



# Financial reporting considerations in uncertain times

## The impact of recent global uncertainty

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Recent geopolitical developments and broader macroeconomic volatility continue to challenge public sector entities as they deliver essential services, manage budgets and capital programs, and respond to evolving community needs.

Some impacts are immediately visible. For example, increases in fuel and construction costs can potentially affect service delivery and major infrastructure program's budgets, or lead to delays.

Other impacts may initially be less apparent, including changes in supply chains, demand patterns, procurement pricing, capital program delivery, and discount rates used in asset valuations.

These conditions can affect multiple financial reporting areas.

## What public sector entities need to consider

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Financial reporting in uncertain times is not a new consideration for preparers of financial statements. The public sector last considered many of these issues in depth during COVID-19, when entities applied existing requirements to rapidly changing conditions.

With the recent global developments, management should assess how uncertainty affects their entity's financial performance, liquidity, key accounting estimates and judgements, and the internal control environment. They should look beyond headline cost pressures and consider the wider impact this may cause.

This fact sheet highlights financial reporting areas that the current global uncertainty may affect, including:

- valuation of property, plant and equipment
- fair value of financial assets and liabilities
- recoverability of receivables
- provisions, contingencies, and guarantees
- budgetary reporting
- cash flow management
- internal controls and governance
- events after reporting date.

Fact sheet

Across these areas, entities may need to enhance disclosures to help users of financial statements understand how uncertainty has affected the entity's financial position, performance, and key judgements. Clear explanations of assumptions, any uncertainty around estimations, and material changes from prior periods support transparency and informed decision-making.

Elevated uncertainty can also increase the risk of fraud and error. Management should reassess where pressure points may emerge (for example, liquidity constraints, rapidly changing forecasts, or manual workarounds) and confirm that controls and governance keep pace with changing business conditions.

The table below outlines key areas and points to consider.

Key area	What to consider
<p><b>Valuation of property, plant and equipment</b></p> <p>Economic uncertainty may affect both the availability and reliability of valuation inputs. Market volatility, supply chain disruption, and changes in construction and labour costs can reduce observable market evidence and increase reliance on assumptions.</p> <p>These conditions can increase estimation uncertainty and may affect the timing, scope, and quality of valuations, particularly where inputs need to be updated or refreshed more frequently.</p>	<p>For current replacement cost valuations of public infrastructure and specialised buildings, management assesses whether current conditions indicate changes in:</p> <ul style="list-style-type: none"> <li>• replacement costs</li> <li>• asset condition</li> <li>• remaining useful lives.</li> </ul> <p>This includes considering the effect of supply chain disruption, labour and materials availability, and changes in energy and transport costs on pricing inputs. Management also considers whether changes in operating conditions, such as deferred maintenance or altered utilisation, have affected asset service potential or remaining useful lives.</p> <p>For income-based valuations, management revisits:</p> <ul style="list-style-type: none"> <li>• discount rates, including the weighted average cost of capital (WACC)</li> <li>• cash flow forecasts</li> <li>• the impact of economic and financial decisions, including ministerial directions</li> <li>• changes in how resources are prioritised.</li> </ul> <p>Where market data is limited or less reliable, management considers how market participants would assess these conditions using available information, consistent with AASB 13 <i>Fair Value Measurement</i>. Management reviews whether assumptions need to be updated or refreshed more frequently and documents the judgements applied.</p> <p>In doing so, management exercises judgement to distinguish between temporary price volatility and sustained changes in underlying conditions. Short-term volatility, on its own, may not justify changes to long-term assumptions where prices are expected to stabilise. Management focuses on reasonable and supportable inputs that reflect conditions at the reporting date. This includes clearly disclosing key assumptions, how they were determined, and the extent to which outcomes may change if those assumptions differ.</p> <p>For assets measured at cost, management considers whether heightened uncertainty gives rise to impairment indicators in accordance with AASB 136 <i>Impairment of Assets</i>, including adverse changes in demand, margins, discount rates, or the regulatory environment.</p>



Key area	What to consider
<p><b>Fair value of financial assets and liabilities</b></p> <p>Global economic uncertainty, market volatility, and reduced market liquidity can affect the way financial assets and liabilities are priced. Rapid changes in interest rates, credit conditions, and investor risk appetite may reduce observable market evidence and increase reliance on valuation models. These conditions can increase measurement uncertainty and the degree of judgement involved.</p>	<p>Management reviews the assumptions and judgements used in valuation models to ensure they remain reasonable and supportable in current conditions, consistent with AASB 13 <i>Fair Value Measurement</i>. This includes considering whether changes in market conditions affect key inputs such as interest rates, credit spreads, and liquidity assumptions.</p> <p>Management also reassesses whether financial assets and liabilities remain appropriately classified within the fair value hierarchy, particularly where observable inputs become limited or less reliable.</p> <p>For entities that rely on investment portfolios to support long-term borrowings or liquidity needs, management considers the effect of changing market conditions on solvency and going concern assessments.</p>
<p><b>Recoverability of receivables</b></p> <p>Entities may face a higher risk of late payment or non-payment from debtors. This may reflect financial pressure on households, businesses, or other counterparties as economic conditions tighten.</p>	<p>Uncertainty may reduce counterparties' ability to pay on time and increase collection risk across trade receivables, loans, and other financial assets.</p> <p>Using reasonable and supportable forward-looking information, management reassesses whether credit risk has increased significantly. In doing so, management considers:</p> <ul style="list-style-type: none"> <li>• sector and geographic exposure</li> <li>• sanctions or trade restrictions, where relevant</li> <li>• customer concentration and payment history</li> <li>• the effect of higher costs, interest rates, or market disruption on counterparties' cash flows.</li> </ul> <p>Management applies the expected credit loss requirements in AASB 9 <i>Financial Instruments</i>.</p>
<p><b>Provisions, contingencies, and guarantees</b></p> <p>Entities may face increased exposure to provisions, contingent liabilities, and guarantees as economic conditions change, contract performance becomes more uncertain, and counterparty risk increases.</p> <p>These factors may affect whether obligations arise and the amount required to settle them, particularly where arrangements extend over long time frames or involve significant judgement.</p>	<p>Management reassesses whether existing provisions, contingent liabilities, and guarantees remain appropriate in light of current conditions, consistent with AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. In doing so, management considers whether:</p> <ul style="list-style-type: none"> <li>• delays, variations, or renegotiations change the nature, timing, or likelihood of obligations</li> <li>• changes in counterparty behaviour increase the likelihood that guarantees or compensation clauses will be triggered</li> <li>• uncertainty affects the measurement of obligations, particularly for remediation, rehabilitation, and restoration obligations and long-term service or supply contracts.</li> </ul> <p>For these arrangements, management considers whether uncertainty in costs, timing, or delivery outcomes requires updates to key assumptions used in measurement. Management documents significant judgements and ensures disclosures clearly explain estimation uncertainty and material changes from prior periods.</p>



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<p><b>Budgetary reporting</b></p> <p>Economic uncertainty may result in greater variations of budget-to-actual outcomes. Unplanned expenditure, cost escalation, and delays can result in actual costs exceeding original budgets, particularly where input prices increase or additional activities are required to maintain service delivery.</p>	<p>Management reviews budget-to-actual disclosures in accordance with AASB 1055 <i>Budgetary Reporting</i>, with a focus on significant cost overruns and unplanned expenditure. This includes considering whether:</p> <ul style="list-style-type: none"> <li>• actual expenditure exceeds budget due to higher input costs, unplanned activities, or changes required to maintain service delivery</li> <li>• cost increases relate to timing differences, scope changes, or sustained price pressures</li> <li>• approved budgets remain a meaningful benchmark for performance in the current environment.</li> </ul> <p>Where material variances arise, management explains the causes of those variances, rather than their accounting classification, and ensures explanations are clear, entity-specific, and proportionate to the significance of the variance. This includes disclosures that clearly distinguish between external economic factors and internal operational or policy decisions.</p>
<p><b>Cash flow management</b></p> <p>Economic uncertainty can affect an entity's cash flows through changes in demand, input costs, supply chain disruption, and funding conditions. Cash inflows and outflows may become more volatile, with reduced revenue, higher costs, or delays in customer payments affecting short-term liquidity.</p> <p>These risks are generally more relevant for government owned corporations, local governments, and entities that rely on own source revenue to fund operations. Volatile markets may also affect profitability, debt covenant compliance, and dividend capacity.</p>	<p>Management implements practical plans to manage expected cash flow pressure where needed. This may include reducing discretionary spending or securing approvals for funding arrangements. Management also considers future cash requirements and the extent to which investment income supports capital works and ongoing operations.</p> <p>In assessing liquidity, management uses information that is reasonable and supportable, including forward looking analysis that reflects downside scenarios. This typically includes:</p> <ul style="list-style-type: none"> <li>• updated forecasts that reflect downside scenarios</li> <li>• available cash and funding arrangements</li> <li>• key customer and supplier risks.</li> </ul> <p>These assessments also inform the evaluation of going concern, which considers a period of at least 12 months beyond the reporting date, in accordance with AASB 101 <i>Presentation of Financial Statements</i>.</p>
<p><b>Internal controls and governance</b></p> <p>Heightened uncertainty can place pressure on existing controls and governance arrangements. Rapid changes in forecasts, cost pressures, procurement activity, and funding decisions may increase reliance on manual processes, management judgement, and expedited approvals.</p> <p>These conditions can increase the risk of error, override of controls, or inconsistent decision-making if governance does not keep pace with changing circumstances.</p> <p>In an increasingly volatile geopolitical environment, entities may also face heightened cyber security risks that disrupt systems, data integrity, and access to financial information.</p>	<p>Management considers whether internal controls and governance arrangements remain fit for purpose in the current environment. This includes whether:</p> <ul style="list-style-type: none"> <li>• changes in processes, delegations, or approval pathways have altered key controls</li> <li>• increased use of manual workarounds or judgement has heightened the risk of error or inconsistency</li> <li>• roles and responsibilities for key judgements, estimates, and approvals remain clear and appropriately documented</li> <li>• heightened cyber security risks could disrupt financial systems, compromise data integrity, or limit access to systems.</li> </ul> <p>Management also considers whether oversight by executive management and those charged with governance remains effective, particularly where significant assumptions are updated frequently or decisions are made close to reporting deadlines.</p>



Key area	What to consider
<p><b>Events after reporting date</b></p> <p>In periods of heightened uncertainty, geopolitical developments and market movements can escalate quickly.</p> <p>Conditions may change between the reporting date and the date the financial statements are authorised for issue.</p> <p>These changes may have implications for the information presented in the financial statements.</p>	<p>Management considers whether, and to what extent, events occurring after the reporting date require adjustment to, or disclosure in, the financial statements, in accordance with AASB 110 <i>Events after the Reporting Period</i>.</p> <p>This includes assessing whether subsequent events provide evidence of conditions that existed at the reporting date, or represent new conditions arising after year end.</p> <p>Management also considers whether subsequent events affect key judgements and estimates used in preparing the financial statements. In the public sector, there may be a gap between authorisation for issue and tabling or publication of the annual report. Management remains alert to significant events occurring up to publication and considers whether additional disclosure or other communication is needed to ensure users are appropriately informed.</p>





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