases* relating to subsequent measurement of lease liabilities that arise from sale and leaseback transactions.

The Australian Accounting Standards Board has also amended [AASB 107](#) *Statement of Cash Flows* and [AASB 7](#) *Financial Instruments: Disclosures* to enhance disclosures relating to an entity's supplier's finance arrangements.

All these amendments are effective for annual periods beginning on or after 1 January 2024.

What we recommend

We do not expect these amendments to have a widespread impact on all our clients. However, the extent of the impact will depend on each entity's facts and circumstances.

For example, if an entity has loan arrangements with covenants, the amendments related to AASB 101 may have a significant impact on them. We recommend you review all the amendments and assess how they may impact you.

Auditors should ask the reporting entity about the impact of these amendments and ensure their clients have appropriately reflected these in their financial reports.

**Consolidated
entity disclosure
statement**

In April 2024, the Federal Government enacted the *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Act 2024* as part its broader multinational tax transparency reform. The new Act amended the *Corporations Act 2001*.

The amendments require public companies to disclose certain information about their subsidiaries in their financial reports by preparing a consolidated entity disclosure statement (CEDS) from 30 June 2024 onwards.

On 22 July 2024, the Auditing and Assurance Standards Board released [a bulletin](#) that gives a brief overview of the CEDS requirements and specifically covers their audit implications.

These amendments had limited impact on our clients because they are only relevant to entities governed by the Corporations Act and particularly those public sector entities that are public companies.

In September 2024, the Australian Government Treasury released an [exposure draft bill](#) for consultation. It proposes amendments to clarify consolidated entity disclosures for the 2024–25 financial year. The proposed amendments cover:

- when a partnership or a trust will be an Australian resident for consolidated entity disclosure purposes
 - disclosures for entities that are residents in more than one jurisdiction.
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**What we
recommend**

Our impacted clients should continue to prepare consolidated entity disclosures for 2024–25 and onwards. When the proposals are finalised, you should consider the impact they will have on the consolidated entity disclosure statement of your entity.
