



FRR 2G Consolidated Financial Statements and Controlled Entities

INTRODUCTION

Policy items, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

Application Guidance, indicated by plain text under the “Application Guidance” sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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2G.1 CONSOLIDATED FINANCIAL STATEMENTS

REFERENCES

- SAC 1 *Definition of the Reporting Entity (Not-for-Profit agencies only)*
- AASB 10 *Consolidated Financial Statements*
- FRR 2B *Materiality*

POLICY

- Agencies are not to rely on paragraphs 4 and Aus4.1 of AASB 10 to avoid preparing consolidated financial statements. Where an agency has control over another entity, it must, subject to materiality, prepare consolidated financial statements for the agency and all of its controlled entities.
- If an agency is preparing consolidated financial statements under AASB 10, separate columns must be shown for the parent entity and the economic entity (with prior year comparative figures) if there is a material value difference between the parent and economic entity figures. Where the difference between the parent and the economic entity is not material, the financial statements shall disclose parent entity financial statements only.
- Where financial statements are required to be shown for both the parent entity and economic entity, the columns for the parent entity are effectively 'separate financial statements' under AASB 127. In this situation, the cost method is to be used in the separate financial statements of the parent entity in accounting for investments in controlled entities.

APPLICATION GUIDANCE**Control of entities**

Control by one entity over another entity is defined in AASB 10 and requires **all** of the following:

- power over the other entity (refer to paragraphs 10-14, B9 – B54 and IG5 – IG17);
- exposure, or rights, to variable returns from its involvement with the other entity (refer to paragraphs 15-16, B55 – B57 and IG18 – IG19); and
- the ability to use its power over the other entity to affect the quantity of returns it receives from that other entity (refer to paragraphs 17-18, B58 – B72 and IG20- IG24).

Agencies should refer to the extensive material in AASB 10 (cross-referenced above) that explains the meaning of each of these elements. In particular, Appendix E of AASB 10 (i.e. the 'IG' paragraphs) provides guidance in the application of the broad principles specifically for not-for-profit entities. Key points to remember in applying the principles and guidance in AASB 10:

- an agency can gain 'control' over another entity in a variety of ways - 'control' does not require a financial investment in the other entity;
- the focus needs to be on those activities of the other entity that significantly affect the returns that would be obtained (refer to paragraphs B11 – B13);
- whether or not any of the elements exists in a particular scenario is a matter of substance over form (e.g. the legal form/structure of an entity is not itself a determinant);
- in assessing the 'power' element, any rights that exist must be exercisable when decisions need to be made. Further, such rights need to be analysed as either 'substantive' rights (that might provide power to control) or 'protective' rights (that do not provide power to control, for the purposes of AASB 10). Substantial guidance on these concepts is available in paragraphs B22 – B28 and IG13 – IG17;
- the existence of rights over relevant activities needs to be considered relative to the rights of other (potential controlling) entities over the same or different relevant activities;
- the 'returns' must be variable, and can be financial and/or non-financial, positive and/or negative, and direct and/or indirect;

- the circumstances must be analysed to determine whether decision-making rights exist only as an agent for another party (which does not result in control);
- financial dependence of one entity on another does not, in isolation, mean that the former entity is controlled by the other (e.g. private schools and private hospitals that are dependent on government funding are not considered to be 'controlled' by the respective government); and
- determination of the existence of 'control' may be subjective, demanding professional judgement according to the specific facts and circumstances of the situation.

Accounting control and the relationship between departments and statutory bodies.

In most cases, statutory bodies are not controlled by departments. However, there may be instances where a department needs to make an assessment of whether to include a statutory body in its consolidated financial statements.

Identification of 'Individual' and 'Economic' Reporting Entities

The concept of a 'reporting entity' for Not-for-Profit agencies is explained in SAC 1.

For-profit agencies should note that SAC 1 no longer applies to them for reporting periods beginning on or after 1 January 2020, since they meet the new reporting entity definition under the Conceptual Framework (effective for reporting periods beginning on or after 1 January 2020). The preparation of annual external financial statements is required by each reporting entity.

Individual agencies (i.e. individual departments and statutory bodies) will generally be separate reporting entities, regardless of whether or not they report to the same Minister.

The reporting entity concept also recognises the existence of an 'economic entity' which is a group of entities comprising the parent entity and each of its controlled entities. The objective underlying the preparation of financial statements for an 'economic entity' is to provide relevant, reliable and timely financial information about related entities as a single reporting group. The financial statements of an economic entity are also referred to as 'consolidated financial statements'.

Agencies with controlled entities generally prepare Consolidated Financial Statements

Agencies may conduct activities through a variety of administrative and organisational structures, including companies, partnerships, trusts and other administrative structures. The decision as to whether or not such structures should be consolidated, and therefore make up the economic entity, is one of 'control' (rather than ownership) and materiality.

Agencies should refer to FRR 2A, FRR 3A and FRR 4A regarding expectations for Commercialised Business Units and Shared Service Providers.

The individual entities that comprise an economic entity may also be separate reporting entities in their own right. In that situation, the separate reporting entities must prepare their own general purpose financial statements in addition to the consolidated statements.

AASB 10 sets out various requirements to be followed regarding the preparation of consolidated financial statements (refer to paragraphs B86 – B101). Particular attention should be given by agencies to the issues of common reporting dates (refer to paragraphs B92 - B93) and uniform accounting policies (refer to paragraph B87).

AASB 10 allows a parent entity to not present consolidated financial statements if the conditions in paragraphs 4 and Aus4.1 of the standard are met. However, discharge of an agency's accountability obligations is considered to be significantly lessened if agencies use the woG consolidated financial statements as the basis to exempt them from consolidating their own subsidiaries. Therefore, agencies are not permitted to rely on those provisions in AASB 10. For an entity that meets the AASB 10 definition of "investment entity", separate requirements applies – refer to paragraphs 31 – 33 of AASB 10.

Materiality of Controlled Entities – FRR 2B

In the context of consolidated financial statements, assessments about whether there is a material value difference between the parent and economic entity figures should be based on the guidance in FRR 2B about assessing materiality of a controlled entity. Where an agency considers that a controlled entity is immaterial, and therefore does not warrant consolidation, it should refer to the guidance in FRR 2B Materiality for the appropriate basis for assessing materiality in that context.

Consistent Accounting Policies for Economic Entity – Not-for-Profit and For-Profit Conflicts

A not-for-profit government department may be required to consolidate a for-profit company within its consolidated financial statements. As required by law, the parent department and the controlled company each prepare their own financial statements according to available accounting options applicable for certain transactions/balances reflecting their for-profit/not-for-profit status (e.g. the recognition of grant revenue). However, on consolidation of the company's financial statements, the parent adjusts the company's figures for material transactions where the accounting treatment differs to that of the not-for-profit parent.

2G.2 DISCLOSURES ABOUT CONTROLLED ENTITIES

REFERENCES

- AASB 10 *Consolidated Financial Statements*
- AASB 12 *Disclosure of Interests in Other Entities*
- FRR 2B *Materiality*
- Company Financial Reporting in the Queensland Public Sector

POLICY

- A brief description of the agency's interest in each directly and indirectly controlled entity and the basis for such control must be disclosed.
- Summarised information must be disclosed for each directly controlled entity, including:
 - the purpose and brief description of the controlled entity's principal activities; and
 - total assets, total liabilities, total revenue and operating result for the reporting and comparative periods.
- Disclosure must be made of whether or not the controlled entity's transactions and balances have been consolidated with those of the agency and, if not, the reason why they are not consolidated.
- It must be disclosed that the Auditor-General is the auditor of the controlled entities.

APPLICATION GUIDANCE

Directly vs Indirectly Controlled Entities

For the purposes of this policy, a "directly" controlled entity is an entity whose immediate parent is a department or statutory body that prepares financial statements in accordance with these Financial Reporting Requirements. In contrast, an "indirectly" controlled entity is an entity that is controlled by another entity that is, in turn, controlled by a department or statutory body. AASB 12 *Disclosure of Interests in Other Entities* outlines the disclosure requirements regarding all interests in other entities including (but not limited to) controlled entities, joint arrangements and associates.

An agency may include either the financial statements of each controlled entity in its own annual report, or else include in its annual report a statement that the financial statements of such entities may be obtained from the agency or from its internet site.

Company Financial Reporting Policy

Requirements regarding the financial statements of controlled entities themselves are outlined in the policy "Company Financial Reporting in the Queensland Public Sector". This policy is available at: <https://www.treasury.qld.gov.au/resource/company-financial-reporting-queensland-public-sector/>

2G.3 ASSESSMENT OF CONTROL - STATUTORY BODIES AND THEIR EMPLOYING OFFICES

REFERENCES

- *Financial Accountability Act 2009* (FA Act) (s.59)
- *FPMS* (s.39)
- *AASB 10 Consolidated Financial Statements*
- *AASB 12 Disclosures of Interests in Other Entities*

APPLICATION GUIDANCE

Preparation of Financial Statements by an Employing Office as Statutory Body

The employing office of a statutory body is, generally, a statutory body under the FA Act and is required to prepare its own financial statements in compliance with s.39 of the FPMS (unless an exemption is granted by the Treasurer under s.59 of the FA Act).

Employing office generally controlled by statutory body

In Queensland, it is the general policy intent to establish employing offices such that the main functions are to enter into a work performance arrangement with the parent statutory body and to employ staff to perform work for the parent statutory body under a work performance arrangement.

Such a work performance arrangement between legal entities (statutory bodies) constitutes a contractual arrangement that directs the relevant activities of the employing office. To determine whether an employing office is to be consolidated by the parent statutory body it must, first, establish 'control' over the employing office.

Under AASB 10, one entity controls another entity when it is exposed, or has rights, to variable returns from its involvement with that other entity and has the ability to affect those returns through its power over that other entity.

For the purposes of this FRR, in relation to financial reporting by statutory bodies and their employing offices, the employing office will generally be considered to be controlled by the statutory body i.e. the main statutory body is the parent entity of its associated employing office for the purpose of applicable Australian Accounting Standards. In this case, the main statutory body would prepare financial statements that consolidate the employing office i.e. reflecting both the economic entity (incorporating the employing office) and parent entity.

The concept of 'structured entities' is explained in AASB 12 in Appendix B (paragraphs B21 – B24) and Appendix E. The essence of a 'structured entity' is that the relevant activities are directed generally through contractual arrangements. Therefore, it could reasonably be argued that, in most cases, an employing office is a structured entity under AASB 12.

However, there may be instances where the employing office enters into work performance arrangements with another entity, apart from the main statutory body. In this situation, the employing office's circumstances may not give the main statutory body control under AASB 10. In this scenario, the main statutory body would not consolidate its employing office.

It should be noted that the main statutory body and the employing office will be presented as one consolidated entity in Tridata, irrespective of the financial reporting arrangements discussed above.

Transfer of Employees' Entitlements on Establishment of an Employing Office

The transfer of employees' entitlements from the statutory body to the employing office will generally require the transfer of cash, either at the same time or a mutually agreed time. At the date of transfer of employees from the statutory body to the employing office, all employee benefit liabilities accrued up to the date of transfer should be accounted for as follows:

By the Statutory Body -

Derecognise all employee benefit liabilities as at the date of transfer; and either:

- transfer cash to the employing office for the same amount as the transferred employee benefit liabilities; or
- recognise an amount payable to the employing office for the same amount as the transferred employee benefit liabilities.

By the Employing Office -

Recognise employee benefit liabilities transferred from the statutory body; and either:

- recognise the cash received from the statutory body for the same amount as the recognised employee benefit liabilities; or
- if the statutory body recognised an amount payable to the employing office for the same amount as the transferred employee benefit liabilities, the employing office should recognise an equivalent amount receivable from the statutory body at the date of transfer.

Transfer of Assets and Liabilities to Employing Office

For the purpose of this FRR, the transfer of net assets is the transfer of assets and liabilities from the statutory body to the employing office, but excluding:

- employee benefit liabilities; and
- those transfers for which consideration is paid and received in exchange for the provision of assets and liabilities.

The value of net assets transferred from the statutory body to the employing office should not be negative. That is, the value of assets should equal or exceed the value of liabilities transferred from the statutory body to the employing office. The transfer of net assets should be accounted for in accordance with the guidance set out in FRR 4F *Equity, Contributions by Owners and Distributions to Owners*.

Measurement and Recognition

Both the statutory body and the employing office should apply the same measurement and recognition basis for the transfer of net assets. That is, the value of net assets transferred from the statutory body would be equal to the value of net assets recognised by the employing office.

Elimination of Transactions between Employing Office and Statutory Body on Consolidation

In the situations where an employing office is determined to be controlled by a statutory body under AASB 10 *Consolidated Financial Statements*, any transactions entered into during the financial year between the two entities, along with any outstanding balances at the financial year end, will require elimination in the consolidated financial statement.

The following sets out an example of the accounting treatment when the employing office charges fees for services provided to the statutory body under work performance arrangements between the employing office and the statutory body.

Example:

The employing office charges the statutory body for service fees:

Dr	Service Fees Receivable (Asset)	x	
	Cr	Service Fees (Income)	x

Concurrently, the statutory body recognises a liability for service fees:

Dr	Service Fees (Expense)	x	
	Cr	Service Fees Payable (Liability)	x

As a result, the employing office has an amount receivable (service fees receivable) and the statutory body has the equal amount payable (service fees liability).

In preparing the consolidated financial statements for the financial year, the effect of the revenue and expense would be reversed and, to the extent they are outstanding at year end, the receivable and payable recognised.

Amounts and frequency of payments will need to be negotiated by the statutory body and the employing office and at the end of each billing period, the year-to-date total service fees charged to the statutory body (excluding GST) would generally be expected to equal the total year-to-date net costs incurred by the employing office.