VAGO
Victorian Auditor-General's Office

Financial Reporting Alert

Significant accounting developments

2026–1 | 10 February 2026

Learn about the latest financial reporting developments and our guidance on how to respond.

In this alert

Update 1: Amendments to the *Financial Management Act 1994*

Overview and objective of the amendments

In the 2024–25 State Budget, the government announced a plan to introduce financial management reforms, including a review of the *Financial Management Act 1994* (the Act). On 19 August 2025, Parliament passed the amendments to the Act, and the legislation subsequently received royal assent.

The government stated that these amendments strengthen the Act to ensure it meet the needs of a growing and increasingly complex public sector. In the context of ongoing economic uncertainty, the reforms aim to improve transparency, accountability and performance in managing and reporting the use of public resources.

As it relates to financial management, the legislation introduces amendments that the government believes will strengthen financial management practices. These include:

- requiring every department and public sector entity to operate within its approved budget
- mandating written notification to Department of Treasury and Finance (DTF) if a department or public sector entity expects to exceed its budget
- elevating responsibilities from the *Standing Directions 2018 under the Financial Management Act 1994* into legislation for key roles in departments and public sector entities, including the accountable officer, responsible body, and chief finance officer
- assigning explicit duties to these roles to manage financial responsibilities, provide accurate financial information and report material risks.

These reforms represent a positive step towards strengthening financial management across departments and public sector entities.

What VAGO plans to do and what we recommend

We are currently developing a short learning resource to help you familiarise yourself with the recent legislative changes and why they matter.

We will make the module available on the VAGO website in early 2026 and will notify stakeholders once it is released.

Update 2: Key developments in climate reporting

Key message

Although there have been some recent developments in climate reporting standard setting (summarised in Appendix A), there has been no further progress on mandatory climate reporting requirements for Victorian public sector entities. This aligns with what we previously outlined in our Tech alert: 2024–2. The current position is summarised below:

Entity type	Current position
Corporation Act entities	• Mandatory climate-related disclosures are being introduced in phases under the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024. • These changes have limited impact across the Victorian public sector • We are continuing to monitor affected entities and work with DTF and audit service providers as the phased requirements progress.
Entities governed by the *Financial Management Act* and other	• DTF and Department of Energy, Environment and Climate Action (DEECA) are jointly developing the State's climate disclosure framework in response to AASB S2 *Climate-related disclosures*. • Their work includes:

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state-controlled entities	• developing a roadmap for a whole-of-state approach • considering entity-level reporting and building on existing practices such as: ▪ the voluntary [Victorian Government Climate-related Risk Disclosure Statement] ▪ entity-level reporting under FRD 24 *Reporting of environmental data by government entities* ▪ upcoming AASB S2 reporting by Corporations Act entities within the Victorian public sector DTF advise significant updates will be shared as this work progresses, with major developments expected in 2026.
Local councils	• Except for any council-controlled entities impacted by the mandatory *Corporations Act 2001* requirements: • Local Government Victoria (LGV) has not yet decided whether to change current sustainability reporting requirements • LGV has indicated it may review environmental performance measures in the future, given broader reporting developments LGV advise they will consult with the sector before they make any changes to the reporting requirements or make best practice enhancements.
Universities	• State and territory universities must provide financial information to the Australian Government Minister for Education, under section 19-10(2) of the *Higher Education Support Act 2003*. In doing so, they must follow the *Higher Education Provider Guidelines* (the guidelines) • Through our network of audit offices across Australia, we contacted the Australian Department of Finance (policy lead for federal climate disclosures) to clarify whether: • climate-related reporting will be included in the guidelines • universities will be part of the Commonwealth Climate Disclosure (CCD) reform currently underway. • The Australian Department of Finance confirmed it is unlikely universities will fall within the CCD scope and climate-related reporting may instead be determined by state and territory frameworks. • At this stage, it remains unclear whether DTF will extend climate reporting requirements to Victorian universities.
Other not-for-profit entities (for example, ACNC-registered organisations such as aged-care providers	• The ACNC reporting framework currently does not require mandatory reporting. • However, depending on their legal structure, these entities may be required to report under the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024*. We encourage these entities to review their structure and consider whether these requirements apply.

What we recommend

We continue to monitor developments in climate and broader sustainability reporting to understand future impacts on public sector reporting obligations and help support our audit entities.

Since there have been no significant changes in the regulatory environment since our last Technical Alert, our previous recommendations remain current:

- **For Corporations Act entities:** conduct ongoing assessments to determine whether mandatory climate reporting requirements apply, in order to maintain compliance. Entities should also contact their regulator, if clarification or support is required.

- **For entities not currently affected by the Corporations Act amendments:** await further guidance from your regulator before undertaking any climate reporting-related activities.

Update 3: Responding to AASB 13 *Fair Value Measurement* amendments

AASB 13 Fair Value Measurement amendments

In our last Tech alert: 2024–2, we provided an update regarding the revised FRD 103, which allowed a phased approach to adopting the AASB 13 amendments.

As per this phased approach, DTF has allowed entities to apply the amendments relating to the 'development of unobservable inputs' and the 'application of the cost approach' in their next scheduled revaluation or interim revaluation year (whichever occurs earlier). Please refer to Tech alert: 2024–2 for full details and the steps entities can undertake to conduct impact assessments.

What we recommend

For entities with revaluation requirements as at 30 June 2026, a key audit focus will be on non-financial asset valuation and the applicability of the AASB 13 amendments. We expect these entities to have already begun planning for implementation.

For entities with revaluation years beyond June 2026, the revised FRD 103 provides immediate relief. However, we encourage these entities, especially those with complex assets valued under the current replacement cost approach, to start preparing for the amendments well ahead of the next revaluation cycle. Our experience from the 2025 financial reporting period shows that both financial report preparers and auditors will need to invest significant time and effort to navigate these associated changes.

Update 4: Preparing for AASB 17 *Insurance Contracts*

Latest developments in AASB 17

AASB 17 applies to public sector entities for reporting periods starting on or after 1 July 2026, replacing AASB 4, AASB 1023 and AASB 1038. The standard should be read together with AASB 2022-9 *Insurance Contracts in the Public Sector*.

AASB 17 sets out a comprehensive framework for accounting for insurance contracts, covering recognition, measurement, presentation, and disclosure. This helps financial report users understand an insurer's exposure, profitability and financial position, and supports better comparability across similar entities.

A key feature of AASB 17 is that it applies not only to traditional insurance contracts but also to 'insurance-like' arrangements. This means that entities beyond conventional insurers may fall within its scope.

Examples of arrangements that may be affected by AASB 17 include schemes that cover things like liability claims, property damage, building defects or incomplete construction, workers' compensation, compulsory third-party motor insurance for serious injuries etc.

In the past, entities may have accounted for some of these arrangements as insurance under AASB 1023 *General Insurance Contracts*, while they may have recognised others as provisions under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Depending on their specific features and terms, some arrangements may now fall within the scope of AASB 17.

VAGO guidance to help with scope assessment

To assist public sector entities in assessing whether arrangements fall within the scope of AASB 17, VAGO has developed the Guidance for Public Sector Entities – AASB 17 *Insurance Contracts*.

The guidance supports a structured and consistent approach to scope assessment and recognises that AASB 17 applies not only to traditional insurance contracts, but also to certain insurance-like arrangements commonly encountered in the public sector.

The guidance includes examples, highlights areas requiring significant judgement, and draws on the standard setters' discussions to explain the intent behind the requirements, supporting well-informed and consistent application by entities.

What we recommend

The impact of AASB 17 will vary depending on an entity's specific facts and circumstances. Applying the public sector scoping guidance is expected to involve judgement and, in some cases, discussion between finance teams, DTF and other stakeholders, including auditors, particularly where arrangements are complex or less clear-cut.

To support a structured and consistent approach to scope assessment, entities can undertake the recommended actions outlined below:

Recommended action	Steps
Understand the scoping framework	• Review the scoping requirements in AASB 17 and VAGO's *Guidance for Public Sector Entities – AASB 17 Insurance Contracts*. Developing a clear understanding of this framework is an important foundation for undertaking scope assessments. • Refer to the AASB 17 scoping training delivered by DTF last year. Contact the Accounting Policy team at accpol@dtf.vic.gov.au to obtain the presentation slides and recording if you were unable to attend.
Identify relevant arrangements and assess the risk transfer	• Consider contracts, agreements, schemes or programs where the entity may have accepted significant insurance risk, including arrangements established through legislation or another enforceable mechanism and assess whether the entity will be required to compensate the participant if a specified uncertain future event adversely affects them.
Documentation of judgements and stakeholder engagement	• Document the key features of each arrangement assessed and how the relevant AASB 17 criteria have been applied, including the relative weight given to each criterion where judgement is required. • Share these findings with senior management, audit committee members, DTF and engage with your audit teams as appropriate. Early documentation will help support the entity's readiness for AASB 17 recognition, measurement and disclosure requirements. • DTF recommends that any entity with potential insurance-like arrangements contact the Accounting Policy team at accpol@dtf.vic.gov.au
Timing considerations	• Although AASB 17 has the effective date of 1 July 2026, early scoping assessments may assist with planning for how your entity will respond to the accounting implications, communication through governance structures and "standards issued but not yet effective" disclosures in the 2025–26 financial statements.

Appendix A:
Standard-setting developments related to climate reporting

AASB sustainability reporting standards

In October 2024, the Australian Accounting Standards Board (AASB) issued the Australian Sustainability Reporting Standards:

- AASB S1 General Requirements for Disclosure of Sustainability-related Financial Information, which is a voluntary standard
- AASB S2 Climate-related Disclosures, which is a mandatory standard effective for annual periods beginning on or after 1 January 2025.

While AASB S2 is mandatory for certain entities like those captured under section 292A of the *Corporations Act 2001*, public-sector entities (including state-controlled entities), councils and universities are not automatically required to apply these standards unless the climate reporting requirements are mandated by their regulator.

When finalising AASB S2, the AASB noted feedback from public sector stakeholders that AASB S2 may not be fully suitable for NFP public sector entities without further modification, given their different objectives, governance structures and accountability frameworks.

To that end, the AASB has been undertaking research to understand how public sector climate-related information is currently being prepared across jurisdictions, identify users and their needs, and assess whether modifications or additional guidance are required for NFP public sector entities to consistently and effectively apply the AASB S2.

The AASB at its November 2025 meeting shared preliminary findings to date from this research. Key findings as it relates to users and user needs include:

- **Who the users are:** Stakeholders identified bondholders, investors and credit rating agencies as the most significant users, alongside the public, parliaments (including Parliamentary Budget Offices) and regulators
- **What users' key information needs are:** The greatest perceived user need is at the Whole-of-Economy (WoE) and Whole-of-Government (WoG) levels, reflecting the macro-level focus of most users. Users seek greater transparency on government climate-related policies and programs, including their objectives, costs, outcomes and effects on the economy, and on natural-capital dependencies. Entity-level disclosures were considered less relevant to external users but such information is needed to facilitate reporting at the WoE or WoG level.

Next steps:

- The AASB decided to publish the research report in the first half of 2026
- The AASB also decided to gather additional input from stakeholders on the following matters prior to finalising its response to feedback received from public sector stakeholders:
  - the demand for national, state and territory whole-of-economy climate-related information
  - whether the AASB should establish reporting requirements for climate-related policy programs and outcomes

- the users of climate-related information and their information needs in relation to local governments and other public sector owners of significant assets.

Source and for further information please refer to AASB's agenda papers 9.0 and 9.1 for the November 2025 board meeting and related Action Alert 243.

International Public Sector Accounting Standards Board sustainability reporting standards

In October 2024, the International Public Sector Accounting Standards Board (IPSASB) published its exposure draft SRS ED 1 *Climate-related Disclosures*.

The exposure draft was primarily built on the international sustainability standards (IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*). But it proposed a requirement for all NFP public sector entities responsible for climate-related public policy programs to also make specific disclosures relating to those programs.

Recognising the complexity of having different reporting perspectives in a single standard, the IPSASB decided to split the project in two phases:

- **Phase 1:** As part of Phase 1, IPSASB issued its inaugural standard IPSASB SRS 1 *Climate-related Disclosures* on 29 January 2026 that addresses climate-related risks and opportunities arising from an entity's activities and operations. It is largely aligned with IFRS S2, *Climate-related Disclosures*.
- **Phase 2:** As part of Phase 2, IPSASB plans to develop a separate standard for those specific public sector entities responsible for climate-related public policy programs and their outcomes, which it is currently considering.

Australasian Council of Auditors General's (ACAG's) submissions to IPSASB is available online.

Auditing and Assurance Standards Board sustainability assurance standards

The Auditing and Assurance Standards Board (AUASB) has been continually monitoring, engaging and seeking feedback from stakeholders through several mechanisms. More formally, the AUASB released the following documents for stakeholder comments on which VAGO provided comments via its ACAG network:

- Consultation Paper on IAASB's *Proposed Narrow-Scope Amendments to IAASB Standards Arising from the IESBA's Using the Work of an External Expert Project*
- ED 01/25 Proposed Amendments to ASSA 5000 *General Requirements for Sustainability Assurance Engagements* and ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*
- ED 02/25 Amendments to ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*
- ED 03/25 Proposed Australian Standard on Sustainability Assurance ASSA 2025-11 Amendments to ASSA 5000 *General Requirements for Sustainability Assurance Engagements*

VAGO's submissions can be found on the AUASB website via the ACAG links under Current projects > Closed for comment.

At its 17 December 2025 meeting, the AUASB formally approved and subsequently released:

- Illustrative Corporations Act Sustainability Assurance Reports to promote consistent reporting for those entities reporting from 31 December 2025
- ASSA 2025-10 to amend ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* to require the approach for the phasing in of assurance for Group 1, 2 and 3 entities to apply to those entities preparing voluntary

sustainability reports under the *Corporations Act 2001*. The AUASB has also released an updated phasing diagram to capture this change on its Sustainability Assurance webpage.

More information can be found on the AUASB website.