QUEENSLAND TREASURY

Financial Reporting Requirements for Queensland Government Agencies

For reporting periods beginning on or after 1 July 2020

Queensland Government

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FRR 1A Introduction and Prescribed Requirements

Contents

1.1 Introduction

These Financial Reporting Requirements for Queensland Government Agencies (FRRs), including the Sunshine Department Illustrative Financial Statements and Future Bay Regional Health Foundation Illustrative Financial Statements, have been issued to assist agencies in the preparation of their annual financial statements and to ensure consistency in presentation across agencies.

The FRRs are not intended to duplicate or replace the Australian Accounting Standards Board (AASB) pronouncements, nor requirements of the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2019*. Therefore, it is imperative that agencies comply with all relevant requirements in those documents when preparing their annual financial statements.

In instances where additional disclosures or modification of the illustrative financial statements are imposed through an alternative authority, or would enhance transparency, accountability and user relevance, agency statements should be varied to the extent necessary but so as to still comply with the policies identified as mandatory throughout Parts 2-5 of the FRRs. If an agency believes that the requirements inhibit transparency and accountability or represent a departure from Australian Accounting Standards, the matter should be referred to Queensland Treasury's Financial Management Help Desk at fmhelpdesk@treasury.qld.gov.au.

These FRRs consist of six distinct parts:

Part 1 – This introductory part.

Part 2 – Basis of Preparation – containing mandatory policies and non-mandatory guidance on fundamental presentation matters regarding financial statements as a whole.

Part 3 – Financial Performance – containing mandatory policies and non-mandatory guidance on matters pertaining to the Statement of Comprehensive Income.

Part 4 – Financial Position - containing mandatory policies and non-mandatory guidance on matters relating to the Statement of Financial Position.

Part 5 – Other Disclosure Requirements – mandatory policies and non-mandatory guidance on topics beyond the scope of Parts 2-4.

Part 6A - Provides an example set of financial statements, the Sunshine Department Illustrative Financial Statements, for those agencies that are consolidated into the whole-of-Government financial statements. These illustrative statements comply with the FRRs and AASB pronouncements. To assist agencies in the preparation of their annual financial statements, a reference is located in the left-hand margin of the Sunshine Department Illustrative Financial Statements to the relevant FRRs, AASB standard or Australian Interpretation as the authority for the accounting or reporting treatment adopted in the illustrative statements.

Part 6B - Provides an example set of financial statements, the Future Bay Regional Health Foundation Illustrative Financial Statements, for statutory bodies that elect to adopt the AASB's reduced disclosure requirements (Tier 2), in accordance with FRR 2A.5. These illustrative statements comply with the FRRs and Australian Accounting Standards – Reduced Disclosure Requirements. Consistent with the Sunshine Department Illustrative Financial Statements, a reference is located in the left-hand margin of the Future Bay Regional Health Foundation Illustrative Financial Statements to the relevant FRRs, AASB standard or Australian Interpretation, as the authority for the accounting or reporting treatment adopted in the illustrative statements.

1.2 Application

These FRRs apply to all departments. To the extent relevant, statutory bodies within the Queensland public sector must comply with the contents of the FRRs identified as mandatory throughout Parts 2-5 when they apply to statutory body circumstances. The FRRs do not apply to entities subject to the reporting requirements of the *Corporations Act 2001*. For the purpose of the FRRs, all applicable reporting entities are referred to as ‘agencies’.

1.2.1 Legislative Basis of Requirements

The *Financial Accountability Act 2009* (FA Act) and its subordinate legislation, the *Financial and Performance Management Standard 2019* (FPMS), provide the legislative basis for the requirement for departments and statutory bodies to prepare general purpose financial statements and prescribe the requirements under which these statements are prepared.

1.2.2 The Financial Reporting Framework

The FRR disclosure requirements and illustrative financial statements are based on AASB pronouncements including:

- the *Framework for the Preparation and Presentation of Financial Statements* (“The Framework” or “FPPFS”) **applicable to not-for-profit (NFP) entities; or**
- The Conceptual Framework (“Conceptual Framework”) **applicable to for-profit (FP) entities**; and
- Statements of accounting concepts (SACs);
- Australian Accounting Standards; and
- Australian Accounting Standards Board Interpretations.

The Sunshine Department Illustrative Financial Statements (Tier 1) and Future Bay Regional Health Foundation Illustrative Financial Statements (Tier 2) are example ‘general purpose financial statements’. General purpose financial statements are intended to meet the needs of external users who rely on the information contained in the statements to assess the agency’s financial performance, financial position and cash flows. The illustrative statements are based on three key principles:

- *Accountability* - The accountable officer/chief executive officer/chairperson of each agency is responsible for the efficient and effective use of the agency’s resources. An agency may also undertake trustee duties or duties as an agent for other entities. The financial statements of the agency are intended to fairly and truthfully represent such activities for the financial year.
- *Compliance* - Financial statements must comply with relevant legislation, applicable AASBs and other prescribed requirements, and the minimum reporting requirements (included in Parts 2-5) to the extent these apply to departments and statutory bodies.
- *Comparability* - Financial statements must provide information that is comparable between the current and previous financial years and on a cross-agency basis.

Framework for the Preparation and Presentation of Financial Statements and Conceptual Framework

Both the Framework and the Conceptual Framework sets out the objective of general purpose financial reporting; and qualitative characteristics of useful financial information. The various Australian Accounting Standards expand on the Framework and the Conceptual Framework and address key issues on accounting and reporting that agencies must comply with.

SAC 1 *Definition of the Reporting Entity*

SAC 1 does not apply to for-profit entities who apply the Conceptual Framework. SAC 1 only remains effective for not-for-profit entities alongside the Framework for the Preparation and Presentation of Financial Statements. SAC 1 describes a reporting entity as an entity for which it is reasonable to expect the existence of users dependent on general purpose financial statements for the information which will be useful to them for making and evaluating decisions about the allocation of scarce resources. SAC 1 also states that if an entity qualifies as a reporting entity, it should prepare general purpose financial statements in accordance with the SACs and AASBs.

Australian Accounting Standards

The AASB implemented the Financial Reporting Council's (FRC) policy of adopting the standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB continues to issue sector-neutral standards, that is, like transactions and events should be accounted for and reported in the same manner by all entities, regardless of their FP or NFP status status.

Some accounting standards contain Australian-specific paragraphs, indicated at the start of the paragraph as 'Aus'.

These 'Aus' paragraphs provide additional guidance for NFP entities whilst others contain alternative treatment to those in the corresponding IASB standard. If an entity adopts an 'Aus' accounting treatment, the entity will comply with the Australian Accounting Standards, in accordance with paragraph 7 of AASB 1054 *Australian Additional Disclosures*, but depart from the corresponding IASB standard. As such, the entity will not be able to make an explicit and unreserved statement of compliance with IFRS. A qualified statement of compliance with IFRS is not appropriate.

AASB Interpretations

The AASB has direct responsibility for developing and approving all Interpretations, including the formation of topic-specific advisory panels with the purpose of making recommendations for consideration by the AASB. All Australian Interpretations have equal authoritative status and must be applied where relevant.

1.3 Australian Accounting Standards Board Pronouncements

This section clarifies which Australian Accounting Standards and Interpretations are applicable to the current reporting period, and which new and amended standards and interpretations have future application dates. Where new or amended accounting standards or interpretations contain any provisions likely to require early consideration and preparation/planning by most agencies, early advice of such amendments is also set out.

Agencies must comply with the latest prescribed accounting standards issued by the Australian Accounting Standards Board (AASB). 'Prescribed accounting standards' is defined in s.59(6) of the *Financial Accountability Act 2009* to include the following documents published by the AASB: Australian Accounting Standards; Statement of Accounting Concepts; Interpretations; and the *Framework for the Preparation and Presentation of Financial Statements*. This section lists those accounting standards and interpretations that must be complied with by agencies.

Note that only limited detail has been provided regarding significant accounting changes. Each agency is expected to review all new/amended accounting standards and interpretations for the full ambit of changes and the consequences for their agency's circumstances.

1.3.1 Treasury requirements re Australian Accounting Standards to apply to 2020-21 Reporting (based on standards issued as 31 May 2021)

Refer to the AASB website (http://www.aasb.gov.au/Pronouncements/Search-by-reporting-period.aspx) for clarification of the version of these standards applicable to this financial year.

No.	Standard Title
---	*Framework for the Preparation and Presentation of Financial Statements* (NFP entities only)
---	*Conceptual Framework for Financial Reporting* (FP entities only)
AASB 1	*First-time Adoption of Australian Accounting Standards*
AASB 2	*Share-based Payment* *
AASB 3	*Business Combinations*
AASB 4	*Insurance Contracts*
AASB 5	*Non-current Assets Held for Sale and Discontinued Operations*
AASB 6	*Exploration for and Evaluation of Mineral Resources* *
AASB 7	*Financial Instruments: Disclosures*
AASB 8	*Operating Segments* *
AASB 9	*Financial Instruments*
AASB 10	*Consolidated Financial Statements*
AASB 11	*Joint Arrangements*
AASB 12	*Disclosure of Interests in Other Entities*
AASB 13	*Fair Value Measurement*
AASB 14	*Regulatory Deferral Accounts* *
AASB 15	*Revenue from Contracts with Customers*
AASB 16	*Leases*
AASB 101	*Presentation of Financial Statements*
AASB 102	*Inventories*
AASB 107	*Statement of Cash Flows*
AASB 108	*Accounting Policies, Changes in Accounting Estimates and Errors*
AASB 110	*Events after the Reporting Period*
AASB 112	*Income Taxes*
AASB 116	*Property, Plant and Equipment*
AASB 119	*Employee Benefits*

No.	Standard Title
AASB 120	*Accounting for Government Grants and Disclosure of Government Assistance*
AASB 121	*The Effects of Changes in Foreign Exchange Rates*
AASB 123	*Borrowing Costs*
AASB 124	*Related Party Disclosures*
AASB 127	*Separate Financial Statements*
AASB 128	*Investments in Associates and Joint Ventures*
AASB 129	*Financial Reporting in Hyperinflationary Economies* *
AASB 132	*Financial Instruments: Presentation*
AASB 133	*Earnings per Share**
AASB 134	*Interim Financial Reporting* *
AASB 136	*Impairment of Assets*
AASB 137	*Provisions, Contingent Liabilities and Contingent Assets*
AASB 138	*Intangible Assets*
AASB 139	*Financial Instruments: Recognition and Measurement*
AASB 140	*Investment Property*
AASB 141	*Agriculture*
AASB 1004	*Contributions*
AASB 1023	*General Insurance Contracts*
AASB 1038	*Life Insurance Contracts*
AASB 1039	*Concise Financial Reports* *
AASB 1048	*Interpretation of Standards*
AASB 1049	*Whole of Government and General Government Sector Financial Reporting* *
AASB 1050	*Administered Items*
AASB 1051	*Land Under Roads*
AASB 1052	*Disaggregated Disclosures*
AASB 1053	*Application of Tiers of Australian Accounting Standards*
AASB 1054	*Australian Additional Disclosures*
AASB 1055	*Budgetary Reporting*
AASB 1056	*Superannuation Entities*
AASB 1057	*Application of Australian Accounting Standards*
AASB 1058	*Income of Not-for-Profit Entities*
AASB 1059	*Service Concession Arrangements: Grantors*
The following *Amendments to Australian Accounting Standards* are effective for the first time in 2020-21. They have been compiled into the standards above.	
AASB 2018-6	*Definition of a Business*
AASB 2018-7	*Definition of Material*
AASB 2019-1	*References to the Conceptual Framework* *
AASB 2019-2	*Implementation of AASB 1059*
AASB 2019-3	*Interest Rate Benchmark Reform*
AASB 2019-5	*Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia* *
AASB 2019-7	*Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations* *
AASB 2020-4	*Covid-19-Related Rent Concessions* (early adoption in 2019-20 permitted)

* Not applicable/relevant to departments or statutory bodies

1.3.2 Treasury requirements re Australian Interpretations to apply to 2020-21 Reporting (based on interpretations issued as at 31 May 2021)

Refer to the AASB website (http://www.aasb.gov.au/Pronouncements/Search-by-reporting-period.aspx) for clarification of the version of these interpretations applicable to this financial year.

No.	Interpretation Title
Interpretation 1	*Changes in Existing Decommissioning, Restoration and Similar Liabilities*
Interpretation 2	*Members' Shares in Co-operative Entities and Similar Instruments* *
Interpretation 5	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
Interpretation 6	*Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* *
Interpretation 7	*Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies* *
Interpretation 10	*Interim Financial Reporting and Impairment* *
Interpretation 12	*Service Concession Arrangements*
Interpretation 14	*AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
Interpretation 16	*Hedges of a Net Investment in a Foreign Operation*
Interpretation 17	*Distributions of Non-cash Assets to Owners*
Interpretation 19	*Extinguishing Financial Liabilities with Equity Instruments* *
Interpretation 20	*Stripping Costs in the Production Phase of a Surface Mine* *
Interpretation 21	*Levies*
Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Interpretation 23	*Uncertainty over Income Tax Treatments*
Interpretation 107	*Introduction of the Euro*
Interpretation 110	*Government Assistance – No Specific Relation to Operating Activities*
Interpretation 125	*Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*
Interpretation 129	*Service Concession Arrangements: Disclosures*
Interpretation 132	*Intangible Assets – Web Site Costs*
Interpretation 1003	*Australian Petroleum Resource Rent Tax*
Interpretation 1019	*The Superannuation Contributions Surcharge*
Interpretation 1030	*Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods*
Interpretation 1031	*Accounting for the Goods and Services Tax (GST)*
Interpretation 1038	*Contributions by Owners Made to Wholly-Owned Public Sector Entities*
Interpretation 1047	*Professional Indemnity Claims Liabilities in Medical Defence Organisations* *
Interpretation 1052	*Tax Consolidation Accounting*
Interpretation 1055	*Accounting for Road Earthworks*

* Not applicable/relevant to departments or statutory bodies

1.3.3 Treasury requirements re New and Amended Accounting Standards and Interpretations to apply to Reporting Periods beginning on or after 1 January 2021 (based on standards and interpretations issued as at 31 May 2021)

No.	Title	Effective[2]
AASB 17	*Insurance Contracts*[1]	1 Jan 2023
AASB 1060	*General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*	1 July 2021
AASB 2020-1	*Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*	1 Jan 2023
AASB 2020-2	*Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*[1]	1 July 2021
AASB 2020-3	*Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*	1 Jan 2022
AASB 2020-5	*Amendments to Australian Accounting Standards – Insurance Contracts*[1]	1 Jan 2021
AASB 2020-6	*Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date*	1 Jan 2022
AASB 2020-7	*Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures*	1 July 2021
AASB 2020-8	*Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2*	1 Jan 2021
AASB 2020-9	*Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments*	1 July 2021
AASB 2021-1	*Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*	1 July 2021
AASB 2021-2	*Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*	1 Jan 2023
AASB 2021-3	*Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021*	1 Apr 2021

[1] Does not apply to not-for-profit public sector entities

[2] For annual reporting periods beginning on or after this date

1.4 Significant Impacts on 2021-22 and Later Reporting Periods

1.4.1 AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* will be effective for reporting period beginning on or after 1 July 2021. This standard introduces the 'Simplified Disclosures' framework for Tier 2 entities that will replace the current 'Reduced Disclosure Requirements' (RDR) framework.

AASB 1060 applies to entities preparing Tier 2 general purpose financial statements under AASB 1053 *Application of Tiers of Australian Accounting Standards*. FRR 2A.5 specifies which Queensland Government agencies are permitted to apply Tier 2 reporting requirements.

1.4.1.1 Transitional arrangements

AASB 1060 does not contain transitional requirements for entities who are already preparing general purpose financial statements under Tier 2 reporting requirements (RDR). Such agencies shall prepare their 2021-22 financial statements under the presentation and disclosure requirements set out in AASB 1060, and where relevant provide comparative information for any new disclosures made unless the standard specifically states that comparatives are not required for the disclosure.

Agencies who are first time preparers of general purpose financial statements in according with the Australian Accounting Standards shall make the disclosures in AASB 1060 paragraphs 206 - 213 that are relevant to the agency.

1.4.1.2 Mandatory application and early adoption

Treasury's PROPOSED POLICY is that all agencies preparing Tier 2 financial statements shall apply AASB 1060's simplified disclosures from 2021-22 onward, and **early adoption will not** be permitted.

1.4.1.3 Changes to location of presentation and disclosure requirements

<u>Disclosure requirements (i.e. relating to what's in the notes)</u>

The most significant change is that Tier 2 disclosures will be combined into a single standard (AASB 1060) as opposed to being located in each individual standard in the form of unshaded paragraphs or specific RDR disclosure paragraphs.

AASB 1060 will contain all disclosure requirements for Tier 2 entities except for specific transition disclosures in other standards, which will continue to apply – see AASB 1060 paragraph 107.

As of the time of writing of this FRR, the AASB has not indicated that they will be "un-shading" the disclosure paragraphs in other standards that are not required under RDR. After the adoption of AASB 1060 by a Tier 2 agency, disclosure paragraphs in other standards will not be relevant, whether they are shaded or unshaded.

Presentation requirements (i.e. relating to the primary financial statements)

AASB 1060 sets out some, but not all, of the presentation requirements. Generally, where AASB 1060 specifies presentation requirements, it will supersede the equivalent paragraphs in other standards. However, AASB 1060 does not address all presentation issues, and some presentation requirements of other standards will continue to apply. AASB 1060's implementation guidance (para IG1) has a useful table that lists which presentation paragraphs in other standards have not been superseded and therefore continue to apply. (Where presentation paragraphs in another standard have been superseded by AASB 1060, agencies can still refer to that other standard for guidance).

1.4.2 Configuration (or Customisation) Costs in a Cloud Computing Arrangement

The IASB's IFRS Interpretations Committee (IFRIC) published an agenda decision in April 2021 outlining how a customer should account for the costs of configuring or customising a supplier's software in a Software-as-a-Service (SaaS) or cloud computing environment. The publication can be accessed at: https://www.ifrs.org/projects/work-plan/configuration-or-customisation-costs-in-a-cloud-computing-arrangement-ias-38/#published-documents

Queensland Treasury intends to update Non-Current Asset Policy (NCAP) 1 during 2021-22 (i.e. in the next financial year) to reflect the IASB's agenda decision. This is due to the work necessary to properly evaluate previously capitalised costs and determine the appropriate accounting response as some costs may continue to meet the definition of an asset. No adjustment is required by Queensland Treasury for the 2020-21 financial year.

Please contact Queensland Treasury's accounting policy team if assistance is required in applying this agenda decision. Agencies who identify material amounts of intangible assets to write off as a result of this change are also asked to contact Treasury to discuss the transitional impact.

1.4.2.1 Summary of agenda decision

As outlined in the agenda decision, an agency will often ***not control*** the software being configured or customised under a SaaS and/or cloud-computing arrangement. This is for two reasons:

(a) Firstly, a typical SaaS arrangement conveys to the customer the right to receive access to the ***supplier's application software*** over the contract term. That right to receive access does not provide the customer with a software asset and, therefore, the access to the software is a service that the customer receives over the contract term.

(b) Secondly, the customer will often incur costs of configuring or customising the ***supplier's application software*** to which the customer receives access. This may be by way of modifying the software code or setting various 'flags' or 'switches' to set up the software's existing code to function in a specify way.

In the situations described above, the configuration or customisation activities ***will not create*** a resource controlled by the entity that is separate from the supplier's software and the criteria for recognising an intangible asset ***will not be met***. Consequently, ***such costs are to be expensed*** as supplies and services expenses by agencies.

In order to ascertain the timing of expense recognition, the agenda decision outlines that IFRS 15 (AASB 15 for Australian entities and agencies) deal with similar issues to those faced by the customer in determining when the supplier performs the configuration or customisation services in accordance with the contract to deliver those services.

Those same principles should be applied by entities to assess **whether the configuration or customisation activities** of the supplier's software **is a *distinct service*** from the right to receive access to the supplier's software.

- If the configuration/customisation service ***is a distinct service*** from the right to receive access to the supplier's software, the costs are ***expensed upfront*** when the configuration or customisation is performed.

- If the configuration/customisation service ***is not a distinct service*** from the right to receive access to the supplier's software, the costs are ***recognised as expenses as/when the supplier provides access*** to the cloud software over the contract term. This usually means the agency recognises a prepayment asset upfront, which unwinds over the contract term.

However, in some circumstances, the configuration or customisation may result in software that the agency ***does control***. For example, additional code residing on the agency's own hardware that provides future economic benefits and meets the identifiability criteria in AASB 138 would ordinary qualify for recognition as a software intangible asset.

1.4.2.2 Transitional arrangements

Agencies who are presently capitalising, or have previously capitalised, cloud computing or SaaS configuration costs may be impacted by this agenda decision. This may necessitate a change in accounting policy in the 2021-22 financial year by affected agencies.

Any change in accounting policy will be applied **retrospectively**, with any intangible assets previously capitalised that no longer meet the definition of software (or another asset) written off through retained earnings as at 1 July 2020 for any balance that pre-dates the opening comparative date in the 2021-22 financial statements. Where an agency identifies eligible prepaid service costs, these would typically be reclassified to prepayments in the 1 July 2020 and 30 June 2021 balances of agencies' 2021-22 statements and the expense profile adjusted accordingly.

It will also be necessary to evaluate budgeted costs expected to be incurred in future year projects.

1.4.2.3 Preparing for the transition

To prepare for the upcoming change in requirements, agencies should consider:

- What costs have been capitalised for which projects, and are the projects SaaS / cloud computing?
- If so, do the costs relate to software assets that the agency controls?
  - Where is the software located? – on agency's own hardware or in the cloud?
  - Does the agency have the power to obtain future economic benefits from the software AND restrict the access of others to those benefits?
- Who is providing the configuration/customisation services? – the SaaS / cloud computing company or a third party?

- When are the services received? By applying the principles of AASB 15, consider –
    - “Distinct good or service” requirements in AASB 15 para 26 to 30
    - “Setup activities” guidance in AASB 15 para 25 & B51
    - Are the services provided by the SaaS / cloud computing company? This may indicate they are not distinct and likely to be over time, thus giving rise to prepayment; or
    - Are the services are provided by a third party? This may indicate they are distinct and likely to be requiring expensing upfront.

1.5 Climate Related Risks and Financial Statements

An emerging area of focus for financial reporting across the public and private sectors concerns the topic of climate related risks and their potential impact on the financial reports of entities. In April 2019, the Australian Accounting Standards Board and Australian Auditing Standards Board issued a joint discussion paper on this subject. This discussion paper highlights that entities may need to consider climate-related risks in the context of their financial statements, particularly relating to the estimates, judgements and assumptions made that affect, or could affect, the amounts and disclosures reported. In January 2020, QAO issued an online blog article discussing how agencies should approach this topic. Links to these publications/articles are provided below:

https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_Finished.pdf)

https://www.qao.qld.gov.au/blog/are-climate-related-risks-impacting-your-financial-statements

Queensland Government Climate Change Website and Publications

The Queensland Government’s climate change website (https://www.qld.gov.au/environment/climate/climate-change) provides a number of publications and documents outlining the Queensland Government response and approach this risk at the whole-of-Government level. The Queensland Government has ***two key climate change strategies***. The Queensland Climate Transition Strategy, which outlines how Queensland will transition to a zero net emissions future that supports jobs, industries, communities and the environment and the Queensland Climate Adaptation Strategy, which outlines how Queensland will prepare for current and future impacts of a changing climate that reduces risk and increases resilience.

Agency Response

A number of initiatives are linked to these overarching strategies. In the first instance, agencies should assess to what extent these initiatives impact their operations and activities in a quantifiable way. Secondly, in formulating individual agency responses to climate related risks, disclosures relating to climate-related risks in financial statements **should focus on** the following 2 points:

- how the risks specifically relate to amounts reported in **your agency’s** financial statements; and
- how climate-related risks were addressed in the key assumptions applied when developing accounting estimates and calculations.

Conversely, disclosures of climate-related risks in financial statements **should NOT** include or focus on:

- generic, non-agency discussion on climate related risks or the agency's general overall strategy approach to managing climate-related risks - these belong outside the financial statements either in the annual report or other publications;
- disclosures that cannot be verified by external audit;
- disclosures that are mere speculation or vague/irrelevant to be meaningless for financial statement users;
- disclosures containing judgements and estimates that have not been endorsed by the appropriate level of KMP; and
- disclosures that are contradictory to Government or agency policy/frameworks.

Recommended Approach

Agencies need to approach climate related risk disclosures carefully, and in a structured, methodical manner, seeking approval/endorsement from their KMP for the proposed disclosures. Treasury suggest the following 5 steps in approaching this topic.

Step 1 – Familiarise yourself with the Queensland Government Climate Strategy documents (available through the qld.gov.au website) along with any specific Government directives to your agency relating to climate risk.

Step 2 – Consider those strategies and directives in relation to your own agency. Ask the question *"Would users reasonably expect that emerging climate-related risks could affect the amounts and disclosures in our agency's financial statements?"*

Step 3 – Complete your agency's climate related risk assessment (you should not be identifying climate related risks applicable to other Government agencies).

Step 4 – Identify accounting judgements and key estimates that would be affected – the more obvious areas to focus upon: potential changes in asset useful lives, potential changes in the fair value of assets, potential provisions or contingent liabilities, potential changes in expenses. Particular industries might have other unique impacts, these areas listed here are by no means exhaustive.

Step 5 – Seek approval from your key management personnel, audit committee and external auditor for any proposed financial statement disclosures.

1.6 Financial Reporting Impacts of COVID-19 for 2020-21

1.6.1 Specific Areas of Accounting Focus

The potential impacts arising from the COVID-19 pandemic on the end of year financial statements should be considered again in 2020-21 by agencies.

These include, but are not limited to:

- Credit losses on receivables (including expected future losses) – in particular:
  - Credit risk is expected to have increased in the current environment. In addition, some agencies will have changed terms and conditions with debtors (e.g. offering deferred payment terms) that may increase the credit risk;
  - Using historical data to estimate future expected collections will need to be reassessed, and where historical data is used, adjustments for the future are likely to change significantly; and
  - Amended disclosures regarding increased uncertainty over the collection of receivables may be appropriate and how such estimates and judgements have been factored into expected credit loss calculations.
- Debt forgiveness;
- Fair values of assets, including financial assets, valued using the market or income approaches. Agencies should consult their valuer with any specific valuation queries for 30 June 2021 reporting. QAO have published an article on asset valuation considerations during COVID-19, available on the QAO blog at: https://www.qao.qld.gov.au/blog/valuation-considerations-during-covid-19. Consistent with the advice provided in the 2019-20 FRR 1A, agencies should note:
  - for **current replacement cost valuations** of public infrastructure and specialised buildings, a significant change in value as a result of COVID-19 **is not currently expected to occur** for 30 June 2021 financial statement reporting;
  - the valuation of assets prepared using **income-based valuation models are more likely to be impacted** (and should be given particular attention by affected agencies);
  - with the current uncertainty and volatility, there **may be some impacts** when determining fair value with reference to **market prices** (and particularly in relation to financial assets). While market prices may seem to be subject to a short-term fluctuation, or aberration, compared to a long-term value, market prices must still be used at reporting date.
- Impairment of assets where not dealt with under existing fair value remeasurements;
- Additional grants and financial support (including items that might be considered ex-gratia or special payments under the *Financial and Performance Management Standard 2019*);
- Impacts on own source revenue including cash flow implications;
- Provisions for onerous contracts;
- New or additional employee entitlements granted/extended/offered as a result of COVID-19 (e.g. leave or other employee benefits)

Agencies may also find the March 2020 Frequently Asked Questions (FAQ) published jointly by the Australian Accounting Standards Board and Australia Auditing and Assurance Standards Board to be another worthwhile resource. https://www.aasb.gov.au/admin/file/content102/c3/AASB19009_COVID19_FA.pdf

1.6.2 Revenue Waivers and Other COVID-19 Financial Relief Initiatives

A number of departments and statutory bodies have provided financial assistance or relief to businesses and individuals through various waivers and deferrals of fees, charges, taxes, levies or, as an alternative, offering deferred/concessional payment terms. The accounting consequences of such relief will depend on the type of relief provided, and generally fall within the following categories:

TYPE OF REVENUE RELIEF PROVIDED	ACCOUNTING TREATMENT
1. Refunds – fees/taxes/levies previously levied and paid but subsequently refunded as a result of COVID-19.	The refund is recorded as a **separate expense, and not deducted from revenue.** This reflects that the refund is a discrete transaction compared to the initial revenue transaction that was legitimately recognised before COVID-19 occurred and relief initiatives were approved. No "netting off" against revenue is appropriate in this circumstance as no right of set off exists. As the expense represents a type of grant or contributions expense, the refund will be shown in grants and contributions (Note B3-3 within the Sunshine Statements).
2. Revenue Waivers - fees/taxes/levies/licences where an agency has completely waived the right to income, either by legislative amendment, Ministerial directive or other approved directive, that removes/releases your agency's right/entitlement to income (i.e. you've removed the obligation for the customer to be liable for that charge).	In such situations**, no revenue is recorded as there is no enforceable right or entitlement to revenue.** In addition, agencies do not record revenue (with a corresponding expense) that would have been levied but for the waiver. Where no right to recognise income exists, no revenue is recorded.
3. Revenue Deferrals - fees/taxes/levies where a legislative entitlement to levy the fee/collect a tax exists but the agency defers levying the revenue until a later period of time. A revenue deferral differs from a waiver in that the agency has not waived the right to levy the revenue (i.e. an enforceable right still exists), but the timing of levying that revenue (i.e. exercising that right) has been deferred or postponed.	Revenue deferrals are a little more complicated as it involves assessing **<u>what has actually been deferred.</u>** For example, in the case of a tax or levy, has the timing of the taxable event been deferred to a later period so no tax is currently payable? Or has the taxable event giving rise to the revenue still occurred (or been levied) but an extension/deferral of the payment term has been granted? (i) **<u>If the timing of the taxable event has not changed</u>**, and the agency is simply deferring/extending the payment terms for the debtor, then **<u>the revenue will be recognised at</u>**

TYPE OF REVENUE RELIEF PROVIDED	ACCOUNTING TREATMENT
	the fair value of the consideration receivable. This means the receivable and revenue recognised will be discounted to present value on initial recognition. **(ii)** **If the timing of the taxable event has moved to a later date**, then **no revenue will be recognised until the taxable event occurs.** In either case, a receivable and revenue should only be recognised when the taxpayer/customer has incurred a present obligation to pay which corresponds with the State having an enforceable right to the revenue.
4. Repayment Holidays - fees/taxes/levies levied (or previously levied) for which the agency has agreed to *defer the payment* or extend the payment terms to a later period.	**Repayment holidays are addressed under AASB 9.** If a **material time value of money adjustment occurs** because of the deferral (e.g. the repayment of an existing debt was deferred another 2 or 3 years), a **modification loss** under AASB 9 para 5.4.3 would be recognised in the operating statement. This is because the agency agreed to the deferral as opposed to the debtor not paying on time. Otherwise, the **additional credit risk should be reflected in expected credit losses and impairment calculations**.

The underlying revenue recognition principles of AASB 15/AASB 1058 have not changed as a result of COVID-19. If the performance obligation/taxable event giving rise to the revenue has already occurred in the past, or occurs during the COVID-19 pandemic time and the enforceable right to receive revenue has not been waived, then it is likely there is revenue to recognise under AASB 15 (or AASB 1058 as applicable).

Rent relief received by lessees

In June 2020, the AASB issued amending standard AASB 2020-4 to provide practical expedients to lessees in respect of COVID-19 related rent concessions. The amendments allow a lessee to elect to not assess whether a COVID-19 related rent concession is a lease modification, and instead recognise a reduction, waiver or forgiveness of rental payments as a variable lease payment in profit or loss.

Agencies were permitted to early adopt the amendments and use the practical expedients in 2019-20. Agencies may continue to use these practical expedients in 2020-21. Further, AASB 2021-3 has extended these practical expedients to 30 June 2022.

Rent relief provided by lessor agencies

Lessors who provide rent relief to tenants should account for the variations as lease modifications in accordance with AASB 16 paragraphs 79-80 for a finance lease or paragraph 87 for an operating lease. The AASB determined at its June 2020 board meeting that practical expedients relating to COVID-19-Related Rent Concessions **do not extend** to not-for-profit lessors.

1.6.3 COVID-19 Financial Statement Disclosures

(i) Key Estimates and Judgements

Agencies should be aware of the following paragraphs within AASB 101 Presentation of Financial Statements regarding disclosures around estimates and judgements.

AASB 101.122 ***"An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements."***

AASB 101.125 ***"An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of (a) their nature, and (b) their carrying amount as at the end of the reporting period.***

The economic uncertainty related to COVID-19 may require key estimates and judgements to be reviewed and updated, particularly where such estimates and judgments concern expectations about the future.

Agencies will need to consider whether additional disclosure is required, particularly in the areas of asset valuation (especially market and income-based approaches); and impairment of receivables regarding future estimates/judgements for expected credit losses.

Where applicable, agencies should also consider disclosing the reasons assumptions and estimation uncertainty have not materially changed due to COVID-19, where users of financial statements might reasonably expect there to be material changes.

Comparative disclosures for significant financial impacts arising from COVID-19 (as reported in 30 June 2020 audited statements) **should be reproduced** in 2020-21 financial statements. This is because disclosures made under AASB 101.97 are also reported for comparative periods.

(ii) Significant items of Revenue and Expense

The **following illustrative disclosure note** is provided to guide agencies in making disclosures around significant items of revenue, expense and other material financial impacts arising from COVID-19 on the agency's financial statements in a central location.

Example Illustrative Note Disclosure (N.B. Comparative disclosures required).

Note Ref# - SIGNIFICANT FINANCIAL IMPACTS FROM COVID-19 PANDEMIC

The following significant transactions were recognised by the Sunshine Department during the 2020-21 financial year in response to the COVID-19 pandemic.

Operating Statement

Significant expense items arising from COVID-19	
COVID-19 Community recovery grant program	($x)
COVID-19 Business recovery grant program	($x)
Refunds of previously levied fees/charges/taxes (where applicable)	($x)
Additional impairment of receivables specifically due to COVID-19 impacts [1]	($x)
Fair value adjustment at initial recognition for COVID-19 loan support scheme [1]	($x)
Asset revaluation decrements attributable to COVID-19 impacts [1]	($x)
	($x)
Significant revenue items arising from COVID-19	
Additional revenue received to fund COVID-19 initiatives	($x)

(N.B. Agencies are free to itemise additional revenue received by program and/or revenue source such as appropriation, treasurer's advance, grant, etc.)

Other significant revenue impacts arising from COVID-19

The Sunshine Department has also waived the collection of licence revenue from 1 March 2020 to 31 December 2020. The amount of revenue forgone from 1 July 2020 to 31 December 2020 is calculated to be approximately $X based on the licences renewed during this time. This amount is not reflected in the significant revenue/expense items above.

Balance Sheet

Significant changes in assets arising from COVID-19	
COVID-19 financial support loan scheme	$x
Asset revaluation (decrement) attributable to COVID-19 impact (expensed)[1]	($x)
Asset revaluation (decrement) attributable to COVID-19 impact (equity)[1]	($x)
Additional impairment of receivables specifically due to COVID-19 impacts[1]	($x)
	$x

Significant changes in liabilities arising from COVID-19

There were no significant new liabilities arising for the department from COVID-19.

Significant equity transactions arising from COVID-19	
Asset revaluation (decrement) attributable to COVID-19 impact (equity)[1]	($x)
Equity appropriation received for COVID-19 financial support loan scheme	$x
	$x

Footnotes

1 - No additional funding for these items was received in 2020-21.

QUESTIONS TO ASSIST PREPARERS WITH COVID-19 FINANCIAL IMPACT DISCLOSURES

Question: What is the intent of this illustrative note?

AASB 101.97 states ***"When items of income or expense are material, an entity shall disclose their nature and amount separately."***

This illustrative disclosure note is provided to guide agencies in complying with AASB 101.97 and assist the financial statement reader/user in readily understanding the material financial impacts arising from COVID-19 on the agency's financial statements in a central location.

Question: AASB 101.97 only covers material items of income or expense. Why does the illustrative disclosure include assets, liabilities and equity?

Some agencies will have material transactions relating to COVID-19 financial assistance that are balance sheet only (e.g. financial assistance loans provided by equity appropriation/injection).

In the context of the COVID-19 pandemic, the financial impact on agencies (and the financial support initiatives undertaken by Government) should be communicated in a clear, meaningful and effective way. For this reason, it may be necessary or appropriate to refer to balance sheet impacts when preparing this note.

Question: Do I have to "reconcile" all COVID-19 impacts through equity or show the net impact on equity from all COVID-19 transactions?

No. For the purposes of AASB 101.97, the intent of the note is simply to highlight individually significant/material transactions. Agencies should keep this objective in mind when preparing their significant items note.

Agencies are not required to "reconcile" all COVID-19 transactions in the note or the net equity effect of these items through equity. That said, agencies are free to tailor the note as they wish to achieve a meaningful and effective disclosure in their financial statements.

Question: What flexibility do agencies have regarding the presentation and location of these disclosures?

Total flexibility. The illustrated format/layout of the note is not mandatory – Treasury would expect agencies to tailor the note to suit their own particular circumstances. Agencies are also free to adopt an alternatively presentation layout if desired. For example, the use of tables showing expense measures with corresponding funding sources next to the expense can be considered as an alternative layout.

Agencies are also free to locate this disclosure wherever they consider suitable in their financial statements. Possible locations may include (but are not limited to)

- upfront between the actual statements and before the notes;
- within the expenses notes;
- within the budget to actual disclosures; or
- within the other information/disclosures at the rear of the statements.

Agencies should consider the materiality of the transactions being reported in the overall scheme of their agency's financial statements when considering how much prominence these disclosures should be given.

These illustrative disclosures have been incorporated within the Sunshine Illustrative Financial Statements at Section E as part of the AASB 1055 Budget to Actual Variance disclosure. Presenting as part of the budgetary reporting disclosures is only one possible location for presentation.

An agency that has significant financial impacts may choose a more prominent location towards the front of their financial statements. An agency with only one or two expense impacts may elect to present this within the section of the financial statements dealing with expenses.

Q. Our agency has suffered a reduction in revenue due to COVID-19. Do I need to disclose anything relating to this in our note?

That depends on the particular circumstances. Agencies should keep in mind this note is focused on **actual material transactions** recognised in the financial statements, not variances of budgeted to actual amounts which is covered under AASB 1055 budgetary reporting disclosures. An actual transaction (such as a refund of previously levied revenue) due to a COVID-19 financial support initiative would qualify for disclosure if material (as illustrated).

However, where fees and charges that would otherwise have been levied are waived and no revenue is recorded/recognised, there will be no actual transaction recorded in this case. Similarly, own-source revenue that is lower than budget in general terms because of the COVID-19 pandemic would not represent actual transactions to be disclosed in this note.

In these circumstances, the impact will be best addressed via narrative explanation (assuming it is material) either by way of general description in the significant items note for COVID-19 (if it represents a major COVID-19 initiative for instance), or as part of the existing budgetary reporting disclosures.

If the agency receives appropriation or grant funding to compensate for the reduction in revenue however, then the actual appropriation/grant received can naturally be disclosed in the significant items note for COVID-19.

Q. What disclosure is required for post balance date events in relation to COVID-19

Post balance date events are covered by the requirements of AASB 110 and agencies should follow the requirements of that Standard if a new COVID-19 announcement, material transaction (or transactions) occur between 1 July 2021 and the date of certifying the financial statements.

Otherwise, agencies do not need to include transactions occurring post 1 July 2021 in this note. Agencies may wish, at their discretion, to include a statement in the post balance date event note along the lines of "*The department's financial statements will be/are expected to be [delete as appropriate] impacted by the COVID-19 programs beyond 30 June 2021, although the actual impacts cannot be reliably estimated at the reporting date.*"

Q. What about comparative disclosures?

Disclosures made under AASB 101.97 are also reported for comparative periods. Comparative information (as reported in 30 June 2020 audited financial statements) should be included in 2020-21 financial statements.

Queensland
Government