



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 2023².</p>
Councils' / JOs' responsibilities	
<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 and Environment.
²

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.
- ensure the impact is disclosed in the current year's financial statements.

Issue 2: AASB 2022-10 'Amendments to Australian Accounting Standards - Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities'
Overview**Applies to**

This Standard amends AASB 13 'Fair Value Measurement', including adding authoritative implementation guidance and providing related illustrative examples, for fair value measurements of non-financial assets of not-for-profit (NFP) public sector entities not held primarily for their ability to generate net cash inflows.

Specifically, for such an asset, this Standard:

- specifies that the entity is required to consider whether the asset's highest and best use differs from its current use only when, at the measurement date, it is:
 - classified as held for sale or held for distribution to owners in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'; or
 - highly probable that the asset will be used for an alternative purpose to its current use
- clarifies that the asset's use is 'financially feasible' if market participants would be willing to invest in the asset's service capacity, considering both the capability of the asset to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services
- specifies that, if both the market selling price of a comparable asset and some market participant data required to measure the fair value of the asset are not observable, an entity uses its own assumptions as a starting point in developing unobservable inputs and adjusts those assumptions to the extent that reasonably available information indicates that other market participants (including, but not limited to, other NFP public sector entities) would use different data
- provides guidance on how the cost approach is to be applied to measure the asset's fair value, including guidance on the nature of costs to include in the current replacement cost (CRC) of a reference asset and on the identification of economic obsolescence.

Non-financial assets of NFP public sector entities not held primarily for their ability to generate net cash inflows prospectively for annual reporting periods beginning on or after 1 January 2024.

The AASB has also released a [webcast](#) to provide a high-level overview of the modifications to AASB 13.

Entities' responsibilities

To effectively implement the amendments to AASB 13 and apply the authoritative implementation guidance councils/JOs will need to:

- understand the nature of any of their non-financial assets not held primarily for their ability to generate net cash inflows
- have an understanding of the amendments to AASB 13 and the authoritative implementation guidance and the impact on their financial statements

Overview**Applies to**

- assess whether the council's / JO's current application of AASB 13 to fair value their non-financial assets not held primarily for their ability to generate net cash inflows is in accordance with the revised AASB 13
- discuss their assessment with the ARC and auditors
- disclose the impact of the standard in the current year's financial statements as required by AASB 108.

Councils/JOs will need to ensure that they have documentation to support key estimates and judgements which include, but are not limited to:

- support for replacement cost rates, useful lives and remaining useful lives (along with relevant condition assessments)
- appropriateness of including certain replacement costs in CRC (for example, cost of removing unwanted structures)
- other assumptions, like consideration of obsolescence factors (functional or economic), pattern of consumption of future economic benefits and procurement approaches.

Councils/JOs should also have documentation to support:

- their own assumptions used in the valuation, and their appropriateness
- how they have considered the existence of other market participants for the particular asset
- how they have considered and assessed whether the identified market participants would use different data.

Responsibilities of ARCs and those charged with governance

ARCs and those charged with governance should:

- understand the amendments to AASB 13 including the new authoritative implementation guidance
- review management's assessment of whether the entity's current application of AASB 13 to fair value their non-financial assets not held primarily for their ability to generate net cash inflows is in accordance with the revised AASB 13
- ensure the impact is disclosed 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 issued³ between 1 July 2022 and 14 April 2023.

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 2022-5 'Amendments to Australian Accounting Standards –Lease Liability in a Sale and Leaseback'		
The standard amends AASB 16 'Leases' to add subsequent measurement requirements for sale and leaseback transactions that	Annual reporting periods beginning on or	AASB 16

³ Note this table only includes new standards issued and excludes compiled standards issued.

Reference/Title	Effective date	Standards amended/replaced
<p>satisfy the requirements in AASB 15 'Revenue from Contracts with Customers' to be accounted for as a sale.</p> <p>AASB 16 already requires a seller-lessee to recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The amendments made by this standard ensure that a similar approach is applied by also requiring a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that does not recognise any amount of the gain or loss related to the right of use it retains.</p>	<p>after 1 January 2024 with early application permitted.</p>	
AASB 2022-6 'Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants'		
<p>The Standard amends AASB 101 to improve the information an entity provides in its financial statements about liabilities arising from loan arrangements for which the entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.</p> <p>The Standard also amends an example in Practice Statement 2 regarding assessing whether information about covenants is material for disclosure.</p> <p>The amendments in AASB 2022-6 are effective for annual periods beginning on or after 1 January 2024, with earlier application permitted provided AASB 2020-1 'Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current' is applied at the same time. AASB 2022-6 applies to periods beginning on or after 1 January 2023 to defer the revised liability classification requirements made to AASB 101 by AASB 2020-1 from 1 January 2023 to 1 January 2024.</p>	<p>Applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted provided AASB 2020-1 is applied at the same time</p>	<p>AASB 101 and AASB Practice Statement 2</p>
AASB 2022-7 'Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards'		
<p>The Standard makes editorial corrections to various Australian Accounting Standards and AASB Practice Statement 2 'Making Materiality Judgements'.</p>	<p>Applies to annual reporting periods beginning on or after 1 January 2023.</p>	<p>AASB 7, AASB 116, AASB 124, AASB 128, AASB 134, AASB 1054 and AASB Practice Statement 2</p>
AASB 2022-8 'Amendments to Australian Accounting Standards –Insurance Contracts: Consequential Amendments'		
<p>The Standard:</p> <ul style="list-style-type: none"> defers the application of AASB 17 'Insurance Contracts' to for-profit public sector entities from 1 January 2023 until periods beginning on or after 1 July 2026 makes amendments to all Australian Accounting Standards that refer to AASB 17 to permit public sector entities (both for-profit and not-for-profit entities) to continue to apply AASB 4 'Insurance Contracts' and AASB 1023 'General Insurance Contracts' until annual periods beginning on or after 1 July 2026, when they are required to apply AASB 17 repeals AASB 1038 'Life Insurance Contracts' and Interpretation 1047 'Professional Indemnity Claims Liabilities in Medical Defence Organisations' for annual periods beginning 	<p>Annual reporting periods beginning on or after 1 January 2023</p>	<p>AASB 17, AASB 4, AASB 1023, AASB 1038 and Interpretation 1047</p>

Reference/Title	Effective date	Standards amended/replaced
on or after 1 January 2023, on the basis that AASB 17 applies to those periods in respect of private sector entities and the pronouncements are not relevant to public sector entities.		
AASB 2022-9 'Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector'		
<p>This Standard amends AASB 17 to include modifications that apply to public sector entities. Those modifications relate to providing public sector entities with:</p> <ul style="list-style-type: none"> • pre-requisites, indicators and other considerations that need to be judged to identify arrangements that fall within the scope of AASB 17 in a public sector context • an exemption from sub-grouping onerous versus non-onerous contracts at initial recognition • an exemption from sub-grouping contracts issued no more than a year apart • an amendment to the initial recognition requirements so that they do not depend on when contracts become onerous • guidance on coverage periods in a public sector context, which has consequences for determining the cash flows used to measure insurance liabilities and the pattern of revenue recognition • an accounting policy choice to measure liabilities for remaining coverage applying the premium allocation approach • a transition requirement grandfathering the existing classification of arrangements constituting a liability for settlement of claims incurred before the liability was acquired in a transfer as either a liability for incurred claims within the scope of AASB 17 or a provision within the scope of AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'. <p>This Standard also:</p> <ul style="list-style-type: none"> • amends AASB 1050 'Administered items' to provide an accounting policy choice for government departments to apply either AASB 17 or AASB 137 in determining the information to be disclosed about administered captive insurer activities • repeals AASB 4 'Insurance Contracts' and AASB 1023 'General Insurance Contracts' • reverses the temporary consequential amendments set out in AASB 2022-8 'Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments' that amended various Standards to permit public sector entities to continue applying AASB 4 and AASB 1023 to annual periods beginning on or after 1 January 2023 but before 1 July 2026. 	Public sector entities with arrangements that are insurance contracts within the scope of AASB 17 for annual reporting periods beginning on or after 1 July 2026	AASB 17, AASB 1050, AASB 4 and AASB 1023

New Office of Local Government (OLG) publications⁴

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

22-42 'Councils and joint organisations to provide OLG's credit card guidelines to their ARICs'

22-41 'Update on the Guidelines for Risk Management and Internal Audit for Local Government in NSW'

22-40 'Amendments to the tendering provisions of the Local Government (General) Regulation 2021 and consultation of the development of new procurement guidelines for councils'

22-39 'Release of Cyber Security Guidelines for NSW Local Government'

Circular 22-36 'Local Government Code of Accounting Practice and Financial Reporting 2022-23 and related guidance material'

Circular 22-33 'Misuse of Council Resources - March 2023 State Election'

Circular 20-30 'Guidelines on the recruitment of senior council executives'

Circular 22-28 'Annual Report and Annual Performance Statement Checklists'

Circular 22-27 'Discussion paper - Senior staff employment'

Circular 22-25 'New standard contracts of employment for general managers and executive officers and updated guidelines for the appointment and oversight of general managers'

Circular 22-21 'Update on membership requirements for audit, risk and improvement committees'

Circular 22-20 'Annual Reporting of Labour Statistics'

⁴ 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.