

Financial reporting issues and developments

Local Government

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Financial reporting issues and developments

The table below details current issues and financial reporting developments that may impact your council's/joint organisation's (JOs) financial statements. Management should review these issues and developments, determine those applicable to the council/JO and assess the impact on the financial statements and annual report. Where this relates to an accounting standard issued but not yet effective, management should disclose the anticipated impact of the standard in their financial statements. Management may consult their audit team for further information and explanation on the issues and developments detailed below.

Councils/JOs should refer to the Office of Local Government's (OLG)¹ Code of Accounting Practice and Financial Reporting for mandates on accounting policy options and major policy decisions under Australian Accounting Standards when determining if an accounting standard can be early adopted.

Reporting developments

Issue 1: AASB 2021-2 'Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates'

Overview	Applies to
<p>This Standard amends:</p> <ul style="list-style-type: none"> AASB 7 'Financial Instruments: Disclosures' to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements AASB 101 'Presentation of Financial Statements' to require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates AASB 134 'Interim Financial Reporting' to identify material accounting policy information as a component of a complete set of financial statements AASB Practice Statement 2 'Making Materiality Judgements', to provide guidance on how to apply the concept of materiality to accounting policy disclosures. 	<p>Councils and JOs for annual reporting periods beginning on or after 1 January 2023.</p>
<h4>Councils' / JOs' responsibilities</h4>	
<p>To effectively implement the changes to AASB 101 councils/JOs will need to:</p> <ul style="list-style-type: none"> have an understanding of the new requirements and the impact on their financial statements review their accounting policies to determine the accounting policies that are 'material' for disclosure discuss their assessment with the Audit Risk and Improvement Committee (ARIC) and auditors disclose the impact of the standard in the current year's financial statements. 	

¹ The functions of the Office of Local Government are within the Department of Planning, Industry and Environment.

Overview**Applies to****Responsibilities of ARICs and those charged with governance**

ARICs and those charged with governance should:

- understand the requirements of the Standard
- ensure management reviews their accounting policies to determine the accounting policies that are 'material' for disclosure
- disclose the impact in the current year's financial statements.

Other new financial reporting pronouncements

The following pronouncements, which may affect councils and their controlled entities', and JOs' financial statements and/or annual reports, were issued² between 1 January 2021 and 31 December 2021.

The table below does not include accounting standards issued during the period if an overview has already been provided in the table above.

New Australian Accounting Standards

Reference/Title	Effective date	Standards amended/replaced
AASB 2021-1 Amendments to Australian Accounting Standards - Transition to Tier 2 Simplified Disclosures for Not-for-Profit Entities		
<p>The Standard amends:</p> <ul style="list-style-type: none"> • AASB 1060 'General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities' to provide limited optional comparative information relief for not-for-profit entities adopting AASB 1060 early by transitioning from either Tier 1 or Tier 2 – Reduced Disclosure Requirements to Tier 2 – Simplified Disclosures. • AASB 1053 'Application of Tiers of Australian Accounting Standards' to highlight that the relief set out in Appendix E of AASB 1053 is available only to for-profit private sector entities. 	<p>Annual reporting period beginning on or after 1 July 2021, with earlier application permitted, provided that AASB 1060 is also applied to the same period.</p>	<p>AASB 1053, AASB 1060</p>
AASB 2021-3 'Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions beyond 30 June 2021'		
<p>This Standard amends AASB 16 to extend by one year the application period of the practical expedient added to AASB 16 by AASB 2020-4 'Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions'.</p> <p>The practical expedient permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.</p> <p>This Standard extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.</p>	<p>Annual reporting periods beginning on or after 1 April 2021 with early application permitted, including in financial statements not authorised for issue at the date this Standard was issued.</p>	<p>AASB 16</p>

² Note this table only includes new standards issued and excludes compiled standards issued.

Reference/Title	Effective date	Standards amended/replaced
AASB 2021-4 'Amendments to Australian Accounting Standards – Modified Retrospective Transition Approach for Service Concession Grantors'		
<p>This Standard amends AASB 1059 to change the modified retrospective method for measuring the Grant of a Right to the Operator (GORTO) liability set out in paragraph C4(c) of AASB 1059 so that the GORTO liability is initially measured based on the fair value (current replacement cost) of the service concession asset at the date of initial application, adjusted by:</p> <ul style="list-style-type: none"> deducting the carrying amount of any consideration transferred by the grantor to the operator recognised as an asset adjusting the resulting amount to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement; and then deducting any outstanding related financial liabilities. 	Annual reporting periods ending on or after 30 June 2021 with early application permitted.	AASB 1059
AASB 2021-5 'Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction'		
<p>This Standard amends:</p> <ul style="list-style-type: none"> AASB 112 to clarify the accounting for deferred tax on transactions that, at the time of the transaction, give rise to equal taxable and deductible temporary differences. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendments clarify that the exemption 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. This may be the case for transactions such as leases and decommissioning, restoration and similar obligations. Entities are required to recognise deferred tax on such transactions. AASB 1 to require deferred tax related to leases and decommissioning, restoration and similar obligations to be recognised by first-time adopters at the date of transition to Australian Accounting Standards, despite the exemption set out in AASB 112. 	Annual reporting periods beginning on or after 01 January 2023, with early application permitted.	AASB 1, AASB 112
AASB 2021-6 'Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards'		
<p>The Standard amends:</p> <ul style="list-style-type: none"> AASB 1049 'Whole of Government and General Government Sector Financial Reporting', to require entities to disclose their material accounting policy information rather than their significant accounting policies AASB 1054 'Australian Additional Disclosures', to reflect the updated accounting policy terminology used in AASB 101 'Presentation of Financial Statements' AASB 1060 'General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities', to require entities to disclose their material accounting policy information rather than their significant accounting policies and to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements. 	Annual reporting periods beginning on or after 1 July 2023, with early application permitted	AASB 1049, AASB 1054, AASB 1060

Reference/Title	Effective date	Standards amended/replaced
AASB 2021-7 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections'		
The Standard:	Annual reporting periods beginning on or after 1 January 2022 and 1 January 2023 for some editorial corrections with early application permitted.	Various
<ul style="list-style-type: none"> defers the mandatory effective date of amendments to AASB 10 'Consolidated Financial Statements and AASB 128 'Investments in Associates and Joint Ventures' that were originally made in AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' so that the amendments apply to annual reporting periods beginning on or after 1 January 2025 instead of 1 January 2022 makes editorial corrections to various Australian Accounting Standards, including Interpretations, and other pronouncements. 		

New Office of Local Government (OLG) publications³

Council circulars and guidelines – refer to [OLG website](#)

- Circular 21-41 'Annual Reporting of Labour Statistics by Councils'
- Circular 21-32 'Government endorses new rate peg methodology to support growing councils'
- Circular 21-31 'Post-Election Guide on key decisions and activities for councils, county councils and joint organisations following the local government elections'
- Circular 21-29 'Release of the Guideline on the Use and Management of Credit Cards'
- Circular 21-28 'Updated Integrated Planning and Reporting Guidelines and Handbook'
- Circular 21-27 'Review of the tendering provisions of the Local Government (General) Regulation 2005'
- Circular 21-26 'New risk management and internal audit framework for councils and joint organisations'
- Circular 21-25 'Job Retention Allowance -2021–22'
- Circular 21-23 'End of Year Financial Reporting -2020–21'
- Circular 21-22 'Updated guidance on the appointment and dismissal of senior staff'
- Circular 21-21 'Accounting and Financial Reporting Fundamentals – Information session'
- Circular 21-19 'Joint Organisation Calendar of Compliance and Reporting Requirements 2021–22'
- Circular 21-18 'Calendar of Compliance and Reporting Requirements 2021–22'
- 21-17 'Council decision-making prior to the September 2021 local government elections'
- 21-16 'Annual Report and Annual Performance Statement Checklists'
- 21-15 'Introduction of free lifetime registration for rescued pets and increases to companion animal fees for -2021–22'
- GC-150 '-2021–22 Financial Assistance Grants (FAGs) – advance payment'
- 21-09 'Crown Lands – Plans of Management – Funding extension'
- 21-07 'Commencement of *Local Government Amendment Act 2021*'
- 21-06 '-2021–22 Determination of the Local Government Remuneration Tribunal'
- 21-04 'Information about Rating -2021–22'

³ Includes pronouncements which may affect council and JO financial statements and/or annual reports.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help parliament hold government accountable for its use of public resources.