



Financial reporting update





What's new?

New standards for 30 June 2024 (1)

AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates and AASB 2021-6 (Tier 2) – amendments to AASB 101 and AASB 108

- Introduces a definition of accounting estimates
- Change from significant accounting policies to material accounting policy information
Accounting policy information is material if, when considered with other information in the financial statements, it could reasonably be expected to influence decisions of primary users based on the financial statements.
Is it needed to understand other material information in the financial statements?
Not dependent on the size of the transaction

Material accounting policy information

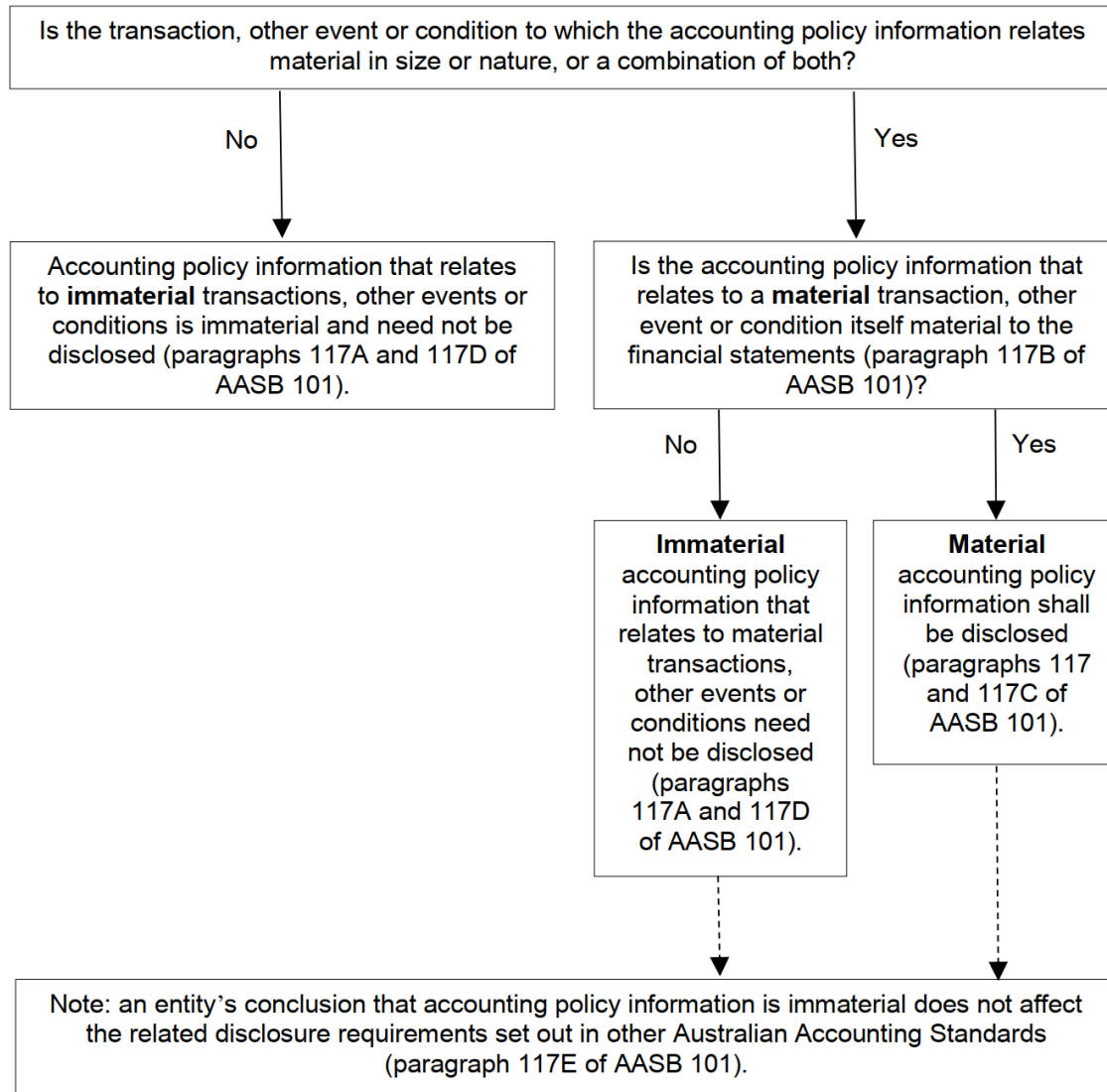
Accounting policy information likely to be material if it relates to material transactions, other events or conditions AND:

- Changes in accounting policy
- Documentation of choice in the accounting standards
- An accounting policy developed in the absence of an explicit accounting standard requirement
- Significant judgement or estimation or
- Complex transaction and accounting policy need to explain treatment.

Key points

- How has Council applied the requirements of the accounting standards?
- Council-specific
- Not boiler-plate
- Not information that only duplicates or summarises the accounting standards
- If immaterial accounting policy information is disclosed, this should not obscure material accounting policy information
- Just because accounting policy information is immaterial doesn't mean that other disclosures for that transaction or balance are immaterial

Practice Statement 2 guidance (para 88)



New standards for 30 June 2024 (2)

Unlikely to have any impact for Councils

- *AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Clarifies that the exemption from recognising deferred tax does not apply to transactions for which entities recognise both an asset and a liability and that give rise to equal taxable and deductible temporary differences.
- *AASB 2023-2 Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* (and associated Tier 2 standard (AASB 2023-4))
 - Relevant for entities affected by the implementation of the Pillar Two Model rules published by the Organisation for Economic Co-operation and Development

Administrative standard:

- *AASB 2022-7 Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards*



AASB Post-implementation review (PIR) update

Board discussed feedback received on Income of Not-for-Profit Entities PIR, in particular:

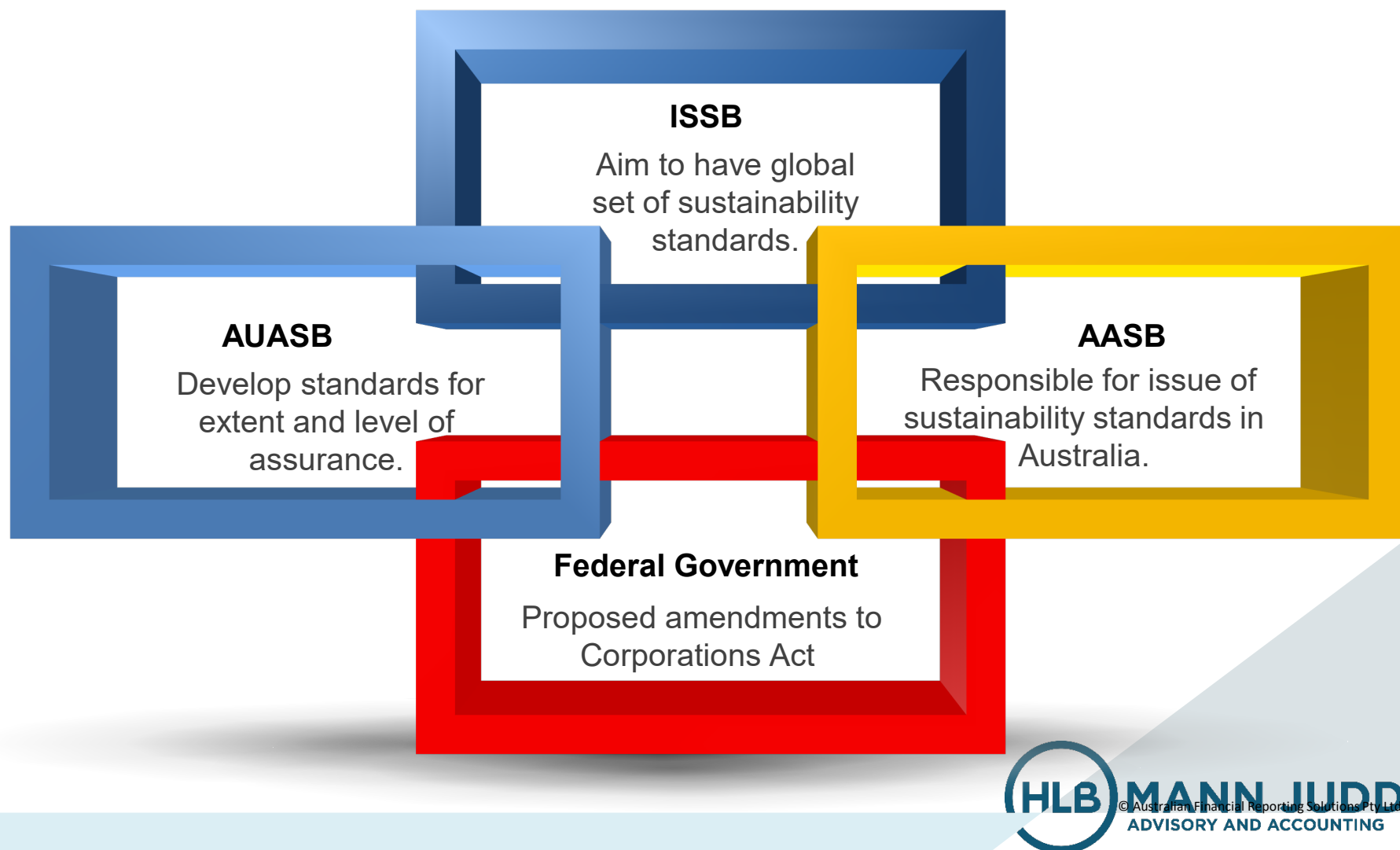
Topic 1: Sufficiently specific criterion and the legal interpretation of agreements	Topic 2: Capital grants
Topic 3: Difference between management accounts and statutory accounts and alternative revenue recognition models	Topic 4: Principal v agency
Topic 5: Grant in arrears	Topic 6: Termination for convenience clauses
Topic 7: Research grants	Topic 8: Statutory receivables

Targeted outreach to be performed on Topic 1 to decide on next steps.

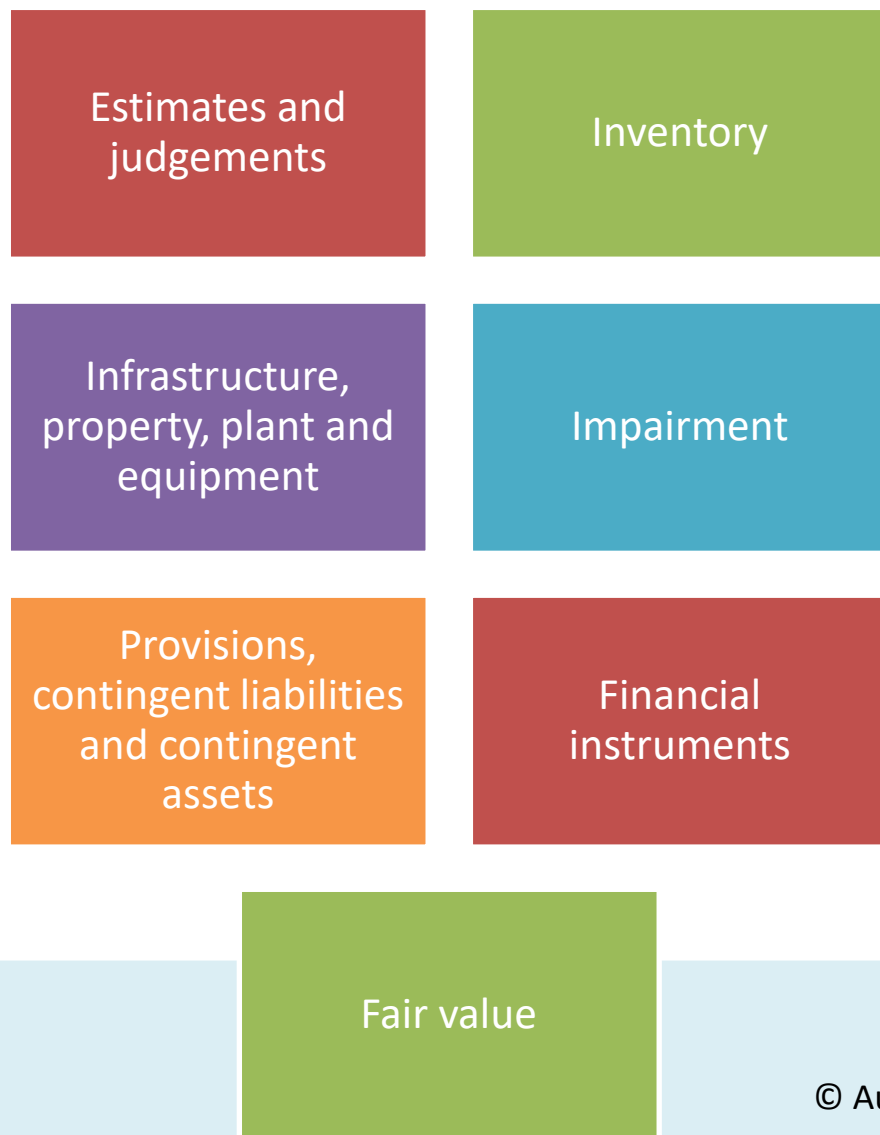
Additional guidance to be developed to clarify the types of non-financial assets that could be subject to “capital grant accounting” (Topic 2).

Board to consider overall recommendations and next steps at a future meeting.

Sustainability reporting in Australia: key players



Don't forget – climate related risks need to be considered within existing accounting standards



Valuation methodology [for investment properties, extract]

... Other factors that are taken into account include... structural and environmental conditions. With regards to the latter factor, the valuers made no explicit adjustment to their valuations as at 31 December 2021 in respect of ESG matters. However, both the Group and the valuers anticipate that ESG will have a greater influence on valuations in the future as investment markets place a greater emphasis on this topic and valuers comply with the RICS Guidance Note 'Sustainability and ESG in Commercial Property Valuation', which took effect from 31 January 2022.

[Hammerson plc, 31 December 2021, p104](#)

The company explains that whilst no specific adjustments were made in FY 2021, they expect the impact of climate-related and other ESG matters on valuations to be more significant in the future. The company also notes the new RICS guidance, which has been updated for such matters and will apply to the company's valuations in the following financial year.

Source: UK FRC Thematic Review of Fair Value

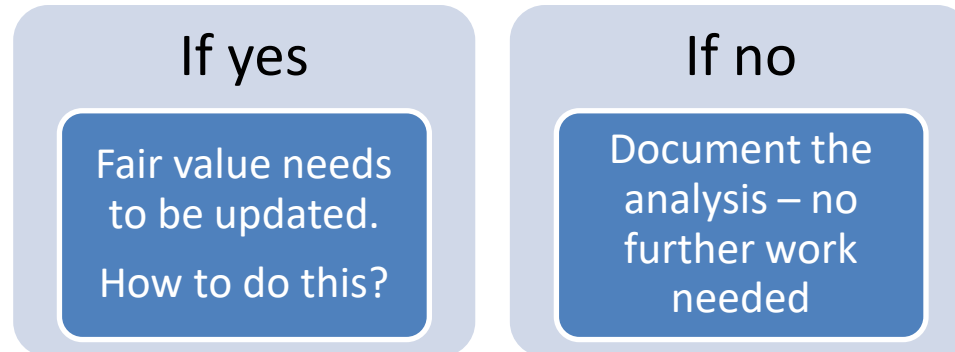




Reminders

Fair value assessments: what needs to be done on an annual basis?

- For all assets held at fair value (all IPPE), make an ANNUAL assessment as to whether the current carrying amount is materially different from fair value.



Common errors relating to/identified in comprehensive revaluations of IPPE include:

- incorrect costs included in the valuation, for example, incorrect floor space, incorrect unit rates or not using the latest cost information at the time of the revaluation
- incorrect data provided to the valuer
- incorrect understanding of asset components; e.g removable furniture included in the fair value of building
- incorrect measurements for infrastructure such as roads, networks and so on
- assets excluded from the scope of the revaluation
- incorrect recording of revaluation
- including work in progress (WIP) in the valuation resulting in double counting
- community land valued based on an external market-based valuation, which did not appropriately consider the impact of restrictions when determining the fair value.



AASB 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

AASB 2022-10 primarily introduces supplementary authoritative implementation guidance and illustrative examples to help NFP public sector entities apply the principles of AASB 13 more consistently and cost-effectively.

AASB 2022-10 paragraphs BC42 notes that these changes:

- a. 'would not necessarily change practice for some NFP public sector entities, and*
- b. do not indicate that entities changing practice in how they measure relevant assets made an error in applying the existing requirements of AASB 13.'*

Nonetheless, it is crucial for Government entities to review the new requirements and evaluate whether any alterations to their valuation approaches are needed.

Effective for annual reporting periods beginning on or after 1 January 2024



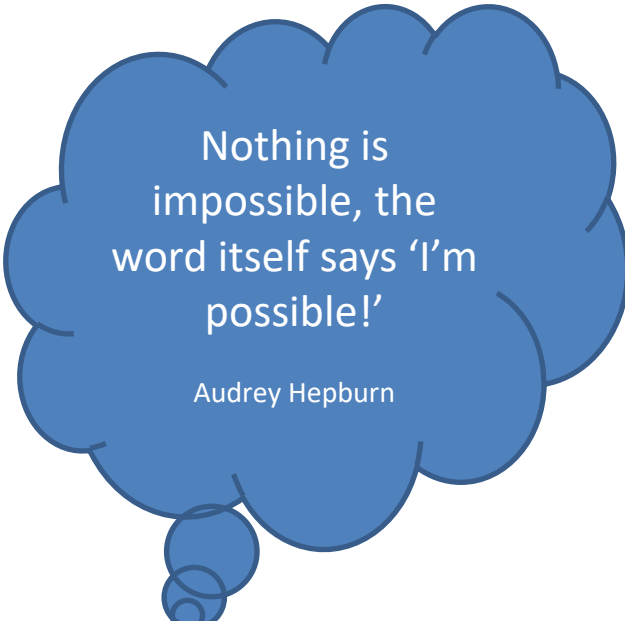
AASB 2022-10: Four key topics

- a. Consideration of **Highest and Best Use**: an entity is mandated to evaluate whether an asset's highest and best use deviates from its current use only under specific circumstances:
 - i. the asset is either classified as held for sale or distribution to owners according to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* or
 - ii. it is highly probable that the asset will be used for a purpose different from its current one.
- b. **Financial Feasibility**: clarify that 'financially feasible' means that market participants would be willing to invest in the asset's service capacity, weighing both the ability of the asset to provide necessary goods or services to beneficiaries and the resultant cost of those goods or services.
- c. **Use of Own Assumptions in Fair Value Measurement**: If a comparable asset's market selling price or the required market participant data for measuring the asset's fair value are not observable, the entity is required to use its own assumptions as a starting point for developing unobservable inputs. These assumptions should then be adjusted based on reasonably available information indicating that other market participants (including, but not limited to, other NFP public sector entities) would use different data.
- d. **Application of the Cost Approach**: Additional guidance included on the application of the cost approach for measuring the asset's fair value, including types of costs to include in the replacement cost of a reference asset and how to identify economic obsolescence.



Guidance

- Don't forget the basis for conclusions
 - Significant amount of guidance and sets out the reasons for the Board decisions
- [https://www.youtube.com/watch?v= 7LLny5qsrU](https://www.youtube.com/watch?v=7LLny5qsrU)



Nothing is
impossible, the
word itself says 'I'm
possible!'

Audrey Hepburn

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Tips for audit preparedness



Logistics and communication

- Prepare shell accounts
 - ☐ Financial report
 - ☐ Performance statement
- Ensure trial balance is fully reconciled and complete
 - ☐ If the trial balance is not going to be complete, discuss with your auditors prior to their visit so that they can plan their visit accordingly
- Complete auditors' Requests for Information (RFI) or Audit Requirements Listing (ARL) prior to the audit visit
 - ☐ If uncertain of specific information requests, make sure to clarify with your auditors prior to their visit
- Clarify with your auditors which of your staff will be required and their availability during the audit visit

Property, infrastructure, plant and equipment

VALUATIONS

- ensure valuations are completed as required by Council's accounting policies
 - ☐ Comprehensive full valuation v's fair value assessment and adjustment using indices
- valuations are reviewed and assessed by the finance team considering the following:
 - ☐ Inconsistencies with previous full valuations
 - ☐ Appropriate methodology
 - ☐ Alignment with market/pricing/inflationary expectations
 - ☐ Requirements of AASB 116 and AASB 13
- condition assessments
- valuations are reviewed and endorsed by audit committee
 - ☐ *VAGO - Results of 2022-23 Audits: Local Government report recommendation ... briefings pre and post 30 June*
- OK to send draft copies to auditors for initial review rather than waiting for final versions



Property, infrastructure, plant and equipment (continued)

FAIR VALUE ASSESSMENTS

- Consider materiality thresholds:
 - ☐ When is an adjustment required
 - ☐ At what point might a full valuation be required
- Condition assessment considerations
- Have the appropriate methodologies and indices been applied?
- Reviewed by finance team and audit committee

FINANCIAL REPORT

- Update disclosure on valuations
- Note 6.2, Note 8.4, statement of cash flows, statement of capital works



Other areas

GRANT REVENUE AND INCOME

- Documentation of AASB 15 vs AASB 1058 assessment
- AASB 1058 – Operating vs Capital
- Schedules supporting note disclosures
- Disclosure considerations – Notes 3.4(a), 3.4(b), 3.4(c), 4.3, 5.3

NON-CASH DEVELOPER CONTRIBUTIONS

- Importance of finance talking with asset management / planning sections of the council
- Cut off considerations

PROVISION OF LANDFILL REHABILITATION

- Update present valuation calculations
- Evidence for costs and timing



Performance statement

- Consider making a single person responsible for the performance statement
- Ensure someone from finance is responsible for checking and reviewing financial indicators
- Finance should satisfy themselves as to the completeness and accuracy of the non-financial indicators by understanding the systems in place to capture the data
- Make all supporting documentation readily available (compile a file for audit)
- Ensure explanations for variances are appropriately updated
 - ☐ Current year v's prior year(s)
 - ☐ Current year v's budget (for some indicators)
 - ☐ Current year v's forecast years

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TOGETHER WE MAKE IT HAPPEN

