

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.

This document does not replace management's responsibilities to make its own enquiries into issues and developments that may impact councils'/JOs' financial statements and annual report. This document should not be relied on as an exhaustive list.

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 	

¹ The functions of the Office of Local Government are within the Department of Planning, Housing and Infrastructure.

Overview	Applies to
<ul style="list-style-type: none"> disclose the impact of the standard in the current year's financial statements. 	

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
<p>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.</p> <p>Specifically, for such an asset, this Standard:</p> <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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. 	<p>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.</p>

The AASB has also released a [webcast](#) to provide a high-level overview of the modifications to AASB 13. OLG has also included guidance in Appendix E of Section 5 'Appendices' of the Local Government Code of Accounting Practice and Financial Reporting 2023–24'.

Councils' / JOs' responsibilities

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

Overview	Applies to
<ul style="list-style-type: none"> 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 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. <p>Councils/JOs will need to ensure that they have documentation to support key estimates and judgements which include, but are not limited to:</p> <ul style="list-style-type: none"> 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. <p>Councils/JOs should also have documentation to support:</p> <ul style="list-style-type: none"> 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 ARICs and those charged with governance

<p>ARCs and those charged with governance should:</p> <ul style="list-style-type: none"> 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.
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Issue 3: AASB 2022-6 'Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants'

Overview	Applies to
<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</p>	<p>Applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted provided AASB 2020-1 is applied at the same time.</p>

Overview

Applies to

as Current or Non-Current' is applied at the same time. AASB 2022-6 applies to periods beginning on or after 1 January 2023 in order to defer the revised liability classification requirements made to AASB 101 by AASB 2020-1 from 1 January 2023 to 1 January 2024.

AASB 2023-03 'Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2' amends AASB 1060 'General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities' for the above requirements.

Councils' / JOs' responsibilities

To effectively implement the changes to AASB 101 councils/JOs will need to:

- have an understanding of the new requirements and the impact on their financial statements
- review their loan agreements and any covenants in place to assess the impact on their financial statements
- discuss their assessment with the ARIC and auditors
- disclose the impact of the standard in the current year's financial statements as required by AASB 108.

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 loan agreements and any covenants in place to assess the impact on their financial statements
- 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 issued² between 15 April 2023 and 14 June 2024.

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

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

Reference/Title	Effective date	Standards amended/replaced
AASB 1056 'Superannuation Entities'		
<p>The AASB first issued AASB 1056 as an Accounting Standard without reference to its authority to make Standards for the purposes of the <i>Corporations Act 2001 (Corps Act)</i>. This reflected that at the time superannuation entities were not required by the Corps Act or other legislation to prepare and lodge financial statements with a regulator. The AASB has now reissued AASB 1056 as a legislative instrument under section 334 of the Corps Act in response to amendments to the Corps Act that require registrable superannuation entities to prepare annual financial statements that comply with Australian Accounting Standards and lodge them on the public record with the Australian Securities and Investments Commission. Since the requirements of this Standard differ in some respects from other Australian Accounting Standards, it is necessary for this Standard to also be a legislative instrument in order to take precedence over the other Standards as necessary.</p> <p>In converting AASB 1056 into a legislative instrument, the AASB has not changed the requirements, however the following outdated requirements and material have been deleted in this version of AASB 1056:</p> <ul style="list-style-type: none"> the application paragraph identifying the entities and financial statements to which the Standard applies (paragraph 2) – the application of Standards is now set out in AASB 1057 'Application of Australian Accounting Standards' the transitional provision (paragraph 37) that permitted an entity applying the Standard for the first time to not present a statement of financial position as at the beginning of the first comparative period – superannuation entities initially applying the reissued AASB 1056 would have prepared a statement of financial position under the original AASB 1056 section addressing the main differences between AASB 1056 and AAS 25 – as AAS 25 ceased to apply when AASB 1056 became applicable to periods beginning on or after 1 July 2016, the comparison has no continuing relevance. 	<p>Annual reporting periods beginning on or after 1 July 2023 that end on or after 31 December 2023. Earlier application is permitted for periods beginning before 1 July 2023</p>	<p>AASB 1056</p>
AASB 2023-1 'Amendments to Australian Accounting Standards – Supplier Finance Arrangements'		
<p>The Standard amends AASB 107 'Statement of Cash Flows' and AASB 7 'Financial Instruments: Disclosures' to require an entity to provide additional disclosures about its supplier finance arrangements.</p>	<p>Applies to annual reporting periods beginning on or</p>	<p>AASB 107 and AASB 7</p>

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

Reference/Title	Effective date	Standards amended/replaced
<p>The additional information will enable users of financial statements to assess how supplier finance arrangements affect an entity's liabilities, cash flows and exposure to liquidity risk.</p> <p>The amendments require an entity to disclose the terms and conditions of the arrangements, the carrying amount of the liabilities that are part of the arrangements, the carrying amounts of those liabilities for which the suppliers have already received payment from the finance providers, the range of payment due dates and the effect of non-cash changes.</p> <p>Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.</p>	<p>after 1 January 2024 with early application permitted.</p>	
AASB 2023-2 'Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules'		
<p>The Standard amends AASB 112 'Income Taxes' to introduce:</p> <ul style="list-style-type: none"> • a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the OECD; and • targeted disclosure requirements to help financial statement users better understand an entity's exposure to income taxes arising from the reform, particularly in periods before legislation implementing the rules is in effect. 	<p>Applies to annual periods beginning on or after 1 January 2023 that end on or after 30 June 2023 with early application permitted.</p>	<p>AASB 112</p>
AASB 2023-4 'Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures'		
<p>The Standard amends AASB 1060 to require a Tier 2 entity to disclose:</p> <ul style="list-style-type: none"> • that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see AASB 112 paragraph 4A); and • its current tax expense (income) related to Pillar Two income taxes. <p>The Standard also amends AASB 112 to extend the exemption from complying with the disclosure requirements of AASB 112 for entities that apply AASB 1060 to ensure Tier 2 entities are not required to comply with the new disclosure requirements in AASB 112 when preparing their Tier 2 financial statements.</p>	<p>Applies to annual periods beginning on or after 1 January 2023 that end on or after 30 September 2023, with earlier application permitted for any period ending before 30 September</p>	<p>AASB 1060 and AASB 112</p>

Reference/Title	Effective date	Standards amended/replaced
	2023, including the 2022–23 financial year.	
AASB 2023-5 'Amendments to Australian Accounting Standards – Lack of Exchangeability'		
<p>The Standard amends AASB 121 and AASB 1 to improve the usefulness of information provided to users of financial statements. The amendments require entities to apply a consistent approach to determining whether a currency is exchangeable into another currency and the spot exchange rate to use when it is not exchangeable.</p>	<p>Annual reporting periods beginning on or after 1 January 2025</p>	<p>AASB 121, AASB 1, AASB 1060</p>
<p>The Standard also amends AASB 121 to extend the exemption from complying with the disclosure requirements of AASB 121 for entities that apply AASB 1060 to ensure Tier 2 entities are not required to comply with the new disclosure requirements in AASB 121 when preparing their Tier 2 financial statements.</p>		
AASB 2024 - 1 'Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures'		
<p>This Standard amends AASB 1060 to require a Tier 2 entity to include in its financial statements the same specific disclosures that AASB 2023-1 requires in the financial statements of Tier 1 entities. Accordingly, Tier 2 entities will be required to disclose the terms and conditions of supplier finance arrangements, the carrying amount of the liabilities that are part of the arrangements, the carrying amounts of those liabilities for which the suppliers have already received payment from the finance providers, the range of payment due dates and the effect of non-cash changes.</p>	<p>Applies to annual periods beginning on or after 1 January 2024 that end on or after 30 June 2024 with early application permitted.</p>	<p>AASB 1060</p>

New Office of Local Government (OLG) publications³

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

- 24-11 'ICAC guidance for Councillors on corruption risks associated with overseas travel'
- 24-09 'Council Circular 24-09 Amendments to the *Local Government Act 1993* removing the option for councils to employ senior council executives under statutory contracts'
- 24-08 '2024–25 Determination of the Local Government Remuneration Tribunal'
- 24-07 'End of Year Reporting Requirements for 2023–24 and Additional Information for 2024–25'
- 24-06 'Privacy and the Mandatory Notification of Data Breach Scheme'
- 24-05 'Information about rating 2024–25'
- 24-04 'New local government elections webpage launched on the Office of Local Government website'
- 24-03 'Performance and suspension orders'
- 24-02 'Minor Works contract form for infrastructure delivery for councils'
- 23-17 'Update on councils' obligations under the *Modern Slavery Act 2018* (NSW)'
- 23-16 'Regulation amendments to protect the employment of waste workers'
- 23-15 'Regulation amendments prescribing requirements for audit risk and improvement committees, internal audit and risk management'
- 23-12 'Guidelines on the withdrawal of development applications'
- 23-11 'Effect of the NSW Government's policy on executive office holders' and senior executives' remuneration on general managers', executive officers' and senior staff remuneration'
- 23-08 'Annual Reporting of Labour Statistics'
- 23-06 'Increases to companion animal registration and permit fees for 2023–24'
- GC152 '2023–24 Financial Assistance Grants (FA Grants) – advance payment'
- 23-03 '2023–24 Determination of the Local Government Remuneration Tribunal'
- 23-02 'Information about Ratings 2023–24'
- 23-01 '*Public Spaces (Unattended Property) Act 2021* - Conclusion of the Grace Period and updated guidance'

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.