Tech Alert

Significant accounting developments

2024–1 | 30 May 2024

Update 1: Amendments to AASB 13 *Fair Value Measurement*

Applies to	Not-for-profit (NFP) public sector entities when fair-valuing non-financial assets not held primarily for their ability to generate cash inflows (non-financial assets). This includes all NFP entities audited by VAGO, including local government, denominational hospitals and the university sector.
Implementation date	Apply prospectively for annual periods beginning on or after 1 January 2024.
Overview of amendments	In December 2022, the AASB added authoritative implementation guidance for: • **highest and best use (HBU)** to 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** to clarify circumstances where an entity can use its own assumptions to develop unobservable inputs • **application of the cost approach** on 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.
Assessing the impact	The extent of impact on individual entities will depend on the nature of their assets and current valuation methodologies. We expect entities to have started assessing the impact of the amendments, including: • reviewing past years' valuation reports • revisiting past position papers • identifying key judgements • assessing any change in approach because of the amendments. If your entity has not started an impact assessment, a good approach is to keep the amendments in mind as you work through the current year's revaluation or fair-value assessment process. This will help you to determine areas of impact to work through when the amendments become applicable in 2024–25. **For our 2025 audits, the valuation of non-financial assets and the applicability of these amendments will be a key focus area.**
Impact on 2024 financial reports	Entities should make disclosures as per AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* for 'standards issued but not yet effective' including the possible impact that the amendments are expected to have on their financial statements.

Entities in full revaluation year in 2024–25

Our recommendation

In applying the guidance, entities in a full revaluation year in 2024–25 will need to:

- conduct impact assessments to determine the extent of work involved and impact on the financial statements
- engage early with the valuers to understand any change in their information requirements to enable them to value assets as per the amendments
- start preparing or revisiting their position papers including for example, documenting significant judgements
- start thinking about appropriate disclosures in the financial statements as per AASB 13, AASB 101 *Presentation of Financial Statements* (in relation to estimating uncertainties and significant judgements made) and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (in relation to the 'nature and amount of the change in asset values as per AASB 108.28'.)
- engage early with the auditors and update them on these matters.

Entities not in their revaluation year and applying indexation under FRD 103 in 2024–25

Key observations

Given the amendments to AASB 13 are equally applicable to entities not in their revaluation year, such entities will also need to consider the impact of the application guidance while undertaking fair value assessments under FRD 103 and determine whether any change is required to the carrying value of their assets.

- However, undertaking fair value assessments in accordance with FRD 103 by taking into consideration the fair value indicators such as the application of the VGV indices, may be insufficient to demonstrate that the carrying amounts of assets approximates their fair value.
- This is because indices and any other indicators do not take into account specific amendments to the standard (the impact of which will be dependent on the nature of assets each entity holds and the related judgements made in the past).

Having said that, given these entities are not conducting full revaluation, we acknowledge:

- some entities may face practical challenges in determining the exact impact of the amendments and estimating the related adjustments to the assets accurately.

Therefore, we have raised this matter with DTF to understand and explore if there will be any practical expedient or change in FRD 103 to help such entities. We have also reached out to other jurisdictions to understand the approach they may follow in these circumstances.

Our recommendation

- Entities who are not in their revaluation year in 2024-25 that anticipate significant impact or implementation/measurement challenges should reach out to their valuers and DTF.
- We also recommend such entities to engage with the auditors early.

Engaging with DTF, VGV and VAGO early will also provide insights into how widespread the challenges may be and the impact at the whole of government level. This may assist in developing practical solutions.

Update 2: DTF's proposals to adopt tiered financial reporting framework (AASB 1060) for certain VPS entities

Overview

Currently in Victoria, all controlled entities of the State must prepare Tier 1 General Purpose Financial Statements (GPFS).

In February 2024, DTF shared proposals to adopt a tiered financial reporting framework (AASB 1053) for certain VPS entities for reporting periods ending on or after 30 June 2025.

Key proposals

If an entity …	Then it must prepare a …
is a Government Department or Public Financial Corporation, or	Tier 1 GPFS*.
is above the quantitative thresholds being: • expenses greater than $1 billion for each of the 2 preceding financial years, or • assets greater than $4 billion for each of the 2 preceding financial years, or	
meets the qualitative criteria which is when it is deemed to be a significant entity by the DTF Deputy Secretary (Budget and Finance) based on for example, its potential to become a large entity in the short-to-medium term or because it has a higher risk profile or complex transactions, despite not meeting the quantitative threshold)	
does not meet any of the above criteria	Tier 2 GPFS as per AASB 1060*.

*Tier 1 financial reports comply with all recognition, measurement, presentation and disclosure requirements of Australian Accounting Standards (AAS). Tier 2/AASB 1060 is a form of GPFS with same recognition and measurement requirements as Tier 1 GPFS but with substantially reduced disclosures as compared to Tier 1 GPFS

Our feedback to DTF

VAGO support DTF's objective for the proposals, which is to provide useful information in a simple and concise manner. 'Simplification of financial reporting' is also a key focus area for VAGO.

We shared our observations and feedback with a key focus of ensuring transparency and accountability is maintained under a reduced disclosure framework. Key recommendations included:

- Consideration of user needs when determining Tier 1 reporters
- Providing clarification around disclosure reductions where AASB 1060 requirements are less descriptive
- Preparing model financial statements to help preparers interpret the requirements of AASB 1060 and continue to provide useful information in their financial statements
- Consideration of impacts dependent on timing of transition
- Process related suggestions.

We also raised the importance of continuing to influence streamlining financial statements to assist in achieving the intended outcomes of this initiative.

Next steps

As we understand, DTF are considering the feedback received from stakeholders and will be sharing updates soon.

Update 3: Sustainability (climate-related) reporting

Key recent developments

Commonwealth Treasury's Bill	On 27 March 2024, the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (Bill) was introduced in Parliament. This Bill outlines a phased adoption of mandatory climate-related financial disclosures by entities governed by the *Corporations Act 2001* based on certain thresholds and other criteria.
Reporting standards	To facilitate disclosure of climate-related information, the AASB had released exposure draft ED SR 1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*. It is currently considering stakeholder feedback and expected to release the final standard in August 2024.
Assurance standards	There is no current assurance standard supporting the conduct of sustainability assurance engagements. The AuASB is currently considering feedback on its consultation paper regarding its proposed adoption of the international auditing standard ISSA 5000 *Assurance over Climate and Other Sustainability Information*. The proposed standard is financial framework neutral.

Key messages

- While we wait for the Bill to be passed by the Parliament, we encourage clients governed by the *Corporations Act 2001* to reach out to DTF or the respective regulator (for example, LGV) and VAGO if they believe they will be required to do mandatory reporting as per the requirements (including consideration of the thresholds) in the Treasury Bill.
- We understand that DTF is also monitoring developments and considering the State's response to sustainability reporting developments, including development of a roadmap for VPS entities.
- Entities (other than the ones covered by the Commonwealth Treasury Bill) should await direction from DTF before they undertake any detailed planning or implementation work. This is consistent with DTF's recommendation in their April 2023 accounting policy update. Likewise, such entities in the university sector and the local government should await direction from their respective regulators.
- VAGO is closely monitoring these framework developments in preparation for future impact to our audit services.

Update 4: Accounting developments relevant for 2023–24

Disclosure of Accounting Policies and Definition of Accounting Estimates (AASB 2021–22)

The AASB's amendments to AASB 101 *Presentation of Financial Statements* help entities make more effective accounting policy disclosures.

Key amendments include:

- requiring entities to disclose material accounting policies instead of significant accounting policies. AASB Practice Statement 2 *Making Materiality Judgements* provides guidance on applying this change
- clarifying that accounting policy information that relates to immaterial transactions, events or conditions, is immaterial and need not be disclosed

- encouraging entity-specific disclosures instead of boilerplate disclosures by clarifying that information on how entities have applied the AAS requirements to their own circumstances is more useful to users than duplicating the requirements of the standard.

Likely impact and action required

While the change in wording itself from 'significant' to 'material' is unlikely to have a substantial impact, preparers of financial reports should take this opportunity to:

- consider whether their accounting policy disclosures adequately describe their circumstances
- streamline their financial reports.

We recommend that preparers of financial reports consider whether quantitatively immaterial disclosures are qualitatively material before deleting them from their financial reports.

Update 5: On the horizon

Income of Not-for-Profit Entities (AASB Post Implementation Review)

The AASB is currently considering stakeholder feedback and its staff's preliminary views on its Invitation to Comment (ITC) 50 *Post-implementation Review – Income of Not-for-Profit Entities*.

Through this ITC, the AASB requested comments from stakeholders on their implementation experience on 8 topics:

- Sufficiently specific criterion and the legal interpretation of agreements
- Capital grants
- Difference between management and statutory accounts and alternative revenue recognition models
- Principal vs agent, including the appropriate recognition of financial liabilities
- Grants received in arrears
- Termination for convenience clauses
- Accounting for research grants
- Statutory receivables.

Key message

Entities should continue to follow the usual principles of:

- AASB 15 *Revenue from Contracts with Customer*, and
- AASB 1058 *Income of Not-for-Profit Entities*.

This includes applying and disclosing significant judgements where applicable, until the time the AASB concludes the outcome of the PIR.