

QUEENSLAND TREASURY

Financial Reporting Requirements for Queensland Government Agencies

**For reporting periods beginning
on or after 1 July 2025**

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QUEENSLAND TREASURY

Financial Reporting Requirements for Queensland Government Agencies

CHAPTER 1 – FRR 1A Introduction

**Applicable to 2025/26 or 31 December 2026
Financial Years**

FRR 1A Introduction and Prescribed Accounting Standards

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1.0 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 Chapters 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 Support Centre at fmcsupport@treasury.qld.gov.au.

These FRRs consist of six distinct chapters:

Chapter 1 – This introduction.

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

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

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

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

Chapter 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 to the relevant FRRs, AASB standard or Australian Interpretation as the authority for the accounting treatment or disclosure illustrated.

Chapter 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 to the relevant FRRs, AASB standard or Australian Interpretation, as the authority for the accounting treatment or disclosure illustrated.

2.0 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 Chapters 2-5 when they apply to the 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'.

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.

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 Chapters 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 set 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.

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.

3.0 Australian Accounting Standards Board Pronouncements (based on pronouncements issued as at 31 May 2026)

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.

3.1 Australian Accounting Standards to apply in 2025-26

Refer to the AASB website (<https://standards.aasb.gov.au/accounting-standards>) for clarification of the version of these standards applicable to this financial year.

No.	Standard Title
---	<i>Framework for the Preparation and Presentation of Financial Statements</i> (NFP entities only)
---	<i>Conceptual Framework for Financial Reporting</i> (FP entities only)
AASB 1	<i>First-time Adoption of Australian Accounting Standards</i>
AASB 2	<i>Share-based Payment</i> *
AASB 3	<i>Business Combinations</i>
AASB 4	<i>Insurance Contracts</i>
AASB 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
AASB 6	<i>Exploration for and Evaluation of Mineral Resources</i> *
AASB 7	<i>Financial Instruments: Disclosures</i>
AASB 8	<i>Operating Segments</i> *
AASB 9	<i>Financial Instruments</i>
AASB 10	<i>Consolidated Financial Statements</i>
AASB 11	<i>Joint Arrangements</i>
AASB 12	<i>Disclosure of Interests in Other Entities</i>
AASB 13	<i>Fair Value Measurement</i>
AASB 14	<i>Regulatory Deferral Accounts</i> *
AASB 15	<i>Revenue from Contracts with Customers</i>
AASB 16	<i>Leases</i>
AASB 101	<i>Presentation of Financial Statements</i>
AASB 102	<i>Inventories</i>
AASB 107	<i>Statement of Cash Flows</i>
AASB 108	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
AASB 110	<i>Events after the Reporting Period</i>
AASB 112	<i>Income Taxes</i>
AASB 116	<i>Property, Plant and Equipment</i>
AASB 119	<i>Employee Benefits</i>
AASB 120	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
AASB 121	<i>The Effects of Changes in Foreign Exchange Rates</i>
AASB 123	<i>Borrowing Costs</i>
AASB 124	<i>Related Party Disclosures</i>
AASB 127	<i>Separate Financial Statements</i>
AASB 128	<i>Investments in Associates and Joint Ventures</i>
AASB 129	<i>Financial Reporting in Hyperinflationary Economies</i> *
AASB 132	<i>Financial Instruments: Presentation</i>
AASB 133	<i>Earnings per Share</i> *
AASB 134	<i>Interim Financial Reporting</i> *
AASB 136	<i>Impairment of Assets</i>
AASB 137	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
AASB 138	<i>Intangible Assets</i>
AASB 139	<i>Financial Instruments: Recognition and Measurement</i>

No.	Standard Title
AASB 140	<i>Investment Property</i>
AASB 141	<i>Agriculture</i>
AASB 1004	<i>Contributions</i>
AASB 1023	<i>General Insurance Contracts</i>
AASB 1038	<i>Life Insurance Contracts</i>
AASB 1039	<i>Concise Financial Reports *</i>
AASB 1048	<i>Interpretation of Standards</i>
AASB 1049	<i>Whole of Government and General Government Sector Financial Reporting *</i>
AASB 1050	<i>Administered Items</i>
AASB 1051	<i>Land Under Roads</i>
AASB 1052	<i>Disaggregated Disclosures</i>
AASB 1053	<i>Application of Tiers of Australian Accounting Standards</i>
AASB 1054	<i>Australian Additional Disclosures</i>
AASB 1055	<i>Budgetary Reporting</i>
AASB 1056	<i>Superannuation Entities</i>
AASB 1057	<i>Application of Australian Accounting Standards</i>
AASB 1058	<i>Income of Not-for-Profit Entities</i>
AASB 1059	<i>Service Concession Arrangements: Grantors</i>
AASB 1060	<i>General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</i>

The following *Amendments to Australian Accounting Standards* are effective for the first time in 2025-26:

AASB 2023-5	<i>Lack of Exchangeability</i>
AASB 2024-4	<i>Effective Date of Amendments to AASB 10 and AASB 128</i>
AASB 2026-1	<i>Disclosures about Uncertainties in the Financial Statements</i>

* Not applicable or not relevant to departments and statutory bodies

3.2 AASB Interpretations to apply in 2025-26

Refer to the AASB website (<https://standards.aasb.gov.au/interpretations>) for clarification of the version of these interpretations applicable to this financial year.

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

* Not applicable or not relevant to departments and statutory bodies

3.3 New and amended Accounting Standards and Interpretations that apply to reporting periods beginning on or after 1 January 2026

No.	Title	Effective ¹
AASB 17	<i>Insurance Contracts</i>	1 July 2026
AASB 18	<i>Presentation and Disclosure in Financial Statements</i> ²	1 January 2028
AASB 1061	<i>General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities</i> ³	1 July 2029
AASB 2022-9	<i>Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector</i>	1 July 2026
AASB 2024-2	<i>Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments</i>	1 January 2026
AASB 2024-3	<i>Amendments to Australian Accounting Standards – Annual Improvements Volume 11</i>	1 January 2026
AASB 2025-1	<i>Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity</i>	1 January 2026
AASB 2025-2	<i>Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments: Tier 2 Disclosures</i>	1 January 2026
AASB 2025-3	<i>Amendments to Australian Accounting Standards – Contracts Referencing Nature-dependent Electricity: Tier 2 Disclosures</i>	1 January 2026
AASB 2025-4	<i>Amendments to Australian Accounting Standards – Translation to a Hyperinflationary Presentation Currency</i>	1 January 2027
AASB 2026-2	<i>Amendments to Australian Accounting Standards – Extending the Application of the Conceptual Framework and Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements</i>	1 July 2029

¹ For annual reporting periods beginning on or after this date

² AASB 18's effective date is 1 January 2027 for **for-profit** entities and 1 January 2028 for **not-for-profit** entities

³ Not applicable or not relevant to departments and statutory bodies

4.0 Significant Impacts on 2026-27 and Later Reporting Periods

4.1 AASB 17 Insurance Contracts

AASB 17 *Insurance Contracts* should be read in conjunction with amending standard AASB 2022-9. The effective date of AASB 17 for public sector entities is **1 July 2026**. AASB 17 will combine existing insurance standards (AASB 4, AASB 1023 & AASB 1038) into one standard.

On transition, the standard is to be applied retrospectively with restatement of comparative opening balances (i.e. 1 July 2025 balances).

Agencies who already apply AASB 1023 to insurance activities should review the new standard to familiarise with the new requirements. Ahead of AASB 17's commencement, agencies should discuss with the State Actuary's Office regarding any changes to measurement of existing insurance balances, and obtaining any additional information for disclosure.

In 2025-26, agencies with material insurance contracts should consider what disclosures are required in their 2025-26 financial statements to comply with AASB 108 para 30-31.

Agencies who have 'insurance-like arrangements' and do not currently apply AASB 1023 are encouraged to read paragraphs Aus6.1, Aus6.2 and Appendix E in AASB 2022-9 and assess whether their activities would fall under the new AASB 17 or remain under another Standard (e.g. AASB 137). Agencies should immediately consult Queensland Treasury's Accounting Policy team if activities not currently reported as insurance are identified that may fall within the scope of AASB 17. Further consultation with the State Actuary's Office and whole-of-Government reporting team will be required if AASB 17 is confirmed to apply.

4.2 AASB 18 Presentation and Disclosure in Financial Statements

AASB 18 *Presentation and Disclosure in Financial Statements* is effective for **not-for-profit** entities from **1 January 2028** (2028-29 financial year) and for **for-profit** entities from **1 January 2027** (2027-28 financial year).

The AASB's Exposure Draft ED 338 released in October 2025 proposes to give not-for-profit public sector entities the choice to not apply most of the new requirements of AASB 18. Treasury will perform further analysis and make any policy decisions needed once the amending standard is issued.

AASB 18's changes will only affect presentation and disclosure - predominantly through revisions to the layout of the income statement - it will not affect the recognition or measurement of any reported amounts.

5.0 Climate-Related Risks and Financial Reporting

5.1 Current Treasury Position for 2025/26

Agencies should refer to directions from the Under Treasurer in July 2025 and the FMC Website regarding reporting of selected Greenhouse Gas Emissions to Queensland Treasury solely for the purposes of WOG reporting.

No disclosure in 2025/26 financial statements is required in relation to agency GHG emissions.

For the 2025/26 reporting period, agencies **must not**:

- publish any sustainability or climate reports without first consulting Queensland Treasury;
- early adopt sustainability standards issued by the Australian Accounting Standards Board or other international sustainability/climate frameworks by other global organisations. (see section 5.2)

For-profit statutory bodies with a commercial imperative to report climate or sustainability related information (extending beyond current year accounting estimate and judgement impacts in their financial statements) ahead of future sustainability disclosure standards having mandatory application to the public sector should contact Queensland Treasury in the first instance to discuss their circumstances before publishing such information.

Agencies consolidated into whole-of-Government reporting should refer financial statement users to the whole-of-Government Queensland Sustainability Report and Queensland climate change website (see section 5.3).

Agencies may still need to make climate-related risk disclosures in their financial statements if accounting estimates and judgments are impacted by climate related risks (see section 5.4).

5.2 Status of Sustainability Reporting in Australia

A phased introduction of Australian Sustainability Reporting Standards (ASRS) to entities incorporated under the Commonwealth *Corporations Act 2001* will commence for financial years commencing on or after 1 January 2025 (i.e. 30 June 2026 financial years).

Departments and statutory bodies are not incorporated under the Commonwealth Corporations Act and the Commonwealth's proposed implementation timetable/framework for sustainability reporting do not apply to you, unless directed by Queensland Treasury.

Furthermore, the Commonwealth's proposed public sector sustainability reporting requirements only apply to Commonwealth public sector agencies, not to Queensland Government agencies.

No sustainability reporting is required by departments and statutory bodies for the 2025/26 financial reporting period and agencies are NOT to voluntarily adopt AASB sustainability standards.

Agencies should instead refer financial statement users to the whole-of-Government *Queensland Sustainability Report* (<https://www.treasury.qld.gov.au/research-and-publications/reports/queensland-sustainability-report/>) and *Queensland climate-related policies and publications* via <https://www.treasury.qld.gov.au/policies-and-programs/climate/>

5.3 Queensland Sustainability Report and Climate-related Policies

The *Queensland Sustainability Report (QSR)* outlines the Queensland Government's approach to managing key Environmental, Social and Governance (ESG) risks and opportunities, including governance structures, major commitments and policies, and how these risks and opportunities are measured, monitored and managed across government. The QSR is supported by comprehensive datasets and data dictionaries. The QSR is available at <https://www.treasury.qld.gov.au/programs-and-policies/queensland-sustainability-report/>.

Department and statutory bodies consolidated into the whole-of-Government financial statements should reference the QSR in their financial statement notes as illustrated in Note G6 in the *Sunshine Department Illustrative Financial Statements* (FRR 6A).

Agencies should also be aware that, in a public sector environment, climate-related policies of Government will change over time arising from changes in government policy, new and emerging scientific data, regulatory trends/requirements and technological developments.

Agencies can currently access the latest available information via <https://www.treasury.qld.gov.au/policies-and-programs/climate/> and <https://www.treasury.qld.gov.au/policies-and-programs/energy/> along with other information broadcasts from time to time issued by Queensland Treasury relevant to agency financial reporting.

5.4 Agency Response to Climate-related Risks in Financial Statements

As a precursor to the development of Australian specific sustainability reporting standards, the Australian Accounting Standards Board and Australian Auditing Standards Board issued (in April 2019) a joint discussion paper highlighting 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. (https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_Finished.pdf)

This reflects the requirements of AASB 101 (specifically paragraphs 122 and 125). Consequently, although ASRS standards do not yet have mandatory applicability to Queensland public sector agencies, some agencies may need to make climate-related risk disclosures in their financial statements if current accounting estimates and judgments are materially impacted by climate related risks.

Material Climate Risks Already Identified Publicly in External Publications

Material climate-related risks directly applicable to an individual agency may be already communicated publicly by Government. Where this is the case, agencies should explain how those material climate risks affect estimates and judgements in their financial statements.

Potential areas to consider include:

- Initiatives arising from any Queensland Government policy that may impact financial reporting by agencies if they affect accounting estimates and judgements made in preparing their financial statements.
- Material climate-related risks already identified publicly on the agency's website or in their annual report.
- Other official Cabinet or Ministerial statements on climate-related risks directly impacting an agency.

To evaluate whether any financial statement disclosure may be required, agencies should assess to what extent these initiatives impact their operations and activities in a quantifiable way. 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 **directly 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 judgement calculations**.

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

- generic, non-agency discussion on climate related risks or the agency's general overall approach to managing climate-related risks – these belong outside the financial statements either in the annual report or other publications.
- disclosures that are contradictory to Government policy/frameworks, particularly in relation to the whole-of-Government publications mentioned in section 5.3.
- disclosures that cannot be verified by external audit.
- disclosures that are merely speculative or irrelevant (and therefore meaningless) for financial statement users.
- disclosures containing judgements and estimates that have not been endorsed by the appropriate level of KMP.

Recommended 5 Step 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. Queensland Treasury suggest the following 5 steps when approaching this topic:

- *Step 1* – Familiarise yourself with the Queensland Government climate publications (outlined in section 5.3) along with any specific Government directives applicable 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 in relation to your financial statements (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. Agencies operating in specific industries/sectors 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.

Illustrative Disclosure in FRR 6A “Sunshine Statements”

The illustrative disclosures in Note G6 of FRR 6A are intended to assist agencies in approaching material climate related risks that directly impact current accounting estimates and judgements.

Some statutory bodies under the *Financial Accountability Act 2009* are NOT CONTROLLED for accounting purposes by the State AND NOT CONSOLIDATED into whole-of-Government reporting. These statutory bodies will need to tailor the paragraph on whole-of-Government climate-related reporting in Note G6 to reflect their particular circumstances and disclose climate-related risks and policy responses specific to their agency as applicable.

QUEENSLAND TREASURY

Financial Reporting Requirements for Queensland Government Agencies

CHAPTER 2 – FRR 2A to FRR 2I

**Applicable to 2025/26 or 31 December 2026
Financial Years**

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FRR 2A Basis of Financial Statement Preparation

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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2A.1 APPLICATION OF FINANCIAL REPORTING REQUIREMENTS

REFERENCES

- *Financial Accountability Act 2009* (FA Act) (s59, s62)
- FPMS s38(2), s39(2)

POLICY

- **Each department must comply with all of the Minimum Reporting Requirements in Chapters 2 to 5 of the Financial Reporting Requirements.**
- **A statutory body complies with s.39(2) of the FPMS by:**
 - (i) **considering the Minimum Reporting Requirements (included in Chapters 2 to 5 of the Financial Reporting Requirements); and**
 - (ii) **deciding whether the contents of the Minimum Reporting Requirements apply in the circumstances; and**
 - (iii) **where applicable in the circumstances, applying the contents of the Minimum Reporting Requirements.**
- **In addition to the Minimum Reporting Requirements, all agencies must comply with all relevant requirements of Australian Accounting Standards and Interpretations.**

APPLICATION GUIDANCE

Section 62(1) of the FA Act requires each accountable officer and each statutory body (as the case may be) to prepare annual general purpose financial statements in accordance with the 'prescribed requirements'. The 'prescribed requirements' include 'prescribed accounting standards' as defined in s.59(6) of the FA Act; and the minimum reporting requirements (i.e. the mandatory policies in Chapters 2-5) included in the FRRs (s.38(2) and s.39(2) of the FPMS).

Prescribed Accounting Standards

The 'prescribed accounting standards' include the following documents published by the AASB:

- Framework for the Preparation and Presentation of Financial Statements (FPP);
- Conceptual Framework for Financial Reporting (CF);
- Statements of Accounting Concepts (SACs);
- Australian Accounting Standards; and
- Interpretations.

Statutory Bodies – compliance with the MRRS

While all of the MRRs are mandatory for departments, statutory bodies comply with the MRRs and, by extension, the contents of the FRRs by applying the contents to the extent they are applicable and relevant to their circumstances. Example: FRR 2E *Controlled and Administered Items, Trust Transactions and Agency Arrangements* contains MRRs relating to Administered transactions and balances which are only applicable to departments. Similarly, FRR 3B *Income* contains MRRs that deal with appropriations received by departments that are not applicable or relevant to a statutory body.

Intent of FRRs – Not to replace Accounting Standards

The FRRs are intended to be used by agencies in conjunction with and not as a replacement for reference to Accounting Standards, Interpretations and the *Framework for the Preparation and Presentation of Financial Statements*. **The FRRs cannot therefore be used in isolation by agencies in preparing their annual financial statements.** Where a particular agency is subject to financial statement requirements issued under an alternative authority, those requirements should be regarded as additional to the FRR requirements, unless there is a specific arrangement to the contrary.

Chapter 1 *Introduction and Prescribed Accounting Standards* lists the Australian Accounting Standards Board (AASB) Pronouncements (accounting standards and interpretations) that have been issued as at date indicated. Agencies should ensure that they monitor developments of the AASB for new and amended accounting standards and interpretations issued subsequent to that date that may need to be addressed in the financial statements of the current reporting period.

2A.2 DETERMINATION OF FOR-PROFIT OR NOT-FOR-PROFIT AGENCIES

REFERENCES

- Framework for the Preparation and Presentation of Financial Statements (FPPFS)
- Conceptual Framework for Financial Reporting (CF)
- AASB 136 *Impairment of Assets*

APPLICATION GUIDANCE

The determination of whether an agency is for-profit or not-for-profit is significant as it has implications for the accounting treatments that apply to that agency and the policies it can adopt.

Definition of Not-for-Profit Entity

A not-for-profit entity is defined as one whose principal objective is not the generation of a profit (AASB 136 *Impairment of Assets*, paragraph Aus6.2). A not-for-profit entity can be a single entity or a group of entities comprising the parent and each of the entities that it controls.

A for-profit entity is not defined in the Australian Accounting Standards but, by implication, is any entity that does not meet the definition of a not-for-profit entity i.e. an entity whose principal objective is to generate a profit. For the purposes of this guidance, the term 'principal objective' can also mean 'main objective' or 'sole objective'.

Assessment of an Agency's Classification

When assessing an agency's classification, management must:

- base the classification on a consideration of all available evidence;
- exercise professional judgement in identifying the principal objective of the agency;
- consider the overall substance of the purpose and function of the agency;
- document the process and the evidence that supports an agency's classification as for profit or not-for-profit; and
- review the classification when there is a change in the operations or focus of the agency that may indicate that the agency has changed its objective regarding profitability.

Criteria for Distinguishing between Not-For-Profit and For-Profit Agencies

There is generally no single factor or criterion that can conclusively determine the status of an agency. An agency will be a for-profit agency if it meets both of the following criteria:

- the legislation (including subordinate legislation) and/or Constitution establishing the agency states that the agency's principal objective is the generation of a profit/surplus; and

- any profit/surplus generated is available to be distributed to 'State' owners.

Although an agency may not meet the above criteria, there may be instances where other evidence or indicators exist that will combine to determine the classification of the agency as a 'for-profit'. The following may be indicators that an agency is for-profit.

- the substance of the agency's enabling legislation/constitution is that the primary objective is the generation of profit;
- the intention of the owners is to realise a financial return on their investment through the distribution of profits made by the agency (as opposed to a surplus being only available for reinvestment in the agency);
- the agency's business model is designed and operates with the primary objective being the generation of profit;
- the strategic and operational plans of the agency have objectives that reflect the intention to make a profit;
- the governance framework under which the agency operates indicates it is for-profit;
- the agency relies substantially on own sourced revenue to cover its operating and financing costs;
- the agency is classified for Government Finance Statistics purposes as belonging to either the Public Financial or Public Non-Financial Sector; and
- payments of income tax equivalents and/or dividends.

These indicators are not listed in any order of priority. These indicators should be considered together when assessing the classification of an agency. One indicator in isolation will not be sufficient to conclude that an agency is for-profit or not-for-profit. Professional judgement must be used in making the assessment and each factor must be considered in light of contrary and complementary evidence arising from a consideration of all relevant factors.

A conclusion that an agency is for-profit or not-for-profit would include a number of these factors which provide strong evidence that the overall intention or objective of the agency is to make a profit or plan to be profitable in the future. The requirement to conduct an agency's activities with the objective of having 'a commercial focus' or 'be financially viable' so that its operations are efficiently conducted is not, in itself, sufficient to classify an agency as for-profit, particularly if there is no requirement or intention to generate a profit¹.

¹ References to "generation of profit" will also apply where, even though the long-term aim is the generation of profit, the entity generates loss or breakeven positions in the medium term.

Departments and Not-for-Profit Status

Queensland government departments are generally not instituted for the principal purpose of profit generation. For that reason, by default, government departments are considered to be not-for-profit agencies.

Statutory Bodies and Not-for-Profit Status

Generally, statutory bodies are not principally established to generate a profit, and therefore by default are not-for-profit. It is incumbent on the statutory body to make the case to be classified as a for-profit agency.

While overarching legislation provides invaluable assistance in determining the status of agencies, the determination of whether an agency is not-for-profit or for-profit will require, at minimum, a review of the legislation under which the agency was formed. Reference should also be made to the agency's strategic plan and other relevant corporate documents. It is generally accepted that statutory bodies are constituted to provide a particular service for the community. These bodies generally operate on a break-even basis, with any surpluses going back into the statutory body to provide further services.

Companies Controlled by Departments and Statutory Bodies

Companies are generally established to allow a particular function to operate independently. Reference would need to be made to the company's Constitution, shareholder resolutions and/or other corporate documents in order to determine its principal objective and therefore its for-profit or not-for-profit status.

2A.3 NEW AGENCIES

REFERENCES

- FA Act (s62)
- FPMS (s40, s49)
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*
- FRR 2F *Machinery-of-Government Changes*
- FRR 4F *Equity, Contributions by Owners and Distributions to Owners*

POLICY

- **New agencies must include in their first financial statements the authority for the establishment of the agency (e.g. Public Service Departmental Arrangements Notice No. x or legislative instrument).**
- **If a material error is identified in respect of assets or liabilities transferred from another Queensland Government agency, and that error arose from that transferor's accounting treatment, the new agency must recognise the error by making an adjustment against the Contributed Equity account "Non-appropriated Equity".**

APPLICATION GUIDANCE

All agencies must comply with applicable provisions regarding annual reports and financial statements for new agencies under the FA Act and FPMS.

For both new departments and new statutory bodies, s.40 of the FPMS provides that if the beginning of the first reporting period is within four months of the end of a financial year, an approval can be sought from the Treasurer for the first financial statements to be prepared for a period to the end of financial year following the year in which the agency was established. A request for the Treasurer's approval will, in most cases, only be supported where a small number of immaterial transactions have occurred prior to the end of the first financial year.

New agencies must be aware that they may be subject (in their first set of financial statements) to certain new/amended standards that already-established agencies are not yet subject to – based on the effective date of those standards. This is due to the fact that many new/amended standards apply to reporting periods beginning on or after 1 January, and so may apply to the first set of financial statements of new agencies.

2A.4 ABOLISHED AGENCIES

REFERENCES

- FA Act s62
- FPMS (s.44-45)
- Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*
- FRR 2F *Machinery-of-Government Changes*
- FRR 4F *Equity, Contributions by Owners and Distributions to Owners*

POLICY

- **Abolished agencies must include in their final financial statements:**
 - **the authority for the abolition of the agency (e.g. Public Service Departmental Arrangements Notice No. x or legislative instrument);**
 - **regarding comparative figures, clarification of the period covered by the final financial statements; and**
 - **whether or not the going concern basis has been used, and the reason(s) for that approach.**

APPLICATION GUIDANCE

All agencies must comply with applicable provisions regarding annual reports and financial statements for abolished agencies under the FA Act and FPMS. Abolished agencies are to follow the requirements of FRR 2D when preparing their final financial statements.

An abolished agency's final financial statements should show asset, liability and equity balances immediately before the transfer. Comprehensive note disclosure should be included outlining the circumstances of the transfer, and that the transfers of assets and liabilities subsequently took place. The Sunshine Department Illustrative Financial Statements and other FRRs may contain additional example disclosures to assist agencies in preparing their final financial statements.

Abolished agencies should contact their external audit manager to agree audit timeframes for the final financial statements as soon as practicable. After abolition, the agency will no longer produce general purpose financial statements (the transferee/receiving agency's financial statements will reflect the transfer).

For the purposes of their obligations regarding final financial statements and annual reports, the FPMS enables the Treasurer to designate an alternate person if the former Minister, accountable officer, chairperson and/or chief finance officer are not available to undertake those obligations. Generally, Treasury will seek, on behalf of the abolished agency, the Treasurer's approval for designating the alternate person to undertake those obligations.

Material errors relating to the value of assets and/or liabilities transferred from an abolished agency are identified after finalisation of that agency's final financial statements, they are dealt with by the recipient of the transferred items. Refer to FRR 2F *Machinery-of-Government Changes*.

2A.5 DIFFERENTIAL REPORTING FRAMEWORK

REFERENCES

- FA Act (s62)
- FPMS (Part 3)
- AASB 101 *Presentation of Financial Statements*
- AASB 1053 *Application of Tiers of Australian Accounting Standards*

POLICY

- **All departments and those statutory bodies consolidated into the woG financial statements are required to apply Tier 1 reporting requirements.**
- **Those statutory bodies not consolidated into the woG financial statements (i.e. not collated in Tridata – the woG financial management system) may apply Tier 2 reporting requirements. However, such statutory bodies are free to choose to continue to apply Tier 1 reporting requirements.**

APPLICATION GUIDANCE

AASB 1053 establishes two tiers of reporting requirements in Australia. Tier 1 comprises the full range of recognition, measurement and disclosure requirements of all Australian Accounting Standards and Interpretations. Tier 2 comprises the same recognition and measurement requirements as in Tier 1, but with substantially less disclosure.

In respect of public sectors, Australian Government and State, Territory and Local Governments **must** comply with Tier 1 requirements.

All other public sector agencies may adopt Tier 1 or 2 requirements for their general purpose financial statements as directed by the applicable 'regulator' (which is Queensland Treasury for Queensland public sector agencies). FRR 2D *Form and Content of Financial Statements* outlines the financial statement inclusions under each tier of the differential reporting framework.

Universities apply the Commonwealth Government Financial Statement Guidelines

Although universities meet the definition of a "statutory body" under s.9 of the FA Act, they are not consolidated into Queensland's woG financial statements. Under current Queensland Treasury directives, universities must comply with the requirements of the Commonwealth Government Financial Statement Guidelines available from the Commonwealth Education Department: <https://www.education.gov.au/higher-education-publications/financial-statement-guidelines>).

2A.6 REPORTING FOR COMMERCIALISED BUSINESS UNITS (CBUs) AND SHARED SERVICE PROVIDERS (SSPs)

REFERENCES

- AASB 1052 *Disaggregated Disclosures*

POLICY

- **Commercialised Business Units (CBUs) and Shared Service Providers (SSPs) are NOT separate reporting entities for the purposes of accounting standards.**
- **Each CBU and SSP must be included in a separate column in the Statement of Comprehensive Income by Major Departmental Services, CBUs and SSPs and the Statement of Assets and Liabilities by Major Departmental Services, CBUs and SSPs.**
- **AASB 8 *Operating Segments* is not applicable to CBUs of an agency as they form part of the agency (whether or not the CBUs are for-profit).**

APPLICATION GUIDANCE

Under relevant business arrangements, CBUs and SSPs form part of their parent department's general purpose financial statements. In accordance with AASB 1052, the complete set of financial statements of the parent department hosting a CBU and/or SSP will include, at a minimum:

- a summary of the department's objectives;

- disclosure of the identity, nature and purpose of each CBU and SSP; and
- for the separate columns of each CBU/SSP, the same line items/levels of classifications used in the department's Statement of Comprehensive Income (refer to FRR 3A *Statement of Financial Performance*); and Statement of Financial Position (refer to FRR 4A *Statement of Financial Position*).

Cash flow information is not required from CBUs and SSPs under this policy.



FRR 2B Materiality

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.

Illustrative Examples demonstrate the application of the FRR policy items to hypothetical scenarios.

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2B.1 AASB PRACTICE STATEMENT ON MATERIALITY

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements (FPPF)*
- *Conceptual Framework (CF)*
- *SAC 1 Definition of the Reporting Entity*
- *AASB Practice Statement 2: Making Materiality Judgements*
- *AASB 101 Presentation of Financial Statements*
- *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*
- *Auditing Standard ASA 320 Materiality in Planning and Performing an Audit*

POLICY

- **The overarching concepts of the Framework, AASB Practice Statement 2: *Making Materiality Judgements* and the Application Guidance below must be taken into account in the preparation of agency annual financial statements.**

APPLICATION GUIDANCE

Application of the AASB Practice Statement: Making Materiality Judgements

This FRR is aimed at assisting agencies apply the materiality framework established in Practice Statement 2. Agencies should note the Practice Statement is not an Australian Accounting Standard. Rather, the application requirements of the Practice Statement mean entities are required to consider its application when making materiality judgements that are required under applicable Accounting Standards. In the absence of other authoritative publications, Treasury expects Queensland Government Agencies will follow the guidance contained in Practice Statement 2 when making materiality judgements, unless specific guidance is otherwise contained within this or another Financial Reporting Requirement (FRR) issued by Queensland Treasury.

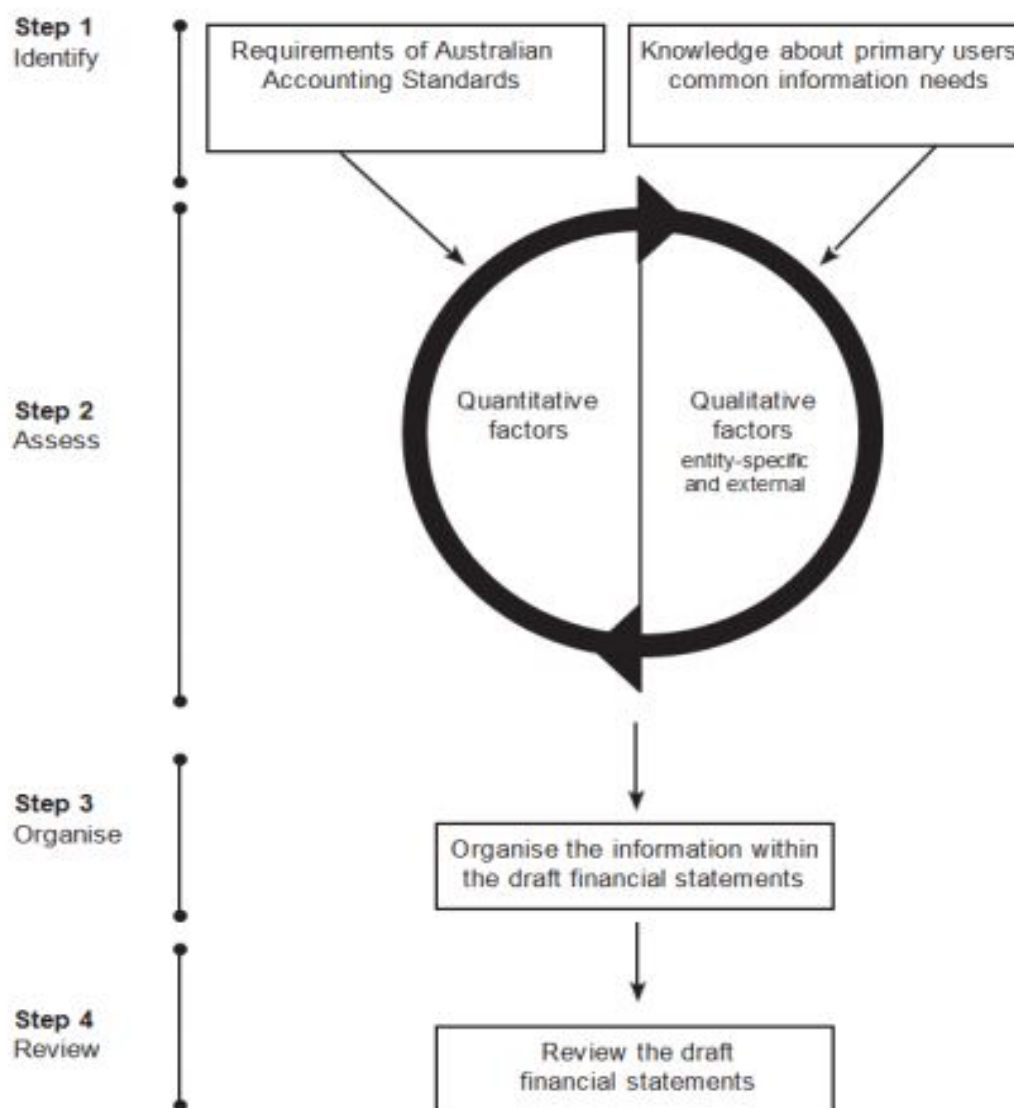
Making Materiality Judgements – Overview of the Materiality Process

The AASB Practice Statement on materiality contains a four-step illustrative process as part of the guidance that describes how an entity could assess whether information is material for the purposes of recognition, measurement, presentation and disclosure. Although this is considered guidance within the Practice Statement, and paragraph 30 notes this is one possible way to make materiality judgements, it does incorporate all of the factors an entity should consider when

making materiality judgements and the requirements an entity must apply to comply with Accounting Standards.

Paragraph 34 – AASB Practice Statement 2: Making Materiality Judgements

Diagram—the four-step materiality process



Materiality in the Context of Financial Reporting

Unless there is an explicit statement that disallows it, materiality is an overarching principle that applies to the preparation of financial statements and the application of Australian Accounting Standards, Australian Interpretations and accounting/reporting policies (including the Financial Reporting Requirements and Non-Current Asset Policies).

It is not possible to specify a blanket or uniform quantitative threshold for materiality or predetermine what could be material in a particular situation. Materiality is an entity-specific assessment and is both quantitative and qualitative in nature.

Identifying Primary Financial Statement Users: Not-for-Profit Agencies

Not-for-profit agencies should be aware of a broader range of primary users and the fact their resource allocation/decision making process may differ compared to a for-profit entity. (refer to paragraphs Aus13.1 and Aus18.1 of the Practice Statement, and paragraphs AusOB2.1 and AusOB3.1 of the Framework)

Quantitative and Qualitative Considerations

Materiality is a matter of professional judgement on quantitative and/or qualitative grounds and demands a complete understanding of the specific facts and broader context/circumstances. Quantitative grounds are applicable to transactions and balances (and adjustments thereto) that are expressed in dollar terms. Other (e.g. narrative) information disclosed in notes that accompany the financial statements is generally more appropriately assessed based on its nature. However, where an assessment based on either of those bases is inconclusive, it is usually necessary to make a judgement from both perspectives overall.

Quantitative Aspects (Amount)

Paragraphs Aus45.1 to Aus45.3 of the Practice Statement identify that not-for-profit entities are primarily concerned with the achievement of objectives (i.e. service delivery) other than the generation of profit. Consequently, not-for-profit entities will typically assess materiality using a base other than profitability. Common examples of alternatives bases include total revenue, total expenses, total assets and net assets.

Having regard to the need to consider the effect of cumulative materiality judgements (refer to FRR 2B.2), but when determining whether a transaction/balance/error/adjustment is material on quantitative grounds, the following comparisons (whichever apply) may provide a useful and reasonable starting point for agencies in the decision making process:

- for amounts that would be reported in the Statement of Comprehensive Income, compare to the more appropriate of the following amounts for the relevant reporting period:
 - the line item in which the amount would be included; or
 - total income or total expenses (as applicable); or
 - operating result (as applicable).

- for amounts that would be reported in the Statement of Financial Position/Balance Sheet, compare to the more appropriate of the following amounts for the relevant reporting period:
 - the line item in which the amount would be included; or
 - total assets, total liabilities or total equity (as applicable).
- for amounts that would be reported in the Statement of Cash Flows, compare to the more appropriate of the following amounts for the relevant reporting period:
 - the line item in which the amount would be included; or
 - total inflows or total outflows (as applicable) for the relevant cash flow category (i.e. operating/investing/financing); or
 - net cash provided by/used in the relevant cash flow category (i.e. operating/investing/financing).
- for amounts that would be reported only in the Statement of Changes in Equity, compare to the total of the line item in which the amount would be included in for the relevant reporting period. For amounts also reported in the Statement of Comprehensive Income, it will be necessary to refer to the relevant comparator within that statement.

Agencies should be alert to items/amounts/comparators for the current reporting period that are considered to be distorted by one or more transactions/events (e.g. due to their amounts being unusually high or low, or amounts being recognised in an irregular pattern across financial years). In such cases, it may be necessary to adjust the materiality calculation for the distortion to obtain a more reasonable and appropriate result.

When assessing materiality, not-for-profit agencies may also need to consider 'directly related' items as part of making materiality judgements. For example: interest expense to relevant borrowings or depreciation/amortisation to related assets. Such a comparison may suggest that interest or depreciation expense is material if its amount is much lower (or higher) than expected, having regard to the relevant asset/liability balance and applicable interest/depreciation rates.

Qualitative Aspects (Nature)

Qualitative factors are factors that, if present, make information more likely to influence the decisions of the primary users of the entity's financial statements irrespective of their amount. The presence of a qualitative factor lowers the thresholds for the quantitative assessment of the particular materiality judgement being made. The more significant the qualitative factors, the lower the quantitative threshold will be. In some circumstances, qualitative factors may be so significant that the quantitative threshold for a particular type of transaction is reduced to zero.

Where the item is information in a narrative/non-numerical form and/or does not impact on reported financial statement figures, materiality will require assessment based on the nature of the transaction/balance/information.

Not-for-profit public sector agencies are primarily concerned with the achievement of organisational and governmental objectives (such as service delivery) rather than the generation of profit. Therefore, where the nature of a particular transaction, balance or narrative disclosure is important for the discharge of accountability or transparency, the nature of the item is likely to be material.

Consideration of the “nature” usually relates to whether the information would be of public interest such as:

- transactions between an agency and other entities/people who have a fiduciary responsibility in relation to that agency;
- restrictions on powers and operations of an agency that significantly affect the risks and uncertainties associated with the item concerned;
- substantial changes in the functions of an agency, affecting its risks and opportunities;
- potential breaches of legislative or contractual obligations;
- significant post-balance date events; and
- special payments, or losses of assets.

The FRRs set out a number of individual items that must be disclosed in the financial statements on this basis – e.g. key management personnel compensation disclosure at the position level, losses and special payments. The quantitative materiality threshold would be significantly reduced (or potentially zero) for these items. There may be other items unique to certain agencies that warrant disclosure due to their nature, so agencies should use their judgement as to the public interest in the separate disclosure of such items.

Interaction of Quantitative and Qualitative Factors

As illustrated in the AASB Practice Statement and process diagram, qualitative and quantitative factors are interactive and a quantitative assessment alone is not always sufficient to conclude that an item of information is not material. Therefore, when quantitative judgments of materiality

indicate a transaction, balance, or adjustment is not material to the financial statement as a whole, an assessment of qualitative factors would also be made to ensure the appropriateness of that conclusion.

2B.2 MATERIALITY STRATEGY

REFERENCES

- AASB Practice Statement 2: *Making Materiality Judgements*

APPLICATION GUIDANCE

Making materiality judgements - determining and documenting materiality

For the purposes of financial statement preparation, agencies will need to determine and document (early in the financial year) a materiality strategy to be used by the agency.

In setting the materiality strategy, agencies should discuss with external audit and understand the materiality levels established by the auditors and how they will be applied in the context of the audit. However, agencies should not simply adopt the materiality levels used by audit. **Materiality set by the agency is expected to be lower than that set by the auditors.**

This materiality strategy should be endorsed by the Audit Committee (or equivalent management body that oversees the financial statement process) and would be expected to include, at a minimum, the following assessments:

- The materiality levels for the agency as a whole and each individual financial statement;
- The materiality to be applied to a department's administered transactions/balances, noting the reporting requirements for such transactions under the FRRs. Consequently:
 - Where administered transactions are disclosed as separate statements, a separate materiality threshold would be determined for the controlled and administered financial statements;
 - Where administered transactions are disclosed as a note within the controlled financial statements, agency judgement will be required as to whether a separate materiality threshold is required for those administered disclosures.
- Where applicable, materiality considerations for the valuation of property, plant and equipment where such balances are disproportionately larger than revenues and expenses

reported in the operating statement and any revaluation adjustments will only impact the balance sheet of the agency. (N.B. where revaluation amounts are reported in profit or loss / operating result, it will be necessary to apply the thresholds determined for the Statement of Comprehensive Income and/or overall financial statement materiality against those transactions).

- Materiality thresholds for disclosures that are qualitatively material such as:
 - *Compliance with laws/regulations (e.g. losses/special payments under the FPMS or other legislative impacts on the agency);*
 - *Related party transactions and Key Management Personnel remuneration;*
 - *Other sensitive transactions/balances or disclosures.*
- Other thresholds/benchmark judgements (as appropriate). For example, agencies may identify individual assets within an asset class that need not be revalued because they are immaterial to the class of asset. Agencies should document the basis for that decision and its interaction with other materiality judgements.

In addition to the materiality assessments, an effective materiality strategy identifies:

- the anticipated primary users of the agency's financial statements;
- the expected information needs of those users, according to the agency's activities and the relevance of transactions/balances to those anticipated users (SAC 1 and the Framework may provide some guidance in this respect);
- tolerable (quantitative) limits the entity will use to record unadjusted items in a register for facilitate an assessment of the cumulative impact of these individual immateriality judgements, which should be tabled by management when the audit committee approves the financial statements;
- approaches for dealing with comparators for the current reporting period that are considered to be distorted by one or more transactions/events (e.g. due to their amounts being unusually high or low, or amounts being recognised in an irregular pattern across financial years). In assessing materiality under those circumstances, agencies should consider the appropriateness of either excluding unusual transactions/balances from the relevant current year comparator, or calculating a new comparator figure based on an average over a number of past reporting periods;

- the areas in the financial statements that are likely to require a greater level of disclosure and determining which areas will require the greatest (or possibly the least) effort in preparing workpapers/documentation to support the financial statements; and
- the way the above factors will direct materiality judgements by the agency in respect of each statement (in light of the guidance in this FRR.)

Correct use of materiality for financial statement preparation

The materiality strategy and thresholds set by the agency for use in preparation of the financial statements should not be misapplied or used out of context. For instance, they should not be applied to day-to-day accounting entries (such as recording transactions and processing journals) to avoid recognising transactions below a certain threshold. All transactions must be recorded, however the accounting for them (e.g. whether to recognise an asset or an upfront expense) is subject to materiality.

Making materiality judgements - Agency monitoring of materiality

Materiality for the financial report as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may need to be revised as a result of a change in circumstances that have affected the agency. For example, a machinery-of-government change, a restructure or a decision to dispose of a major part of the agency's business or cease particular service delivery outcomes. Such changes will often cause actual financial results to be substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial report as a whole.

In addition, during the course of the year, as separate judgements are made to not process adjustments, etc. on the basis of this strategy (i.e. on the grounds of immateriality), agencies should keep a register of the nature of the instance, the reason for the decision, and the quantitative effect on the financial statements. The intention of this register is to monitor the "cumulative" effect of past individual materiality decisions on the financial statements.

Where the cumulative effect of those decisions starts becoming material, agencies are expected to revisit those past decisions, and process adjustments to the extent that there will not be a material impact on the financial statements.

"Cumulative" materiality judgements

Materiality on quantitative grounds is primarily assessed for an individual transaction/balance or adjustment. However, agencies need to also assess the cumulative impact of multiple transactions/balances/adjustments that are individually assessed as being immaterial. Where individually immaterial transactions/balances/adjustments would have a material impact when aggregated, the agency needs to instead treat those transactions/balances/adjustments as being material.

For example, an immaterial error is made in accounting for a transaction. A similar immaterial error is subsequently repeated on other transactions for the remainder of the financial year, before it is identified and a procedure change implemented to prevent the error's recurrence. The cumulative amount of the errors is assessed as being material and, without any adjustment, the financial statements will include a material misstatement. Ideally, each error should be corrected. However, to prevent material misstatement, the agency may only need to correct a sufficient number of those errors for the cumulative effect to be immaterial and to no longer impact the fair presentation of the financial statements.

Materiality of a controlled entity

In those less common situations where materiality of a controlled entity needs to be assessed to determine whether it requires inclusion in the consolidated figures, comparisons should be made between the figures of the parent entity (or existing economic entity where consolidated financial statements are already prepared) and those of the controlled entity regarding total assets, total liabilities, total income and total expenses.

In making this comparison, a controlled entity may be determined as being individually immaterial. However, where an agency has multiple individually immaterial controlled entities, an additional comparison (using the same comparators) is required to ensure those entities collectively are not material in aggregate.

Where individually immaterial controlled entities are material in aggregate, the agency must determine which of those entities should be consolidated. This requires the exercise of professional judgement using the materiality comparators in respect of the figures for each controlled entity. Unless another method provides a more reliable basis, the agency should consolidate the entities in order of their relative materiality until the (remaining) unconsolidated controlled entities are no longer material in aggregate.

Where a parent entity has unconsolidated entities (on the grounds of immateriality), the above assessment will need to be repeated towards the end of each financial year to ensure that the unconsolidated controlled entities continue to be immaterial in aggregate.



FRR 2C Accounting Policies, Estimates and Errors

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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2C.1 ADOPTION OF ACCOUNTING STANDARDS AND ACCOUNTING POLICIES

REFERENCES

- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

POLICY

- **Unless specifically permitted by the FRRs, should an agency propose to adopt a new or amended accounting standard or interpretation ahead of the commencement date specified in that standard/interpretation (where allowed by the standard/interpretation), it must initially obtain approval from Queensland Treasury. This is due to the potential effect on the Total State Sector and General Government Sector financial statements i.e. whole-of-Government (woG) financial reporting, pursuant to AASB 1049 Whole of Government and General Government Sector Financial Reporting.**
- **Where a voluntary change in accounting policy is being considered and the impact will be material for the agency's own financial statements, Treasury must be consulted before that change is made to assess possible impacts on woG financial reporting.**
- **Departments must also consider possible budgetary and funding implications as part of the consultation process.**

APPLICATION GUIDANCE

Accounting policies adopted by an agency must be applied consistently and in an understandable manner ensuring the resulting financial information satisfies the concepts of relevance, reliability and comparability. This will assist in ensuring that the substance of the underlying transactions and other events is reported fairly and accurately.

AASB 108 requires accounting policies to be developed in relation to transactions, other events or conditions on the basis of Australian Accounting Standards and associated implementation guidance that are an integral part of those standards (if any) that apply to those transactions, other events or conditions. Should a circumstance arise where there is no Australian Accounting Standard that applies to the transaction, other event or condition, then management is required to use judgement consistent with the criteria detailed in paragraphs 10-12 of AASB 108.

AASB 108 envisages two circumstances in which a change in accounting policy might be made, either when required by an Australian Accounting Standard; or when determining a voluntary change in accounting policy that results in reliable and more relevant information. A flowchart illustrating how to deal with a change in accounting policy is provided in the Appendix to this FRR. Agencies should refer to paragraphs 7-27 of AASB 108 for the principles and requirements governing changes in accounting policies.

Distinction between Accounting Policies and Accounting Estimates

AASB 108 distinguishes between accounting policies, accounting estimates and prior period errors, as defined in paragraph 5 of AASB 108.

Example: For a class of property, plant and equipment, accounting policies ordinarily include selecting either the cost or revaluation model for subsequent measurement and the determination of asset recognition thresholds. (For Tier 1 agencies, the NCAPs specify the accounting policy to be applied – see below). The requirement (where appropriate) to depreciate an asset under accounting standards is also an accounting policy.

Accounting estimates are then developed to achieve the objectives set out by the accounting policy adopted. This includes determining the initial useful life or fair value for such assets and subsequent changes to the useful life / fair value assessment over time. Similarly, changes to any inputs used to arrive at accounting estimates, such as the valuation method or inputs to a valuation model used to determine fair value, are also changes in accounting estimates under AASB 108. These initial estimates, and subsequent changes as and where required, enable the underlying accounting policy to be achieved.

To ensure uniformity of accounting policies for woG reporting, some accounting policy choices are mandated by the FRRs or NCAPs and Tier 1 agencies are unable to change these accounting policies without approval being granted under section 59 of the *Financial Accountability Act 2009*. Agencies are permitted to change their accounting policies where consistency is not required at woG level, such as choosing to account for a lease of a low value asset on or off balance sheet. Tier 2 statutory bodies not consolidated into WoG have more freedom to set their own accounting policies as appropriate to their particular circumstances.

Machinery-of-Government (moG) Changes

Where a program relocates from one agency to another under a machinery-of-Government transfer, any changes in accounting policy, changes in accounting estimates or correction of errors must be undertaken consistent with the terms of AASB 108 and the guidance in FRR 2A *Basis of Financial Statement Preparation* and 2F *Machinery-of-Government Changes*.

2C.2 DISCLOSURE OF ACCOUNTING POLICY INFORMATION

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB Practice Statement 2 *Making Materiality Judgements*

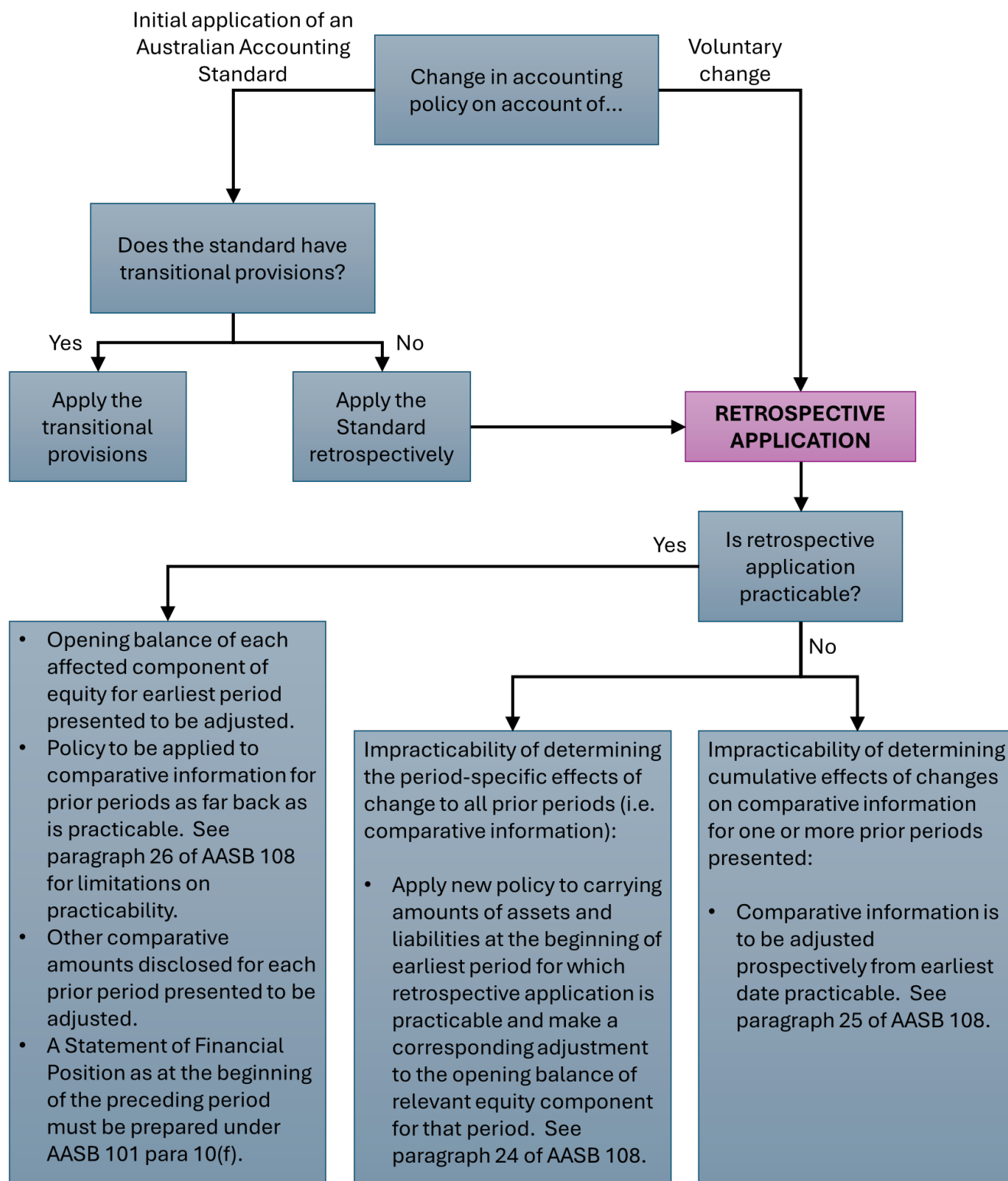
APPLICATION GUIDANCE

Under AASB 101, agencies should only disclose **material** accounting policy information. Accounting policy information relating to material transactions and balances is likely to be material where one or more of the five scenarios in paragraph 117B of AASB 101 applies.

The most effective accounting policy disclosure is entity-specific by focusing on how the agency has applied the requirements of the Australian Accounting Standards to its own circumstances rather than including lengthy duplication of accounting standard requirements or 'boilerplate' disclosures.

Summarised requirements of the accounting standards are permitted in accounting policy notes where accounting recognition/measurement is particularly complex or key estimates and judgements require such disclosure for context, such that financial statement users would have difficulty understanding the transactions and balances without standardised descriptions of the relevant accounting standard requirements.

APPENDIX 1 DECISION TREE – ACCOUNTING POLICIES





FRR 2D Form and Content of Financial Statements

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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2D.1 TREASURY REQUIREMENTS FOR ALL AGENCY FINANCIAL STATEMENTS

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- *Financial Accountability Act 2009* (FA Act) (Part 3, s62)
- FPMS (Part 3)
- Financial Accountability Handbook - Information Sheet 5.2 Preparation of Financial Statements

POLICY

- **The name of the agency and the timeframe covered by the financial statements must appear on each page of the financial statements, including the notes.**
- **The line items displayed on the face of an agency's statements must reflect, as a minimum, all line items illustrated in the applicable model financial statements (i.e. Part 6A or Part 6B), to the extent that they apply to the agency.**
- **Where an agency considers a departure from the layout of the corresponding model statement is more appropriate:**
 - **each of the line items on the face of that corresponding model statement must be included (with or without additional sub-totals), if it is applicable to the agency's circumstances;**
 - **the agency's line items must retain the same description, and represent the same amount, as the corresponding line items in the relevant model statement;**
 - **each line item must be presented in such a way that its impact on the agency's operating result, net assets, net increase/decrease in cash and cash equivalents (as applicable) is clear; and/or**
 - **the departure is required for compliance with an accounting standard requirement that is not illustrated in the corresponding model statements.**

- **Amounts shown in the financial statements must be rounded to the nearest \$1,000 or, where that amount is less than \$500, to zero.**
- **Although rounded amounts should correctly add to the associated total or sub-total presented, it is allowable for rounded amounts to not correctly add, provided the difference at the total or sub-total level is not greater than one or two (thousand).**
- **Where the Operating Result for the year is a deficit, this must be clearly shown by the use of brackets around the relevant amount.**
- **Notes to an agency's financial statements need only address those transactions/balances, policies and/or information that are material to the agency's circumstances.**
- **Where specific information is required in a note to the financial statements, the note must contain sufficient headings, cross-references and other detail to enable the subject matter to be understood fully.**
- **A department's notes must also include an explanation of the distinction between controlled and administered items.**
- **Agencies are responsible for determining the most appropriate and meaningful location within their financial statements to disclose their significant accounting policies.**
- **The financial statements shown in the Annual Report of the agency must be in the same form and content as the financial statements certified by the Auditor-General or his delegate and must not be abridged, amended or otherwise varied (see FPMS s.46(3)(a)).**
- **Queensland public sector entities are effectively out of scope of the application of AASB 8 *Operating Segments*.**

APPLICATION GUIDANCE

Agencies are referred to the Financial Accountability Handbook's Information Sheet 5.2 Preparation of Financial Statements for strategies to facilitate the preparation and audit of financial statements in accordance with deadlines under the FA Act.

Target Timeframes for Resolution of Accounting Issues

Agencies are strongly recommended to have resolved, by the end of April each year, all material one off, complex or significant accounting issues identified as at 31 March (e.g. prior year audit issues, changes in accounting policies, new/amended accounting standards becoming effective for that reporting period etc). For each case, this should include documentation of the proposed treatment and rationale for that treatment, management review and endorsement of that documentation, and consultation with external audit/QAO to confirm the intended accounting treatment.

Target Timeframes for Pro-forma Financial Statements

Agencies are strongly recommended to have prepared, by the end of April each year, pro-forma annual financial statements for review and endorsement by management that include, at least,

- all comparative information;
- updated accounting policy notes; and
- the impact/expected impact of applying new/amended accounting standards; and
- all associated working papers.

End-of-Year Draft Financial Statements

A complete draft set of annual financial statements should be submitted as soon as available, and no later than mid-August each year, to external audit/QAO. Draft financial statements (either complete or extracts thereof) to be considered by the agency's Audit Committee should be distributed to the members of that committee and external audit/QAO **at least five working days** before the scheduled meeting. This allows sufficient time for proper review and analysis of the draft statements in preparation for discussions at the meeting.

In preparing the financial statements, the document titled "*Annual Report Requirements for Queensland Government agencies*" issued by the Department of the Premier and Cabinet should also be considered.

Where an accounting standard specifically prescribes the presentation of an item on the face of the financial statements, the provisions of that standard must be applied where relevant e.g. AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

FRR 6A and FRR 6B Illustrative Financial Statements – Require Tailoring by Agencies.

Detailed disclosures in the model financial statements **will need to be tailored by agencies** to reflect their individual circumstances and operational characteristics.

Where the model financial statements disclose a circumstance that is not applicable to an agency in the current and previous reporting periods, such disclosure need not be included in the

financial statements of the agency. Also, while those model financial statements have been developed to be as inclusive as possible, not all situations that may be encountered by an individual agency have been addressed in the model financial statements e.g. tax effect accounting, equity accounting, foreign currency translation.

To enable the reader to easily locate disclosures within the notes to the financial statements, Treasury recommends inclusion of a clearly defined table of contents or index.

The notes contained in the model financial statements reflect the corresponding policies and application guidance. Agencies have discretion to vary such notes to meet their specific circumstances, provided the applicable content requirements are complied with. This is particularly the case with accounting policies and line item captions within notes. Where appropriate, agencies are encouraged to simplify disclosures having regard to materiality considerations and consider drafting the narrative using a more 'plain language' writing style.

The breakdown of statement line items contained in various notes needs to be tailored to individual agency circumstances. All material amounts need to be individually disclosed in these notes. It follows that where a line item in a statement comprises a number of individual, material items, these items should be separately disclosed in the notes to the financial statements.

2D.2 AGENCIES CLASSIFIED 'TIER 1' PER FRR 2A.5 DIFFERENTIAL REPORTING FRAMEWORK

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB 1052 *Disaggregated Disclosures*
- AASB 1053 *Application of Tiers of Australian Accounting Standards*
- FA Act (s.62)
- FPMS (Part 3)
- Financial Accountability Handbook – Volume 5 Reporting Systems, IS 5.2

POLICY

- **All departments must also include the following in their general purpose financial statements:**
 - **a Statement of Comprehensive Income by Major Departmental Services, Commercialised Business Units (CBUs) and Shared Service Providers (SSPs); and**
 - **a Statement of Assets and Liabilities by Major Departmental Services, CBUs and SSPs.**

APPLICATION GUIDANCE

To comply with AASB 101.138(b) and AASB 1052.15(b), a summary of agency objectives must be included as the initial note for Tier 1 entities if not otherwise disclosed in, or in conjunction with, the agency's financial statements. Detailed disclosure in an agency's annual report will satisfy this requirement, as long as the agency's financial statements are included in that document, and not published separately.



FRR 2E Controlled and Administered Items, Trust Transactions and Agency Arrangements

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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2E.1 TRUST TRANSACTIONS AND AGENCY ARRANGEMENTS

REFERENCES

- AASB 15 *Revenue from Contracts with Customers*
- *Framework for the Preparation and Presentation of Financial Statements*

POLICY

- **The notes to the financial statements must show details of any material transactions and balances in relation to trust or agency arrangements, including revenue, expenditure, assets and liabilities, together with applicable audit arrangements.**
- **Where the agency earns fees and/or incurs expenses in the course of rendering services as a trustee or manager of a trust, these must be recognised as controlled transactions.**

APPLICATION GUIDANCE

Transactions/balances that do not meet the criteria of controlled transactions/balances must be properly assessed against the criteria for administered transactions/balances.

Agency and Trust Arrangements – Not Controlled or Administered Activities

In those rare circumstances where a department is acting solely as an agent for another entity (i.e. where the transactions do not meet the criteria for administered or transfer payments, and a department acts as a collection agent for another entity), the transactions/balances do not form part of the agent department. Such transactions/balances should not be recognised as either controlled or administered.

Similarly, trust arrangements are neither controlled nor administered and, as with agent arrangements, the associated transactions and balances are disclosed only in the notes to the financial statements. A trust arrangement is an obligation, recognised at law, where an agency holds funds wholly or partly for the benefit of another party without deriving any benefit or being able to utilise the funds itself for the achievement of its own objectives.

An example may be where a hospital holds patient monies in a Patient Fiduciary Fund. These monies are received and held on behalf of patients with the hospital having no discretion over the monies. As such, they are not part of the hospital's assets recognised in its financial statements and would be disclosed separately in the notes to the financial statements as Trust Monies.

AASB 15 paragraphs B34-B38 set out the criteria for identifying whether an entity is acting as a principal or as an agent in respect of amounts it collects. Illustrative Examples 45 to 48 in IFRS 15 illustrate this distinction.

Principal versus Agent Considerations and 'Pass-through' Grant Transactions

For the avoidance of doubt, the guidance under this heading does not relate to monies appropriated to Departments to provide grant funding to Statutory Bodies under that department's responsibility. Departments apply the requirements of AASB 1050 *Administered Items* (para.17-23) in relation to transfer payments (refer to section titled "Transfer Payments" in FRR 2E.2 below.) and whether such transfer payments are classified as "controlled" or "administered" under that Standard.

Departments should note paragraph AusB34.1 of AASB 15 - *"Notwithstanding paragraphs B34-B38, not-for-profit entities that are government departments shall apply the requirements of AASB 1050 Administered Items to administered items."*

Agencies may, in some circumstances, find themselves interposed as an intermediary between a grant funding provider and the ultimate recipient and receive grant funding to be passed on a third party (who may be internal or external to the Queensland Government). This might arise where an agency is party to a contract, but it has no obligation or control over the transfer of goods or services to the customer – rather, its obligations are limited to solely transfer (or 'pass-through') cash between other relevant parties. These 'pass-through' funding arrangements warrant careful assessment to ensure the accounting treatment matches the substance of the transaction.

Whether the intermediary agency recognises revenue and expenses for the funding received and passed on depends on whether the agency is administering the grant as principal or as an agent. Key considerations in this assessment are the extent of judgement the agency exercises in selecting the recipients of the funding and determining the amount paid to each recipient.

Where the intermediary agency exercises more than an insignificant amount of judgement in either selecting the recipients of the funding or determining the amount paid to each recipient, the agency will ordinarily be acting as **principal** and should recognise **revenue** (with a corresponding debit to cash or receivables) in accordance with either AASB 15 or AASB 1058, and **expenses** (with a corresponding credit to cash or payables) as incurred.

Where the intermediary agency has no discretion or exercises only an insignificant amount of judgement in selecting the recipients of the funding and determining the amount paid to each

recipient, the agency will ordinarily be acting as an **agent** and should recognise a **payable (financial liability)** when the monies are received, and reduce the payable when the monies are paid out (that is, nil revenue and expense is recognised).

Amounts received by the agency to cover its costs for administering the grant should be recognised as revenue in accordance with either AASB 15 or AASB 1058 as appropriate.

Note: The concept of controlled and administered transactions/balances applies to GOVERNMENT DEPARTMENTS ONLY. Statutory bodies should therefore disregard the policy and guidance relating to controlled and administered items and have regard to all remaining policy and guidance contained in this FRR.

2E.2 DISTINCTION BETWEEN CONTROLLED AND ADMINISTERED TRANSACTIONS AND BALANCES (DEPARTMENTS ONLY)

REFERENCES

- AASB 1050 *Administered Items*

POLICY

- **Departmental financial statements must clearly distinguish between those transactions and balances that are “controlled” by the department and those that are “administered” by it on behalf of the State.**
- **Where the distinction between controlled and administered is not clearly apparent:**
 - **revenues that do not meet the definition of a controlled receipt under s.7(2) of the FA Act are administered;**
 - **expenses, other than transfers to the Consolidated Fund, are controlled unless agreement has been obtained from Treasury to recognise them as administered; and**
 - **assets and liabilities are controlled unless Treasury approval has been obtained to recognise them as administered.**

- **Where “administered” transactions or balances are material in the context of the department’s overall financial performance or position, they must be reported as discrete financial statements. Otherwise, they may be disclosed as notes to the “controlled” financial statements (distinguished clearly from controlled items).**
- **However, where a department’s administered transactions or balances are material in the context of the department’s overall financial performance solely due to the quantum of administered transfer payments under AASB 1050, then discrete financial statements need not be presented, providing the administered transactions are disclosed as notes to the “controlled” financial statements and distinguished clearly from controlled items.**
- **Departments must disclose an accounting policy explaining the distinction between controlled and administered items.**

APPLICATION GUIDANCE

The financial operations of departments comprise those either controlled by the department (which directly relate to its operational objectives and arise at the discretion and direction of the department), and those that a department administers for woG purposes (over which the department does not have control but which it is charged with administering efficiently and effectively).

Criteria for Distinguishing Controlled from Administered Activities

All transactions and balances of a department, except those arising from trustee and/or agent functions, must be categorised as either controlled or administered. Professional judgement is to be applied in the assessment process. In some situations, the classification of associated items (e.g. assets, revenue, administrative expenses, etc.) may be a useful guide to classifying the transaction/balance in question. In considering whether an item is controlled or administered, the following criteria in Table 1 may be useful. Where responses are mixed, the default positions apply as set out in the policy above.

Table 1: Criteria for Distinguishing Controlled from Administered Activities

QUESTION	YES	NO
Activities Overall		
Do the activities directly relate to the department's operational objectives?	Controlled	Administered
Are the activities undertaken or performed without the department having any discretion as regards to decision-making?	Administered	Controlled
Do the activities arise at the discretion and direction of the department?	Controlled	Administered
Do the activities arise on behalf of the Government as a whole?	Administered	Controlled
Revenues		
Does the revenue received meet the definition of a " <i>controlled receipt</i> " under s.7(2) of the FA Act?	Controlled	Administered
Is the fee or charge fixed by the accountable officer of the department under s.13(1)(b) of the FPMS or fixed under other legislation?	Controlled	Administered
Does the authorising legislation/document for collection or raising of the revenue require the revenue to be paid to the Consolidated Fund?	Administered	Controlled
Is the provision of goods/services directly to the payer in return for the payment?	Controlled	Administered
Does the department have discretion about the transaction (discretion can include the ability to set terms and conditions, fee structure, etc.)	Controlled	Administered
Does the department control the benefits arising from the transaction and can it utilise the funds to achieve its objectives?	Controlled	Administered
Is further authorisation required to use the proceeds collected by the department?	Administered	Controlled

QUESTION	YES	NO
Does the revenue increase the department's assets or decrease the department's liabilities?	Controlled	Administered
Expenses		
Does the expense form part of the cost of operating the department in the pursuit of its objectives?	Controlled	Administered
Does the expense decrease the department's assets or increase the department's liabilities?	Controlled	Administered
Does the department have discretion about whether to incur the expense, and if so, how much it will incur?	Controlled	Administered
Assets/Liabilities		
Can the department deny and regulate access to the assets?	Controlled	Administered
Does the department determine how the future economic benefit is to be deployed in achieving the department's objectives?	Controlled	Administered
Does the department have discretion to alter the asset without needing to obtain approval from the government or another party?	Controlled	Administered
Does the department have ultimate control over the decisions made in relation to the assets/liabilities?	Controlled	Administered
Does the department receive proceeds from the disposal of the assets?	Controlled	Administered
Is the liability incurred as a result of the operations of the department in achieving its objectives?	Controlled	Administered

Administered versus Controlled Revenue

For a transaction to give rise to administered revenue, the department must not be able to utilise the funds to achieve its objectives. Administered revenues arise where the department levies and/or collects revenue on behalf of the woG e.g. most taxes, penalties and fines. In such circumstances the receipt of the revenue does not increase the department's assets or decrease its liabilities.

Also, the payer of the taxes, penalties and fines does not directly receive a good or service from the department in return for the payment. Under s.17(2) of the FA Act, all such administered receipts must be paid into the Consolidated Fund.

In contrast, for a revenue item to be controlled by a department, the agency must control the benefits arising from the transaction. A department can utilise controlled funds for its own purposes and in the achievement of its own objectives. Generally, an indication that a payment received by a department is a controlled fee or charge is when a good or service is provided by the department directly to the payer in return for the payment. Controlled revenues include departmental service appropriation revenue, a fee or charge fixed by the accountable officer of the department under s.13(1)(b) of the FPMS or fixed under other legislation and the other revenues described in s.7(2) of the *Financial Accountability Act 2009* (FA Act).

Taxes, Fines and Penalties

Where a department responsible for levying and collecting taxes, fines and penalties does not control the future economic benefits embodied in these items, the transactions should be classified as administered. However, any expenses directly incurred in collecting the amounts should be regarded as controlled unless an administered item appropriation has been received/or is receivable in respect of those expenses.

Administered versus Controlled Expenses

For a transaction to give rise to a controlled expense, the expense must form part of the cost of operating the agency in the pursuit of its objectives. Controlled expenses include those assets consumed, or liabilities incurred, in the process of providing departmental services for the purpose of performing the functions of the department. Controlled expenses may include:

- wages, salaries and other employee entitlements;
- operating costs;
- depreciation; and
- grants and subsidies when the department has discretionary powers as to recipient, value and conditions attaching to the payment of the grant/subsidy.

Transfer Payments (AASB 1050, paragraphs 17 to 23)

Transfer payments are treated as either administered or controlled revenues and expenses depending on whether the department controls the funds to be transferred. Amounts received and paid are classified as administered transfer payments where:

- legislation or other authority determines the recipient and value of the transfer; and
- the department has no discretion as to the payment to be made or the eligible recipients e.g. certain welfare payments.

Where amounts are appropriated to a department for subsequent transfer and the department can exercise significant discretion in respect of the amount and timing of the payment, the identity of the beneficiaries and the payment conditions, the transfer payment is classified as controlled. Irrespective of the classification, the department should monitor and enforce any relevant eligibility criteria that have been set under policy guidelines or legislation.

In some instances, it may not be clear whether a department controls the amount to be transferred to eligible beneficiaries. In such cases, professional judgement should be applied in consultation with Treasury.

Administered versus Controlled Assets

Most departments do not hold administered assets. For an asset to be considered administered, the department must be unable to use the asset to achieve its own operational objectives. An example would be Crown land administered by a department for broad Government purposes (e.g. land under roads).

Where administered revenue is accrued as a receivable, a corresponding expense and liability should be accrued to recognise that the administered revenue is payable to the woG.

In contrast, for an item to give rise to a controlled asset, the department must be responsible for determining how the future economic benefits embodied in the asset are to be deployed in achieving its objectives and is able to deny or regulate access of others to the benefits of that asset.

Legal title or physical possession does not automatically result in control but departments should not classify assets as administered solely on the basis that they cannot dispose of them freely. Rather, when restrictions do exist in relation to controlled assets, the nature and basis of the restrictions must be disclosed as a note to the department's financial statements. Controlled assets may include receivables, inventories and like consumables, and non-current physical and intangible assets, but exclude those assets that are held on a woG basis.

Administered versus Controlled Liabilities

Most departments do not have administered liabilities. For a liability to be administered, the liability must not relate to departmental activities but be incurred by the department on behalf of the Government as a whole. In contrast, for an item to give rise to a controlled liability, the department must have incurred the liability as a result of its operations and in the achievement of its objectives.

Departmental liabilities may include:

- payables and accruals e.g. employee benefits, dividends;
- provisions e.g. restoration and rehabilitation;
- interest-bearing liabilities e.g. loans;
- repayable advances used to finance the department's operations or to purchase controlled assets; and
- lease liabilities in respect of department's leased assets.

2E.3 ADMINISTERED TRANSACTIONS (DEPARTMENTS ONLY)

REFERENCES

- AASB 1050 *Administered Items*

POLICY

- **Administered transactions must be accounted for using the principles and requirements that apply to controlled transactions of the same nature.**
- **The required line items for disclosure of administered income and expenses are as outlined in the Sunshine Department Illustrative Financial Statements (FRR 6A) at Note F1-1 unless the line items are not applicable to the entity.**
- **A reconciliation of payments from Consolidated Fund to administered revenue must be shown in a note to the financial statements.**
- **Transfers of appropriations and appropriations for unforeseen expenditure must be supported by appropriate Treasurer/Governor in Council approval.**

APPLICATION GUIDANCE

Administered Appropriations

Administered revenue also includes any administered item appropriations to undertake activities such as 'transfer payments' e.g. grant payments where the department has no discretion in the selection of eligible recipients and/or determining the amount of payment and/or any conditions attaching to the payment.

Administered appropriations are ordinarily classified as revenue in the period in which they are received, unless a legitimate exception occurs under legislation or accounting standards.

Exceptions occur where:

- a department is provided with funds to purchase an administered asset and funding is made by way of an administered equity injection; or
- funds were budgeted for and revenues were recognised but not received, that is, an administered revenue receivable balance existed.

Administered Expenses

Administered expenses mainly relate to transfer payments where the department is acting solely on behalf of the woG e.g. distribution of grant payments where the department has no discretion regarding the distribution of those payments. Administered expenses also can arise as a result of the depreciation and maintenance of administered assets.

2E.4 ADMINISTERED BALANCES (DEPARTMENTS ONLY)

REFERENCES

- AASB 1050 *Administered Items*

POLICY

- **Administered balances must be accounted for using the principles and requirements that apply to controlled balances of the same nature.**
- **The required line items for disclosure of administered assets and liabilities are as outlined in the Sunshine Department Illustrative Financial Statements (FRR 6A) at Note F1-4 unless the line items are not applicable to the entity.**



FRR 2F Machinery-of-Government Changes

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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2F BACKGROUND AND REFERENCE MATERIAL

Machinery-of-Government (MoG) changes occur through Public Service Departmental Arrangements Notices (DANs), approved by the Governor in Council and published in the Queensland Government Gazette. These notices detail the changes made and the effective commencement dates of MOGs. MoG changes may result in the abolition of departments, establishment of new departments and the re-allocation of functions between continuing departments. If considered appropriate, Queensland Treasury may, depending on circumstances, explore options in relation to a whole-of-Government (woG) extension to financial statement reporting timeframes to allow agencies sufficient time to prepare and have their financial statements audited.

FRR 4F *Equity, Contributions by Owners and Distributions to Owners* addresses the accounting for equity transfers between agencies that arise from MoG changes.

In addition, the following reference material is available to assist agencies with MoG changes:

Guidelines for Machinery of Government Changes

(<https://www.treasury.qld.gov.au/resource/guidelines-machinery-government-mog-changes/>)

Financial Accountability Handbook, Information Sheet 4.6 Machinery of Government

(<https://www.treasury.qld.gov.au/resource/financial-accountability-handbook/>)

Financial Accountability Handbook, Information Sheet 5.2 Preparation of Financial Statements

(<https://www.treasury.qld.gov.au/resource/financial-accountability-handbook/>)

QAO checklist for organisational change

(https://www.qao.qld.gov.au/sites/default/files/better-practice/checklist_for_managing_machinery_of_government_changes.pdf)

2F.1 ABOLISHED DEPARTMENTS

REFERENCES

- *Financial Accountability Act (FA Act) (s.62)*
- *FPMS (s.44, 50)*
- *FRR 2A Basis of Financial Statement Presentation*
- *FRR 4F Equity, Contributions by Owners and Distributions to Owners*

APPLICATION GUIDANCE

The effective date of a moG transfer is the date of commencement per the respective Departmental Arrangements Notice ("the Notice") whereby the financial systems must be closed-off from that date. Section 80(3)(b) of the FA Act provides that the redistribution is taken to be on the day after that commencement date.

Final financial statements to be prepared to abolition date

Final financial statements are to be prepared from the start of the reporting period to the date that the department is to be abolished (refer to s.80(3)(a) FA Act) as per the Notice. On that basis, transactions that occur after the day a department is abolished until the end of the month are to be included in the receiving department's accounts.

However, for administrative purposes, the transactions from the day after the abolition date to the end of that month are likely to continue to be processed in the abolished department's financial system pending the establishment of a financial system in the new department. Therefore, when preparing final financial statements, transactions that relate to the period starting the day after the abolition date until the end of the month can be included, provided they are not material. In consultation with QAO, departments may wish to explore the case for the inclusion of these transactions in their final financial statements.

If this approach is taken, then obviously it is the asset and liability balances at the end of the month that are transferred to the receiving department, provided any changes in values during that timeframe are not material. Otherwise, the transactions may be treated as 'first day of the next month' transactions in the receiving department's general ledger (via journal entry), subject to consultation with QAO.

Final financial statements on going concern basis

Financial statements of abolished departments are to be prepared consistent with the going concern basis of preparation. While the abolished department will cease to exist, and so is not itself a going concern, its functions or services will generally continue to operate as normal (at least in the foreseeable future) within a different entity. Assets and liabilities associated with those functions/services will generally transfer to a new or continuing department at the values recorded in the books of the abolished department immediately before transfer. An example financial statement note disclosure that could be used by agencies is set out below:

Illustrative Note Disclosure:

As a result of the machinery-of-Government change(s) outlined in note x, the department is no longer considered a going concern. While it is not a going concern, these final financial statements have been prepared consistent with the going concern basis, as the transferred functions and services are expected to continue to operate as normal into the foreseeable future within the Department of UVW and the Department of XYZ. The values of assets and liabilities reported in these financial statements represent their carrying amounts immediately prior to the machinery-of-Government change taking effect. These represent the values of the assets and liabilities transferred to and recognised by the recipient departments. Further details of these transfers are included in Note y.

2F.2 NEW DEPARTMENTS

REFERENCES

- FA Act (s.62)
- FPMS (s.40, 49)
- FRR 2A *Basis of Financial Statement Presentation*
- FRR 4F *Equity, Contributions by Owners and Distributions to Owners*

APPLICATION GUIDANCE

Financial systems, including the establishment of new bank accounts, must come into effect from the day after the commencement date for the moG transfer as per the associated Notice.

Financial statements for new departments are to be titled for the period beginning on the first day of the month following redistribution of functions, where that is the applicable date as per s.40 of the FPMS. In this situation, note disclosures should clearly explain where transactions from date of redistribution to the end of that previous month are reported.

If the **transferring department is not abolished**, financial statements are to be prepared from the **first day of the next month** (when the transfer is taken to have effect for reporting purposes). Transactions from the date of commencement (as per the Notice) to the first day of the next month are recorded in the financial statements of the transferring department, not the new department.

If the **transferring department is abolished**, financial statements for the new department are to be prepared from **the day after the commencement date** (when the transfer is legally taken to have effect). However, transactions from abolition date until the end of the month should not be included if they are included in an abolished department's final financial statements on the grounds of immateriality (refer to the guidance in FRR 2F.1).

2F.3 CONTINUING DEPARTMENTS

REFERENCES

- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*
- FRR 4F *Equity, Contributions by Owners and Distributions to Owners*

POLICY

- **If a material prior period error is identified in respect of assets or liabilities transferred from another existing Queensland Government agency, and that error arose from that transferor's accounting treatment, both agencies must agree on the nature and amount(s) of the retrospective adjustments to be recognised. Retrospective adjustments to equity are to be made against the Contributed Equity account "Non-appropriated Equity".**
- **If a material prior period error is identified in respect of assets or liabilities transferred from an abolished Queensland Government agency whose final financial statements have been finalised, and that error arose from the abolished agency's accounting treatment, the existing agency must consult Treasury's Fiscal Reporting team regarding likely retrospective adjustments (due to the implications for whole-of-Government reporting).**

- **When an agency receives Property, Plant and Equipment assets that are required to be measured at fair value, and that agency already has an asset revaluation surplus (with a credit balance) for the respective class of assets, any net revaluation decrements must be charged directly to that revaluation surplus. However, any net revaluation decrements beyond the balance of the revaluation surplus must be charged directly as an expense in the agency's Statement of Comprehensive Income.**

APPLICATION GUIDANCE

The effective date of a moG transfer is the commencement date as per the Notice, however, where the transferring department is not abolished, s.80(2) of the FA Act allows for the transfer to be taken to have happened on the first day of the next month.

If the transferring department is abolished, the transfer must be taken to have happened from the day after the abolition date. However, for administrative purposes, the transactions from the day after the abolition date to the end of that month should be treated as 'next month' transactions in the receiving department's general ledger unless they are included in the abolished department's financial statements on the grounds of immateriality (refer to section 2F.1 for further guidance).

2F.4 FINANCIAL STATEMENT DISCLOSURES

POLICY

- **In conjunction with the applicable requirements of FRR 2A.3 and FRR 2A.4, the notes to the financial statements must outline:**
 - **the nature and extent of the significant change in functions;**
 - **the authority for the transfer of functions (e.g. Public Service Departmental Arrangements Notice No. x);**
 - **the effective date of the transfer for financial reporting purposes (e.g. under s.80 of the FA Act); and**
 - **amounts of appropriation transferred via the Consolidated Fund to another department.**
- **Asset and liability transfers between agencies are to be disclosed as required by FRR 4F.6 Disclosure of Transfers Adjusted against Equity.**

APPLICATION GUIDANCE

Comparative Amounts not Re-cast or Adjusted

Where a department undergoes a moG change, comparative amounts throughout the financial statements for the preceding reporting period need not be re-cast or adjusted to reflect the transfer of activities between departments as a result of such changes.

2F.5 OTHER CONSIDERATIONS

APPLICATION GUIDANCE

Bank Accounts

For agencies that have been abolished or undergone name changes, it is acceptable to rename the bank account to the new agency's name, rather than create a new bank account entirely. The signatories of the original account should also be reviewed and updated.

Key Management Personnel (KMP) Remuneration Disclosures

Departments should refer to some of the guidance in FRR 3C.3 *Disclosure of Key Management Personnel* regarding implications for identifying KMP after a moG change.

Post-moG transactions

Where one agency continues to process transactions on behalf of another agency following a redistribution of functions (until the latter agency achieves its separate financial system), all amounts (revenue, expenses, cash, receivables, payables) in relation to these transactions should be treated as 'agent transactions' i.e. the 'processing' agency is only to disclose associated amounts and balances for these transactions in the notes to its financial statements in accordance with FRR 2E *Controlled and Administered Items, Trust Transactions and Agency Arrangements*. The agency to which those transactions relate must directly recognise all associated transactions and balances in its financial statements.

AASB 1055 Budgetary Reporting

Refer to FRR 5C *Budgetary Reporting Disclosures*.

Asset Values and Valuations

Assets are to be revalued as at balance date (transfer date) with revaluation adjustments against the Asset Revaluation Surplus (if permissible under AASB 116 *Property, Plant and Equipment*). It is expected that agencies carry out substantial valuation work in order to ensure the asset values at the date of transfer are representative of their fair value as far as possible. This includes

identifying appropriate indices in order to establish materially correct fair values at balance date. Agencies should also consider all possible indicators when testing for impairment.

Departments that have started to undertake revaluations during the year but have not completed this process by the Notice commencement date may need to identify appropriate indices in order to establish materially correct fair values at balance date.

Reserves cannot be Transferred

Reserve balances, including Asset Revaluation Surpluses, cannot be transferred between agencies (refer to FRR 4F *Equity, Contributions by Owners and Distributions to Owners*).

Events occurring after the balance date

Disclosure for events occurring after the balance date in relation to abolished agencies is no different to the disclosures required for post-balance date events when preparing financial statements at any other time.



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 apply – 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.



FRR 2H Interests in Associates and Joint Arrangements

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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2H.1 EQUITY METHOD OF ACCOUNTING

REFERENCES

- AASB 128 *Investments in Associates and Joint Ventures*
- AASB 11 *Joint Arrangements*

POLICY

- Agencies are **not** to rely on paragraphs 17 – Aus17.1 of AASB 128 to avoid using the equity method when accounting for material interests in associates and joint ventures, regardless of whether consolidated financial statements are prepared by the parent entity. As such, it is mandated that these exemptions not be applied.

APPLICATION GUIDANCE

Interests in Associates

Agencies should refer to the definition and explanations of 'associate' and 'significant influence' in paragraphs 3 and 5 – 9 of AASB 128. Professional judgement is required to determine whether, all circumstances considered, significant influence over another entity exists.

Interests in Joint Arrangements – Distinguishing Between Joint Operations and Joint Ventures

For the purposes of AASB 11, 'control' is determined as per AASB 10. Therefore, both AASB 10 and AASB 11 need to be referred to, in making a determination about whether a joint arrangement exists. Relevant paragraphs in AASB 11 regarding joint control are paragraphs 7 – 13 and B5 – B11. Where two or more agencies have joint control (as defined by AASB 11) of an arrangement, it is a 'joint arrangement' that falls within the scope of AASB 11.

There are two types of joint arrangements under AASB 11, according to the rights and obligations of the parties, being 'joint operations' and 'joint ventures'. Agencies should refer to the definitions contained in AASB 11. All joint arrangements require a contractual arrangement that binds the parties and establishes joint control by two or more of those parties. The contractual arrangement may be evidenced in a number of ways (e.g. by a contract or minutes of discussions between the parties, or in the articles or other by-laws of the joint arrangement). Paragraphs B2 – B5 of AASB 11 provide further guidance on this subject.

Equity Accounting only applies to Joint Ventures

The applicable accounting treatment differs according to the type of joint arrangement. The equity method of accounting only applies to 'joint ventures'. Separate measurement rules (refer to paragraphs 20-23 of AASB 11) apply for 'joint operations'. Agencies should refer to the guidance in AASB 11 in paragraphs 14 – 19 and B12 – B33 in classifying joint arrangements.

Overview of Equity Method of Accounting

The equity method is based on the investor's ownership interest in an associate or joint venture. Ownership interest is the percentage of equity held in an associate or joint venture, directly or indirectly, by the investor. Equity accounting involves the following:

- the investment in an associate/joint venture is initially recognised at cost;
- following initial recognition, the carrying amount of the investment is increased or decreased to recognise the agency's share of the associate/joint venture's operating result, with a corresponding amount recognised in the agency's operating result;
- if an agency's share of an associate/joint venture's losses equals or exceeds its ownership interest, the agency must discontinue recognising its share of further losses. After the agency's investment is reduced to zero, additional losses are to be recognised as a liability of the agency, but only to the extent that the agency has incurred legal or constructive obligations or made payments on behalf of the associate/joint venture. If the associate/joint venture subsequently reports profits, the agency resumes recognising its share of those profits only after its share of the profits equals the share of losses not previously recognised;
- distributions received from the associate/joint venture are offset against the carrying amount of the investment;
- adjustments to the carrying amount may also be necessary for changes in the agency's proportionate ownership interest in the associate/joint venture due to changes in the associate/joint venture's equity that were not recognised in the associate/joint venture's operating result (e.g. changes arising from the revaluation of property, plant and equipment). The agency's share of those changes is to be recognised directly in equity;
- profits or losses resulting from transactions between an agency and an associate/joint venture are to be recognised in the agency's financial statements only to the extent of the unrelated agency's interests in the associate/joint venture. The agency's share in the associate/joint venture's profits or losses resulting from these transactions is to be eliminated;

- an agency's investment in an associate/joint venture is to be assessed annually to determine if it is impaired as per AASB 136 *Impairment of Assets*. Refer to paragraphs 40 to 43 of AASB 128.
- If the recoverable amount of the agency's investment is less than the carrying amount, then the agency is to recognise an impairment loss. Recoverable amount can be calculated using either:
 - a *discounted cash flow model* based on the cash flows the associate/joint venture is expected to generate from its operations, and the proceeds from disposing of the investment; or
 - a *dividend discount model* based on the distributions expected to be received from the associate/joint venture.

Example

An agency has a \$100 initial investment in an associate. At year-end, the agency's share of the profits of the associate is \$60 and it receives a dividend on 29 June of \$20. The following journal entries will apply to each transaction (ignoring the impact of tax or tax equivalents):

DR Investment in associate	100	
CR Cash at bank		100
<i>(to record initial investment)</i>		
DR Investment in associate	60	
CR Profit from associate - revenue		60
<i>(to record share of profits in associate)</i>		
DR Cash at bank	20	
CR Investment in associate		20
<i>(to record dividend from associate & reduction in carrying amount of investment)</i>		



FRR 2I Management Certificate

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

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2I.1 MANAGEMENT CERTIFICATE REQUIREMENTS

REFERENCES

- *Financial Accountability Act 2009* (FA Act) (s.62)
- FPMS (Part 3 – Division 2)
- *Financial Accountability Regulation 2009* (FAR)
- *Financial Accountability Handbook Information Sheet 2.5*

POLICY

- **A Management Certificate must be provided by the Accountable Officer and the Chief Finance Officer of the department, or in the case of a statutory body, the Chairperson and the person responsible for financial administration of the statutory body. In the absence of one of these officers, the management certificate is to be certified by the person formally appointed to perform that person's duties.**
- **The Management Certificate must state, in addition to the requirements under s.62(1) of the FA Act, an acknowledgement by the Accountable Officer of a Department, or the Statutory Body, their responsibility under s.7 and s.11 of the FPMS to establish and maintain, in all material respects, an appropriate and effective system of internal controls and risk management processes with respect to financial reporting throughout the reporting period.**
- **The Chief Finance Officer responsible for the financial administration of a department must indicate in the Management Certificate, by way of post-nominals, any relevant professional qualifications they hold. The FAR stipulates the appropriate qualifications required to hold the position of Chief Finance Officer. The Accountable Officer may, where appropriate, also include relevant professional qualifications by way of post-nominals.**
- **For the purposes of publication of the certified financial statements in either hard copy or electronic format, agencies have discretion to replace an image of the actual signatures on this certification with the words "Original signed".**
- **The required format and contents for the Management Certificate is set out in the Sunshine Department Illustrative Financial Statements in FRR 6A.**

APPLICATION GUIDANCE

The certificate should only be given if both officers are satisfied that the financial statements disclosures are fair and reasonable. To the extent that an agency is unable to make the assertions required by the FA Act and this policy for a reporting period, it must adapt the wording of the certificate accordingly.

Statutory bodies are also encouraged to indicate in the Management Certificate, by way of post-nominals, any relevant professional qualifications held by the person responsible for the financial administration of the statutory body as well as the Chairperson.

Use of Original Signatures

The original version of the certified financial statements must bear original signatures on the Management Certificate in accordance with s.62(1)(b) of the FA Act and s.38(3) or s.39(3&4) of the FPMS. However, the above policy about publication of those signatures allows individual agencies to manage their own risks of misuse of publicly available signatures.

Australian Charities and Not-for-profits Commission (ACNC) Certification

Agencies registered with the ACNC should also include in their management certificate any declaration or certification requirements of the ACNC Regulations.

QUEENSLAND TREASURY
1 William Street, Brisbane, Q 4000

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QUEENSLAND TREASURY

Financial Reporting Requirements for Queensland Government Agencies

CHAPTER 3 – FRR 3A to FRR 3E

**Applicable to 2025/26 or 31 December 2026
Financial Years**

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FRR 3A Statement of Comprehensive Income

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 normal text under the Application Guidance sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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3A.1 STATEMENT OF COMPREHENSIVE INCOME

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- FRR 2D *Form and Content of Financial Statements*

POLICY

- **Subject to FRR 2D.1, the required line items for the Statement of Comprehensive Income are as outlined in the corresponding model financial statements unless the line items are not applicable to the entity.**
- **Any expense relating to a provision must not be presented net of the amount recognised for a reimbursement.**
- **The net cost of services presentation must not be used.**
- **The line item for “Other” revenue/expenses must not exceed 10% of the total value of revenues/expenses, whichever is relevant.**
- **The Paid Parental Leave Scheme is to be accounted for through the Statement of Financial Position with no transactions recognised via the Statement of Comprehensive Income.**

APPLICATION GUIDANCE

Included in the category of “User Charges and Fees” will be rental revenue and proceeds on sale of items of property, plant and equipment that are otherwise used for rental to others, that have been transferred to inventories (at their carrying amount) when the rental arrangement ceases and have become held for sale.

3A.2 STATEMENT OF COMPREHENSIVE INCOME BY MAJOR DEPARTMENTAL SERVICES, CBUs AND SSPs

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB 1052 *Disaggregated Disclosures*

POLICY

- **A separate column for each major departmental service, Commercialised Business Unit (CBU) and Shared Service Provider (SSP) must be included in the Statement of Comprehensive Income by Major Departmental Services, CBUs and SSPs. This statement must be prepared and included in the financial statements of each department that has more than one departmental service.**
- **Major departmental services must accord with those included in that financial year's Service Delivery Statements (SDS), including any approved variations. If the SDS does not disclose any major departmental services, a Statement of Comprehensive Income by Major Departmental Services, CBUs and SSPs must still be prepared as required by paragraph 15 of AASB 1052 if there is more than one major activity.**
- **The Statement of Comprehensive Income by Major Departmental Services, CBUs and SSPs must disclose the expenses and revenues recognised in the (controlled) Statement of Comprehensive Income that can be attributed reliably to each major departmental service, CBU and SSP.**
- **Inter-service/unit trading must be reflected on a gross basis (i.e. before elimination) in the respective departmental services columns and eliminated in the "Inter-service/unit Eliminations" column so as to reconcile with the figures reported in the (controlled) Statement of Comprehensive Income.**
- **Where there has been an approved change in departmental services from the comparative period, this should be disclosed in the notes to the financial statements and restated comparative figures disclosed, unless impracticable, in the Statement of Comprehensive Income by Major Departmental Services, CBUs and SSPs.**

- **Where a department provides material amounts of non-activity related services to other entities on a “fee for service” arrangement, the “General – Not Attributed” column should be used to record the revenues and expenses from these activities.**

APPLICATION GUIDANCE

Transactions between major departmental services, CBUs and SSPs should be distinguished from those transactions that are solely within a major departmental service, CBU or SSP.

For the presentation of the separate columns, transactions **between** the identified major departmental services, CBUs and SSPs are reported on a gross basis.

Internal transactions **within** a major departmental service, CBU or SSP column should be presented by agencies in a meaningful way (i.e. either gross or net) as is appropriate in the agency’s judgment. In managing this, agencies should consider, in consultation with QAO, the materiality of such transactions and the way they are monitored and reported internally to management.

Corporate revenue and expenses should be presented across major departmental services, CBUs and SSPs on a reliable basis reflecting internal reporting for such items (as applicable).



FRR 3B Income

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

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3B.1 INCOME OF NOT-FOR-PROFIT ENTITIES – GENERAL PRINCIPLES

REFERENCES

- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 15 *Revenue from Contracts with Customers*
- FRR 3E Distinction between Grants and Procurement
- FPMS (s.13)

POLICY

- **Fees and charges fixed by the accountable officer pursuant to s.13(1)(b) of the FPMS, or other legislation, for goods and services supplied by the department should be recognised as controlled revenue.**
- **If the amount levied by the department is not a fee or charge fixed by the accountable officer pursuant to s.13(1)(b) of the FPMS, or other legislation, for goods and services supplied by the department, it should be recognised as administered revenue and the amounts received remitted to the Consolidated Fund.**

APPLICATION GUIDANCE

Overview of income recognition for not-for-profit agencies

The following table summarises the accounting standards that will typically apply to the different types of income commonly received by not-for-profit agencies.

Income line item	Applicable standard/s
Appropriation revenue	AASB 1058
User charges and fees	Revenue from contracts with customers – AASB 15 Licence revenue – AASB 15 Rental income from operating leases – AASB 16 Others – AASB 1058
Royalties and land rents	Licence revenue – AASB 15 Others – AASB 1058
Taxes	AASB 1058
Grants and contributions	Revenue from contracts with customers – AASB 15 Others – AASB 1058
Interest income	Interest income from financial assets – AASB 9 Interest income from finance leases – AASB 16
Gains on disposal or revaluation of assets	Property, plant and equipment – AASB 116 Intangible assets – AASB 138 Financial instruments – AASB 9 Foreign currency – AASB 121 Investment property – AASB 140 Biological assets – AASB 141

The remainder of FRR 3B.1 will address accounting for income within the scope of AASB 1058. Agencies should refer to the other sections of FRR 3B for guidance on specific types of income, including FRR 3B.5 on transactions falling within AASB 15.

Transactions within the scope of AASB 1058

AASB 1058 establishes the framework for income recognition where a not-for-profit agency acquires an asset for significantly less than fair value principally to enable the entity to further its objectives.

“Significantly less than fair value” principle under AASB 1058

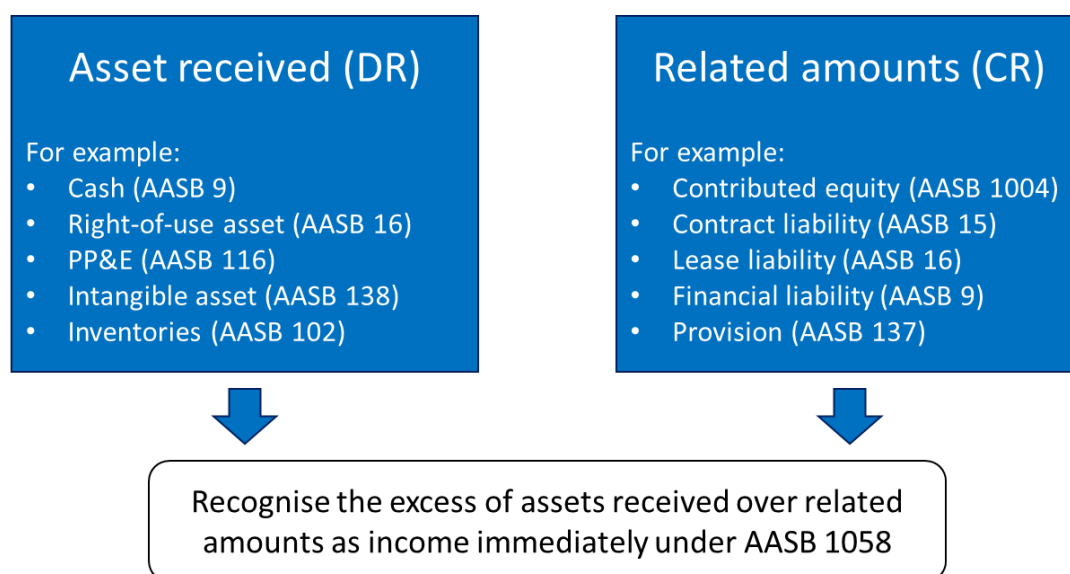
The standard does not specify what constitutes “significantly less than fair value” and this requires the exercise of judgement in each circumstance. However, where the consideration to acquire an asset represents less than 70% of the asset’s fair value (i.e. a 30% or greater discount), the “significantly less than fair value” criteria would ordinarily be met unless there is compelling evidence to the contrary.

Revenue recognition under AASB 1058

AASB 1058 contains specific requirements in respect of capital grants and volunteer services, which are discussed separately below. All other transactions within the scope of AASB 1058 use the revenue recognition model in paragraphs 8 to 14.

The difference between the asset/s received and any credit amounts recognised under other standards (called 'related amounts') is recognised as income immediately.

This is illustrated in the following diagram. (N.B. Related amounts can be nil in some transactions.)



Taxes, fines and penalties

AASB 9 Financial Instruments applies to the initial recognition and measurement of statutory receivables, with Appendix C of AASB 9 providing implementation guidance in this respect.

A statutory receivable under AASB 9, and corresponding revenue under AASB 1058, is recognised on the occurrence of the 'taxable event'. Refer to AASB 9 Appendix C and FRR 4E for more details.

Where a tax is prepaid, i.e. prior to the taxable event occurring, the agency should assess whether it has a refund obligation and if so, recognise a financial liability as a related amount. The refund obligation is extinguished and revenue is recognised when the taxable event occurs. See AASB 1058 Illustrative Example 4.

3B.2 APPROPRIATION REVENUE-GOVERNMENT DEPARTMENTS

REFERENCES

- *Financial Accountability Act 2009* (FA Act) (Part 3)
- *AASB 1058 Income of Not-for-Profit Entities*

POLICY

- **The amount of appropriation revenue recognised by a department in a financial year is a matter for the determination of the agency, taking into account the cost of the departmental services which it has delivered during the year.**
- **Unless otherwise negotiated with Queensland Treasury, appropriation revenue should equal the cash appropriations received by the department during the year in accordance with its funding profile.**
- **In the rare instance of a department intending to recognise appropriation revenue receivable or a liability for unspent appropriation revenue at 30 June, any such amount must be negotiated with and agreed by Queensland Treasury.**
- **A reconciliation of payments made from Consolidated Fund to appropriation revenue recognised in the Statement of Comprehensive Income must be provided as a note to the financial statements. The required line items for the reconciliation are as outlined in the corresponding model financial statements.**
- **Transfers of appropriations and appropriations for unforeseen expenditures must be supported by appropriate Treasurer/Governor in Council approvals. Note disclosure is also required for the reasons for any material amounts of unforeseen expenditure.**

APPLICATION GUIDANCE

Appropriation revenue, plus own sourced income, should closely equate to total expenses for the year, resulting in a net operating result for the year that is close to zero.

Payments by departments on behalf of the state (sometimes transfer payments) are funded from the Consolidated Fund by way of administered appropriations. Departments should refer to FRR 2E Controlled and Administered Items, Trust Transactions and Agency Arrangements when accounting for administered appropriation revenue.

Appropriations not received by statutory bodies

Statutory bodies do not receive appropriations under the FA Act. Generally, any funding from Government to statutory bodies is by way of grants which are accounted for pursuant to AASB 15 or AASB 1058 if the entity is classified as not-for-profit. AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* applies where the entity is classified as a for-profit entity and is dealt with separately in this FRR.

Appropriated equity adjustments

Under the FA Act, the owner's interest in a department can be adjusted directly against equity through appropriated equity injections/withdrawals. Such appropriated equity adjustments are determined by the owners of Queensland's wholly-owned public sector entities. The annual Appropriation Bills represent the formal designation required under Interpretation 1038. FRR 4F Equity, Contributions by Owners and Distributions to Owners deals with the accounting requirements for appropriated equity adjustments.

End of financial year receivables and payables – unspent appropriations

In relation to any unspent appropriation at year end, s.37(3) of the *Financial Accountability Act 2009* allows departments to **return** these funds to the Consolidated Fund prior to 14 July of each year, and be recognised in the previous year's appropriation revenue. However, current Treasury policy is to ensure funds are returned prior to 30 June each year so no back-dating is required.

After 30 June, as part of the year end accruals process and where it is agreed with Treasury, a department may recognise an asset (appropriation revenue receivable) or a liability (for appropriation revenue unspent at year end and payable to the Consolidated Fund) at 30 June. Where there is both a receivable and a payable from/to the Consolidated Fund regarding multiple factors, it is appropriate to offset those amounts as either a net receivable or net payable. In the following year, the liability payable to Treasury is extinguished one of three ways:

Option 1. The department returns the cash to the Consolidated Fund (where there are no other appropriation receipts against which the payable can be offset); or

Option 2. Treasury permits the liability payable to be offset against subsequent appropriation made to the department (i.e. there is a net settlement of the liability payable against future cash appropriation receipts); or

Option 3. The unspent appropriation payable to Treasury is authorised to be applied as appropriation revenue in the following year.

Example – Journals involved for each option

A department agrees with Treasury that \$100 of its unspent (or unapplied) appropriation for services at year end will be returned to the Consolidated Fund (CF) the following year. In practice, the department has three options to settle this obligation (i.e. liability) in the following year. (Additional information - The department is to receive appropriation funding of \$700 in the first month of the following year (that relates to the following year)).

Journals in the Current Year

DR	Deferred Appropriation Payable to CF (Appropriation Revenue)	100	
	CR	Deferred Appropriation Payable to CF (Payable)	100

(Representing the unspent appropriation as negotiated with Treasury during the formal year end appropriation reconciliation process)

Journals in Next Year

Option 1 – Return cash to CF

DR	Deferred Appropriation Payable to CF (Payable)	100	
	CR	Cash	100

(Representing the settlement of the obligation by returning the funds to CF - where there are no other appropriation receipts against which the payable can be offset).

Option 2 – Net settlement against subsequent appropriation receipts

DR	Deferred Appropriation Payable to CF (Payable)	100	
DR	Cash		600
CR	Appropriation Revenue		700

(Representing the net settlement of the obligation to repay Treasury against the cash appropriation receipts in the following year. Under Option 2, the appropriation revenue recognised in respect of the following year's income is unaffected by the net settlement of the liability.)

Option 3 – Approval for recognition as revenue in the following year

DR	Deferred Appropriation Payable to CF (Payable)	100	
CR	Deferred Appropriation Payable to CF (Appropriation Revenue)		100

(The unspent appropriation payable to Treasury is authorised to be applied as appropriation revenue in the following year – this journal assumes the cash has not already been physically returned to CF under Options 1 or 2 above. Where this has occurred, the debit entry would be to cash and the credit to appropriation revenue.

3B.3 VOLUNTEER SERVICES AND CONTRIBUTION OF SERVICES BETWEEN AGENCIES

REFERENCES

- AASB 1058 *Income of Not-for-Profit Entities*

POLICY

- **Not-for-profit departments and statutory bodies within whole-of-government are required to recognise volunteer services in accordance with AASB 1058 paragraph 18.**
- **Agencies shall not recognise volunteer services that would not have been purchased if they had not been donated.**
- **Where an agency receives material corporate services or other support from another agency that can be reliably measured, the fair value of those services is to be recognised as revenue with a corresponding expense.**
- **Where the fair value of those services is not recognised, that recipient agency is to include narrative disclosure about the nature and extent of the arrangement, and the grounds for not recognising the revenue/expense.**
- **An agency that provides volunteer/contributed services shall not recognise any revenue in respect of the volunteer/contributed services provided.**

APPLICATION GUIDANCE

Volunteer services

Volunteer services that are required to be recognised would typically be recognised as income and an expense, or an asset if the expense qualifies for capitalisation.

Contributed Services

Some services donated to an agency e.g. volunteer work, while useful, may not be central to the delivery of the agency's core services. Subject to materiality, contributed services should therefore be recognised only when their fair value can be measured reliably and the services would have been purchased had they not been donated.

Generally, the control of the future economic benefits embodied in contributed services takes place in conjunction with the actual consumption of such benefits. In these circumstances, the appropriate accounting treatment is to recognise revenue and an equal expense.

It is common in the public sector for services to be received/provided at less than their fair value e.g. corporate services partnerships where an agency provides corporate services (such as information technology, human resources, finance, etc.) to one or more other agencies at no cost. In respect of corporate services received, it is expected that the recipient agencies would otherwise have had to acquire such services in other ways.

In such situations, the provider agency should have a process for reliably determining and advising of the cost (as a surrogate for fair value) of services provided to other agencies, especially where the amounts are likely to be material for any of the recipient agencies.

Accounting by the provider agency

An agency that provides volunteer or contributed services does not recognise any revenue because there is no basis for any revenue recognition. The agency should only recognise the expenses incurred to provide the service.

For example: Agency A provides IT services to Entity B free of charge. Agency A would recognise employee expenses relating to its IT staff who are providing the services, and depreciation/amortisation expense on equipment and software used to provide the services. Agency A does not recognise any revenue or any additional expenses. Also, Agency A's accounting treatment is not affected by whether the fair value of the services can be measured reliably or whether Entity B would have purchased the services had they not been donated.

3B.4 GRANT REVENUE RECOGNITION BY 'FOR-PROFIT' ENTITIES

REFERENCES

- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*
- Interpretation 110 *Government Assistance – No Specific Relation to Operating Activities*

POLICY

- **Government grants must be shown on the Statement of Financial Position as deferred income which will be matched against future costs on a systematic basis. Grant revenue is to be recognised as income and is not to be offset against the related expense (an alternative treatment under AASB 120).**
- **AASB 120 provides for recognition of granted non-monetary assets at nominal values as an alternative to the fair value method. This alternative treatment of nominal value is not considered best practice and is NOT to be applied.**
- **Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position by setting up the grant as deferred income, which is recognised as income on a systematic and rational basis over the useful life of the asset. The treatment of deducting the grant from the carrying amount of the related asset is not considered best practice and is NOT to be applied.**

APPLICATION GUIDANCE

For-profit entities recognise income from government grants as required by the recognition criteria of AASB 120, which also outlines the treatment for when a government grant becomes repayable.

Government grants to for-profit entities are generally accounted for on an accrual basis i.e. they are to be brought to account when they are receivable which may be at a different time from the receipt of cash. The cash basis of accounting may be used if no basis exists for allocating grants to periods other than the one in which it was received (such a circumstance would ordinarily be unusual).

Under paragraph 10A of AASB 120, the benefit received by a for-profit entity from a government loan at a below-market rate of interest shall be treated as government grant and is measured as the difference between the fair value of the loan and the proceeds received.

Distinction between government assistance to the community versus a specific entity

The standard also distinguishes between government assistance provided to an entity and assistance provided to the community generally e.g. infrastructure. Examples are provided in paragraph 38 of AASB 120.

Interpretation 110 clarifies that government assistance provided to an entity for operating in certain regions or industry sectors is a government grant and is to be accounted for in terms of AASB 120.

AASB 120 also identifies government assistance that is excluded from the definition of government grants because such assistance cannot reasonably have a value placed on it e.g. government assistance in the form of free technical or marketing advice. Reference should be made to paragraphs 34-38 of AASB 120.

3B.5 REVENUE FROM CONTRACTS WITH CUSTOMERS

REFERENCES

- AASB 15 *Revenue from Contracts with Customers*

POLICY

- **Agencies shall NOT apply the recognition exemptions for short-term and low value licences described in AASB 15 paragraphs Aus8.1–Aus8.5. Instead, agencies are to identify performance obligations and recognise revenue as/when the performance obligations are satisfied, in line with AASB 15’s revenue recognition model.**

APPLICATION GUIDANCE

Applicability of AASB 15 to transactions of NFP agencies and Appendix F

Not-for-profit agencies must apply the implementation guidance in AASB 15 Appendix F “*Australian implementation guidance for not-for-profit entities*” to determine whether a transaction gives rise to revenue from contracts with customers. This guidance is particularly relevant when assessing grants and contributions received, as some transactions will fall within the scope of AASB 15 and others within the scope of AASB 1058.

Scope of AASB 15

To fall within the scope of AASB 15:

1. There must be a promise to transfer goods or services to a customer;
2. The agreement must create enforceable rights and obligations; and
3. The promise/s must be sufficiently specific to be able to determine when the performance obligation is satisfied.

1. Transfer of goods or services to a customer

“Customer” is defined in AASB 15 as a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration. A customer can direct the entity to provide goods or services to third parties on the customer’s behalf, so the goods or services need not be provided directly to the paying entity/person for there to be a contract with a customer.

Grant arrangements where the agency retains the output of the activities (e.g. a constructed asset) for its own use will be outside the scope of AASB 15 as they do not involve a transfer of goods or services to a customer.

Goods and services are assets that embody benefits, even if only momentarily (as is in the case of many services). Some statutory fees create legislative obligations for the levying agency to carry out activities that are solely for the benefit of the general public, and not for the entity/person paying the fee. These fees do not involve a transfer of goods or services to the customer.

An agency may be party to a contract, but it has no obligation or control over the transfer of goods or services to the customer – rather, its obligations are solely limited to the transfer (or ‘pass through’) of cash between other parties. Agencies should carefully examine such arrangements as the transaction may not involve recognition of any revenue under AASB 15 or AASB 1058 – instead, the agency may have a financial liability under AASB 9 for monies to be passed on or, in the case of a department, an Administered transaction to account for. Further information on the pass-through of grants and accounting for Administered items is contained in FRR 2E.1.

2. Enforceable agreement

Statements of intent to spend money or use assets in particular ways are in the nature of public policy statements that do not, by themselves, create enforceable agreements. Examples here include budgets and service delivery statements.

The following specific types of revenue are not enforceable, and therefore are outside the scope of AASB 15:

- Taxes and fines do not create obligations enforceable against the levying agency by legal or equivalent means, even where they are raised in respect of specific goods or services.
- The system of appropriations in Queensland does not create enforceable obligations for departments in respect of appropriations received.
- An agreement is often enforceable where there is a requirement to refund grant monies if they had not been spent on specified performance obligations. However, a requirement to refund monies that are not spent within a specified time period does not, by itself, give rise to an enforceable agreement.

Example: Under a multi-year grant agreement, the grantor may choose to reduce future funding to the agency instead of requesting a refund. In this situation, there'd be an enforceable agreement if the grantor can reduce future funding to which the agency is presently entitled - effectively the grantor is settling the refund obligation on a 'net' basis. However, the grantor withholding future funding to which the agency is not presently entitled does not demonstrate enforceability.

It is not relevant that the grantor has historically not enforced similar agreements (e.g. they've not asked for refunds), as enforceability is assessed on the grantor's capacity and rights to enforce. An agreement may be partially enforceable, for example, if only a portion of the grant is subject to refund if specified activities are not performed. In this case, the agency may need to recognise a contract liability under AASB 15 for the enforceable portion, and income under AASB 1058 for the non-enforceable portion.

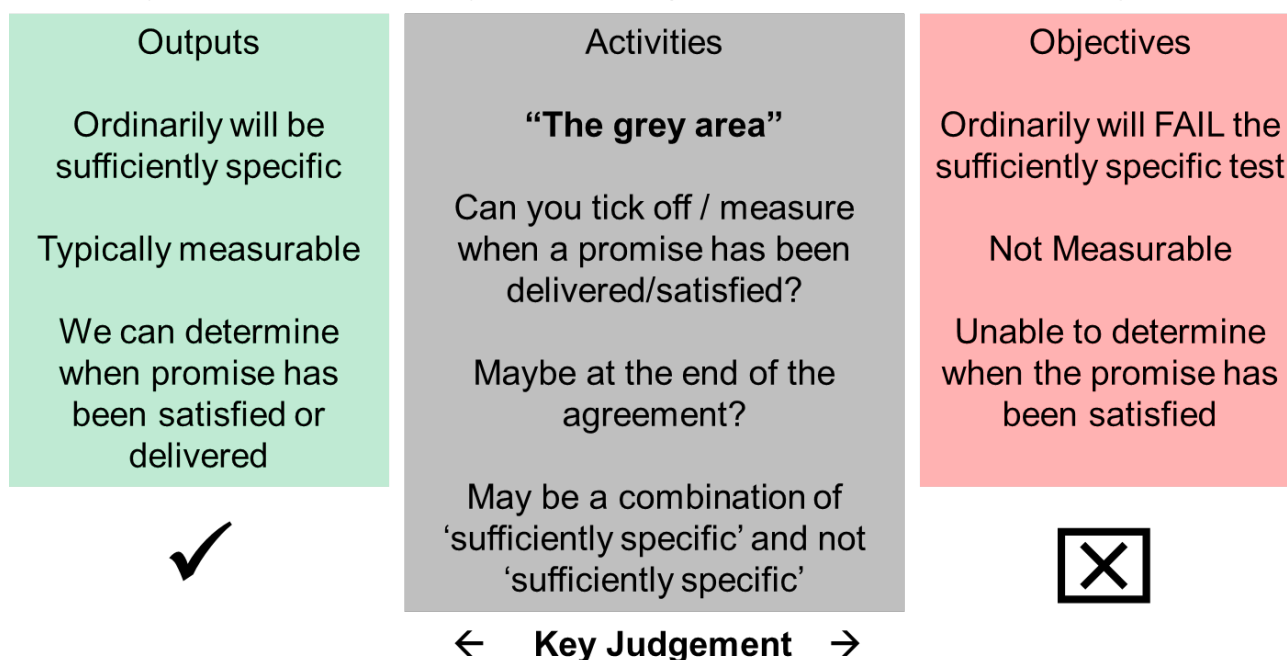
3. Sufficiently specific performance obligations

For promises to be sufficiently specific performance obligations, the agency must be able to determine (i.e. measure) when, or to what extent, the obligation is satisfied (i.e. completed or the percentage of completion) at any point in time. This is essential in providing the basis for revenue recognition under AASB 15. In addition, the goods or services to be provided must be specified or quantifiable and not be at the discretion of the agency.

In making this assessment, agencies must apply judgement, including taking into account any conditions specified in the contract regarding the following aspects:

- The nature or type of the goods/services
- The cost or value of the goods/services
- The quantity of the goods/services
- The period over which the goods/services must be transferred

Agencies may find it useful to classify deliverables/promises into three distinct categories:



Outputs (for example, the delivery of 1000 park shelters) are normally straightforward to measure and will typically meet the sufficiently specific criteria (unless the agency has no way of measuring when the promise has been satisfied or delivered, in which case the test would be failed). On the other hand, general, high level *objectives* or aspirational targets (for example, “improving literacy rates”), will typically fail the test.

Judgement will often be required when the promise is in the form of *activities* (for example, conducting a childhood vaccination program). Identifying whether activities are measurable may be straightforward or difficult in practice. To be sufficiently specific, agencies must be able to reliably measure at any point in time their progress in fulfilling the promise/s embodied in those activities to the customer.

Agreements with mixed activities, outputs and objectives

An agreement or program can sometimes contain a mixture of sufficiently specific activities and other more general activities that do not meet the sufficiently specific criteria. It may be necessary to first ‘unbundle’ a program of activities into the measurable outputs and general objectives to identify those activities that do not fit neatly into either category. The remaining activities comprising the program would then be considered as to whether they are measurable and have, on balance, sufficiently specific characteristics that would meet the AASB 15 requirements. Activities for which the percentage of completion (or fulfillment of the promise) cannot be reliably measured are expected to fail the sufficiently specific requirement.

Acquittal procedures and milestone reporting

The agreement may require an acquittal process for the recipient to demonstrate progress towards transferring the goods or services. Periodic progress reporting may assist agencies with measuring its progress towards satisfying performance obligations (i.e. it may provide evidence that the promise to transfer goods/services is sufficiently specific), however such reporting obligations themselves are not considered separate performance obligations.

General obligations to spend money

An obligation to ‘spend money’ alone does not constitute a performance obligation, since AASB 15 is about the goods or services the agency is required to transfer to a customer in return for the funding received. Agencies should refer to illustrative examples in AASB 1058 (Examples 3, 6, 7 & 8) and AASB 15 (Australian Examples 2 to 5) for examples of agreements that do and do not contain sufficiently specific performance obligations.

AASB 15’s five-step revenue recognition model

In applying the five-step model in AASB 15, agencies should refer to Appendix F of AASB 15 “Australian implementation guidance for not-for-profit entities”. Some of the key common judgements and considerations that agencies may encounter in each of the five steps are provided in the following table.

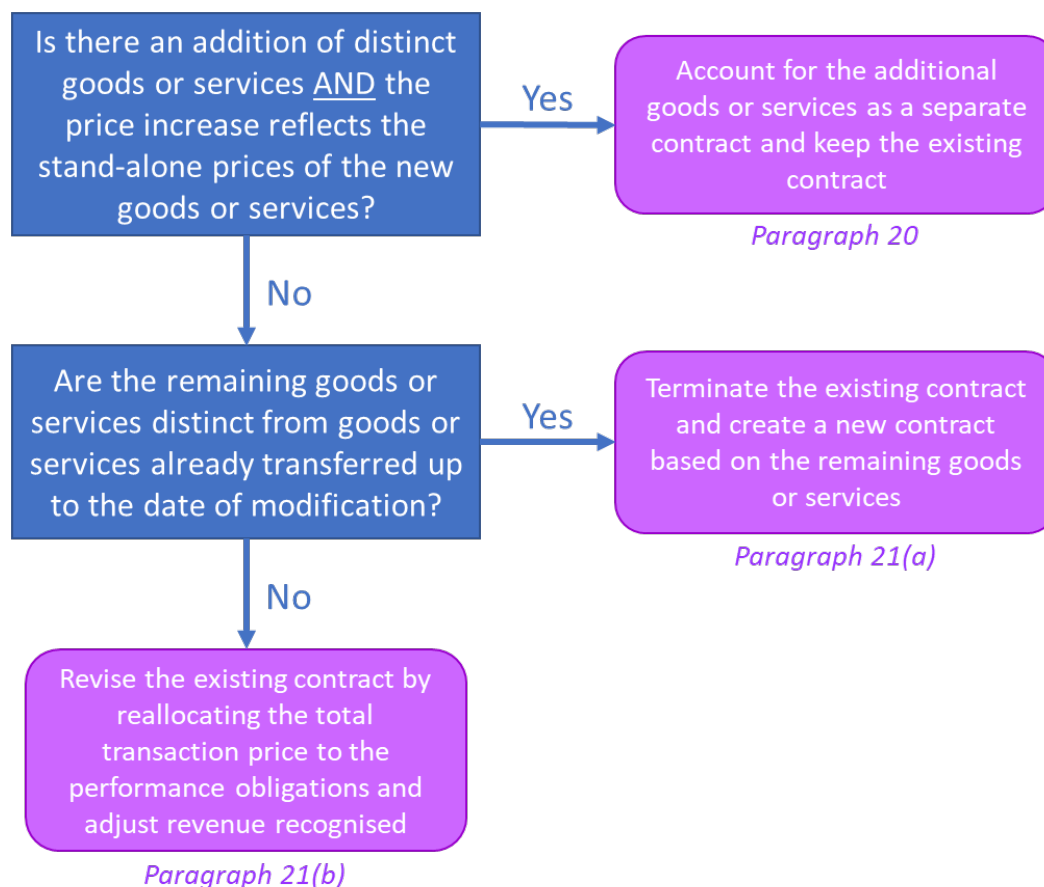
Step	Key judgements and considerations
Step 1 – Identify the contract with a customer	This step is <u>not required for licence revenue</u> as they are <u>automatically in scope</u> (para. Aus5.2). Agencies should apply the licence versus tax assessment instead (para. G3) Appropriations, taxes and fines are not enforceable and are out of scope of AASB 15. Should two or more related contracts be accounted for as a single contract for the purposes of AASB 15? (para.17) When a contract is modified, consider the guidance on contract modifications below. (para.18-21)
Step 2 – Identify performance obligations	Where the agency provides multiple goods or services under the contract: Is each good or service distinct or should they be combined with other goods or services to form a distinct bundle of goods or services? (para.27-30) Does each distinct good or service form a single performance obligation? (para.22-23) For each performance obligation, is the agency acting as principal or agent? (para. B34-B38)
Step 3 – Determine the transaction price	Have you adjusted the transaction price for expected refunds? (para.55, B20-B27) Is it highly probable that a significant reversal in the amount of revenue will not occur? (para.56) Where there is a greater than 12 months timing difference between payment and transfer of goods or services, consider whether you need to adjust the transaction price for the financing component. (para. 60-65) Did you receive any non-cash consideration for the goods or services? (para. 66-69)

Step	Key judgements and considerations
Step 4 – Allocate transaction price to performance obligations	Where more than one performance obligation is identified in Step 2: How will you determine the stand-alone selling prices of each distinct good or service? (para. 76-80) Do any variable consideration relate to the entire contract or only to specific performance obligations? (para. 84-86)
Step 5 – Recognise revenue when/as the entity satisfies each performance obligation	What is the good or service you are transferring? Is control of the good or service transferred over time or at a point in time? – Apply the criteria in para. 35 and consider the indicators of transfer of control in para. 38 (para. B2-B13) Where a performance obligation is satisfied over time, how will you measure progress? (para. 39-43, B14-B19) Will you use an output method or an input method? Output methods should be used where possible without undue cost

Note that the timing of revenue recognition under AASB 15 may not coincide with the timing of expenses incurred. Agencies should NOT assume that, just because a transaction falls under AASB 15, they will be able to achieve matching of revenue and expenses.

Contract modifications

When a contract with a customer is modified in terms of the scope, the price, or both, the appropriate accounting treatment is determined in accordance with AASB 15 paragraphs 20-21, which is summarised in the following flowchart.



Licences revenue (AASB 15 Appendix G)

Accounting for revenue from licences issued by not-for-profit public sector entities, (for example, driver's licences, blue cards, casino licences, etc.) are within the scope of AASB 15, irrespective of whether the licences are contracts with customers.

Licence revenue is recognised by applying the five-step model in AASB 15. Appendix G contains guidance on identifying performance obligations in relation to licence revenue. Most commonly, the sole performance obligation the agency will have is to issue the licence to the licensee. In this case revenue will be recognised when the licence is issued.

(a) *Difference between a licence vs a tax*

One of the differences between licences and taxes is that licences are 'discretionary' while taxes are 'compulsory'. This difference can be illustrated by the consequences of avoiding payment of the licence fee or tax, for example:

- Casino licence – If an entity operates a casino without a licence, they can be fined but they cannot be compelled to retrospectively obtain a licence and pay a licence fee. The entity may not in fact be eligible to obtain a casino licence.
- Gaming tax – If an entity earns gaming income and does not pay the tax, they can be compelled to pay the tax plus any interest or penalties owed.

(b) *Identifying performance obligations in licences*

In relation to licences, the following are not performance obligations:

- An exclusivity promise is not a performance obligation, rather it is an attribute or feature of the licence. For example – a promise to not issue a similar licence to another party and to ensure no other parties engage in the activities that the licensee has an exclusive right to.
- Enforcement or policing/monitoring activities undertaken to benefit the general public rather than the licensee are not performance obligations because they do not transfer goods or services to the licensee. For example – activities to ensure the licensee is not carrying out illegal activities or to ensure the licensee continues to meet eligibility requirements.

(c) *Licence fees that are refundable if the licensee cancels their licence*

Some licences fees may be partially refundable (e.g. on a pro-rata basis) if the licensee decides to cancel their licence at any time.

A refund obligation alone is not sufficient to defer revenue recognition over the licence period. Agencies should instead apply paragraph 55 of AASB 15 and estimate a portion of the licence fee that is expected to be refunded and recognise that portion as a refund liability. For example, if, based on historical data, 5% of licence fees end up being refunded, the agency would recognise a \$1000 licence fee as \$950 revenue and \$50 refund liability. The refund liability is debited when refunds are paid. The refund liability must also be reassessed and updated at the end of each reporting period, with any adjustments taken to revenue.

In rare circumstances where an agency cannot reliably estimate the expected refunds, for example for a new type of licence, the full licence fee is to be recognised reflecting the applicable performance obligation(s) until sufficient historical data becomes available. Paragraph 55 must be applied as soon as a reliable estimate of refunds can be made.

(d) Amounts charged for conduct of licenced activities

In addition to the licence fee, the licensee may also need to pay amounts to the State for as a result of conducting licenced activities. For example, a mining company would pay a licence fee for the permission to undertake mining activities and pay royalties for what they mine.

Where the amount payable (in the form of a fee, tax, royalty etc) is separately prescribed in legislation or regulation that is not specific to the licensing arrangement with the licensee, it is ordinarily considered a tax and is accounted for separately from the licence fee. Taxes are recognised as income under AASB 1058 when the taxable event occurs. (Refer to FRR 4E for guidance on taxable events and the timing of recognition of statutory receivables.)

Where the performance of licenced activities is entirely within the control of the licensee (including decisions about whether and how much activities to conduct), agencies should only recognise revenue/receivable when the activities are conducted. This is because, prior to the activities occurring, the agency does not ordinarily control a receivable asset as it is dependent on future performance of the licensee (i.e. the 'past event' has not yet occurred).

(e) Fees charged for licence eligibility assessments

Fees paid by prospective licensees to demonstrate to the agency or for the agency to assess whether they are eligible to obtain a licence are not licence revenue, because they do not directly give the prospective licensee a right to perform an activity or access an asset. Agencies should apply the standard AASB 15 scope criteria to assess whether these fees are revenue from contracts with customers or AASB 1058 income.

3B.6 GAINS RECOGNISABLE IN OTHER INCOME ON DERECOGNITION OF NON-FINANCIAL ASSETS

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB 116 *Property, Plant and Equipment*
- AASB 138 *Intangible Assets*
- AASB 140 *Investment Property*
- Non-Current Asset Policy (NCAP) 6 Disposal of Non-Current Assets

POLICY

- **Net gains on derecognition of assets must be reported as income. Net losses on derecognition of assets must be reported as an expense.**
- **For the purposes of recognition in the Statement of Comprehensive Income, the net gain/loss is to be determined separately for:**
 - **Property, plant and equipment;**
 - **Investment property; and**
 - **Intangibles.**

APPLICATION GUIDANCE

The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of the agency. Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an agency. Gains are to be reported separately from revenue in the Statement of Comprehensive Income. Refer to NCAP 6 and AASB 138 for further information.



FRR 3C Employee Benefit Expenses and Key Management Personnel Remuneration

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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3C.1 ACCOUNTING CATEGORISATION

REFERENCES

- AASB 119 *Employee Benefits*

APPLICATION GUIDANCE

Consultants and temporary contractors are not employees

For the purpose of AASB 119, consultants and other persons who are not subject to the direction of the agency are not deemed to be 'employees'.

Payments made to recruitment firms for the procurement of services provided by temporary contractors are not employee benefits for the purposes of AASB 119. Where an agency contracts directly with recruitment firms to procure services (via provision of a temporary contractor), this is a procurement of supplies and services. In this situation, the temporary contractor is an employee of the recruitment firm and therefore payments made in this regard cannot be recognised as an employee cost by the agency.

Accumulating and vesting entitlements

Employee benefits are either accumulating or non-accumulating, vesting or non-vesting. Vesting entitlements are those where employees are entitled to a cash payment for unused entitlements on leaving the entity, e.g. annual leave. Non-vesting entitlements do not entitle employees to a cash payment for unused entitlement on leaving the entity and are paid only on the occurrence of an event e.g. sick leave.

Agencies should be aware of the different criteria within Accounting Standards for measuring short term and long term employee benefits under AASB 119 (discussed below) and classifying employee benefits between current or non-current for financial statement presentation under AASB 101 (discussed in FRR 4C.2).

Short-Term Employee Benefits

Short-term employee benefits are those benefits that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees rendered the related service.

Short-term employee benefits include wages, salaries, levies paid to the ALCS (where applicable), paid sick leave, bonuses and non-monetary benefits. For agencies not in the ALCS, annual leave is classified as a short-term employee benefit only when the entire annual leave liability for the agency meets the short-term employee benefit definition of AASB 119.

If any part of a class of employee benefits is expected to be settled beyond that timeframe, the entire class of benefit will need to be categorised as one of the following types of employee benefit.

Post-Employment Benefits

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. Post-employment benefits include pensions and lump sum payments on retirement, etc.

Other Long-Term Employee Benefits

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits. Other long-term employee benefits include long-service leave, sabbatical leave, long-term disability benefits, etc.

For agencies not in the ALCS, annual leave is classified as an “other long-term employee benefit” when the entire annual leave liability for the agency does not meet the definition of a short-term employee benefit.

Termination Benefits

Termination benefits are employee benefits that arise either as a result of an agency’s decision to terminate employment before the normal retirement date or an employee’s decision to accept an offer of benefits in exchange for the termination of employment.

3C.2 EMPLOYEE EXPENSES

REFERENCES

- AASB 119 *Employee Benefits*

POLICY

- **Employee expenses disclosed in the notes must include wages and salaries, annual leave levy/expense and (if applicable) sick leave expense.**
- **Any salary recouped by an agency must be recorded as a reduction in employee expenses.**

- **Redundancy/termination benefits must be recognised as an expense and disclosed in the Employee Expenses note within “Other Employee Benefits”. However, separate disclosure of these benefits is required if their amount is material when compared to total Employee Expenses.**
- **The expense recognised for the levy payable to the Annual Leave Central Scheme, Long Service Leave Central Scheme, the employer contribution to the central superannuation scheme and the WorkCover premium expense must be separately disclosed in the notes.**
- **Disclosure is required of the number of full-time equivalent employees at reporting date (reflecting Minimum Obligatory Human Resource Information (MOHRI)) including full-time, part-time and casual employees, but not contractors. No adjustment is required for overtime.**

APPLICATION GUIDANCE

Employer superannuation contributions, annual leave levies and long service leave levies are regarded as employee benefits in accordance with AASB 119.

Employee related expenses

Costs that are a consequence of employing employees but are not counted towards an employee's total remuneration package are not employee benefits e.g. payroll tax (in the case of commercialised business units and statutory bodies) and workers' compensation insurance. To assist users in calculating the total employee related expenses, agencies should recognise these costs as 'employee related expenses' and disclose them separately from 'employee benefits'.

Employee Transfers

The guidelines for the LSLCS and the ALCS explain the financial implications of transfers of employees. This topic is discussed in FRR 4C Employee Benefits Liabilities.

For non-member agencies of either scheme, the main accounting implications are that, to the extent that cash is not transferred, income or expenses are to be recognised in respect of leave entitlements transferred to another agency or acquired from another agency respectively.

Seconded Staff

Payments made for staff on secondment from other agencies or otherwise employed by an agency on a non-permanent basis e.g. temporary and casual employees, should be included in the total for wages and salaries in the note relating to employee expenses.

Payments received for staff on secondment should be offset against wages and salaries expenses to ensure the reported expenses reflect the actual wages and salaries incurred for staff working for the agency in that financial year.

Where an employee is on secondment and there is a recoupment of employee expenses borne by the employee's usual agency, GST is not applicable to the transaction.

Redundancy and Termination Benefits

Redundancy/termination benefits disclosed for all employees (including for KMP) are to exclude payouts of unused leave entitlements.

Paid Parental Leave

The national Paid Parental Leave scheme came into effect on 1 January 2011. The scheme is funded by the Australian Government and provides Parental Leave Pay to mothers and other primary carers who have been in the paid workforce and who have a baby or adopt a child on or after 1 January 2011.

Parental Leave Pay is in addition to any other obligation the Queensland public sector may have to its employees. Parental Leave Pay is taxable and recipients will usually be paid in arrears. Queensland public sector agencies will be required to withhold Pay As You Go (PAYG) amounts and provide Parental Leave Pay to the employee in accordance with the usual pay cycle. Further information on the Paid Parental Leave scheme is available at:

<https://www.servicesaustralia.gov.au/paid-parental-leave-scheme-for-employers>

Amounts received in relation to the Paid Parental Leave scheme are held by the agency in an agent capacity. As such, receipts of such funds are not considered to be revenue for the agency, nor are payments of these amounts considered to be expenses of the agency.

Transactions in relation to the Paid Parental Leave are to be recognised on the Statement of Financial Position. That is, a current liability (payable) is recognised immediately upon receiving Paid Parental Leave amounts (i.e. Dr Cash, Cr Payables). The payable is extinguished as payments are made to the Australian Tax Office for PAYG amounts and to the employee (i.e. Cr Cash, Dr Payables).

Cash flows relating to the scheme are to be recognised as part of 'Cash flows from operating activities – Other' on the Statement of Cash Flows.

3C.3 DISCLOSURE OF KEY MANAGEMENT PERSONNEL (KMP)

REFERENCES

- AASB 10 *Consolidated Financial Statements*
- AASB 110 *Events after the Reporting Period*
- AASB 119 *Employee Benefits*
- AASB 124 *Related Party Disclosures*

POLICY

- **Agencies must present comparative disclosures about their KMP (contrary to the prospective application provisions in paragraph Aus28.2 of AASB 124).**
- **Agencies identified as a “department” in a Departmental Arrangements Notice (DAN) must disclose their responsible Minister(s) (using their full portfolio title) as part of their KMP, solely for the identification of KMP under this policy.**
- **All other agencies required to comply with the FRRs must determine whether their responsible Minister (if relevant) meets the AASB 124 KMP definition in respect of their agency. Where that is the case, that Minister (using their full portfolio title) must be disclosed as part of that agency’s KMP, solely for the identification of KMP under this policy.**
- **The notes to the financial statements must disclose the position title and a concise description of responsibilities for each non-Ministerial KMP position.**

APPLICATION GUIDANCE

Agencies must comply with the requirements of this policy in conjunction (and over and above) the disclosure requirements of AASB 124. It should be noted that Crown Law advice received in 2011 concluded that the application of the KMP and remuneration disclosure policies does not conflict with the *Right to Information Act 2009* (Qld), the *Information Privacy Act 2009* (Qld) or any other piece of State or Australian Government legislation.

Identifying KMP

For the purposes of the KMP disclosure policies, an agency’s KMP are to be identified according to the definition and criteria articulated in AASB 124, according to the judgement of individual agencies. It would be anticipated that the positions identified as KMP for the purposes of AASB 124 compliance would normally align with the information on “executive management team” set out in

the Annual Report in accordance with the *Annual Report Requirements for Queensland Government Agencies*.

The identification of KMP is not intended to be based on strict legal interpretations of responsibilities. As legal responsibilities may be delegated, the identification should be based on the day-to-day operational practices. For the purposes of AASB 124, KMP should **exclude** senior executives who, in general, have **no** role in the planning, directing and controlling of the agency as a whole.

Other senior executive positions that are responsible for their individual areas, and not involved in planning, directing and controlling the activities of the agency as a whole, should not be classified as KMP. Similarly, other staff who hold a titled position of Director but are not involved in planning, directing and controlling the activities of the agency as a whole, should not be classified as KMP.

Identifying KMP – temporary/relieving arrangements

In respect of temporary/relieving arrangements, the position should only be included in KMP disclosures if the staff member concerned was involved in planning, directing and controlling activities for the entire agency for a material part of the financial year.

For example, meeting the KMP definition for a total of four weeks during the financial year should not be considered a material part of the year. Conversely, meeting the KMP definition for a six month period would be a material part of the year. However, agencies have the discretion to provide additional disclosure for personnel occupying significant positions that fall outside the AASB 124 definition. The disclosure in relation to these personnel should be clearly distinguishable.

Identifying KMP – economic entity/consolidated groups

Within a set of consolidated financial statements (and where controlled entities are not consolidated due to materiality), the KMP of the parent are likely to effectively be KMP of the consolidated group. On that basis, KMP disclosures in consolidated financial statements should solely reflect KMP of the parent entity.

Where a controlled entity is itself a reporting entity, that controlled entity needs to prepare its own general purpose financial statements that comply with (at least) AASB 124 from its own perspective.

Change in KMP resulting from a MoG Change

Professional judgement is required in determining who meets the KMP definition, *especially* in the context of a department's structure before and after any moG changes.

Reported remuneration for the transferred position in the transferor department's financial statements will only reflect remuneration from the beginning of that relevant financial year until the effective date of the moG.

For the transferee department, reported remuneration for the transferred position will reflect:

- for a ***newly established*** department, remuneration for the position from the new department's commencement date to the end of the reporting period, as per s.80(2) of the FA Act; or
- for a ***continuing department***, remuneration for the position from the effective date of the moG transfer to the end of the reporting period.

Departments should ensure this note also includes a cross-reference to associated note disclosures about the moG change.

Where remuneration costs for a key management position are reflected in another department's expenses prior to a moG change, the transferee department should disclose in a footnote which department is including such costs in its reported expenses, and the total dollar amount of such remuneration for each relevant key management position.

KMP Shared between Agencies

For some agencies, some or all KMP are shared with other agencies – guidance on dealing with disclosures in that situation is set out under FRR 3C.4 below. In some situations, a person may be a KMP of one agency while providing non-KMP services to another agency. For the latter agency, costs incurred in respect of that position should not appear in the KMP note (any such costs would only be included in Employee Expenses).

Ministers as KMP of agencies

Where a Minister meets the KMP definition in respect of an agency (as per this FRR 3C.3), reference should be made to the relevant model financial statements for suggested disclosures about the Minister. Where an agency (other than a department) determines that its responsible Minister does not meet the KMP definition, no disclosure about the Minister is to be included in that agency's KMP note.

Assistant Ministers do not meet the KMP definition, due to their responsibilities as per the Cabinet Handbook.

Agencies other than departments (as per a DAN) are required to make their own determination about their Minister being part of their KMP, due to the varying legislative/operational arrangements that exist for such agencies. This also applies to agencies that might be regarded as a “department” for purposes other than Departmental Arrangements Notices. Agencies other than departments (as per a DAN) should make their determination about their Minister based on a review of the agency’s enabling legislation (where applicable) and current practice.

Ministers as KMP of Government Owned Corporations

Cabinet has agreed to the position that shareholding Ministers are KMP of their respective Government Owned Corporations. Examples of indicators that are relevant in this respect include:

- what operational matters (if any) must be approved by the Minister;
- what consultation must occur with the Minister, and about which activities;
- what directions the Minister can issue to the agency; and
- what type of reporting must go to the Minister about operational/financial matters etc.

In each case, the nature of the matters/activities/directions etc is important - akin to the distinction between the concepts of substantive rights and protective rights in Appendix B (Application Guidance) of AASB 10. When assessing enabling legislation for the rights of a Minister over an agency, consideration should be solely on whether those powers exist, not whether or how often those powers are exercised.

The policies in this FRR 3C.3 regarding disclosure of Ministers as a member of an agency’s KMP are the result of:

- the substantial guidance for not-for-profit public sector entities included in the current version of AASB 124;
- the *Constitution of Queensland 2001* - which indicates that the administrative units of Government (i.e. departments) are administered by the respective Minister(s);
- the Cabinet Handbook - which states “*Ministers administer, and are responsible for, their departments of State*” and “*Ultimate responsibility for departmental management rests with Ministers who are legally and politically accountable to the Parliament for the administration of their department(s)*”;
- Administrative Arrangements Orders (AAOs) issued by the Governor in Council under the *Constitution of Queensland Act 2001* state that each Minister is to administer the matters (set

out next to the respective Ministers' titles) in the AAO (an AAO lists the statutory bodies and departments administered by each Minister); and

- the application of the KMP definition by other States/Territories and the Australian Government.

3C.4 KEY MANAGEMENT PERSONNEL (KMP) REMUNERATION EXPENSES

REFERENCES

- AASB 110 *Events after the Reporting Period*
- AASB 119 *Employee Benefits*
- AASB 124 *Related Party Disclosures*
- FRR 2B *Materiality*

POLICY

- **Agencies must present comparative disclosures about KMP remuneration expenses/disclosures (contrary to the prospective application provisions in paragraph Aus28.2 of AASB 124).**
- **For each KMP, the following expenses must be disclosed as a minimum, by category:**
 - (i) **Short term employee expenses, for the period during which the employee occupied the KMP role, including:**
 - **Wages, salaries, sick leave, allowances recognised as an expense, performance pay recognised as an expense for the year, and non-monetary benefits (including fringe benefits tax) including motor vehicle, housing, goods and/or services received from the KMP's employing agency etc (to the extent that any such non-monetary benefits are, in substance, remuneration of the individual);**
 - **Where the agency is a member of the Annual Leave Central Scheme (ALCS), levies expensed;**
 - **Where the agency is not a member of the ALCS and the agency's entire annual leave liability meets the definition of a short term employee benefit, the amount of annual leave entitlements earned and expensed for**

the period during which the employee occupied the KMP role.

(ii) Long term employee expenses for the period the employee occupied the KMP role:

- **Long service leave entitlements earned (where the agency participates in a central leave scheme, this only relates to the levies) and recognised as an expense.**
- **Where the agency is not a member of the ALCS and the agency's entire annual leave liability does not meet the definition of a short term employee benefit, the amount of annual leave entitlements earned and expensed.**

(iii) Post-employment expenses, for the period the employee occupied the KMP role:

- **Employer superannuation contributions recognised as an expense for the year.**

(iv) Termination expenses

(v) Performance Payments

- **In respect of performance payments, the following must be disclosed:**
 - ❖ **a description of the basis for payment for performance payment entitlements and the date the performance payment was paid, for each key management person; and**
 - ❖ **the performance payments recognised as an expense for the year in relation to KMP in aggregate.**
- **Where performance payment entitlements relating to the reporting period will be determined during the following financial year, affected agencies must disclose that fact, and include an explanation of progress with the performance assessment process as at the date the financial statements are certified by management.**

- **For those agencies where any KMP are conditionally entitled to performance payments at the end of the reporting period, the narrative disclosure in the KMP note must include:**
 - ❖ **the maximum potential performance payment that each relevant key management person may receive in dollar terms;**
 - ❖ **an overview of the performance assessment process; and**
 - ❖ **a brief explanation of the basis for performance payment entitlements.**
- **If none of an agency's KMP has a remuneration package that includes potential performance payments, the agency's KMP note needs to state this clearly.**
- **Prior year comparative information is required for all KMP performance payments**
- **In all situations where a key management position is shared, agencies must include a footnote to the Key Management Personnel note explaining the arrangements for sharing this position, including the name of the other agency and whether (and how) agencies are bearing the associated costs.**

APPLICATION GUIDANCE

Agencies must comply with the requirements of this policy regarding KMP remuneration expenses, over and above the disclosure requirements of AASB 124.

Amounts disclosed in the Employee Expenses note to the financial statements should equal the amount expensed in the Statement of Comprehensive Income. For consistency, **the figures disclosed in the KMP note should also reflect the cost of that KMP's remuneration that is reflected in the agency's net reported expenses** (i.e. after any reimbursements/recoveries of amounts debited to employee expense general ledger accounts). The objective of AASB 124 focuses on the financial impact on the agency (in an accrual accounting sense) during the respective reporting periods that is attributable to key management positions.

Amounts reported for KMP of annual leave and long service leave included in the remuneration expenses note follow the same principle. **Amounts included in reported remuneration figures are not intended to reflect the amount of annual/long service leave physically taken by the KMP during the year or paid out on cessation of employment.**

Where an employee/board member commenced or ceased in a KMP role during the reporting period (including the comparative period), as reflected in the remuneration expenses disclosed, agencies should include in the remuneration table the date of commencement/cessation of that person as KMP. This also applies to temporary/relieving arrangements.

For those KMP employed as part of the Senior Executive Service under the *Public Sector Act 2022*, the total annual motor vehicle benefit provided (including the fringe benefits tax paid) is assumed to be equal to the equivalent vehicle allowance that forms part of the SES Remuneration Rates - refer to directive "*Senior Executive Service – Employment Conditions*" released by the Public Sector Commission.

This is on the basis that the directive "*Executive Remuneration Package – Motor Vehicles and Allowances*" provides that where the grossed-up value is less than their allowance, the difference will be paid to the executive as part of their fortnightly salary but will not be recognised for the purposes of superannuation, etc. (Directives can be found at: <https://www.forgov.qld.gov.au/pay-benefits-and-policy/directives-policies-circulars-and-guidelines>)

Agencies should take into consideration information collected via related party declaration processes regarding goods and/or services received by the KMP themselves from their employing agency. To the extent that the KMP did not pay arm's length consideration for those goods/services, and these are treated as non-exempted reportable fringe benefits, these may constitute non-monetary benefits that are more appropriately reflected in reported remuneration expenses (rather than being separately disclosed as a related party transaction).

In respect of temporary/relieving arrangements, the expenses to be disclosed in the KMP note should directly relate to the period of time during which an employee undertook all responsibilities described in the KMP definition. Refer to FRR 3C.3 for guidance about who should be identified and disclosed as a KMP, including in respect of temporary/relieving arrangements.

KMP Shared between Agencies

If the incumbent of a position provides services to more than one agency, professional judgement is required as to whether that position meets the KMP definition for each agency separately. Consistency in disclosures between those agencies sharing key management positions is strongly recommended. For example:

- If agencies actually share the costs of a key management position (e.g. according to the relative estimated percentages of time the incumbent spends on each agency) – the figures in the KMP note should reflect the costs each agency actually incurred, as reflected in its reported expenses.
- If an agency is bearing 100% of the costs of a key management position that is shared with one or more other agencies – the figures in the KMP note should reflect that 100% of the remuneration cost.
- If an agency bears no costs in relation to a key management position, it should disclose that position's details in the KMP note, with the various columns referencing an explanatory footnote.

Disclosing Ministerial KMP remuneration

Where a Minister meets the KMP definition in respect of an agency (as per the applicable FRR 3C.3 policy), reference should be made to the relevant model financial statements for Treasury's recommended disclosure about Ministerial remuneration. Agencies would not have any remuneration to report themselves, assuming they don't bear Ministerial remuneration expenses.

Aggregate remuneration for all Ministers (as per paragraph 17 of AASB 124) will be reported in Treasury's annual Report on State Finances – as all Ministers also meet the definition of KMP for the Whole-of-Government.

Performance Payments

The disclosure requirements regarding performance payments apply to all departments and statutory bodies that have KMP whose remuneration packages include potential performance payment entitlements. Performance payments are equivalent to bonus payments under AASB 119. Other bonus payment entitlements under AASB 119 may include (but are not limited to) short and long term incentive plans, at-risk payments and certain deferred/contingent bonus plans.

The performance payments requirements apply to entitlements to which any KMP, not just chief executives, may be entitled.

If performance payments are expected to be settled wholly within 12 months after the end of the reporting period in which the KMP rendered the related services, they are to be accounted for as a short-term employee benefit. Otherwise, they are to be accounted for as a long-term employee benefit under AASB 119.

AASB 110 deals with the treatment of adjusting and non-adjusting events (refer to that standard for further explanation of these concepts). A common scenario is where agency KMP may be conditionally entitled to performance payments as at the reporting date but the obligating event giving rise to the payment does not occur until the subsequent reporting period. In the context of AASB 110 requirements, this would be classified as a non-adjusting event and the performance payment expense will be recognised in the financial year following that to which the payment actually relates.

This also applies to the expenses disclosed in the associated KMP note (refer to the illustrative tables in the Sunshine Department Illustrative Financial Statements note). Being a non-adjusting event, only narrative note disclosure is permissible regarding any performance payments (or potential payments) determined after the end of the reporting period.



FRR 3D Expenses

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

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3D.1 RECOGNITION AND DISCLOSURE OF EXPENSES

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 101 Presentation of Financial Statements*
- *AASB 1054 Australian Additional Disclosures*

POLICY

- **The notes must include a breakdown of each material category of expense shown on the face of the Statement of Comprehensive Income.**
- **The notes to the financial statements must include the value and reason/basis for the waiver of material debts during the financial period.**
- **In addition to AASB 1054.10, the notes to the financial statements must also disclose the amount quoted for the external audit fee for that particular financial year (as per the external auditor's External Audit Plan).**

APPLICATION GUIDANCE

Recognition of Expenses

Pursuant to the Framework, an expense should be recognised in an agency's Statement of Comprehensive Income when, and only when, the following criteria are satisfied:

- a decrease in future economic benefits related to a reduction in assets and/or an increase in liabilities has occurred; and
- the consumption or loss of future economic benefits has a cost or value that can be measured reliably.

A further criterion for the recognition of an expense is that it possesses a cost or value that can be measured with reliability. In many cases, cost or value must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the expense is not recognised in the Statement of Comprehensive Income.

An item that, at a particular point in time, fails to meet the recognition criteria, may qualify for recognition at a later date as a result of subsequent circumstances or events (e.g. litigation against an agency disclosed as a contingent liability where updated legal advice advises the litigation is

now likely to succeed). An item that possesses the essential characteristics of an expense but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial performance of the entity by the users of the Statement of Comprehensive Income.

Timing of Recognition

Under the accrual basis of accounting, expenses are recognised when incurred, usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Examples include:

- where future economic benefits acquired by an agency are consumed immediately or soon after acquisition e.g. supplies, the expense qualifies for recognition in the reporting period in which the acquisition of the future economic benefit occurs;
- where future economic benefits are expected to be consumed over several reporting periods e.g. most non-current physical assets, expenses (depreciation) should be allocated systematically to the reporting period during which the future economic benefits are expected to be consumed;
- where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and
- where a liability is incurred without the recognition of an asset (e.g. wages payable), an expense is recognised simultaneously with the recognition of the liability.

➤

Examples of Expenses

The definition of expenses encompasses losses as well as expenses that arise from the ordinary activities of the entity. Losses would include losses on the sale of non-current assets, write downs of inventory and decrements in fair values of financial instruments classified as held at fair value through profit or loss. Losses, including losses defined under the FPMS, are dealt with separately in this FRR.

Agencies are directed to FRR 3C Employee Benefit Expenses and Key Management Personnel Remuneration for the Minimum Reporting Requirements applicable to wages, salaries and other employee entitlements/costs.

Initial Project Costs

Costs are often incurred in relation to a project before it is known conclusively whether they will result in an asset of an agency. Where asset recognition criteria are not met, any such costs must be expensed as incurred. (Refer to NCAP 1 Recognition of Assets for definition and recognition criteria). Circumstances involving initial costs could include construction projects, service concession arrangements and expenditure incurred in the research phase of a development project under AASB 138.

Departments should also be aware of the Project Commencement Approval Policy (<https://www.treasury.qld.gov.au/resource/project-commencement-approval-policy/>) applicable to accountable officers and Ministers when approving the commencement of a high-value project.

Construction Costs - Work in Progress

Where an agency is constructing an asset for its own use, costs incurred during construction that are directly attributable to bringing the asset to a location and condition necessary for its intended use must be capitalised as work in progress. After the asset is installed and ready for use the asset is classified as part of the class to which it belongs. Examples of work in progress costs are contained in NCAP 1 Recognition of Assets.

However, not all funds that are provided for capital works purposes necessarily result in a capitalised asset. Those costs that cannot be directly attributed to the construction of the asset or to bringing the asset to a location and condition necessary for its intended use must be expensed. Examples of such costs are administration and other general overheads, training expenses, advertising and promotional expenses and costs of opening a new facility. Aggregated expenditure on an asset must exceed prescribed asset recognition thresholds for the relevant asset class to qualify for capitalisation. Refer to NCAP 1 Recognition of Assets for definition and recognition criteria.

3D.2 GRANTS AND SUBSIDIES EXPENSES

FRR 3D.2 only applies to expenses within the scope of FRR 3E Distinction between Grants and Procurement, that are NOT a procurement transaction according to the criteria in FRR 3E.2 Classification of Arrangements between Grants and Procurement.

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*
- FRR 3E Distinction between Grants and Procurement

POLICY

- Where the terms of a grant or subsidy have been satisfied during the reporting period, but the full amount relevant to the period has not yet been disbursed, an agency must recognise an expense and a liability (payable) in respect of the present obligation at reporting date.
- Where an agency has examined the relevant terms and conditions of the grant arrangements, and:
 - it is less likely than more likely that a present obligation exists in terms of the Framework for the Preparation and Presentation of Financial Statements; or
 - it is improbable that an outflow of economic resources will be required to settle the obligation; or
 - a reliable measurement of any future payment cannot be made,then a contingent liability must be disclosed in the notes to the financial statements (where the amount is material).
- Agencies shall not recognise any prepayment assets in relation to grants and subsidies paid.

APPLICATION GUIDANCE

As specified in FRR 3E, the grantor agency does not receive approximately equal value in return for the grant payments made in a transaction that meets the classification criteria of a grant. This is because economic benefits are provided to other parties, such as the general public, rather than directly back to the grantor agency. The grantor therefore does not control any asset (as defined in the conceptual framework) once the grant is paid and should not recognise any prepayment asset(s) when it makes a grant payment.

Return of grant revenue previously paid out by the agency in an earlier financial year will, except in rare situations, be treated as “other revenue”. After the agency makes the initial grant payment, any subsequent return of grant funds from the grant recipient is considered a separate transaction. The current year’s grant expense should not be distorted by the recoupment of prior year grants.

Recognition of accrued grant expenses

At year end, a third party grantee may have incurred costs or work-in-progress (WIP) on a grant funded project that they have yet to bill the grantor agency for the next instalment of grant funding. The grantor agency should not recognise a liability (accrued grant expense) unless both of the following conditions are met:

- The terms and conditions in the grant agreement establish a present obligation for the grantor to pay for the work performed to date (in many cases, a present obligation will not exist for payment until a certain milestone has passed), AND
- The grantor is readily able to obtain a reliable estimate of the amount of “unbilled WIP” incurred/recognised by the grantee. For this purpose, it is not expected the grantor would need to go to unreasonable lengths to ascertain or estimate this information, including imposing unreasonable access conditions to “look into” to the grantee’s books or systems.

It is expected that only in very few circumstances would these conditions be satisfied.

Example: A grant agreement specifies that the grantor is liable to pay funding instalments on completion of set milestones. The grantor should not recognise any accrued grant expenses for milestones that are partially complete at year end. Only when the milestone is complete and the grantor has been officially notified of its completion (and has not yet been invoiced for the instalment), would it be appropriate to recognise an accrued grant expense. Upon receiving an invoice, the accrued liability becomes a grant payable.

3D.3 FINANCE/BORROWING COSTS

REFERENCES

- *AASB 123 Borrowing Costs*

POLICY

- **All finance/borrowing costs of not-for-profit agencies must be expensed in the period in which they are incurred, as permitted by paragraph Aus1.0 of AASB 123.**

3D.4 LOSSES AND INSURED LOSSES

REFERENCES

- *Financial Accountability Act 2009 (FA Act) (s.21, s.72)*
- *FPMS (s.16, s.17)*

POLICY

- **A loss which is subject to an insurance recovery must be separately disclosed on a gross basis with a cross-reference to the note where any recovery revenue is recognised. The reimbursement receivable must be treated as a separate asset to any provision that is recognised.**
- **Receivables and income in respect of insurance recoveries must not be recognised unless it is virtually certain that the insurer will accept the claim.**
- **Insurance premiums paid to the Queensland Government Insurance Fund (QGIF) must be separately disclosed as “Other expenses – Insurance premiums QGIF”.**
- **WorkCover premiums are not disclosed under this item, but under “Employee Expenses”.**

APPLICATION GUIDANCE

Losses are defined by the Australian Accounting Standards Board in its *Glossary of Defined Terms* as a ‘decrease in economic benefits’. The term ‘losses’ includes bad debts written-off, thefts, accidental and wilful damage or property destruction and losses due to negligence.

For whole-of-government (woG) reporting purposes in Tridata, insurance recoveries from the QGIF are to be accounted for against the expense recognised in respect of the loss. Therefore, whilst for agency financial reporting purposes, QGIF insurance recoveries are recognised as revenue, for woG reporting in Tridata, these recoveries are credited against the relevant expense and as such, not recognised as revenue.

3D.5 LOSSES UNDER THE *FINANCIAL AND PERFORMANCE MANAGEMENT STANDARD 2019*

REFERENCES

- *FA Act* (s.21, s.48, s.72)
- *FPMS* (s.16, s.17)

POLICY

- **Losses recognised in accordance with s.16 and s.17 of the FPMS are expenses for financial reporting purposes.**
- **Disclosure is required of the total amount for each class of material loss under s.16 and s.17 of the FPMS. Such losses must be separately identified in the notes to the agency's financial statements within the 'Other Expenses' note.**

APPLICATION GUIDANCE

Section 17(2) of the FPMS requires a written record of material losses be kept, and describes the details about the losses that are to be recorded. Material loss, for property of a department or statutory body, is defined in the FPMS (Schedule 1 Dictionary).

Section 72 of the FA Act gives the accountable officer authorisation to write off losses for controlled assets. Only the Treasurer has authority to write off losses associated with administered assets unless a specific delegation has been provided to an accountable officer, or an officer or employee of Queensland Treasury, by the Treasurer under s.48 of the FA Act.

3D.6 SPECIAL PAYMENTS

REFERENCES

- FA Act (s.72)
- FPMS (s.15)

POLICY

- **Agencies must disclose within the 'Other Expenses' note the total amount for each class of special payments.**
- **In addition, that note must include a description of the nature of all special payments greater than \$5,000. At their discretion, agencies may also disclose the nature of special payments of \$5,000 or less.**
- **Agencies are to include in their significant accounting policies, a note that explains the recording and reporting arrangements for special payments.**

APPLICATION GUIDANCE

Special payments are defined in the FA Act as including 'ex gratia expenditure and other expenditure that is not under a contract'. A payment is 'ex gratia' when it is not legally due either under a contract or otherwise e.g. when a payment is made to a contractor on the grounds of hardship because of an excessive loss on a fixed price contract.

It is not always possible to distinguish between an ex gratia payment and one that may be a legal obligation. Therefore, the nature of the payment should be the determining factor. Out-of-court settlements arising from the normal course of operations of an agency should be treated as special payments. An 'extra-contractual' payment occurs when there is no clear legal obligation to make a payment under the contract terms, however, a court might hold that an obligation exists e.g. a contractor who incurs additional costs as a result of an agency's inaction.

3D.7 REPORTABLE GIFTS

REFERENCES

- *Public Sector Commission Gifts and Benefits Directive*
- *Public Sector Commission Gifts and Benefits Guideline*

POLICY

- **Reportable gifts made by a department must be disclosed under “Grants and Subsidies Expenses” and classified as a donation/gift in the notes to the financial statements.**

APPLICATION GUIDANCE

Reportable gifts that involve the provision of something in a physical form are not special payments, as “payment” implies a direct transfer of cash to the person who receives the benefit. For other guidance, refer to the Public Sector Commission’s publications, Gifts and Benefits Directive and Gifts and Benefits Guideline available at:

<https://www.forgov.qld.gov.au/pay-benefits-and-policy/directives-policies-circulars-and-guidelines>



FRR 3E Distinction Between Grants and Procurement Expenses

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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3E.1 SCOPE OF FRR 3E

REFERENCES

- *Financial Accountability Act 2009* (FA Act) (s.72)

APPLICATION GUIDANCE

The purpose of this FRR is to outline the principles and criteria to be applied to promote consistent classification of grants and procurement expenses by departments and statutory bodies for financial reporting purposes and for the Service Delivery Statements (SDS) that form part of the annual State Budget papers.

This FRR applies to agencies making payments or transfers of assets where the transactions are not dealt with by an existing accounting standard or other FRR.

Appendix 1 Types of transactions and their classification indicates how certain common types of transactions would typically be classified. Appendix 2 Illustrative Case Studies demonstrate the application of the FRR policy items to hypothetical scenarios.

This FRR does not apply to special payments as defined in the FA Act. This FRR is not to be used to determine the specific taxation (e.g. Goods and Services Tax) consequences of a transfer. Agencies remain responsible for tax compliance matters and for seeking external taxation expertise where necessary.

The following Table 1 provides direction as to the appropriate accounting standard or guidance that addresses other specific types of arrangements. Where a transaction is not one listed in the table, a transferor agency must consider the principles and criteria in this FRR for guidance on a transfer's classification and accounting treatment.

Table 1: Out-of-scope transactions of FRR 3E

Payment/Acquisition Transaction	Applicable standards and policies
Financial instruments (including interest payments)	AASB 7 <i>Financial Instruments: Disclosures</i> AASB 9 <i>Financial Instruments</i> AASB 132 <i>Financial Instruments: Presentation</i> FRR 4E <i>Financial Instruments</i>
Property, plant and equipment	AASB 116 <i>Property, Plant and Equipment</i> Non-Current Asset Policies
Acquisition of intangible assets	AASB 138 <i>Intangible Assets</i> Non-Current Asset Policies
Lease payments	AASB 16 <i>Leases</i> FRR 4B <i>Assets</i>
Inventory	AASB 102 <i>Inventories</i>
Investment property	AASB 140 <i>Investment Property</i>
Business combinations and joint arrangements	AASB 3 <i>Business Combinations</i> AASB 11 <i>Joint arrangements</i>
Payments relating to service concession arrangements	AASB 1059 <i>Service Concession Arrangements: Grantor</i> FRR 5D <i>Service Concession Arrangements</i>
Payments and benefits provided to employees	AASB 119 <i>Employee Benefits</i> FRR 3C <i>Employee Benefit Expenses and KMP Remuneration</i>
Equity contributions and distributions	AASB 1004 <i>Contributions</i> Interpretation 1038 <i>Contributions by Owners Made to Wholly-Owned Public Sector Entities</i> FRR 4F <i>Equity, Contributions by Owners and Distributions to Owners</i>
Income tax payments	AASB 112 <i>Income Taxes</i>
Special payments (s.72 of the FA Act)	Section 15 of the FPMS Financial Accountability Handbook – Information Sheet 3.6 <i>Expense Management Systems</i> (excluding HR) FRR 3D <i>Expenses</i>

3E.2 CLASSIFICATION BETWEEN GRANTS AND PROCUREMENT

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- *Framework for the Preparation and Presentation of Financial Statements*
- AASB *Glossary of Defined Terms*
- FRR 3A Statement of Comprehensive Income
- FRR 3D *Expenses*
- FRR 4F *Equity, Contributions by Owners and Distributions to Owners*
- Financial Accountability Handbook - Volume 6 Grant Management

POLICY

- **For an arrangement to be classified as a procurement transaction, the value of what one entity receives from another entity must be of approximately equal value, in the form of cash, goods, non-monetary assets and/or services. Where this is not the substance of the arrangement, the transaction is classified as a grant.**
- **The classification of the arrangement as procurement or grant will determine the relevant accounting treatment for the expenditure under Accounting Standards.**

APPLICATION GUIDANCE

Distinction between Grants and Procurement

Australian Accounting Standards and Interpretations do not explicitly deal with the classification and treatment of grants and procurement expenses from the perspective of the transferor.

Grants

A defining characteristic of a grant is that the recipient does not give approximately equal value in return directly to the transferor, i.e. it is a **non-exchange transaction**. To be an exchange transaction, the transferor must have a right to receive the benefits directly, it is not sufficient that the transferor received benefits indirectly as a result of the transfer.

Agencies ordinarily provide grants to achieve its policy objectives or for compassionate reasons. Grants can be in the nature of contributions, subsidies, incentives, donations, debt forgiveness, rebates, and other similar funding agreements.

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

The recipient of a grant may have been selected on merit against a set of program-specific criteria and may need to comply with certain conditions in return for the grant received.

Government grants exclude those forms of government assistance which cannot reasonably have a value placed upon them, and transactions with government that cannot be distinguished from the normal trading transactions of an entity. • Government grants are sometimes called by other names such as subventions or premiums. • Refer to the Financial Accountability Handbook Volume 6 for information on grant management, including administration of grant programs.

Procurement

Procurement refers to the processes by which all types of resources (human, material, facilities and services) are obtained. Agencies procure to meet the needs of its operations and to allow the agency to perform its intended functions.

A typical feature of procurement is that the recipient provides goods or renders services directly to the transferor, or to specified third parties on the transferor's behalf, for approximately equal value (i.e. it is an **exchange transaction**). If the recipient does not deliver the promised goods or services it is required to return the assets (consideration) provided (e.g. cash) back to the transferor.

The primary functions of many agencies involve delivery of services to the public. Where an agency engages a third party to deliver those services on its behalf, the transaction can be classified as procurement even though the end benefits are provided to the public and not directly back to the agency. **This is the case when the agency is responsible for the provision of the services and is directing the service provider to deliver those services to specified third parties on its behalf – i.e. the agency controls the services provided.**

Some types of procurement, such as purchases of assets, hiring of employees and leasing are addressed by other standards listed in section 3E.1 above. In some arrangements, significant judgement is required around whether the agency is principally responsible for the delivery of a service or program and is engaging another entity to deliver those on its behalf (i.e. procurement), or the agency is merely contributing towards a service or program provided by another entity, such as a non-government organisation or another public sector agency (i.e. a grant).

Assessment of the substance of the transaction

Paramount to the classification of a transaction (either for recurrent/operational, or capital purposes) as either a grant or procurement is understanding the **purpose** and the **characteristics** of the transaction with the other party. In determining whether a transaction is a grant or procurement, it is necessary that the classification is in accordance with the **substance** and economic reality and not merely the legal form. An agency may enter into an agreement that takes the legal form of a grant, but in substance is a procurement of goods and/or services; and vice versa. The substance of a transaction should prevail over the strict legal wording in associated documentation.

The indicators listed in Table 2 below are provided to assist an agency in determining the overall substance of the arrangement. These indicators would normally individually or in combination provide guidance for the most appropriate classification. The list of indicators is not exhaustive and the classification is ultimately based on an **overall assessment of the substance** of the arrangement. Professional judgement must be applied when evaluating the indicators as these may not be conclusive.

Table 2a: Procurement Indicators versus Grant Indicators – Approximate Equal Value

a) APPROXIMATELY EQUAL VALUE		
Can approximately equal value between the amount/value of the transfer and benefits received by the transferor be well demonstrated?		
Summary of Indicators of approximate equal value	Indicator of Procurement	Indicator of Grant
• The transferor provides a commercial level of consideration and receive goods or services in exchange	✓	
• The amount transferred is solely for the quantity of goods or services to be received / delivered	✓	
• There has been a contestable tender process where the transferor assessed the market to achieve better value for money	✓	
• The transferor is intending to provide a benefit to the recipient to achieve a policy objective or on compassionate grounds		✓
• The agreement is <u>not</u> enforceable (see AASB 15 para. F10–F18) ¹		✓*
• The agreement does <u>not</u> contain sufficiently specific details as to what is required of the recipient, e.g. in the form of production quantities or performance criteria (see AASB 15 paragraphs F2–F27) ²		✓*
• The ultimate aim of the transfer to generate benefits that cannot be reliably quantified e.g. future reduction of greenhouse gases		✓
• The recipient has more than one source of funding for the activities or outputs that the transferor is contributing towards.		✓

Table 2b: Procurement Indicators versus Grant Indicators – Direct Benefit to Transferor

b) DIRECT BENEFIT TO THE TRANSFEROR		
Direct benefit – Has the transferor procured goods or services for its own use or specifically directed the recipient to deliver specific goods and/or services to a specified third party on its behalf? Indirect benefit – Does the transfer provide financial assistance to the recipient so that the recipient may achieve its goals and, as such, only indirectly promotes the transferor’s policy objectives?		
Summary of Indicators of direct benefit	Indicator of Procurement	Indicator of Grant
• The transferor is acquiring the goods or services for use in its day-to-day operations to perform its functions	✓	
• The transferor is providing funding to the recipient to assist the recipient in meeting its own objectives (even though an indirect benefit may be obtained by the transferor through aligned objectives)		✓
<i>Where the transferor is paying the recipient to provide goods or services to third parties:</i>		
• The transferor has explicitly undertaken responsibility to provide the particular good or service to the public	✓	
• The transferor determines the scope of the goods or services to be provided	✓	
• The transferor has identified, by name or by category, the third parties to whom the recipient is instructed to deliver the goods or services on the transferor’s behalf	✓	
• The transferor can choose to use its own staff or another provider to deliver the services	✓	
• The service program is initiated by the recipient and the transferor is contributing funding towards the initiative		✓
• If the transferor ceases funding, the recipient will continue providing the services using other sources of funding		✓

¹ An agreement not being enforceable or not containing sufficiently specific promises are indicators of a grant. However, an agreement that is enforceable and contains sufficiently specific promises is not automatically classified as procurement, such agreements can also be grants.

² Appendix F of AASB 15 *Revenue from Contracts with Customers* explains the definition and concepts of enforceability and sufficiently specific. Although AASB 15 DOES NOT APPLY to expenses, the concepts of enforceability and sufficiently specific in the context of evaluating a contractual agreement are appropriate/relevant.

Multiple elements in a transaction

Where an arrangement contains multiple elements, an agency will need to identify the respective elements and classify/account for them separately according to their nature. The agency may need to exercise judgement in determining the underlying elements, the amount attributable to each element and the most appropriate timing of recognition of associated expenses.

Example – Different elements of a transaction

An agency enters into an agreement with another entity to outsource its information technology responsibilities. As part of the agreement, the other entity is required to provide specific services over a set period of time (over several reporting periods). That other entity is also required to acquire specific assets for the sole use of the agency and to provide maintenance and upgrade services for the agency's existing assets. The agency agrees to pay a pre-determined fee for all such services.

The agency will need to consider whether the agreement results in the purchase of multiple goods and/or services, and whether each needs to be accounted for separately.

Consistent classification for inter-agency transactions

When assessing the overall substance of a transaction, it sometimes may be easier to consider the classification that applies to the counterparty and assess the merits of applying a classification that mirrors the counterparty perspective. Where both parties are within the Queensland public sector, there should be consistency in the classification of a given transaction by both parties.

For whole of Government (woG) reporting, transactions between Queensland public sector agencies are eliminated. In that respect, in the rare situation where one agency (the “initiator”) makes a transfer to another agency (an “intermediary”) that is in turn to be transferred to an entity external to the Queensland public sector, it is likely that the woG impact (post-elimination) may not reflect the appropriate classification at the woG level. This may result from the intermediary's classification of the transfer to the external entity differing from the initiator's classification of its transfer.

If this situation arises, the intermediary agency must ensure that the classification used in Tridata for its transfer (for both actual and budget figures) reflects the woG perspective i.e. use the same classification as the initiator. This will result in a classification difference between the

intermediary's financial statements and what is reported in Tridata (for both actual and budget figures).

However, for the Service Delivery Statement (for both actual and budget figures), the classification should be the same as for the agency's financial statements. (Queensland Treasury's Fiscal Reporting team can advise on how to adjust the Tridata classification for the SDS.)

Example: Agency A pays Agency B to pay external entity C to undertake activities that provide direct benefits of equivalent value to Agency A.

Classification: From a State perspective, this is a procurement of services from an external entity – refer to Table 2. Consistent with Agency A's classification, Agency B would classify its revenue as "user charges". However, the payment from Agency B to external entity C would be classified as a grant expense, on the basis that Agency B does not receive a direct benefit of equivalent value. After elimination of the inter-agency transaction, the remaining transaction at the woG level is a grant expense. To ensure the woG classification is as "procurement", for Tridata purposes only, Agency B is to classify the payment to external entity C as a procurement expense.

FINANCIAL REPORTING CONSEQUENCES

The classification of a transaction as grant or procurement affects both how the transaction is presented in the financial statements and the timing of expense recognition, particularly when payments are made in advance.

Recognition of expense - grants

Grant expense should be recognised when the obligation for a transfer arises according to the remittance terms of the funding agreement. If the transfer does not occur at that time, a corresponding payable should be recognised in the meantime. If the transfer is made in advance of the remittance timeframe, and the recipient can control use of the resources at that time, the expense should be recognised at that time. FRR 3D.2 specifies that agencies are not to defer the recognition of grant expenses by way of a 'prepaid grants' asset.

Some grants contain sufficiently specific performance obligations for the recipient to transfer goods or services to third parties and are enforceable by the transferor. Such grants may be classified by the recipient as revenue from contracts with customers under AASB 15 and the recipient is required to defer revenue recognition. Even so, as long as the transaction is classified as a grant by the transferor agency, the agency does not defer expense recognition. This is

because the transferor is not receiving approximately equal value in return, and as such does not have an asset per the definition in the conceptual framework.

Recognition of expense - procurement

The expense should be recognised according to the timeframe(s) when the benefits are obtained by the transferor. If the transfer is made in arrears of that timeframe, a corresponding payable should be recognised in the meantime. If the transfer is made in advance of the benefits being obtained, a prepayment should be recognised in the meantime.

Presentation of expenses

Expenditure transactions classified as grants should be presented on the Statement of Comprehensive Income as grants and subsidies.

Expenditure transactions classified as procurement should be presented as supplies and services, unless separately presented under another standard or policy (e.g. employee expenses).

Where an agency reclassifies expenses in line with the criteria in this FRR, this is also to be applied to the comparative period's figures. Agencies should refer to paragraphs 40A – 42 of AASB 101 *Presentation of Financial Statements* for the associated requirements.

APPENDIX 1 CLASSIFYING DIFFERENT TYPES OF TRANSACTIONS

A number of transactions that fall within the scope of this FRR are discussed in Table 4 below. Where this table indicates how a particular arrangement would be classified, it should be classified as such. **When considering the transactions listed below, the principles and criteria set out in this FRR and the overall substance of the arrangement prevail in determining the appropriate classification.**

Table 4: Transaction Types

Transaction type	Description of transaction	Classification - <u>subject to assessment of the substance of transaction as per this FRR</u>
Co-sourcing agreement	An arrangement where an agency enters into a specific agreement with another entity to combine agency staff with the other entity's staff to deliver a service that the agency would otherwise be required to deliver.	Procurement
Donation/Gift	The provision of cash, property or other assets to a specified "cause" or activity without creating an obligation on the recipient about the use of the resources.	Grant
Forgiveness of a loan	An arrangement where an agency cancels all or part of an amount owing to it in order to assist the recipient financially.	Where this is in accordance with terms/conditions in an agreement that allows for this at the outset - Grant (subject to the over-riding requirements of AASB 9 regarding impairments). Otherwise – Other Expenses
Outsourcing arrangement	An arrangement whereby an agency enters into an agreement with another party to contract out the delivery of specific services that the agency would otherwise be responsible for delivering.	Procurement

Transaction type	Description of transaction	Classification - <u>subject to assessment of the substance of transaction as per this FRR</u>
Concessionary "peppercorn" lease	An agreement whereby an agency gives another party the right to use property (land and/or buildings) for a nominal rent (i.e. a "peppercorn" rent e.g. \$1 per annum) over a period of time.	Grant, where the lease is classified as a finance lease for the lessor agency
Scholarship	Payment made to support an individual's education, awarded on the basis of academic or other achievements.	Grant. However, where there are conditions attached that require an individual to provide service as an employee after completing their studies, consideration may be required as to whether the substance of the arrangement is an employee benefit.
Subsidy	A form of financial assistance to reduce all or part of the costs of a recipient in meeting its own objectives.	Grant

APPENDIX 2 ILLUSTRATIVE CASE STUDIES

The case studies on the following pages illustrate the application of the indicators and can be used by agencies as a broad guide to applying the concepts in this FRR for classifying arrangements. These case studies are not intended to deal with the full range of accounting consequences that may arise under the particular scenario.

Agencies must exercise caution in applying the conclusions in individual case studies to arrangements that do not exactly mirror the scenario described. Requests for advice about specific circumstances may be forwarded to the Financial Management help desk (at fmhelpdesk@treasury.qld.gov.au).

Case Study 1: Arrangement for another entity to provide services

Background

Department XYZ's operational plan states that one of its core functions is to provide transport services to patients in rural and remote communities.

Department XYZ entered into an arrangement with Agency TRS (the only entity with a presence in all remote areas across the State) to provide transport services to patients in remote communities.

The arrangement specifies the service to be provided, the period over which the service should be provided as well as the payment terms (i.e. the agreement states that no payment will be made if there is no flight and the agreement specifies an agreed rate per flight hour). Furthermore, the agreement sets out non-performance and penalty considerations to the extent that the service is not provided.

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** Agency TRS is being paid for provision of flights (transport) to patients i.e. specific services are being purchased by Department XYZ for patients (i.e. there is an identified party).
- **Obligations in the agreement:** The agreement is sufficiently specific and sets out the nature of the service to be provided, the payment terms, the period of service as well as conditions regarding non-performance.

Case Study 1: Arrangement for another entity to provide services

- **Overall intent/purpose:** To purchase transport services for patients in rural areas, a service Department XYZ undertakes (as evidenced by its operational plan) to provide.

Step 2 - Application of classification principles:

Approximately equal value?

- *Activities are quantifiable in dollar terms as the agreement specifies the agreed rate per flight hour.*
- *Amount paid is based on number of flights delivered by the recipient (quantity).*
- *Funding is only provided for services delivered in line with the arrangement.*

Direct benefit for the agency?

- *The contract specifies the service to be delivered. Department XYZ specifically directs Agency TRS to deliver the services to an identifiable third party. The terms and conditions of the funding agreement are sufficiently specific and directive to ensure Department XYZ's obligations are achieved.*
- *Department XYZ is itself responsible for providing the services and is engaging Agency TRS to provide the services on its behalf.*

Conclusion: Procurement

Based on analysis of the factors provided, the arrangement would be classified as procurement as Department XYZ receives approximately equal value by directing the use of funds to meet its obligations.

For Agency TRS, it is providing equivalent value in services directly to Department XYZ in return for the revenue from that department. Therefore, in Agency TRS's Statement of Comprehensive Income this would be classified as user charges revenue. This transaction will likely be within scope of AASB 15 for Agency TRS.

Case Study 2: Funding provided with broad key performance indicators and requirements

Background

Agency XYZ provides funding to a non-government organisation (NGO) located in a rural area. The lump sum funding is to assist the NGO with ongoing operational costs. The agreement does not provide specific detail on how the funds are to be applied but some broad key performance indicators and requirements are specified in the contract.

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** No specified goods or services are delivered by the NGO in return for the lump sum.
- **Obligations in the agreement:** The agreement does not include any specifications regarding the use of the funding, the period of service nor any conditions regarding non-performance.
- **Overall intent/purpose:** To provide a lump sum to the NGO to assist it with its own ongoing operational costs.

Step 2 - Application of classification principles:

Approximately equal value?

- No goods or services of any identifiable “value” are received by Agency XYZ.
- The benefits cannot be reliably quantified.

Direct benefit for the agency?

- The contract does not specify specific goods/services to be delivered to either Agency XYZ or a third party nominated by Agency XYZ, but rather relates to a broad policy objective of Agency XYZ.
- Financial assistance can be spent at the NGO’s sole discretion but within the requirements of the broad performance indicators and requirements specified in the contract.

Conclusion: Grant

Based on analysis of the factors provided, the arrangement would be classified as a grant as Agency XYZ does not receive approximately equal value in return. Financial assistance provided to the NGO is largely spent at the NGO’s sole discretion and Agency XYZ only receives an indirect benefit.

Case Study 3: Scholarships

Background

Agency ABC annually allocates scholarships to high school students who want to study a degree in the field that it governs. The amount of a scholarship is specifically determined to be enough to fund course fees and textbook costs for the duration of a student's studies. The terms of the scholarship are that the student must apply the money towards their course fees and textbook costs. Agency ABC awards the scholarships to applicants based on merit. Agency ABC has no obligation to promote study in the field that it governs.

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** The student is required to pay for course fees and textbooks
- **Obligations in the agreement:** To reinforce the intended purpose of the scholarship, the agreement sets out the student's obligations about usage of the money and the period over which it will be provided.
- **Overall intent/purpose:** To provide financial assistance to the students so that they may further their education.

Step 2 - Application of classification principles:

Approximately equal value?

- The ultimate outlays by the student are quantifiable in dollar terms as the costs for course fees and textbooks can be determined.

Direct benefit for the agency?

- The funding assists the students to meet their objectives.
- Agency ABC receives no goods or services for its sole use, nor does it receive a direct benefit.
- Agency ABC's objectives may be promoted through being associated with the financial assistance provided to the student, but this is only an indirect benefit.

Conclusion: Grant

Based on analysis of the factors provided, the arrangement would be classified by Agency ABC as a grant as it does not receive a direct benefit of approximately equal value in return.

Case Study 4: Scenario 1 - Arrangement to provide research funding

Background

Agency ABC provides discretionary payments to Universities engaged in particular research activities. The payments are only made in accordance with policies and conditions including the costs that may be funded by Agency ABC's payments (e.g. salaries of scientists/consultants), the manner in which any research findings are reported back to Agency ABC, responsibilities in research practice and matters in relation to research integrity.

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** *Research activities performed by the Universities*
- **Obligations in the agreement:** *The agreement includes a number of specifications regarding the conduct of research, the manner in which research is conducted and reported and how the funding is to be used.*
- **Overall intent/purpose:** *To further facilitate research in certain areas.*

Step 2 - Application of classification principles:

Approximately equal value?

- The ultimate aim of the funding provided is to generate benefits which cannot be reliably quantified.
- No unspent funds are required to be returned by the Universities.

Direct benefit for the agency?

- The contract does not specify goods/services to be delivered to Agency ABC.
- Financial assistance can be spent at the Universities' sole discretion but within agreed terms and conditions. There is an indirect benefit for Agency ABC and a direct benefit for the Universities.

Conclusion: Grant

Based on analysis of the factors provided, the arrangement would be classified as a grant, as Agency ABC does not receive approximately equal value in return. Financial assistance provided to the Universities is spent at their sole discretion and Agency ABC only receives an indirect benefit.

Case Study 4: Scenario 2 - Arrangement to provide research funding

Background

Agency ABC seeks competitive tenders from universities to conduct research on a number of particular industry-specific topics. University XYZ is the successful tenderer and Agency ABC provides it with an upfront lump-sum payment to conduct specific research.

The funding agreement between Agency ABC and University XYZ specifies the type of research to be conducted, over which period and directs in the manner in which the research should be conducted. Agency ABC requests that the rights to the intellectual property from the research are assigned to the agency and requests that certain KPIs and reporting requirements are met.

The funding agreement contains terms and conditions that enable it to be legally enforced, and Agency ABC has the means and intent to enforce its rights under the agreement. The research findings will be directly reflected in the design and delivery of new industry support services by Agency ABC.

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** Intellectual property arising from industry-specific research performed by University XYZ
- **Obligations in the agreement:** The agreement includes specifications regarding the nature of the service to be provided and requires that the intellectual property from the research be assigned to Agency ABC.
- **Overall intent/purpose:** To obtain specific research findings to progress the agency's objectives.

Step 2 - Application of classification principles:

Approximately equal value?

- The resulting intellectual property rights will be controlled by Agency ABC.
- The price paid for the research has been determined through a competitive tender process, so it reflects a reasonable measurement of the cost necessary to obtain the research findings.

Case Study 4: Scenario 2 - Arrangement to provide research funding

Direct benefit for the agency?

- The contract specifies the research to be conducted (i.e. applied research).
- The intellectual property arising from the research will be assigned to Agency ABC.
- The research findings will be directly used by Agency ABC in its operations.

Conclusion: procurement

Based on analysis of the factors provided, the arrangement would be classified as procurement, as Agency ABC receives approximately equal value in the form of the intellectual property and specified research that will directly be used in its operations. As this expenditure does not provide “front line” services to the community (the research itself will only be used by Agency ABC to inform its operations), for presentation in Agency ABC’s Statement of Comprehensive Income, this would be classified as other supplies and services.

NB. As this transaction is classified as procurement, to the extent that Agency ABC has not received the rights to the intellectual property it will recognise a prepayment (asset).

Case Study 5: Legislative obligation

Background

The Child Protection Act 1999 (the Act) proclaims that the State is responsible for protecting those children who do not have a parent who is able and willing to protect the child and to ensure a child’s developmental, educational, emotional, health, intellectual and physical needs are met.

In order to meet its obligations under the Act, Agency DEF provides funds to various providers e.g. funds are paid for schooling, residential placements and medical expenses.

Funding is provided based on invoices received for specific types of services delivered/goods purchased (i.e. no single overarching agreement is in place for the delivery of all support required).

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** Various services and goods are procured. The benefits will be based on the services provided that have commercial value.

Case Study 5: Legislative obligation

- **Obligations in the agreement:** The invoice will be specific to goods/services provided, the payment terms will be specified and the goods/services to be delivered in order to obtain the funding (i.e. payment is made subsequent to delivery of the goods/services).
- **Overall intent/purpose:** To enable the carers of children to obtain the services required to protect children and provide for their basic needs.

Step 2 - Application of classification principles:

Approximately equal value?

- Goods or services delivered by the providers are quantifiable as payments made will be based on invoices for services/goods delivered.
- Amount paid is based on specific services delivered by the providers (i.e. quantity).

Direct benefit for the agency?

- Agency DEF is specifically directing the providers to deliver goods/services to third parties on its behalf.
- The purchase orders will specify the goods/services to be delivered. If the providers did not provide the respective services, Agency DEF would be required to deliver the goods/services through other means.
- Agency DEF directs the use of the funds as funding is only provided for services delivered in line with purchase orders (the services/goods delivered should be checked to ensure they are as per the purchase order).

Conclusion: procurement

Based on analysis of the factors provided, the arrangement would be classified by Agency DEF as procurement, as Agency DEF directs the use of the funds to meet its obligations as part of the agency's functions.

Case Study 6: Joint Funding Agreement

Background

The Australian Government and Queensland Governments (the latter via Agency CDE) have a joint funding agreement under which the Australian Government provides funding to assist the Queensland Government in undertaking the monitoring of water pressure levels in the Great Artesian Basin (this forms part of a broader process to implement a whole-of-Basin water bore monitoring network).

The Australian Government contributes to the Queensland Government 50% of the total cost. The Queensland Government (via Agency CDE) is responsible for assessing the impact of recently implemented sustainability measures, and determining future management approaches. The Queensland Government (via Agency CDE) must also annually report back to the Australian Government about its progress with improving the sustainability of the Basin.

Agency CDE entered into a funding agreement with an NGO to monitor water pressure levels in the Great Artesian Basin and associated activities.

This funding agreement addresses the following:

- An upfront payment of \$1m (i.e. total funding from both the Australian Government and Queensland Government) from the agency to the NGO subject to certain conditions being met.
- Schedule of works to be completed as specified
- Certain activities to be performed to qualify for funding provided including:
 - providing lists of bores by type, monthly progress reports;
 - progress reports detailing works undertaken and expenditure incurred; and
 - bore elevation survey.
- Requirement for unspent funds to be returned to Agency CDE (in turn, Agency CDE passes back to the Australian Government 50% of any such returned funds). Money can only be used for purposes specified in the agreement, unless the Australian Government's written permission is obtained.
- Requirement to maintain an assets register on behalf of Agency CDE. The contract runs for a period of three years, and contains terms and conditions that make it legally enforceable.

Part 1 – Analysis of the agreement between Australian Government and Queensland Government (via Agency CDE)

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** Periodic reporting on progress with management of the Great Artesian Basin.
- **Obligations in the agreement:** The agreement only articulates an agreed outcome of medium-term improvement in the sustainability of the Basin.
- **Overall intent/purpose:** *To financially assist the Queensland Government in its efforts towards management of the Basin.*

Step 2 - Application of classification principles:

Approximately equal value?

- The only thing the Australian Government receives in return for its funding is annual progress reporting. It is very difficult to quantify the benefits of such reporting, but would be unlikely to approximate the value of the funding provided.

Direct benefit for the transferor (Australian Government)?

- The Australian Government only has policy oversight over the nation's natural resources – it does not use the Basin and only benefits indirectly from the Basin's management.
- Those who directly benefit most from sustainability and condition of the Great Artesian Basin are landholders and primary producers in regions that can access the Basin, but they are not the transferors in this arrangement.

Conclusion to Part 1: grant

Based on analysis of the factors provided, the arrangement would be classified as grant revenue to Agency CDE as it cannot demonstrate the provision of equivalent value directly to the Australian Government in return for the funding.

Part 2 – Analysis of the agreement between Agency CDE and NGO

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** Monitoring of water pressure, provision of information and record-keeping for assets.
- **Obligations in the agreement:** The agreement is specific and sets out the nature of the service to be provided, the period over which it will be provided as well as conditions regarding non-performance.

Case Study 6: Joint Funding Agreement

- **Overall intent/purpose:** To contract out the monitoring of the water levels and associated information-collection activities.

Step 2 - Application of classification principles:

Approximately equal value?

- Service delivered by the NGO to Agency CDE has commercial value and can therefore be measured reliably.
- The services delivered will benefit the Queensland Government (based on the monitoring of the water bore network, and associated record-keeping activities).
 - If money is not spent by the NGO, it has to be returned to Agency CDE;
 - If the NGO does not perform the services, Agency CDE will be required to meet its obligations through another means as it is a requirement of its own funding agreement with the Australian Government.
- The total consideration paid for the services is \$1 million, which represents approximate equal value. The Queensland Government only funds 50% of the cost and will receive 100% of the services. However, when determining whether approximate equal value is exchanged for classification purposes, Agency CDE compares the value of the services received to the whole \$1 million payment. (The 50% contribution by the Australian Government is a separate revenue transaction recognised as per Part 1.)

Direct benefit for the agency?

- The agreement between Agency CDE and the NGO specifies the services to be delivered. Agency CDE directs the services through the funding agreement.

Conclusion to Part 2: procurement

Based on analysis of the factors provided, the substance of the arrangement is procurement as Agency CDE directly receives specified services of approximate equal value in exchange for the \$1 million consideration provided. *NB. As this transaction is classified as procurement, to the extent that the NGO has not delivered services to Agency CDE as per the agreement, Agency CDE will recognise a prepayment (asset).*

Case Study 7: Funding arrangement with multiple payment elements

Background

Agency STU entered into a service agreement with a not-for-profit company to deliver helicopter services to patients. The agreement entered into determines the following:

- The company will be paid on an activity basis (a rate per hour of service delivered). The hourly rate paid is based on the commercial value of the service delivered by the company. The company provides Agency STU with a monthly invoice for services delivered (flight hours) to patients.
- In addition, Agency STU will provide the company with annual core funding payments to assist with the general operations of the not-for-profit entity. The core funding payment is paid at the beginning of each year as non-conditional and the amount does not need to be returned. The payment is used by the company at its discretion, according to prevailing needs around that time. Furthermore, the core funding payment does not reduce Agency STU's service cost, nor does it ensure a specified service.
- The contract runs for a period of three years, and contains terms and conditions that make it legally enforceable.

Agency STU does not have a legislative obligation to provide transport to patients, however, there is considered to be a public expectation that this service will be delivered (based on its past practice over the last 10 years).

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** The company is providing flight services to patients on behalf of Agency STU.
- **Obligations in the agreement:**
 - Hourly rate:*
 - The agreement is specific and sets out the nature of the service to be provided by the company, the period over which it will be provided and determines that fees will be paid per hour of service delivery.
 - Annual core funding payment:*
 - There is no obligation on the company to perform any service or meet any objectives of Agency STU in return for the core funding payment.
- **Overall intent/purpose:** To provide transport to patients.

Case Study 7: Funding arrangement with multiple payment elements

Step 2 - Application of classification principles:

Approximately equal value?

Hourly rate:

- The agreement is specific and sets out the nature of the service to be provided by the company, the period over which it will be provided and determines that fees will be paid per hour of service delivery.
- The total amount of the payment is based on the service delivered (i.e. hours of flying time provided).
- The benefits of the service are quantifiable and commercial in nature.

Annual core funding payment:

- There is no obligation on the company to perform any service or meet any objectives of Agency STU in return for the core funding payment.
- The ultimate aim of this funding is to provide financial assistance to the company to ensure it carries on as a going-concern.
- The annual payment has not been structured to reduce the service cost.

Approximately equal value is therefore not received by Agency STU from the annual payment component.

Direct benefit for the agency?

Hourly rate:

- The contract specifies the service to be delivered. The terms and conditions of the funding agreement are sufficiently specific and directive to ensure that the service is provided (i.e. Agency STU controls the services).
- Agency STU is paying the company to provide the services on its behalf.

Annual core funding payment:

- The payment is not paid for a specified good or service.
- The company has full discretion as to how these funds can be spent.

Conclusion: procurement

Based on analysis of the factors provided, the amount paid in the form of an hourly rate to the company would be classified as procurement as Agency STU meets its obligations by obtaining specified services.

The annual core funding payment would be classified as a grant, as Agency STU does not receive a direct benefit of approximately equal value.

Case Study 8: Recurrent funding arrangement

Background

Under the *Housing Act 2003* (the Act), the Chief Executive of Agency DEF may grant assistance or funding to a service provider for the provision of housing services as defined under the Act.

Agency DEF entered into such an assistance agreement with a service provider. The assistance is for the service provider to deliver services under a Crisis Accommodation Program (CAP) to help eligible people with housing needs and move them towards independent living. The agreement with the service provider contains terms and conditions that enable Agency DEF to enforce the service provider's obligations (and Agency DEF intends to do so, if necessary). The key circumstances are:

- CAP is a Queensland and Australian Government funded program under the National Affordable Housing Agreement.
- CAP is administered by Agency DEF, and primary obligation for delivery of services rests with the agency.
- Description of services the service provider is funded to deliver:
 - All premises utilised by the provider in supplying services must be maintained to a high standard. Any maintenance undertaken by the provider must be carried out in a tradesperson-like and lawful manner and should be of good quality.
 - The funding provided under the assistance agreement must be utilised by the service provider for the delivery of housing services and only for allowable expenditure (as defined in the program specifications). Furthermore, the services can only be delivered in the geographic locations where Agency DEF specifies that services are required. Agency DEF specifies the eligibility criteria for provision of the specified housing support.
 - The funding provided by Agency DEF is based on estimates of costs that would be incurred using an efficient service delivery model and appropriate cash management.
 - Any money earned by the service provider e.g. through rent/board and bank account interest, must be dealt with as if funding was provided directly by Agency DEF.
 - If a large portion of funding remains unspent at the end of a particular period (six months), then the agency can adjust future funding to take into account the

Case Study 8: Recurrent funding arrangement

unspent amount (i.e. reduce the next instalment of funding) or authorise the use by the service provider of the unspent amount for another purpose.

- No capital funding is provided. The service provider owns the property used to deliver the housing services.
- The provider must supply to Agency DEF information related to the provider's operations upon reasonable requests from Agency DEF.
- Payment of the funding under the terms of the assistance agreement will be made in advance every six months, subject to the lodgement of all statements and reports by the provider as required under the agreement.

The provider may have an entitlement to receive funding from other agencies of the Queensland or Australian Governments. The provider may also have an ability to seek funding assistance from private sources.

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** The service provider is funded to deliver housing services to eligible individuals.
- **Obligations in the agreement:** The agreement is sufficiently specific and sets out the nature of the services to be provided, the payment terms, the period of service as well as requirements around excess funding.
- **Overall intent/purpose:** To provide housing services as defined by the CAP.

Step 2 - Application of classification principles:

Approximately equal value?

- Activities are quantifiable in dollar terms as the funding is to be applied to allowable expenditure, and is based on estimates of reasonable costs to deliver such services.
- Funding provided is pre-determined, but records/statements are required to be kept by the service provider and supplied to Agency DEF to demonstrate how the funding was spent. If any funding is unspent, future payments by Agency DEF can be reduced by the unspent amount (i.e. in essence a return of unspent funding).

Direct benefit for the agency?

- Agency DEF directs the use of the funds, as funding is only provided for services delivered in line with the assistance agreement.

Case Study 8: Recurrent funding arrangement

- Agency DEF directs the service provider to deliver specified services to identified individuals (eligible persons) on its behalf. The terms and conditions of the agreement are sufficiently specific and directive to ensure achievement of Agency DEF's obligations under the CAP.

Conclusion: procurement

Based on analysis of the factors provided, the arrangement would be classified as procurement as Agency DEF receives approximately equal value by directing the use of the funds to meet its obligations. This results in a direct benefit to Agency DEF.

NB. As this transaction is classified as procurement, to the extent that the service provider has not delivered services to Agency DEF as per the assistance agreement (and met any other obligations), Agency DEF will recognise a prepayment (asset).

Case Study 9: Acquisition of services via an interposed entity

Background

Under an intergovernmental agreement, Agency JKL is responsible for the provision of services to eligible young people with a disability. In some cases, such young people reside in privately-run aged care facilities. Those aged care facilities receive their primary funding from the Australian Government.

To reimburse the Australian Government for its funding costs that relate to Agency JKL's responsibilities, the agency pays the Australian Government an annual lump sum based on the estimated cost of service delivery and projections of the number of eligible young people in the relevant aged care facilities during the coming financial year. The Australian Government and Agency JKL agree on the methodology for estimating the amount of this payment, which is reviewed annually.

Step 1 - Gain an understanding of the payment:

- **What are the goods and services?** Residential care for eligible young people with a disability.
- **Obligations in the agreement:** The payment obligations are based on estimates of the costs incurred by private sector providers for an estimated number of eligible people.
- **Overall intent/purpose:** To fund costs that Agency JKL is responsible for.

Step 2 - Application of classification principles:

Approximately equal value?

- The amount of the lump sum payment is based on the estimated cost of housing a particular number of eligible people (that Agency JKL has an existing obligation to finance).

Case Study 9: Acquisition of services via an interposed entity

Direct benefit for the agency?

- The private sector providers deliver a service that satisfies obligations that Agency JKL would otherwise have.

Conclusion: procurement

Based on analysis of the factors provided, the arrangement would be classified as procurement as Agency JKL receives a direct benefit of approximately equal value, as its obligations are met by services delivered by the private sector providers.

NB. As this transaction is classified as procurement, to the extent that agreed services have not been provided, Agency JKL will recognise a prepayment (asset).

Case Study 10: Acquisition of services via an interposed entity

Background

A not-for-profit non-government organisation (NGO) initiated a program of protecting koala habitats throughout the state and has been running the program for a number of years using money obtained from fund raising activities, private sector donors and government contributions.

Agency RST is responsible for environmental protection and has decided to contribute funding to the NGO's koala program this year as part of its strategic plan. In the funding agreement, the NGO has specified the activities it will carry out using the funding (activities determined by the NGO) and that monies not spent on those activities will be returned to Agency RST.

The NGO's annual koala protection plan goes beyond the activities specified in the funding agreement, with the other activities being carried out using funding obtained from other sources.

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** Koala protection activities as determined by the NGO
- **Obligations in the agreement:** The NGO is to spend funding received from Agency RST on the agreed specified activities, with funding to be returned if not spent on those activities
- **Overall intent/purpose:** To contribute to the NGO's koala protection program in line with Agency RST's strategic plan

Case Study 10: Acquisition of services via an interposed entity

Step 2 - Application of classification principles:

Approximately equal value?

- The amount of funding is determined on the basis of agreed activities to be carried out by the NGO

Direct benefit for the agency?

- Agency RST has undertaken in its strategic plan to contribute funding towards the NGO's koala program, but it has not undertaken primary responsibility for the operation of the program
- The specific activities to be performed are determined by the NGO
- As a result, Agency RST does not control the services provided and only obtains an indirect benefit by way of increased koala populations

Conclusion: grant

Based on analysis of the factors provided, the arrangement would be classified by Agency RST as a grant as it does not receive a direct benefit of approximately equal value in return.

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Financial Reporting Requirements for Queensland Government Agencies

CHAPTER 4 – FRR 4A to FRR 4F

**Applicable to 2025/26 or 31 December 2026
Financial Years**

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FRR 4A Statement of Financial Position

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 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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4A.1 STATEMENT OF FINANCIAL POSITION

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- FRR 2D *Form and Content of Financial Statements*

POLICY

- **Subject to FRR 2D.1, the required line items for the Statement of Financial Position are as outlined in the corresponding model financial statements unless the line items are not applicable to the entity.**
- **Agencies are permitted to use the title “Balance Sheet” in place of “Statement of Financial Position”.**
- **Except where an accounting standard requires otherwise, assets and liabilities must be categorised either as current or non-current. All agencies are deemed to have an operating cycle of 12 months for the purposes of classifying current and non-current assets and liabilities.**
- **The amount of each material class of asset and liability comprising the line items in the Statement of Financial Position must be disclosed in the Notes to and forming part of the financial statements.**
- **The line item for ‘Other’ assets/liabilities must not exceed 10% of the value of total assets/liabilities.**
- **The Paid Parental Leave scheme is to be accounted for through the Statement of Financial Position with no transactions via the Statement of Comprehensive Income. (Refer to FRR 3C Employee Benefits Expense and Key Management Personnel Remuneration).**

APPLICATION GUIDANCE

Classification of Liabilities

Liabilities should be classified according to their nature e.g. payables, financial liabilities and provisions. This assists users to identify significant characteristics of the performance, financial position and financing activities of the agency. However, where line items such as interest-bearing liabilities provide more relevant information due to their size, nature or function, then they can be

listed separately on the Statement of Financial Position. Liabilities should be classified as either current or non-current as required by AASB 101.

4A.2 STATEMENT OF ASSETS AND LIABILITIES BY MAJOR DEPARTMENTAL SERVICES, CBUs AND SSPs

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB 1052 *Disaggregated Disclosures*

POLICY

- **A separate column for each major departmental service, Commercialised Business Unit (CBU) and Shared Service Provider (SSP) must be included in the Statement of Assets and Liabilities by Major Departmental Services, CBUs and SSPs. This statement must be prepared and included in the financial statements of each department that has more than one departmental service.**
- **Major departmental services must accord with those included in that financial year's Service Delivery Statements (SDS), including any approved variations. If the SDS does not disclose any major departmental services, a Statement of Assets and Liabilities by Major Departmental Services, CBUs and SSPs must still be prepared as required by paragraph 16 of AASB 1052 if there is more than one major activity.**
- **The Statement of Assets and Liabilities by Major Departmental Services, CBUs and SSPs must disclose the assets deployed and liabilities incurred in the (controlled) Statement of Financial Position that can be attributed reliably to each major departmental service, CBU or SSP.**
- **Assets and liabilities must be disclosed according to the categories presented on the face of the department's Statement of Financial Position.**
- **Inter-service/unit balances must be reflected on a gross basis (i.e. before elimination) in the respective departmental services columns and eliminated in the "Inter-service/unit Eliminations" column so as to reconcile with the figures reported in the (controlled) Statement of Financial Position.**

- **Where there has been an approved change in activities from the comparative period, this should be disclosed in the Notes to and forming part of the financial statements and restated comparative figures disclosed, unless impracticable, in the Statement of Assets and Liabilities by Major Departmental Services, CBUs and SSPs.**
- **Where a department provides material amounts of non-activity related departmental services to other entities on a 'fee for service' arrangement, the 'General – Not Attributed' column should be used to record the assets and liabilities from these departmental services.**

APPLICATION GUIDANCE

To ensure that the Statement of Assets and Liabilities by Major Departmental Services, CBUs and SSPs accurately represents the (Controlled) Statement of Financial Position, Departments are expected to take due care to reliably classify all assets and liabilities to each major departmental service.



FRR 4B Assets

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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4B.1 APPLICATION OF NON-CURRENT ASSET POLICIES

REFERENCES

- Non-Current Asset Policies for the Queensland Public Sector (NCAPs)

POLICY

- **Agencies must comply with the Non-Current Asset Policies (NCAPs) when accounting for its non-current assets (including property, plant and equipment, intangibles, investment property), as required by the *Financial and Performance Management Standard 2019* subject to other specific legislative provisions for particular agencies.**
- **NCAP 1, Appendix 1.1 Non-Current Asset Classes and Thresholds specifies the mandatory asset recognition threshold and subsequent measurement method (at cost or fair value) for each asset class, to the extent that such assets are not classified as investment property or as held for sale.**
- **In respect of land under roads, the notes to the financial statements must disclose, in addition to the disclosures applicable to the entire land class:**
 - **the aggregate value of land under roads at reporting date;**
 - **the methodology to identify land under roads;**
 - **the valuation methodology applied to determine the fair value of land under roads; and**
 - **if no reliable value can be determined, the nature of the contingent asset.**

APPLICATION GUIDANCE

Agencies are directed to Treasury's website for the latest version of the NCAPs.

Asset valuation methods must be consistent within asset classes presented in note disclosures. Agencies should refer to the Sunshine Department Illustrative Financial Statements for a suggested approach to the disclosure requirements of AASB 13.

Asset revaluation issues have, in past years, been the most common cause of agencies not meeting deadlines under the FA Act for the preparation and audit of annual financial statements. Treasury recommends agencies undertake early engagement with valuers in July/August to plan their revaluation process, to enable most of the revaluation effort to be accomplished by 31 May. By 31 May it is recommended that the valuations are obtained for all material classes of assets carried at fair value, and that all supporting workpapers are prepared and reviewed by

management. This should enable adequate time for external audit review and negotiation of any contentious issues.

Treasury does not require the disclosures “encouraged” in paragraph 79 of AASB 116 or paragraph 128 of AASB 138 to be disclosed in agency financial statements.

4B.2 INVESTMENT PROPERTY

(withdrawn, refer instead to FRR 4B.1)

4B.3 INTANGIBLE ASSETS

(withdrawn, refer instead to FRR 4B.1)

4B.4 INVENTORIES

REFERENCES

- AASB 102 *Inventories*

APPLICATION GUIDANCE

A not-for-profit agency may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. For example, hospitals may hold stores of medicines or surgical supplies that are given to patients, or used in their treatment, either free of charge or for a fraction of their cost. These types of stores may qualify as inventories held for distribution – refer paragraph Aus9.2 of AASB 102.

Agencies should use professional judgement in determining which inventories should be classified as held for distribution. However, the inventories should be integral to the agency’s service delivery. Annual reports, pamphlets, promotional materials, forms and guidelines would typically not constitute inventory held for distribution.

4B.5 ASSETS ACQUIRED AT NO OR NOMINAL COST

(withdrawn, refer instead to FRR 4B.1)

4B.6 IMPAIRMENT

(withdrawn, refer instead to FRR 4B.1)

4B.7 RESTRICTED ASSETS

REFERENCES

- AASB 7 *Financial Instruments: Disclosures*
- AASB 107 *Statement of Cash Flows*
- AASB 116 *Property, Plant and Equipment*
- AASB 138 *Intangible Assets*
- NCAP 3.4 Application of Fair Value Concepts (Highest and Best Use)

POLICY

- **Where restrictions have been imposed, whether by legislation or otherwise, on the manner in which an agency can utilise assets under its control, and such restrictions are material, the nature of the restrictions and the carrying amount of the affected assets must be disclosed in the notes to the financial statements.**

APPLICATION GUIDANCE

For the purposes of the policy, any gifts/bequests of assets that have conditions attached as to how they are to be utilised are considered to be restricted assets and, as such, are to be included in the restricted assets disclosure. Assets that need to be considered for this disclosure include financial instruments (including cash) in addition to property, plant & equipment and intangible assets. This disclosure should also consider assets with restrictions that have been identified in determining fair value for the purposes of AASB 13.

4B.8 GOODS AND SERVICES TAX (GST) RECEIVABLES/PAYABLES

REFERENCES

- Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*

POLICY

- **At each reporting date:**
 - **the net receivable from/payable to the ATO must be classified according to the 'net' position; and**
 - **the gross amount of input tax credits receivable from the ATO and the gross GST payable to the ATO, must be separately disclosed in the notes.**

APPLICATION GUIDANCE

Interpretation 1031 requires GST relating to receivables and payables be recognised, but is silent on the issue of GST relating to accrued revenues and expenses.

GST legislation states that a liability (i.e. GST payable) occurs when a tax invoice has been issued for a taxable supply or a payment received for a taxable supply, whichever occurs earlier. The same rule applies to the entitlement to claim an input tax credit (i.e. GST receivable) either when a tax invoice is received for a taxable supply or a payment is made for a taxable supply, whichever occurs first.

An 'accrual' becomes a 'creditor' when an invoice is received with an invoice date within the financial reporting period. As a general rule, accrued liabilities are to be recognised exclusive of GST while creditors are inclusive of GST.

Invoices received after financial year end must be recognised as liabilities inclusive of GST (if material) if the tax invoice is dated prior to year-end. These represent creditors at balance date due to the supply of goods or services prior to the end of the financial year.

If the invoice is dated after year end for services provided prior to the year end, there is no entitlement to an input tax credit at balance date and therefore, the liability is an accrual and must be recorded exclusive of GST.

Any GST-inclusive liabilities recognised after the submission of the BAS will result in the need for a reconciliation of figures between the financial statements and the BAS (the latter having been determined based on general ledger figures as at the dated submission of the BAS).

Payments received in advance of a tax invoice being issued by the agency trigger a GST liability and corresponding liability to remit GST according to the GST legislation. Such a prepayment received prior to the year-end must be reported inclusive of GST.

When no tax invoice has been issued or no payment has occurred, accruals for revenues and expenses (that result in receivables and payables) should be reported exclusive of GST, as they represent an estimate only of charges that have been neither invoiced nor paid.

For information on the policy regarding the disclosure of GST in the Statement of Cash Flows, refer to FRR 5A Statement of Cash Flows.

4B.9 LEASES

REFERENCES

- AASB 16 *Leases*

POLICY

- Agencies shall not apply AASB 16 to leases of intangible assets.
- Agencies shall apply AASB 16 paragraphs 6–7 to account for all short-term leases. A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less and does not contain a purchase option.
- Agencies may choose, on a lease-by-lease basis, to account for leases of low value assets either on balance sheet or by applying AASB 16 paragraph 6. A low value asset is an asset that costs less than AUD \$10,000 when new.
- Non-lease components within lease contracts must be accounted for separately for all leases except for leases of plant and equipment. For leases of plant and equipment, the lease component and non-lease components must be accounted for as a single lease component.
- Right-of-use assets for peppercorn leases must be measured at cost on initial recognition.
- Subsequent to initial recognition, all right-of-use assets shall be measured at cost.
- Where the interest rate implicit in the lease is not specified in the lease agreement or otherwise provided by the lessor, agencies shall use their incremental borrowing rate to discount the lease liability.
- For incremental borrowing rates, agencies shall use agency-specific loan rates provided by QTC where applicable, or otherwise use QTC Fixed Rate Loan rates that correspond with the lease commencement month and lease term.
- Where internal-to-government finance lease arrangements exist, the head lessor agency shall, in order to facilitate whole-of-government reporting, be responsible for ensuring accurate accounting records are maintained (either by themselves or the

lessee) for the underlying asset so it is properly accounted for by whole-of-Government under the applicable Standard (e.g. AASB 116).

APPLICATION GUIDANCE – LESSEES

Under AASB 16 Leases, a lessee no longer distinguishes between operating leases and finance leases. The lessee is required to recognise a right-of-use asset and a lease liability for all leases other than short-term leases and leases of low value assets.

Right-of-use asset

A right-of-use asset recognised under AASB 16 represents the agency's intangible right to use the underlying asset over the lease term, rather than the underlying asset itself. Valuation of the right-of-use can be significantly more complex than valuing the physical asset, as it needs to take into account, for example, the period of use and any restrictions on the use of the asset. Accordingly, Treasury requires that right-of-use assets be measured using the cost model.

Because the low value asset threshold already determines whether or not leases need to be accounted for on balance sheet, the asset recognition thresholds in NCAP 1 are not applicable to right-of-use assets.

Concessionary ("Peppercorn") leases

AASB 16 currently allows not-for-profit lessees to elect, on a class-by-class basis, to measure right-of-use assets arising from concessionary leases at fair value at initial recognition. For this purpose, AASB 2019-8 also permits that right-of-use assets arising from concessionary leases can be treated as a separate class to right-of-use assets arising from other leases, despite their similar nature and use in the entity's operations.

However, due to the cost and complexity in determining the fair value of right-of-use assets, Treasury currently requires agencies to measure all right-of-use assets arising from concessionary leases at cost on initial recognition – i.e. by applying AASB 16 paragraphs 23-25. This may result in small or nominal right-of-use asset values. Treasury's policy directive will be reviewed in future financial years in response to any amendments to the Standard as foreshadowed by the AASB.

Determining the lease term

It is important to correctly assess the lease term as only those lease payments during the lease term are included in the lease liability measurement. The lease term is the non-cancellable period plus extension periods that the lessee is reasonably certain to exercise and early termination periods that the lessee is reasonably certain not to exercise. "Reasonably certain" should reflect a very high probability.

For example, an agency enters into a 5-year lease of a building with a 2-year extension option, and the agency can cancel the lease at any time without penalty by giving 6 months' notice. In this case:

- The minimum non-cancellable period is 6 months;
- The agency must assess whether it is reasonably certain to not terminate the lease before the 5-year lease term is up. The agency determines that it is reasonably certain to lease the building for the full 5 years (i.e. not terminate early), so it adds an additional 4 years and 6 months to the lease term;
- The agency then assesses whether it is reasonably certain to exercise the 2-year extension option. It determines that it is not reasonably certain to extend, so the lease term remains at 5 years.

Some leases may have an indefinite lease term and continue on an ongoing basis into perpetuity until a party terminates the arrangement. For such leases, agencies should consider the following when determining the lease term for such arrangements:

- Whether there is an implied lease term or a reliably estimable time period over which the agency is reasonably certain to lease the asset that may be appropriate to use as the lease term;
- For assets with finite useful lives, such as buildings, the lease term cannot exceed the economic life of the asset itself;
- For leases of land which has an infinite life, the agency should assess whether it is reasonably certain to lease the land indefinitely. In some situations, agencies may be able to use a perpetuity formula to calculate the lease liability and not depreciate the right-of-use asset. Often these perpetual land leases are also peppercorn leases and will be immaterial for the lessee.

Revising the lease term

In certain circumstances during the life of a lease, the agency is required to reassess whether it is reasonably certain to exercise or not to exercise an option, and revise the lease term – refer to AASB 16 paragraphs 20-21.

When an agency terminates a lease early, Treasury expects that at some point before the actual termination date, the conditions in paragraph 20-21 would have been met to necessitate a revision of the lease term. This downward revision would adjust the lease liability to reflect the remaining lease payments, and reduce the right-of-use asset and the remaining depreciation period. The result is that there should be minimal (if not zero) right-of-use asset and lease liability balances left on termination date, and no material gains or losses recognised on “disposal” of a lease.

Fixed vs variable rent escalation clauses

Rent escalation clauses that provide for a fixed percentage or dollar increase are included in the initial measurement of the lease liability. Rent escalation clauses that depend on a future index or rate (e.g. consumer price index or market rentals) are considered variable lease payments. AASB 16 requires these variable lease payments that depend on an index or rate to be included in the measurement of the lease liability. However, unlike fixed rent increases, these increases are only included in the liability measurement when there is a change in cash flows. Agencies should not attempt to estimate/predict future variable increases, and instead should assume no change (0% increase) until the future change happens.

For example, if rent increases on 1 July each year following a market rent review, the liability is remeasured on 1 July when the change in rent payments takes effect. At 30 June of the previous year, the lease liability does not take into account this increase or any estimate of future changes yet to be quantified.

Discount rate

The discount rate used to calculate the present value of the lease liability should be the interest rate implicit in the lease, if that rate can be readily determined, or if not, the lessee’s incremental borrowing rate. Calculating the interest rate implicit in the lease requires some information that may only be available to the lessor. Because of this, Treasury’s policy is that if the interest rate implicit in the lease is specified in the lease agreement or otherwise provided by the lessor, agencies should use that rate, otherwise agencies should use their incremental borrowing rate. To determine an incremental borrowing rate:

- Agencies **with** existing loan facilities with QTC should be able to readily ascertain from their loan agreements (or from QTC) what rate they would pay if they were to borrow to obtain an asset of similar value over a similar term.
- Agencies **without** QTC loan facilities should use the Fixed Rate Loan rates that are published monthly on the [QTC Link](#) website, selecting the rate that corresponds with the lease commencement date and the lease term. For example, for a 10-year lease

commencing 1 September 202X, the agency would use the 10-year Fixed Rate Loan rate at 31 August 202X to as the incremental borrowing rate.

Revising the discount rate

Changes to market interest rates do not automatically necessitate revising the discount rate used to measure the lease liability - only certain circumstances trigger remeasurement of the lease liability under AASB 16 using a revised discount rate, as listed in the table below.

AASB 16 Paragraph	Situations where lease liability is remeasured with a <u>revised</u> discount rate
40	There's a change in the lease term, or a change in the assessment of a purchase option
43	There's a change in lease payments that result from a change in floating interest rates
45	The lease is modified, and the modification is not accounted for as a separate lease

QGAO Internal-to-Government Accommodation / QFleet Vehicle Fleet Arrangements

Due to amendments to the governing frameworks and policy documents effective from 1 July 2019, non-specialised commercial office accommodation under the Queensland Government Accommodation Office (QGAO) Office Accommodation Management Framework (OAMF), residential accommodation properties under the Government Employee Housing (GEH) program, and fleet vehicles provided to agencies through QFleet will not meet the definition of a lease under AASB 16.

This is because QGAO/QFleet has substantive substitution rights over the assets provided such that they are considered as the provision of services by the administering department to the user agencies. Accordingly, agencies are not to account for these arrangements as leases and should instead recognise the rental payments as operating expenses when incurred.

Accounting for asset fit-outs under QGAO arrangements

For the avoidance of doubt, office and specialised equipment, such as photocopiers, printers, AV equipment and specialised medical equipment, that are self-funded and controlled by the occupant agency are separate from fit-outs discussed in this section. Such equipment should be capitalised and accounted for by the occupant agency.

For QGAO arrangements that are accounted for as services rather than leases, it is necessary to recognise fit-outs in a manner that ensures whole-of-Government reporting outcomes are properly reflected upon consolidation of agency financial data. Queensland Treasury's expectations for QGAO (and its administering department) and occupant agencies are outlined below:

- QGAO and occupant agencies should continue to recognise, in their own books, any existing fit-outs accounted for under AASB 116 prior to 1 July 2019, and any fit-outs capitalised from 1 July 2019 to 30 June 2022 in line with the applicable FRRs for those financial years.
- A fit-out asset be recorded wholly in the books of one agency to avoid double counting by whole-of-government reporting. Situations where QGAO and the occupant agency each recognises a portion of the asset would ordinarily require 'joint control' to be demonstrated under accounting standards.
- As far as is practical, QGAO should recognise the full amount of new fit-out assets acquired or constructed **except** where:
 - the occupant agency demonstrably controls the fit-out (see guidance below), or
 - the acquisition and construction is undertaken and funded solely by the occupant agency itself, with no involvement from QGAO, in which case the occupant agency may recognise the fit-out asset. This concession is to ensure the asset is appropriately recorded for whole-of-government reporting purposes.

Certain fit-out or improvements in QGAO arrangements may be demonstrably controlled by the occupant agency (rather than QGAO) in circumstances where:

- a fit-out can be economically removed from the premises and moved to a different location or sold, and the occupant agency is permitted to remove the asset and relocate, sell or dispose of it at its discretion, or the occupant agency is required to remove the fit-out before vacating the premises; or
- a fit-out, due to its nature, can only be used by the occupant agency and will have no value to QGAO or another tenant. For example – highly specialised / customised fit-outs, or signage bearing the occupant agency's name or logo.

Where the occupant agency contributes all or part of the costs of a fit-out that is controlled and recognised by QGAO, the occupant agency should expense its contribution as operating expense, with QGAO recognising income.

The guidance in this section is expected to cover the typical fit-out projects and funding scenarios encountered by agencies under QGAO arrangements. Where it is unclear which agency should capitalise the fit-out asset, or if the agency believes an alternative accounting treatment is more

appropriate, the occupant agency should consult with QGAO and Queensland Treasury's Accounting Policy Team for accounting advice.

Illustrative Example 1. The occupant agency pays for fit-out costs that will be reimbursed by QGAO from its lease incentives funds. None of the fit-out is demonstrably controlled by the occupant agency.

Accounting Consequence: QGAO should recognise the fit-out asset along with a payable for the reimbursement. The occupant agency records a receivable from QGAO as monies are spent on the fit-outs and reduces the receivable when reimbursement is received. The occupant agency does not recognise any expense or revenue for the fit-out costs that will be reimbursed by QGAO.

Illustrative Example 2A. QGAO installs new fit-outs in the occupant agency's premises and the occupant agency contributes 50% of the cost of the fit-outs. None of the fit-out is demonstrably controlled by the occupant agency.

Accounting Consequence: QGAO should recognise the whole fit-out asset. In respect of the occupant agency's contribution, QGAO recognises income, and the occupant agency recognises operating expense.

Illustrative Example 2B. Same scenario as Example 2A except that 50% of the fit-out is demonstrably controlled by the occupant agency as the fit-out is highly specialised and is permitted to be removed from the premises.

Accounting Consequence: The occupant agency recognises 50% of the overall fit-out representing the specialised fit-out component. QGAO recognises the remaining 50% of the fit-out (i.e. everything except the specialised fit-out).

Leases transferred as part of a Machinery-of-Government change

When a lease arrangement is transferred between agencies in a MoG, the recipient agency takes on the ROU asset and lease liability balances of the transferor. The lease received is not considered a new lease by the recipient. As such, the recipient agency does **not** consider the short-term lease exemption in this situation and must recognise the balances even if the remaining lease term is 12 months or less.

APPLICATION GUIDANCE – LESSORS

Internal-to-Government finance leases

Lessor accounting has not changed significantly under AASB 16, compared to AASB 117. The lessor still classifies leases as operating leases or finance leases, and a finance lease requires derecognition of the underlying asset (which can be a right-of-use asset under a head lease) and recognition of a lease receivable.

From a whole-of-government perspective, the effect of inter-agency leases is eliminated, and the underlying asset must be properly accounted for – including aspects such as depreciation, revaluation and impairment for an item of PP&E. The lessee's accounting for the right-of-use asset can differ significantly from what is required for the underlying asset. For example, the right-of-use asset will be carried at cost, which will differ from the fair value of the underlying asset. In the case of peppercorn leases, such right-of-use assets may be recorded at a nominal amount which will not reflect the fair value of the actual asset controlled by the State.

To permit accurate whole-of-government reporting, Treasury requires that the lessor agency in an internal-to-Government finance lease be responsible for ensuring accurate accounting records are kept for the underlying asset by at least one of the agencies party to the lease. In an arrangement involving multiple internal-to-Government finance leases (e.g. one agency leases the asset to a second agency, who in turn leases it to a third agency), this requirement applies to the head lessor, being the agency that owns the underlying asset or is leasing it from an external party.

Consequently, the lessor agency will need to negotiate with QAO, Treasury and the lessee agency in each situation to agree on the most effective method of properly accounting for the underlying asset. There are a number of ways a lessor agency can approach this, including:

- If permitted by audit, such as on grounds of materiality, the agency may account for the finance lease the same as an operating lease (thus retaining the underlying asset on the lessor's books) and provide additional disclosures to explain the finance lease arrangement. This approach has the benefit of reflecting the whole-of-Government accounting position; or
- maintaining a separate set of records for the underlying asset and report the related transactions and balances in Tridata separately. The disadvantage of this method is there will be a difference between the agency's own statements and their Tridata entries; or
- explore whether a transfer of ownership or accounting control for the underlying asset to the lessee agency can be made – in this case, the lessee agency would then be responsible

for accounting for the underlying asset (which would also reflect the whole-of-Government accounting position); or

- restructure the lease so that it is, in substance, no longer a finance lease (i.e. it is an operating lease).

The lessor agency can also negotiate with the lessee agency to delegate tasks such as accounting or revaluations to the lessee agency, but the lessor agency retains ultimate responsibility.

Classification of subleases

AASB 16 paragraph 58 requires lessors to classify subleases by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. For example, when assessing whether the lease term is for the major part of the economic life of the asset, the sub-lessor agency would compare the lease term of the sublease with the economic life of its right-of-use asset (being the lease term of the head lease), rather than the economic life of the underlying asset like a building.

Finance leases of a portion of an asset

This section is relevant to lessors (including sub-lessors) who lease out a portion of an asset, such as floor space in an office building or a retail shop within a hospital facility, and the lease of that portion is classified as a finance lease.

Treasury's guidance is that where a material portion of the asset is leased out under a finance lease, the lessor shall derecognise that portion of the asset in line with AASB 16's finance lease accounting requirements. Where the leased portion is not material, the lessor can instead account for it as an operating lease and will not need to derecognise a portion of the asset nor recognise a lease receivable. To estimate the value of the leased portion, agencies can use techniques such as (i) allocating the carrying amount of the whole asset to the leased area based on floor space; or (ii) calculating a market value for the leased area using the rent charged on the lease, where the rent is at a market rate.

Long-term leases of land exceeding 50 years

Although land has an indefinite economic life, transactions involving the long-term lease of land may require classification as a finance lease by the lessor, resulting in derecognition of the land at commencement of the lease. This is because a long-term lease of land is economically similar to a disposal of the land, and at inception of the lease, the present value of the residual value of the property and the lessor's residual risks and rewards after the term of the lease would be insignificant.

Where a long-term lease of land is for a term of 50 years or longer, the lease will ordinarily be expected to meet the AASB 16 classification as a finance lease unless there is compelling evidence to the contrary.

Further, under AASB 16 it is necessary to account for the unguaranteed residual value as part of the net investment in the lease – i.e. the return of the land to the lessor at the end of the lease. In a long-term finance lease, the present value of the unguaranteed residual may not be material until many years (possibly decades) into the life of the lease. Agencies should monitor the unguaranteed residual value and only recognise it when it becomes material and it is established the land will return to the State and the end of the lease term.

AASB 16 Leases - Contract Review Checklist and Data Collection Worksheet

Introduction

Treasury has developed the *AASB 16 Leases Contract Review and Data Collection Worksheet* to assist agencies in reviewing their lease contracts against the requirements of the new leasing Standard.

	Guidance
Is there a lease?	When reviewing contracts, agencies should endeavour to understand and apply the new lease identification requirements and guidance in AASB 16. Even though agencies are not required to reassess this particular aspect on transition, this knowledge will help agencies in the future when re-negotiating leases and entering into new contracts.
Value of the leased asset	If the asset, when new, would normally cost less than \$10,000, the agency has a choice of applying the low-value asset exemption and account for the lease similar to current operating lease accounting. Examples of low-value assets include tablets, personal computers, small items of office furniture and phones.
Commencement date	This is the date the underlying asset is made available for use, and usually corresponds with the commencement date as specified in the lease agreement. This is not the date that the lease contract is signed.
Lease term	In addition to the lease term or lease end date stated in the agreement, agencies should also look for any clauses that allow for early termination of the lease and whether there are significant penalties attached. This will allow agencies to accurately determine the non-cancellable period. Any periods beyond the non-cancellable period would need to meet the 'reasonably certain' threshold to be included in the lease term. If the lease term is determined to be 12 months or less, remember to apply the short-term lease exemption.
Lease incentives	Lease incentives are cash payments from the lessor and the lessee's costs assumed or reimbursed by the lessor. Lease incentives to be received in the future are subtracted from the lease payments used to calculate the lease liability. Any rent-free periods should also be reflected directly in the lease payments used to calculate the lease liability. Lease incentives already received by commencement date are subtracted from the initial measurement of the right-of-use asset.

	Guidance
Non-lease components	Agencies will need to identify any non-lease components (e.g. cleaning, maintenance, consumables, operating expenses) and exclude payments relating to those components from the calculation of the lease liability. If there is an insufficient breakdown of the payments in the contract, the agency can either ask the lessor to provide the information (if practical), or allocate the payments based on an estimate of the stand-alone prices of the lease and non-lease components. Payments for non-lease components are typically expensed when incurred. The exception is for leases of plant and equipment (an asset class defined in NCAP 1). Treasury's policy for these leases is that agencies shall not separate out non-lease components. This means payments for the non-lease components are included in the measurement of the lease liability, and consequently the right-of-use asset.
Interest rate implicit in the lease	If the discount rate is specified in the lease agreement, agencies should record it. However, this rate will <u>not</u> be used to calculate the lease liability on transition, the agency's incremental borrowing rate will be used instead. If, after the date of initial application of AASB 16, the lease term is revised or the lease is modified, the specified rate may be used as the revised discount rate if it still reflects the implicit rate for the remainder of the lease term. The interest rate implicit in the lease (if specified) will be used as the discount rate for new leases that commence after AASB 16 becomes effective.
Make good clauses	Agencies should review make good clauses to assess whether any restoration provision should be recorded. The amount of any such provision is included in the cost of the right-of-use asset.
Past lease payments and expenses	If the agency elects to use the transition option in paragraph C8(b)(i) – see Transition section above, it will need to collect information about past lease payments, including payments made before lease commencement and variable rent increases that have occurred to date. The agency may exclude initial direct costs, as permitted by C10(d).

The checklist should be read and applied in conjunction with AASB 16 and Queensland Treasury's Financial Reporting Requirements FRR 4B.9.

AASB 16 Leases**Contract Review Checklist and Data Collection Worksheet**

Asset code / serial number	
Asset name	
Asset location	
Lessor	

	Check point	Ref	Documentation
1	Scope – Is there a lease? <i>Note: This section should <u>not</u> be used for leases commencing prior to 1 July 2019, as Treasury intends to mandate the practical expedient in paragraph C3.</i>		
1.1	Determine whether there is an identified asset - Consider whether the supplier/lessor have substantive substitution rights - Consider if the lease for a portion of the capacity of the asset. If so, assess whether - it is a physically distinct portion, or - the agency leases substantially all of the capacity of the asset	B13-B20	
1.2	Assess whether the agency has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.	B21-B23	
1.3	Assess whether the agency have the right to direct the use of the asset throughout the period of use. This can be evidenced by: - the agency having the right to direct how and for what purpose the asset is used, OR - the relevant decisions about how and for what purpose the asset is used being predetermined, and cannot be changed by the supplier	B24-B30	
1.4	Conclude whether the contract is, or contains, a lease - If there is no lease, consider what other standard/s would apply to this arrangement - If there is a lease, proceed with this checklist	9 B9-B12	

	Check point	Ref	Documentation
2	General lease details		
2.1	Record asset class of the underlying asset	NCAP1	
2.2	Is the lessor external to Queensland Government?		
2.3	Include links to the original lease agreement and any subsequent amendments		
3	Portfolio application and combination of contracts		
3.1	If the agency has a portfolio of leases with similar characteristics, consider whether to apply AASB 16 to the portfolio as a whole	B1	
3.2	Consider whether the contract is required to be combined with other contracts and accounted for as a single contract per paragraph B2	B2	
4	Separating components of a contract		
4.1	Identify any non-lease components (such as cleaning, repairs, supply of consumables), if any Separate out the lease components and the non-lease components so they can be accounted for separately. However, as per Treasury policy, do not separate out non-lease components for leases of plant and equipment.	12-16 B32-B33	
4.2	Identify any additional lease components included in the lease agreement, e.g. car parks	13	
5	Exemption for leases of low value assets		
5.1	Assess whether the leased asset, when new, would cost less than AUD \$10,000 If so, decide whether the agency will apply the low value assets exemption to this lease. This decision can be made on a lease-by-lease basis.	5(b) B3-B8	
6	Lease term		
6.1	Record the lease commencement date, being the date the underlying asset is made available for use. This includes any rent-free periods.	Appendix A B36	
6.2	Record the lease end date or expiry date		

	Check point	Ref	Documentation
6.3	Determine the non-cancellable period - Consider whether the agency can terminate the lease at any time without penalty, or can terminate the lease without penalty by giving a certain period of notice - If not, consider whether the agency is locked into the lease agreement for the entire lease term as stated in the lease agreement	18 B34-B35	
6.4	Identify and assess options to extend the lease - Identify extension options beyond the lease term specified in the lease agreement - If there are any, assess whether the agency is reasonably certain (as at the commencement date) to exercise any extension options. For transition purposes, agencies can use hindsight in making this assessment.	18(a) 19 B37-B40 C10(e)	
6.5	Identify and record terms for early termination by the lessee and the lessor	B34-B35	
6.6	Assess the likelihood of early termination by the agency - Consider whether the agency is reasonably certain to lease the asset until the end of the lease term stated in the agreement - If not, estimate the minimum period for which the agency is reasonably certain to lease the asset, taking into account early termination conditions and any penalties attached	18(b) 19 B37-B40	
6.7	After taking into account extension and termination options, decide on the lease term to be used for accounting under AASB 16	18	
6.8	Assess whether the lease term is 12 months or less - If the lease term is 12 months or less, it will be a short-term lease unless there is a purchase option. - Agencies must apply the exemption in para 5(a) for all short-term leases. <u>Note for transition only:</u> If, as at 1 July 2019, the remaining lease term is 12 months or less, it can also be treated as a short-term lease.	5(a) C10(c)	

	Check point	Ref	Documentation
7	Lease liability measurement		
7.1	Determine the appropriate discount rate - Is the interest rate implicit in the lease specified in the lease agreement, or otherwise provided by the lessor? - If not, the agency can use their incremental borrowing rate, e.g. QTC fixed rate loan rates appropriate for the lease term and month of commencement. <u>Note for transition only:</u> Agencies <u>must</u> use their incremental borrowing rate at 1 July 2019, and can consider whether to apply a single discount rate for a portfolio of leases with reasonably similar characteristics (e.g. lease term, asset class).	26 C8(a) C10(a)	
7.2	Record details about lease payments and future rent increases provided for in the lease agreement Rent increases may be: - fixed, e.g. 3.5% per year - variable and linked to an index or rate, e.g. CPI, market rent review - a combination of fixed and variable, e.g. CPI plus 2%, higher of CPI and 3.5%, 3% for 5 years followed by a market rent review - specified upfront in a schedule in the lease agreement Also consider any rent-free periods	27(a)-(b) 28 B42	
7.3	Identify any variable lease payments that do not depend on an index or rate, for example payments that will be based on actual usage, output, patronage, etc. These payments are not included in the measurement of the lease liability, instead they will be accounted for in accordance with para 38(b).	28 38(b)	
7.4	Estimate the future amount payable under residual value guarantees (if any) This is ordinarily the shortfall between the expected residual value of the asset at the end of the lease and the residual value guarantee.	27(c)	

	Check point	Ref	Documentation
7.5	Assess the likelihood of exercising a purchase option (if any) - Is the agency reasonably certain to exercise the purchase option? - If so, include the purchase payment when calculating the liability, and depreciate the right-of-use asset over the useful life of the underlying asset	27(d) 32	
7.6	If, in determining the lease term, the agency assessed that it is reasonably certain to terminate the lease early and incur a penalty, include the penalty payment when calculating the liability.	27(e)	
8	Right-of-use asset measurement		
8.1	Record lease payments made before the commencement date	24(b)	
8.2	Record lease incentives received, e.g. - Cash payment received from the lessor - Reimbursement or assumption by the lessor of costs of the lessee, e.g. removal costs, switching costs, costs of customised enhancements to the leased asset Note: Rent-free periods are taken into account when measuring the lease liability.	24(b) Appendix A	
8.3	Identify initial direct costs incurred by the agency <u>Note for transition only:</u> It is not necessary to identify initial direct costs for leases entered into prior to 1 July 2019.	24(c) C10(d)	
8.4	Estimate the costs of make-good activities required by the lease agreement, e.g. dismantling, removal or restoration to be performed at the end of the lease Consider when does the agency incur the obligation for these costs - e.g. at lease commencement or throughout the lease term.	24(d) 25	
8.5	For not-for-profit agencies, identify whether the lease is a "peppercorn / concessionary lease", for which additional disclosures are required in para Aus59.1-2. Per Treasury policy, peppercorn leases will be measured initially at cost (para 23-25), similar to other leases.	Aus25.1 Aus59.1 Aus59.2	

	Check point	Ref	Documentation
8.6	For depreciation purposes, identify if ownership of the underlying asset transfers to the agency at the end of the lease term. Also consider step 7.5 above regarding purchase options. If the right-of-use asset is to be depreciated over the useful life of the underlying asset, estimate the useful life of the underlying asset	32	

Lease - Data Collection Worksheet

Asset Name	
Asset Location	
Asset Code	
Asset Class	
Lessor	
Links to agreements (including any amendments)	

Commencement Date	
Expiry Date	
Initial Term	
Lessee Extension Options (details of options, dates and amounts)	
Lessee Termination Options (details of options, dates and amounts)	
Lessor Termination Options (details of options, dates and amounts)	

Discount rate	
Initial Rent	
Lease incentives (eg Rent free or reduced rent period)	
Fixed rent increase description (timeframes, amounts/fixed %)	
Variable lease payments (indexes) (timeframes and method such as CPI)	
Variable lease payments (other) (such as percentage of production)	
Non-lease components (for assets other than Plant and Equipment)	
Existing changes to lease payments (changes that have already occurred)	
Termination payments (purchase options, make-good and residual value guarantee)	
Payments already made (to value right of use asset)	
Initial direct costs (to value right of use asset)	
Other related leases (consideration as to whether to combine)	



FRR 4C Employee Benefit Liabilities

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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4C.1 RECOGNITION AND TYPES OF BENEFITS

REFERENCES

- AASB 119 *Employee Benefits*

POLICY

- **An employee benefit liability for accumulated and unused Time Off In Lieu (TOIL) and Rostered Days Off (RDO) leave at reporting date must be recognised when:**
 - **the amount is material when measured on an agency basis; and**
 - **if it is probable that the outstanding TOIL leave will be used by employees before leaving the agency, or if TOIL is paid out on termination.**
- **AASB 119 does not specifically state that elected members are deemed to be employees. However, in the interests of public information, where employee benefits for elected members are material, they must be disclosed as a liability in the financial statements of the relevant agency.**

APPLICATION GUIDANCE

Overall Criteria for Recognition as a Liability

For an employee benefit liability to be recognised, it must be probable that settlement will be required and that the liability can be measured reliably. All entitlements that vest in an employee satisfy the definitions of expenses and liabilities and should be measured and reported. Non-vesting employee benefits may satisfy the definition of expenses or liabilities but they may not meet the recognition criteria as it may not be possible to reliably measure the liability or expense.

Short-term employee benefits (liabilities expected to be wholly settled within 12 months) are to be measured at their nominal value (i.e. undiscounted).

Employee benefits that meet the definition for other long-term employee benefits are to be measured according to most of the requirements for defined benefit plans under AASB 119 except for the requirement for remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income.

Sick Leave

A present obligation in respect of employees' accumulated sick leave entitlements arises only when it is probable that the sick leave to be taken by employees in any future reporting period will be greater than the entitlements that will be accumulated in that future period.

Where experience indicates that, on average, sick leave taken each reporting period is less than or equal to the entitlement accruing in that period and this trend is expected to recur in future periods, it is unlikely that existing accumulated entitlements will be used by employees. Accordingly, no liability for unused sick leave entitlements should be recognised.

As an example, measured on an agency basis, the average period of sick leave taken per employee over the last three reporting periods is five days per year. The average entitlement to sick leave accruing per employee over the same period is 10 days per year. There is no reason to expect that the number of days taken in sick leave will exceed the 10 days per year accruing in future reporting periods and accordingly, no liability should be recognised.

Annual Leave

Agencies that *are members* of the Annual Leave Central Scheme (ALCS)

Agencies that participate in the ALCS do not recognise a liability for annual leave entitlements in their financial statements since the employer obligation is held by the State. Therefore, generally only the annual leave levy expenses are recognised as employee expenses.

As the agency itself makes the annual leave payments to employees, it will need to claim back these amounts from the ALCS as a reimbursement. Amounts claimed from the scheme but not actually recouped at reporting date are a receivable for the agency.

ALCS policy specifies the on-costs that are to be included in the ALCS levy calculations. On-cost rates are determined by shared service providers (e.g. Queensland Shared Services) in consultation with the agencies that they service and are reviewed on an annual basis.

The guidelines for the ALCS set out the arrangements for dealing with transfers of employees which depend on whether the transferee agency is a member of the scheme. These guidelines are available at: <https://www.treasury.qld.gov.au/resource/annual-leave-central-scheme-guidelines/>

Generally, the only accounting consequences for member agencies under the ALCS are where cash payments need to be made to the scheme for a higher remuneration rate applicable after commencement of the employee in the transferee agency.

Agencies that are **not members** of the ALCS

Employees' annual leave entitlements at reporting date are to be recognised as accrued employee benefit liabilities.

Where payments such as leave loading are payable under an award, they also should be included in the calculation of the related employee benefit liability, where they are not paid out annually.

All directly associated on-costs (e.g. employer superannuation contributions, payroll tax (where applicable) and workers' compensation insurance) should be included where material. For financial reporting purposes agencies may split the employee benefit liability amount between relevant line items such as payroll tax (where applicable) and worker's compensation.

Where the agency's entire liability for annual leave is not expected to be wholly settled within 12 months of the end of the reporting period, it is to be treated as per other long-term employee benefits. On that basis, the liability is to be accounted for, and disclosed, consistent with defined benefit plans (refer to paragraphs 55 – 152 of AASB 119).

Where an agency is not a member of the ALCS, the main accounting consequences for employee transfers is that, to the extent that cash is not transferred, income or expenses are to be recognised in respect of leave entitlements transferred to another agency or acquired from another agency respectively.

Long Service Leave

Agencies that are members of the Long Service Leave Central Scheme (LSLCS)

Agencies that participate in the LSLCS do not recognise a liability for long service leave entitlements in their financial statements as the employer obligation is held by the State. Therefore, generally only the long service leave levy expenses are recognised as employee expenses.

As the agency itself makes the long service leave payments to employees, it will need to claim back these amounts from the LSLCS as a reimbursement. Amounts claimed from the scheme, but not actually recouped at reporting date, are a receivable for the agency.

The guidelines for the LSLCS set out the arrangements for dealing with transfers of employees, which depend on whether the transferee agency is a member of the scheme.

These guidelines are available at:

<https://www.treasury.qld.gov.au/resource/long-service-leave-central-scheme-guidelines/>

Generally, the only accounting consequences for member agencies under the LSLCS are where a transferred employee previously earned long service leave entitlements at an entity that is not party to the reciprocal leave recognition arrangements outlined in the Queensland Government Awards page (<https://www.qirc.qld.gov.au/awards>) and the agency chooses to recognise those long service leave entitlements on commencement. In this situation, a cash payment would be made to the LSLCS.

Agencies that are not members of the LSLCS

Generally, agencies which are not part of the LSLCS manage their own leave balances. The following entitlement categories of long service leave are common:

- (a) An 'unconditional' legal entitlement to payment arises after a qualifying period of service (e.g. 10 years). Accumulation of long service leave entitlement continues after this point until the leave is taken.
- (b) A 'conditional' entitlement exists in certain circumstances (e.g. death, retrenchment, or early retirement under some awards) and a legal entitlement to pro rata payment in lieu of long service leave arises (sometimes only after a qualifying period of service).
- (c) Under a 'pre-conditional' entitlement, no legal entitlement to any payment or leave exists before the accumulation of the period of service necessary to qualify for the entitlement described in (a) or (b) above.

In the Queensland public sector there are generally only two categories of long service leave, being an unconditional entitlement and pre-conditional entitlement. However, in some special circumstances (as set out in Public Sector Commission directives) a pro-rata payment may be made to a Queensland public sector employee.

Agencies that are not members of the LSLCS should generally treat their long service leave obligations as other long-term employee benefits. On that basis, they are to be accounted for, and disclosed, consistent with defined benefit plans (refer to paragraphs 55 – 152 of AASB 119).

Where an agency is **not** a member of the LSLCS, the main accounting consequences for employee transfers is that, to the extent that cash is not transferred, income or expenses are to be recognised in respect of leave entitlements transferred to another agency or acquired from another agency respectively.

Superannuation

Queensland Treasury's distinction between the two types of superannuation plans is as follows:

- Defined contribution plans – the State's obligation is limited to the amount that it agrees to contribute to the plan. As a result, superannuation entitlement risk (that benefits will be less than expected) and investment risk (that returns on assets invested will be insufficient to ultimately meet expected benefits) fall on the employee.
- Defined benefit plans – the State's obligation is to provide the agreed benefits to current and former employees, resulting in superannuation entitlement risk (that benefits will cost more than expected) and investment risk falling on the State. If superannuation entitlements are greater than expected or investment returns are worse than expected, the State will cover any shortfall.

Defined *Contribution* Plans – No actuarial assumptions

The accounting and recognition for defined contribution plans is straightforward as the State's obligation for each period is limited to the amounts to be contributed for that period. No actuarial assumptions are required to measure the obligation or the expense, and no actuarial gain or loss arises.

As an employee renders service, agencies must recognise the contributions payable to the superannuation plan:

- as a liability (accrued expense) after deducting any contributions already paid. If the contributions already paid exceeds the contributions due, an agency shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and
- as an expense, unless an accounting standard requires or permits the inclusion of the contribution in the cost of an asset e.g. capitalised into the cost of a non-current asset under AASB 116 Property, Plant and Equipment.

AASB 119 contains the recognition, measurement and disclosure requirements for defined contribution plans.

Defined **Benefit** Plans (Agencies contributing to the Government Division of Australian Retirement Trust)

For agencies that contribute to the Government Division defined benefit categories administered by Australian Retirement Trust (the former QSuper defined benefit categories), the employer liability is held by the State (consistent with the ALCS and LSLCS). Hence, no liability for superannuation benefits should be recognised in such agencies' financial statements, except for contributions due and unpaid at balance date.

Defined **Benefit** Plans (Agencies not contributing to the Government Division of Australian Retirement Trust)

The accounting and recognition for defined benefit plans is more complex. The ultimate cost to the employer of a defined benefit plan may be influenced by many variables such as final salaries, employee turnover, mortality and the investment earnings on the plan assets.

In order to measure the obligation and the related current service cost it is necessary to:

- determine the deficit or surplus - which involves using a particular actuarial technique to estimate the cost of the employee benefits earned by employees, discounting that benefit in order to determine the present value of the employer obligation and current service cost, and deducting the fair value of plan assets from the present value of the employer obligation;
- determine the amount of the net defined benefit liability (asset);
- determine various amounts to be recognised in the operating result; and
- determine the re-measurements of the net defined benefit liability (asset) to be recognised in other comprehensive income.

Paragraphs 55-152 of AASB 119 contain the detailed requirements regarding the accounting for, and disclosure of, defined benefit plans.

It will be necessary for agencies to engage an actuary to determine an agency's superannuation liability. Agencies should refer to AASB 119 for details about calculation and disclosure requirements. Interpretation 14 AASB 119 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* should also be referred to for guidance on:

- how to assess the limit in AASB 119 on the amount of a surplus that can be recognised as an asset by an employer sponsor to a defined benefit plan;
- how a defined benefit surplus/deficiency recognised by an employer sponsor may be impacted by a statutory or contractual minimum funding requirement;
- when refunds or reductions in future contributions should be regarded as available under AASB 119;
- how a minimum funding requirement might affect availability of reductions in future contributions; and
- when a minimum funding requirement might give rise to a liability.

Other Post-Employment Benefits

These benefits should not apply to most agencies. When they are payable, a liability must be recognised:

- progressively over the reporting periods up to the time when the benefits become vested after a specified qualifying period; and
- in the reporting period an employee is appointed to a specific position where the benefits vest at the time of appointment.

Examples of post-employment benefits include the provision of free or subsidised non-monetary benefits after the completion of employment, such as air or train travel, office accommodation, administrative support and the use of a motor vehicle.

The measurement of a post-employment benefit liability should take into account the probability that some employees will not attain the requisite years of service entitling them to part or all of the benefits.

Termination Benefits

There may be uncertainty regarding the agency's plans regarding terminations or number of employees who will accept an offer of termination benefits. When this uncertainty exists, a liability should not be recognised. Instead, a contingent liability should be disclosed, unless the possibility of termination benefits resulting is remote, in which case, there should be no disclosure. Reference should be made to paragraphs 159-170 of AASB 119 for the requirements for the recognition and measurement of termination benefit liabilities.

4C.2 CURRENT / NON-CURRENT SPLIT

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB 119 *Employee Benefits*

APPLICATION GUIDANCE

Distinguishing between current and non-current employee liabilities

For presentation and disclosure purposes under AASB 101, agencies must distinguish current employee benefit liabilities from non-current employee benefit liabilities – this applies to all employee benefits, including performance payments and termination benefits.

Measurement under AASB 119 not affected by AASB 101 presentation

The fact that a class of employee benefit liability (other than short-term employee benefits) may be split into current and non-current components under AASB 101 does not affect how the entire class of benefit is to be measured under AASB 119 (e.g. as an 'other long-term employee benefit'). Agencies should therefore ensure employee benefit liabilities are correctly classified and measured under AASB 119 principles before determining the current / non-current split under AASB 101.

AASB 101 specifies that a liability is classified as current where the entity does not have the right at the end of the reporting period to defer settlement of a liability for at least twelve months after the reporting period; or the liability is due to be settled within twelve months after the end of the reporting period. Consequently:

- any class of employee benefit that meets the definition of "short-term employee benefits" in AASB 119 is a current liability under AASB 101; and
-
- any class of employee benefit under AASB 119 (other than short-term employee benefits) will be a current liability where either of the two AASB 101 conditions (refer above) are met. (For example, annual leave liability obligations outside the ALCS measured as "other long term benefits" as discussed in the guidance to FRR 4C.1.)



FRR 4D Liabilities, Contingencies and Commitments

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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4D.1 DISTINCTION BETWEEN COMMITMENTS, LIABILITIES AND CONTINGENT LIABILITIES

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 101 Presentation of Financial Statements*
- *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*
- *Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities*

APPLICATION GUIDANCE

Essential criteria for a liability to exist

An essential characteristic of a liability is that the agency has a present obligation to an external party. The identity of the external party need not be known. The obligation could be to the public at large. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract (for example, with amounts payable for goods and services received) or arise from a statutory requirement.

A liability must be associated with a past event/transaction that gives rise to a present obligation that will result in an outflow from the agency of resources embodying economic benefits. The transaction or event must have occurred.

In most cases, the outflow will be in the form of cash. Settlement of the obligation represented by the liability may also occur in other ways, for example, the transfer of other assets, the provision of services, the replacement of that obligation with another obligation; and conversion of the obligation to equity.

The criteria for recognition will not be affected if the future outflow of economic benefits will be subject to estimation to any degree e.g. a class claim for compensation.

In determining end-of-period accruals, an appropriate materiality level should be set below which accruals need not be recognised.

Allowances for impaired debts, depreciation and impairment are not liabilities or provisions within the definition of a liability under AASB 137. These are treated as a reduction of the relevant asset class.

Distinction between Commitments and Liabilities

Commitments do not give rise to present obligations

Commitments and liabilities arise at separate timing points. Therefore, a key issue is identifying the point at which a commitment becomes a liability. This is important as the recognition of a liability requires the concurrent recognition of an expense or an asset or the reduction of equity. A commitment is not accompanied by a present obligation e.g. merely ordering goods or services would give rise to a commitment but not a present obligation to make a payment. Similarly, a decision by the management of an agency to acquire assets in the future does not, of itself, give rise to a present obligation.

Agreement to commit to a future outflow of resources; but no present obligation

The term 'commitments' is not defined in any accounting standard. Generally, a commitment arises when an entity enters into an agreement with an external party that will result in a future obligation to make an outflow of resources.

Unrecognised contractual commitments

Such agreement would usually be in the form of a purchase order or other contractual documentation. A contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate (e.g. a quote), and confirmation/agreement of conditions to be satisfied to establish an obligation (e.g. delivery schedules).

Budgeting alone not sufficient

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. Without such an agreement a commitment would generally not exist. By way of example, the mere setting aside a portion of a budget for particular expenditure would not be sufficient to constitute a commitment.

In contrast, an agency may enter into a contract before the reporting date for expenditure over subsequent reporting periods, such as a contract for construction of infrastructure, major plant and equipment, or a significant consultancy contract. Even though work has not commenced, and no payments have been made, in this situation, a commitment exists at the reporting date.

A commitment becomes a liability when agreement becomes a present obligation

A commitment becomes a liability when the agreement becomes a present obligation. A present obligation would generally exist if it is probable that the other party would succeed in an action to secure payment or be awarded significant compensation in the event of non-payment i.e. there is little or no discretion to avoid an outlay of funds for work already undertaken, or goods

delivered/services provided, by the other party. An irrevocable agreement to acquire goods/services/assets would normally give rise to a present obligation.

Examples of a commitment becoming a liability include when construction of an asset has already commenced, new equipment ordered is received, office supplies ordered are delivered, telecommunication services are invoiced, or external consultants have commenced undertaking their work.

Examples of transaction cycles that may assist in distinguishing between commitments and liabilities are as follows:

Placing a contract out to tender

Stage ----->	Decision to put the contract out to tender	Tender called	Contract accepted and signed	Contract work commenced	Contract work completed	Payment made
Classification --->	No recognition/ No disclosure	No recognition/ No disclosure	Commitment	Liability for work performed. Commitment for unperformed portion	Liability	Liability extinguished

Ordering office furniture or equipment

Stage ----->	Need identified	Quotes obtained	Order placed	Order accepted	Goods delivered / accepted	Payment made
Classification --->	No recognition/ No disclosure	No recognition/ No disclosure	Commitment	Commitment	Liability	Liability extinguished

Payment of Grants

Stage ----->	Conditions set by Government	Application received	Applicant (now 'grantee') advised of success of application	Criteria met by 'grantee' for payment of funds	Payment made
Classification --->	No recognition/ No disclosure	No recognition/ No disclosure	Commitment	Liability	Liability extinguished

Provisions are a Category of Liability

Provisions are a category of liabilities for which the amount or timing of the future outflow is uncertain e.g. provisions for rehabilitation. A provision is recognised as a liability under AASB 137 when, and only when:

- the agency has a present obligation (legal, equitable or constructive) to a third party as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If there is any doubt as to whether a present obligation exists, a contingent liability rather than a provision should be disclosed.

Liabilities can only be recognised in respect of past events. Therefore, provisions cannot be created in respect of costs that will need to be incurred to operate in the future. Paragraphs Aus26.1 and Aus26.2 of AASB 137 provide additional guidance on potential liabilities arising from existing Governments' public policies, budget policies, election promises or statements of intent.

Distinction between Contingent Liability and Liability

Contingent liabilities are differentiated from provisions, and therefore liabilities, on the criteria of probability. With a contingent liability, a possibility rather than a probability will exist with respect to the future commitment to the outflow from the entity of resources embodying economic benefits.

Contingent liabilities are disclosed in the notes to the financial statements - they are not recognised as a liability in the Statement of Financial Position. However, a contingent liability may progress to become a provision and require measurement as a liability, even where a degree of uncertainty remains over the amount or timing of the amount to be settled. For example, when a lawsuit is commenced against an agency, a contingent liability will likely exist. If, at balance date, the decision has gone against the agency, but the amount to be paid or the time by which the amount has to be paid is the subject of some uncertainty, the agency must still recognise a provision for the best estimate of the expenditure required to settle the provision at the balance date.

4D.2 ADJUSTING LIABILITIES FOR EVENTS AFTER REPORTING DATE

REFERENCES

- AASB 110 *Events after the Reporting Period*

APPLICATION GUIDANCE

Where an adjusting event occurs that affects a liability that has been disclosed, for example, the amount or timing of a liability has altered or an uncertainty relating to a provision has been removed, then an adjustment to that item is required. Where a future obligation relating to a contingent liability has been confirmed (e.g. a court case is settled after the reporting date and the contingency has previously been disclosed in a note), then a liability or provision will need to be recognised as a provision (even if some uncertainty still exists with respect to the amount or timing of the discharge of the obligation), or as a payable if no uncertainties exist.

Where a non-adjusting event occurs relating to liabilities, for example, the market value of a financial liability changes after the reporting date, no adjustments are made to the financial statements. However, if a non-adjusting event after the reporting date is material, the agency must disclose the nature of the event and an estimate of its financial effect (or a statement that such an estimate cannot be made) for each material category of non-adjusting event.

4D.3 CHANGES IN LONG-TERM PROVISIONS OVER MULTIPLE REPORTING PERIODS AND DATES

REFERENCES

- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*
- Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

APPLICATION GUIDANCE

Changes in Provisions

It is not uncommon for the amount estimated to settle a long term provision to vary between reporting periods, and reporting dates, until the specified time of settlement.

In respect of the reviewing provisions at each reporting date, paragraph 60 of AASB 137 provides that where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as a borrowing expense.

For example, assume a present obligation is likely to be settled in 5 years' time at an estimated amount of \$100,000. The provision is recognised at its present value. The Australian Government bond rate for a 5 year period at that time is 5%, so this rate is used as the discount rate. The discount factor of 5% for five years is 0.784. Therefore, the present value of \$100,000 on initial recognition will be $\$100,000 \times 0.784$ i.e. \$78,400.

One year later, expected settlement of the provision will only be four years later. The discount factor of 5% for four years is 0.823. The present value of \$100,000 one year after initial recognition will be $\$100,000 \times 0.823$ i.e. \$82,300.

In terms of paragraph 60 of AASB 137, the difference between the two present values i.e. \$3,900 is recognised as a borrowing expense.

Journal entries would be as follows:

Initial recognition (reporting period one)

Expense	Dr	78,400	
<i>(classified according to the nature of underlying transaction)</i>			
Provision		Cr	78,400

(Creation of provision: Present Value of \$100,000 in 5 years @ 5%)

One year later (reporting period two)

Borrowing Expense	Dr	3,900	
Provision		Cr	3,900

(Borrowing expense: difference between Present Value of \$100,000 @ 5% in 5 years' time vs 4 years' time)

It is unlikely that the discount rate will remain constant over the life of the provision until the time of ultimate settlement. Paragraph 84 of AASB 137 requires a reconciliation to be provided for each class of provision, reconciling the closing carrying amount with the opening carrying amount. One of the elements of the reconciliation is the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

In the example above, if the bond rate had increased to 6% at the end of the second reporting period, then the discount factor for 4 years @ 6% would be 0.792. The net present value of \$100,000 would be $\$100,000 \times 0.792$ i.e. \$79,200. Accordingly, the increase in provision and borrowing expense would be \$800 (i.e. \$79,200 minus the initially recognised \$78,400) and this amount would be disclosed in the reconciliation as required by paragraph 84 of AASB 137.

Reimbursement of Expenditure to Settle a Provision

Paragraph 53 of AASB 137 provides that where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is to be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation.

Dismantling, Removing and Restoring Items of Property, Plant and Equipment

Under AASB 116, where an obligation exists to dismantle and remove an asset or restore the site on which it is located, the cost of the item includes the initial estimate of these costs. An agency incurs this obligation, which may be a legal, contractual or social obligation, either when an item is

acquired or as a consequence of having used the item during a particular period for purposes (other than to produce inventories.)

AASB 137 contains requirements on how to measure provisions for decommissioning and restoration of items.

Where the cost of the asset includes the initial estimate of these restoration costs, Interpretation 1 addresses how the effect of the following events that change the measurement of existing decommissioning, restoration or similar liability should be accounted for:

- a change in the estimated outflow of resources embodying economic benefits (e.g. cash flow) required to settle the obligation;
- a change in the current market-based discount rate as defined in paragraph 47 of AASB 137; and
- an increase that reflects the passage of time (also referred to as the unwinding of the discount).

Interpretation 1 applies irrespective of whether the related asset is measured using the cost model or the revaluation model.

Disclosing key assumptions and other sources of estimation uncertainty

AASB 101 paragraph 125 provides that an agency is to disclose in the notes information about the assumptions concerning the future, and other major sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of liabilities within the next annual reporting period. In respect of those liabilities, the notes to the accounts are to include details of their nature and carrying amount as at the end of the reporting period.

Some liabilities e.g. retirement benefit schemes, can only be measured using a substantial degree of estimation e.g. return on fund assets and by making assumptions about future events e.g. movements in interest rates. Should these estimates and/or assumptions prove to be incorrect, then the carrying amount of the liability will be misstated and the liability will either be overstated or understated.

The risks associated with the misstatement increases significantly the more complex and subjective the assumptions and estimates are.

Materiality is a key issue in the application of this disclosure requirement, which has as its focus, liabilities with large carrying amounts and with a high risk of material misstatement should the underlying estimates and assumptions prove to be incorrect.

Agencies with substantial liabilities that have been measured on the basis of complex and/or subjective assumptions and estimates should apply a risk analysis to them. Where there is a high risk of those assumptions and estimates being subject to error or inaccuracy, the agency should assess the impact on the associated liability if the risk was to materialise and disclose the outcome.

Where it is impractical to disclose the extent of the possible effects of changes to the underlying assumptions and estimates made, the agency should disclose that fact and also state that outflows within the next reporting period may be different due to variations to the assumptions made and that this could require a material adjustment to the carrying amount of the liability in future reporting periods.

Liabilities that are measured at fair value at the reporting date are not included in the abovementioned risk group if they are measured at fair value based on recently observed market prices. Such fair values might change materially but these changes would not arise from assumptions or other sources of estimation uncertainty. Disclosure of significant assumptions made in estimating the fair value of financial liabilities that are carried at fair value is covered by AASB 13.

Uncertainties

Agencies are required to disclose uncertainties with regard to each class of provision according to the criteria set out in paragraph 85 of AASB 137. For example, if the government acknowledged that it had an obligation to rectify land degradation and identified an amount that it was prepared to pay, a provision would be created.

The government may be satisfied that, in terms of Commonwealth Government policy, this was an issue of national importance and funding from that level of government was likely. Such anticipated funding would be taken into account in establishing the provision.

4D.4 DISCLOSURE REQUIREMENTS FOR COMMITMENTS

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB 116 *Property Plant and Equipment*
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*
- AASB 138 *Intangible Assets*
- AASB 140 *Investment Properties*

POLICY

- **Commitments required to be disclosed by applicable accounting standards must be shown in total for each class of commitment in the following time bands according to the time that is expected to elapse from the reporting date to their expected date of settlement:**
 - **Within twelve months**
 - **twelve months or longer and not longer than five years; and**
 - **longer than five years**
- **The value of commitments disclosed must be inclusive of any GST that will not be recouped by the agency.**



FRR 4E Financial Instruments

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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4E.1 FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT

REFERENCES

- AASB 7 *Financial Instruments: Disclosures*
- AASB 9 *Financial Instruments*
- AASB 13 *Fair Value Measurement*
- AASB 101 *Presentation of Financial Statements*
- AASB 132 *Financial Instruments: Presentation*
- Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*

APPLICATION GUIDANCE

A financial instrument is defined in AASB 132, and include items such as cash, trade receivables and payables, loans, bonds, equity investments, derivatives, and others. Some items like prepayments and unearned revenue are not financial instruments because they are settled by receipt/delivery of goods or services rather than with cash or another financial asset.

The initial recognition and measurement requirements of AASB 9 do apply to statutory receivables (but not statutory payables). Otherwise, agencies should take note of the types of financial instruments excluded from the scope of the three standards – AASB 7, AASB 9 and AASB 132. Exclusions include interests in subsidiaries, associates and joint ventures, employee benefits, insurance contracts, amongst others.

Statutory receivables are deemed financial assets under AASB 9

AASB 9 Appendix C contains guidance about statutory receivables, specifically on the timing of recognition. An agency recognises a statutory receivable and corresponding revenue when the statutory requirements establishes a right for the agency to receive cash or another financial asset. Such a right arises on the occurrence of a past event, for example:

- Land tax – passing of the relevant land tax assessment time/date;
- Fines and penalties – when the fine is issued;
- Payroll tax – end of each payroll tax return period;
- Transfer duty – date of dutiable transfer.

Paragraph C7 states that in some instances the receivable arising from taxable events cannot be measured reliably until a later reporting period. For example, in rare circumstances, the amount may not be measurable until all the relevant information has been produced and certified. In such cases, the receivable (and revenue) would only be recognised once the amount can be measured

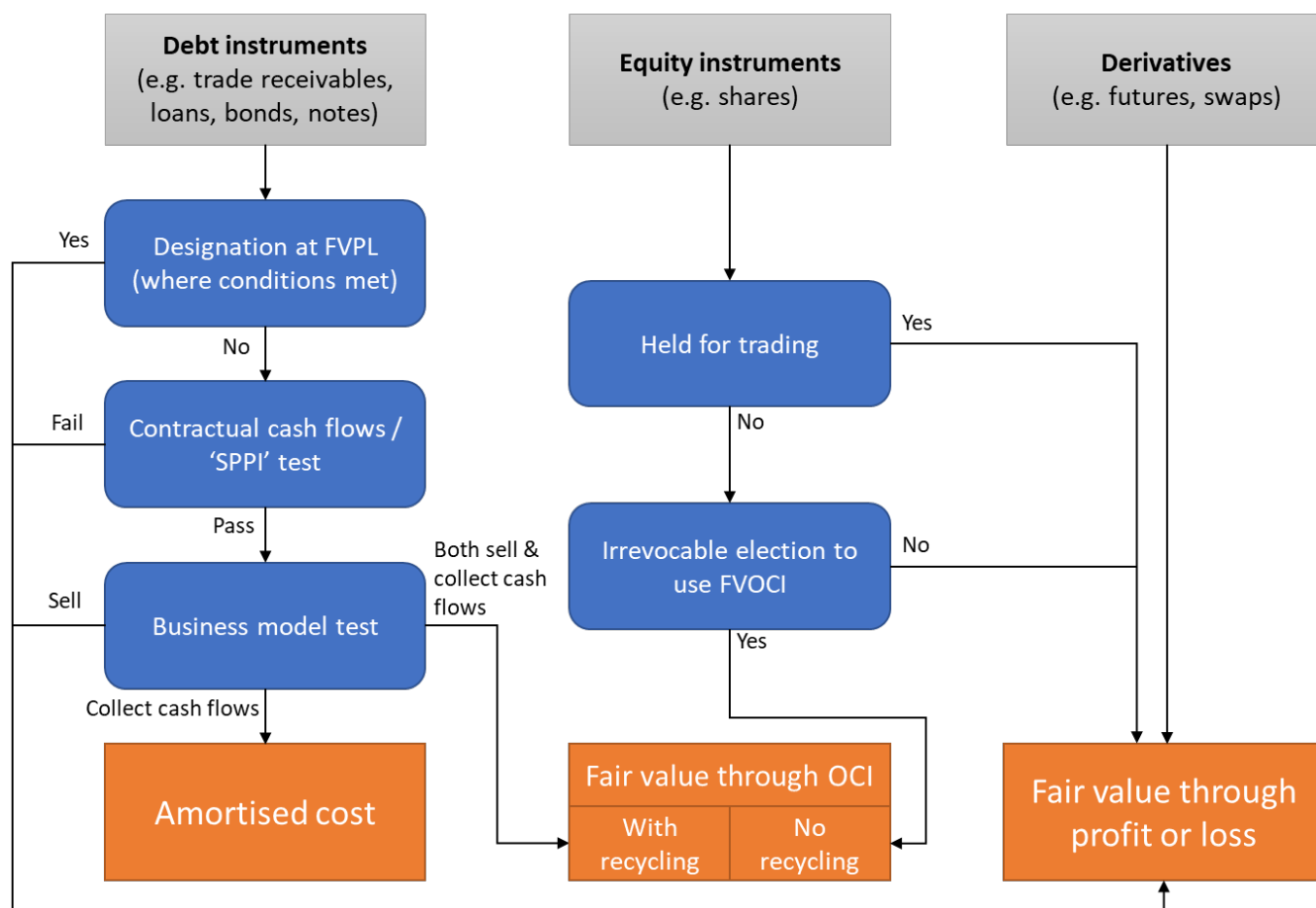
reliably. However, if the amount of the revenue is capable of estimation but will not billed/levied until after year-end, an accrual of revenue may be required at the reporting date.

Agencies are also to use the impairment principles of AASB 9 to calculate the loss allowance for statutory receivables. FRR 4E.2 discusses impairment in more detail. For departments, statutory receivables and revenue will also need to be properly classified into controlled and administered items in accordance with FRR 2E.

Classification of financial assets

Financial assets are classified into one of three underlying measurement bases – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The classification criteria are outlined in the following flowchart:

Financial assets classification under AASB 9



However, within the FVOCI category, debt instruments and equity instruments have differing accounting treatments, summarised in the following table:

Table: Accounting Treatment for Debt and Equity Instruments at FVOCI

	Debt instruments at FVOCI (para 4.1.2A)	Equity instruments at FVOCI (para 5.7.5)
Recycling of fair value gains or losses to P/L when the asset is derecognised	Recycling	No recycling
Effective interest method	Applies	Not applicable
Impairment	Applies	Not applicable

Key tests for measuring financial asset debt instruments

For debt instruments, such as trade receivables and loans receivables, that are not designated at FVPL by the entity, there are two key tests to be applied to determine the correct measurement basis.

1. The contractual cash flows test ("SPPI test").

This test assesses whether the contractual terms of the financial asset give rise on specific dates to cash flows that are ***solely payments of principal and interest*** (SPPI) on the principal amount outstanding. For the purposes of considering whether interest meets this test, the most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money and credit risk. Consideration may also include compensation for other basic lending risks (e.g. administrative costs).

However, if the contractual cash flows include consideration for aspects other than the basic lending risks and costs (e.g. exposure to equity returns, commodity prices, etc.) this test is failed and the financial asset must be measured at FVPL. If the cash flows are solely payments of principal and interest, the agency then applies the second test (the business model test).

2. The business model test.

This test assesses the objective of the business model within which the financial asset is held to determine the classification of financial assets that meet the contractual cash flows test.

- If the business model objective is to hold financial assets in order to ***collect contractual cash flows***, and the SPPI test is met, the financial asset is measured at amortised cost.
- If the business model objective is achieved by both ***collecting contractual cash flows and selling financial assets***, and the SPPI test is met, the financial asset is measured at FVOCI.

Gains and losses recognised in OCI are reclassified ('recycled') to profit or loss upon derecognition.

- If another business model objective is used (i.e. a business model other than the two specified above) the financial asset is measured at FVPL. An example of this is where the business model objective is the realisation of cash flows through the sale of financial assets.

Despite the new criteria, an agency may, at initial recognition, irrevocably designate a financial asset at fair value through profit or loss if this would eliminate or significantly reduce a measurement or recognition inconsistency (an accounting mismatch) that would otherwise result from measuring related assets and liabilities, or gains and losses on them, on different bases. For more guidance, see AASB 9 paragraphs B4.1.27-B.4.1.32.

Concessional interest and interest-free loans

These loans are often provided with the intent of providing a benefit (the concessional component) to the borrower. When initially measuring the loan receivable at fair value, the agency should use an observable market interest rate for a loan of a similar amount, duration and security. For example:

- if the loan is secured by real estate, the agency can look at prevailing mortgage rates,
- if the loan is to an individual and is unsecured, the agency can look at unsecured personal loan rates.

As the market rate is higher than the concessional rate offered in the loan, the loan's initial fair value will be less than the cash advanced. The difference is to be recognised as an expense in accordance with paragraphs 5.1.1A and B5.1.2A, and it will typically be classified as a grant expense. With the concessional component separated out as an expense, the remaining financial asset will likely meet the criteria for amortised cost.

Originated credit-impaired loans

A concessional loan (or portfolio of loans) may, in certain instances, have the same or similar characteristics to a originated credit-impaired loan. E.g. issuing loans to a sector of the economy or community facing hardship where it is expected, at the outset, that not all borrowers will be able to repay all of their commitments. In such cases, the finance provided may be an in-substance grant provided to the borrower and the entire difference between the loan's fair value and the cash advanced should be treated as a grant expense on initial recognition, rather than as a credit loss.

Originated credit-impaired loans have different interest revenue recognition requirements – refer to paragraphs 5.4.1(a) and B5.4.7. Where such loans are measured subsequently at amortised cost, repayments of principal that exceed the initial fair value measurement of the loan would be credited to the operating statement as an impairment gain (paragraph 5.5.14).

Contingently Repayable Loans

Agencies need to consider the contractual conditions that determine or trigger the contingent payments. Where there is exposure to risks/variables other than those expected in a basic lending arrangement (time value of money and credit risk), the loan is unlikely to meet the SPPI test, and will therefore be measured at FVPL.

For example, if a loan is repayable upon the borrower company achieving financial success with a product, then it is contingent on a variable other than time value of money or credit risk. The loan will therefore need to be measured at FVPL.

Unquoted equity instruments

All investments in equity instruments that are within the scope of AASB 9 and contracts on those instruments will need to be recognised at fair value, as they will not satisfy the SPPI test. Unquoted equity instruments can no longer be measured at cost. Due to this change, agencies may find it useful to refer to an education paper issued by the International Financial Reporting Standards (IFRS) Foundation, titled *IFRS 13 Fair Value Measurement - Unquoted equity instruments within the scope of IFRS 9 Financial Instruments* – <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-13/education-ifrs-13-eng.pdf>

Agencies are permitted to make the election in AASB 9 paragraph 5.7.5 to measure equity instruments that are not held for trading at FVOCI instead of FVPL. Unlike debt instruments measured at FVOCI, the gains and losses recognised in OCI are not reclassified/recycled to profit or loss when the equity instrument is derecognised. Also, agencies should note that additional disclosures are required for equity instruments held at FVOCI.

4E.2 FINANCIAL INSTRUMENTS – IMPAIRMENT

REFERENCES

- AASB 9 *Financial Instruments*
- AASB 101 *Presentation of Financial Statements*

POLICY

- **Agencies shall use the simplified approach in AASB 9 paragraph 5.5.15 (and therefore always measure lifetime expected credit losses) for all trade receivables and contract assets, including those that contain a significant financing component.**
- **Agencies shall not use the simplified approach in AASB 9 paragraph 5.5.15 for lease receivables.**
- **Departments and statutory bodies consolidated into the whole-of-Government financial statements shall not recognise a loss allowance under AASB 9 for receivables from another Queensland Government agency (including Government-owned Corporations) unless approval has been received from Queensland Treasury.**

APPLICATION GUIDANCE

AASB 9 introduces a new 'expected credit loss' model for determining impairment losses for financial assets. This new impairment model will be based on reasonable and supportable forward-looking information. It differs significantly from the impairment model in AASB 139 which is an 'incurred loss' model that only recognises impairment losses when there is objective evidence of impairment as a result of actual loss events occurring. Under the new model, a loss allowance will need to be recognised for all financial assets (although the amount may be negligible for high credit quality assets). Under AASB 9, impairment losses will be recognised earlier compared to AASB 139.

In addition to financial assets, there are certain assets that do not meet the definition of a financial instrument but to which AASB 9 impairment requirements apply (e.g. contract assets arising from AASB 15).

Impairment of inter-agency receivables

Inter-agency loans and receivables between Departments, Statutory Bodies and Government Owned Corporations are expected to have an insignificant, and therefore immaterial, level of credit risk exposure due to the high credit rating of the State. This conclusion is based upon the historical default rates published by global credit rating agencies periodically (and monitored by Queensland Treasury) relating to the credit rated sovereign debt on issue globally.

Consequently, Queensland Treasury expects that departments and statutory bodies will not measure any loss allowance for receivables collectible from other Queensland Government agencies on the basis that any impairment would be negligible, and therefore immaterial. Agencies are to consult with Treasury before recognising an impairment loss on any inter-agency receivable.

Agencies are responsible for ensuring that internal-to-Government receivables/payables are properly recorded in BOTH AGENCIES financial records for the purpose of accurate elimination for whole-of-Government reporting. There may, from time to time, be disputes around the validity or legitimacy of inter-agency receivables. This might range from whether a debt is owed at all to the amount of the receivable/payable. In these situations, Queensland Treasury does not consider this requires an impairment loss to be recognised within a whole-of-Government context – rather the agencies shall resolve the dispute so the receivable / payable position between the two agencies agrees.

The resolution of the issue may result in the “lending” agency either de-recognising or writing down the carrying amount of the receivable. The adjustment may also involve the full or partial reversal of the original entry recorded. Alternatively, the “borrowing” agency may need to recognise an additional amount payable or settle the outstanding debt owing. The agencies involved should consult with their Treasury Analyst if required to resolve the matter.

Expected credit losses

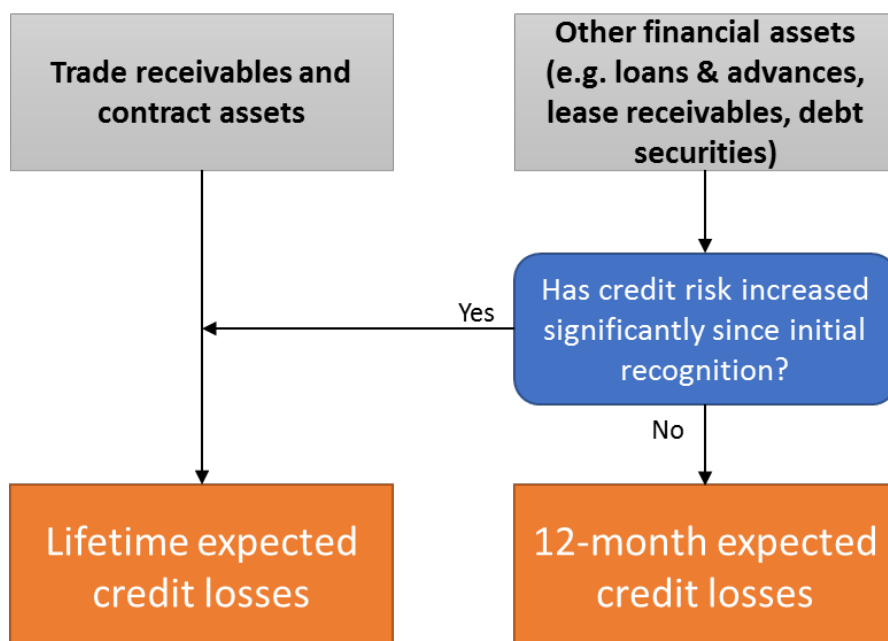
Expected credit losses are a probability weighted estimate of the present value of the difference between the cash flows that are due to the agency and the cash flows the agency expects to receive. A payment that is expected to be received in full, but late, also results in an expected credit loss, because the present values will be different (subject to materiality considerations). When measuring expected credit losses, agencies must also consider amounts expected to be recovered from any collateral, net of costs to obtain and sell the collateral, as this reduces the loss given default percentage. For example, the expected credit loss for a financial asset could be calculated as the amount outstanding (e.g. \$100,000) x probability of default (e.g. 10%) x loss given default (e.g. 80%) = \$8,000.

A key change from AASB 139 is the requirement to consider forward-looking information that is available without undue cost or effort. Agencies will need to apply significant judgement about how expected future changes in macroeconomic factors (e.g. economic growth, unemployment, household debt levels, etc.) will affect their measurement of expected credit losses. For this purpose, economic statistics published by the Queensland Government Statistician's Office may provide a useful basis for making forward looking estimates/judgements.

<https://www.qgso.qld.gov.au/statistics/theme/economy/labour-employment/state>

Using the QGSO statistics, agencies can perform trend analysis and/or correlate the information against actual defaults experienced by agencies. Known events or conditions pertaining to a specific group of debtors or geographic area must also be taken into account.

The impairment allowance for financial assets is measured at either '12-month expected credit losses' or 'lifetime expected credit losses' summarised in the flowchart below:



Estimating expected credit losses for trade receivables

Under AASB 9's expected loss model, it will be insufficient to provide only for debtors that have evidence of impairment. Instead agencies must estimate expected credit losses for each receivable, including those that currently have no indicators of being uncollectible.

The most practical method to calculate expected credit losses for trade receivables will depend on the nature of the agency's portfolio of debtors. Any agency with a small number of debtors may find it more efficient to assess each debtor individually – refer to Example 1 below. Alternatively, agencies with large portfolios can use a provision matrix as a practical expedient – refer to Examples 2 and 3 below.

Example 1 – Assessing trade receivables individually

The table below shows, for illustrative purposes only, example expected credit loss calculations for 8 trade receivables. This approach can be used by smaller agencies with few debtors.

Debtor	Amount outstanding (A)	Probability of default (B)	Loss given default (C)	ECL (A x B x C)	Comments
01	\$1,000	0.1%	100%	\$1	
02	\$4,000	0.1%	100%	\$4	
03	\$15,000	1.0%	20%	\$30	Collateral is expected to cover 80% of the debt
04	\$1,500	5.0%	100%	\$75	Debt is 30 days overdue
05	\$5,000	95.0%	100%	\$4750	Debt is 90+ days overdue and debtor has ceased trading
06	\$10,000	25.0%	0%	\$0	Debt is 90+ days overdue but collateral is expected to exceed the debt
07	\$2,000	2.0%	100%	\$40	Debtor's liquidator advised the expected dividend receivable will be 25% of the debt (i.e.\$500). But there's also a 2% chance we won't receive anything at all. N.B. An alternate calculation for Debtor 07 where there are two possible outcomes would be: (A) \$2,000 x (B) 100% x (C) 75% = \$1,500 <i>plus</i> (A) \$500 x (B) 2% x (C) 100% = \$10 giving the same total ECL of \$1,510.
		98.0%	75%	\$1,470	
08	\$3,000	0.1%	100%	\$3	
	\$41,500			\$6,373	

Total loss allowance is \$6,373, resulting in a net receivables balance of \$35,127.

Agencies with a large number of debtors do not need to assess each debtor individually. Instead, agencies can, as a practical expedient, use a provision matrix. A provision matrix assigns expected loss percentages to different aging bands of receivables to estimate the expected credit loss for the whole portfolio. The percentages are calculated based on historical credit loss experience, adjusted by current conditions and forward-looking data.

Agencies will also need to consider whether certain groups of debtors exhibit different loss patterns and estimate loss rates separately for the different 'customer' groups. Groups of debtors

for Queensland Government agencies would typically be based on geographic regions (illustrated below), different 'products' or differing customer types (e.g. different revenue streams for fines, goods or services with different characteristics and demonstrated loss patterns different from other revenue streams).

When determining historical credit loss rates, agencies should endeavour to use as much historical data as is available. Ideally, the period of historical data should cover a full economic cycle (e.g. at least 10 years). At a minimum, agencies would be expected to use at least five years of historical data (and longer periods if information is reasonably available in a cost-effective manner.)

Example 2 – Identifying debtor groups with similar loss patterns

The agency expects that debtors within certain geographic regions may have different defaults rates compared to average, in particular:

- A major mining operating in Region A had shut down earlier this year, resulting in uncertainty and high unemployment in the region.
- Region B relies heavily on its tourism industry. In the past number of years, due to environmental damage caused by multiple weather events and the strong Australian dollar, tourism has fallen significantly in the region.

Based on this assessment, the agency decides it should calculate expected credit losses separately for Region A and Region B. In determining the expected loss rates (see Example 3 below), the agency noted that:

- Region A's historical loss rates are not significantly different from that of other regions. However, the rates are increased to reflect current and expected future conditions for the region.
- Region B's historical loss rates have been higher than that of other regions and the outlook for the region remains the same, no significant recovery is expected in the short term.

The example percentages are for illustrative purposes only.

	Current	1-30 days	31-60 days	60-90 days	>90 days
Region A debtors (higher losses)	0.6%	4.2%	11.8%	19.6%	39.0%
Region B debtors (higher losses)	0.5%	3.6%	9.6%	14.7%	33.9%
All other regions	0.3%	2.1%	5.9%	9.8%	19.5%

The following hypothetical example illustrates a step-by-step approach to calculating expected credit losses for trade receivables using a provision matrix.

Example 3 – Developing a provision matrix

Step 1 – Identify debtor groups with similar loss patterns (see Example 2 above)

An agency has three different revenue streams (A, B and C). Each stream has a different customer base and is processed using a different revenue system. The agency determines that it is appropriate to separately estimate expected loss rates for each revenue stream, due to different customer characteristics and loss patterns.

Step 2 – Obtain historical data

For revenue stream A, the agency has 10 years of available historical data on all debts issued and the subsequent collection or non-collection of those debts. The agency's policy is to write off debts after they are over 90 days overdue, all reasonable recovery efforts have failed, and proper authorisation is obtained for the write off. Details of the 10 years of available historical data is shown in the following table:

All debts issued in the past 10 years	100,000,000
Debts collected by due date	91,700,000
Debts collected between 1-30 days past due	6,200,000
Debts collected between 31-60 days past due	1,000,000
Debts collected between 61-90 days past due	600,000
Debts collected after 90 days overdue	350,000
Debts that were eventually uncollected	150,000

Step 3 – Calculate historical loss rates

Using this data, the agency calculates the historical loss rates for each aging band by dividing the uncollectable debts by the total of debts that had cumulatively fallen within each aging category.

Current	All debts issued in the past 10 years	100,000,000	0.15%	\$150k / \$100M
1-30 days	Debts that had become overdue	8,300,000	1.81%	\$150k / \$8.3M
31-60 days	Debts that had become >30 days overdue	2,100,000	7.14%	\$150k / \$2.1M
61-90 days	Debts that had become >60 days overdue	1,100,000	13.64%	\$150k / \$1.1M
90+ days	Debts that had become >90 days overdue	500,000	30.00%	\$150k / \$500k
	Debts that were eventually uncollected	150,000		

Step 4 – Apply forward-looking adjustments

The agency then considers forecasts of macroeconomic conditions such as unemployment rates and interest rates and their expected impacts on the default rates of revenue stream A customers. Using this forward-looking information, it expects slightly higher loss rates on its current debtor portfolio than the average for the past 10 years. The agency adjusts its historical loss rates upwards by 5% to take this into account.

	Historical loss rate	Forward-looking adjustment (5% increase)	Loss %
Current	0.15%	0.01%	0.16%
1-30 days	1.81%	0.09%	1.90%
31-60 days	7.14%	0.36%	7.50%
61-90 days	13.64%	0.68%	14.32%
90+ days	30.00%	1.50%	31.50%

Step 5 – Calculate the loss allowance

Finally, the agency applies the adjusted loss percentages to the gross carrying amount of its debtors within each aging band to calculate the total lifetime expected credit losses for its revenue stream A debtors.

	Debtor gross carrying amount	Loss %	Lifetime expected credit losses
Current	1,234,000	0.16%	1,944
1-30 days	97,000	1.90%	1,841
31-60 days	31,000	7.50%	2,325
61-90 days	120,000	14.32%	17,182
90+ days	8,000	31.50%	2,520
Loss allowance:			25,811

The agency can use a similar method for its revenue streams B and C debtors. Also, in the following year, the agency will have 11 years of historical data for revenue stream A and accordingly will use 11 years of data to calculate new historical loss rates.

Notes:

If an agency does not have the type of data described in Step 2 above, it can instead use historical monthly debtor aging tables to calculate average roll over rates. For example, the agency can calculate the average percentage of current debts that become 1-30 days overdue in the next month, the average percentage of 1-30 days overdue debts that become 31-60 days overdue in the next month, and so on, and multiply the percentages to arrive at loss rates for each aging band.

The forward-looking adjustment applied in Step 4 above, can be an increase, nil, or a decrease. It can be a decrease if the agency expects better future economic conditions than the period represented by the agency's historical data. This may be the case if the agency's historical data covers a period of economic downturn, and the economy has since recovered.

It is also important to distinguish disputed invoices from impaired debts. If a customer is disputing the validity of an invoice, the agency should assess whether the invoice was correctly raised in the first place. If not, then the receivable may need to be reversed against the original revenue account, rather than through impairment. If the agency believes the invoice is correct, the receivable is included in the impairment calculations.



FRR 4F Equity, Contributions by Owners and Distributions to Owners

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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4F.1 STATEMENT OF CHANGES IN EQUITY

REFERENCES

- AASB 101 *Presentation of Financial Statements*

POLICY

- **The required line items for the Statement of Comprehensive Income are as outlined in the corresponding model financial statements unless the line items are not applicable to the entity.**
- **A reconciliation of payments made from Consolidated Fund that are recognised as equity adjustments must be provided as a note to the financial statements. The required line items for the reconciliation are as outlined in the corresponding model financial statements.**
- **Note disclosure is required for the reasons for any material amounts of unforeseen expenditure.**
- **For not-for-profit entities, the asset revaluation surplus must be dissected so as to show separately each class of asset revalued and the closing balance of the asset revaluation surplus by class.**

APPLICATION GUIDANCE

Information on the purpose of the general reserve is required by AASB 101 *Presentation of Financial Statements*. This disclosure should include details of whether it is associated with any cash asset balances within the Statement of Financial Position.

4F.2 RESERVES

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 9 Financial Instruments*
- *AASB 101 Presentation of Financial Statements*
- *AASB 116 Property, Plant and Equipment*
- *AASB 121 The Effects of Changes in Foreign Exchange Rates*
- *AASB 138 Intangible Assets*
-

POLICY

- **An agency must not create a reserve (other than a reserve required by accounting standards e.g. an asset revaluation surplus or a foreign currency translation reserve) without prior Queensland Treasury approval.**
- **A request for Treasury approval must clearly explain the purpose of the reserve and how it will be operated on an ongoing basis, including whether the intended reserve is associated with a future cash outlay.**
- **All such Treasury approved reserves must be reviewed annually for continued appropriateness for the agency's present operations. Where a reserve is no longer appropriate, the balance must be transferred to Accumulated Surplus.**
- **After establishment, subsequent transfers to or from the general reserve will be made by way of an adjustment to Accumulated Surplus. Subsequent increases to a general reserve must be limited to an amount no greater than the positive operating result from continuing operations (net profit) for the financial year.**
- **If a general reserve is no longer appropriate or relevant to operations, the accountable officer of the department or the board of a statutory body must approve the closure of the general reserve. The balance of the general reserve must then be transferred back to the Accumulated Surplus within the same financial year as this approval is given.**
- **Agencies must disclose a reconciliation of each of the movements in the reserve.**

APPLICATION GUIDANCE

Paragraph 65 of the *Framework for the Preparation and Presentation of Financial Statements* (the Framework) states that equity may be sub-classified into reserves that represent either appropriation of Accumulated Surplus or represent capital maintenance adjustments. Such classifications can be relevant to the users of financial statements when they indicate legal or other restrictions on the ability of the entity to distribute or otherwise apply its equity.

The creation of reserves is sometimes required by statute or other law in order to give an added measure of protection from the effect of losses. Transfers to these reserves are appropriations of Accumulated Surplus rather than expenses.

Reserves permitted under Australian Accounting Standards include:

- asset revaluation surplus (AASB 116, AASB 138);
- financial assets at fair value through other comprehensive income (AASB 9);
- foreign exchange translation reserve (AASB 121); and
- cash flow hedge reserve (AASB 9).

The above reserves are used to account for any unrealised gains or losses that would otherwise be recognised in the operating result. The impact of these gains and losses being recorded in the reserves is that the gain or loss is deferred from being recognised in Accumulated Surplus until the point in time that the gain or loss is realised through the completion of a transaction. For example:

- an asset that has had a valuation gain previously recognised in the asset revaluation surplus is sold and the cumulative gain related to that asset is transferred to Accumulated Surplus;
- a transaction for which a cash flow hedge has been recognised is completed and the resultant gain or loss on the hedging instrument is transferred from the reserve to operating result.

General Reserves – no in-principle support by Queensland Treasury

Whilst the creation of general reserves for financial reporting purposes is not specifically prohibited under accounting standards, statute or other law, Queensland Treasury does not in principle support the use of general reserves, other than in exceptional circumstances.

In the past, some public sector entities have used general reserves to demonstrate an internal allocation of cash/funds set aside for future use (e.g. asset replacement plan or for future asset maintenance). Usually, the general reserve is matched with a cash asset balance.

It is Queensland Treasury's position that in a constantly changing fiscal environment, the recognition of general reserves to demonstrate an internal allocation of funds does not provide useful information to users of the financial statements. Agencies are encouraged to consider alternative disclosure or reporting options (i.e. budgets, business plans, additional financial statement notes and/or annual report disclosures) rather than utilising general reserves as a mechanism to inform users of their financial intentions. For example, if:

- the funds are part of a trust account, they are already quarantined and a disclosure note detailing the operation of the trust account would be more informative;
- there is an intention to allocate funds to a specific project or purpose, additional disclosures related to cash, Accumulated Surplus, income and expense or assets and liabilities in either the financial statements or annual report are generally considered more appropriate; or
- the funds are related to a specific function of an agency, then a disclosure on the operations of that function may be more beneficial to users.

Queensland Treasury Considerations for Approving Creation of a General Reserve

There may be rare circumstances in which it will be appropriate for an agency to recognise a general reserve. Queensland Treasury specific approval for an agency to use a general reserve will be based on a particular understanding of how the reserve will be created and maintained, and agencies must provide the following information to Queensland Treasury:

- the purpose of the general reserve and an argument outlining why a general reserve is the most appropriate mechanism to achieve its purpose;
- explanation of how the general reserve will be operated on an ongoing basis;
- demonstration that the general reserve will be reviewed annually for appropriateness to the agency's operations;
- a note as to whether the general reserve is matched with cash/investments that have been set aside for the reserve's purpose; and
- a note as to whether a future cash outlay is associated with the general reserve.

Where an agency has been given Queensland Treasury approval to create a general reserve, the agency will need to have the following documentation and processes in place to manage and report on the reserves:

- documentation to explain the purpose and nature of each general reserve;
- processes to demonstrate that the general reserves will be reviewed annually and adjusted for any expenditure/increases that have occurred during the financial year;
- board minutes, budgets, business plans or other documents verifying the ongoing maintenance of and future commitments relevant to the general reserves; and
- the notes to the financial statements to include:
 - a clear definition of the purpose and nature of each general reserve; and
 - comment disclosing that the general reserve(s) are backed by cash or cash equivalent investments that are set aside for the specific reserve purpose.

Creation, Adjustments and Closure of a General Reserve

AASB 101 requires reclassification adjustments to be recognised in 'Other Comprehensive Income'. However, in accordance with the Framework, except for a capital maintenance adjustment or a revaluation adjustment, a transfer to a general reserve is an appropriation of Accumulated Surplus rather than an expense. Therefore, adjustments to and from a general reserve represent a 'transaction with owners as owners' and must be presented in the Statement of Changes in Equity under the heading 'Transactions with Owners as Owners'.

4F.3 APPLICATION OF INTERPRETATION 1038 TO QUEENSLAND PUBLIC SECTOR ENTITIES

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 1004 Contributions*
- *Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities*

POLICY

- **Interpretation 1038 and this policy DO NOT APPLY to transfers between Queensland Government-controlled entities and universities, local governments and statutory bodies established under State legislation but not 'controlled' by the Queensland Government for financial reporting purposes.**

APPLICATION GUIDANCE

Interpretation 1038 applies to transfers of assets and/or liabilities between wholly-owned public sector entities. It establishes criteria for determining whether transfers satisfy the definition of 'contributions by owners' in AASB 1004 and effectively broadens the scope of entities to which the concepts of 'contributions by owners'/'distributions to owners' apply.

Entities considered to be 'wholly owned' by the Queensland Government are those that are 'controlled' by the Queensland Government for financial reporting purposes. For the purposes of Interpretation 1038 and this FRR, statutory bodies 'controlled' by the Queensland Government are considered to be 'owned' by the Queensland Government.

Therefore, non-reciprocal transfers (that meet the criteria set out later in this FRR) between Queensland Government-controlled entities are to be accounted for as contributions by/distributions to owners by the transferor and recipient.

Universities and Local Governments

Whilst universities and local governments are established under State legislation, they are not considered to be 'controlled' by the Queensland Government. As such, any transactions between Queensland public sector entities and universities/local governments are considered to be, and are accounted for, as transactions with a party external to the Queensland public sector.

Immaterial controlled entities of Whole-of-Government

Some public sector entities are "wholly owned" and "controlled" by the Queensland Government, but are not consolidated into the Whole of Government financial statements solely on the grounds of immateriality. For the purposes of applying this FRR policy, such entities are considered in the same way as a party external to the Queensland public sector. As such, this policy does not apply to such entities.

Representatives of the State as 'Owner'

For the purposes of Interpretation 1038 and this FRR, Queensland bodies or individuals capable of representing the State as the 'owner' of Queensland's wholly-owned public sector entities are Cabinet, Cabinet Budget Review Committee (CBRC), Executive Council or portfolio Minister(s) for the agencies concerned (as representatives of the Government as a whole).

4F.4 CRITERIA FOR TRANSFERS TO BE ADJUSTED AGAINST EQUITY

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*
- *AASB 1004 Contributions*
- *Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities*
- *Financial Accountability Act 2009 (FA Act)*
- *FRR 2F Machinery-of-Government Changes*

POLICY

- **Transfers of assets and/or liabilities arising from a moG change are contributions by owners and distributions to owners, as the case may be, and are accounted for against equity. The associated Departmental Arrangements Notice is considered adequate to represent the formal approval/designation (as per Interpretation 1038) in respect of the associated transfers of assets/liabilities between departments.**
- **Any other non-reciprocal transfer of assets and/or liabilities (including a net liability position) to another wholly-owned Queensland Government agency is to be treated as a contribution by owners (and a distribution to owners, as appropriate) and accounted for directly against equity ONLY IF the following three criteria are met:**
 - **it is approved by the 'owners' i.e. Cabinet, CBRC, Executive Council or portfolio Minister(s) for the agencies concerned;**
 - **the approval/designation clearly states that the transfer is a capital distribution and/or capital contribution which is adjusted against the transferor's and recipient's equity (constituting the formal designation required under Interpretation 1038). This approval/designation must specify which component(s) of equity (i.e. Contributed Equity, Accumulated Surplus and/or available reserves) are to be adjusted by the agency making the distributions to owners. The approval/designation should specify that the agency receiving the contribution by owners must account for the transfer against Contributed Equity; and**
 - **the approval/designation is obtained at or before the time of the transfer.**

- Where the State designates that a transfer is to be treated as a total redemption of an ownership interest in the transferor but the balance of the ownership interest is **LESS THAN** the total net assets transferred, any excess transferred may be designated by the State as a 'contribution by owners'. However, if the approval/designation does not designate the excess as a 'contribution by owners' the balance must be recognised as a gain on redemption of ownership interest in the recipient's operating result.
- Where the State designates that a transfer is to be treated as a total redemption of an ownership interest in the transferor but the balance of the ownership interest is **GREATER THAN** the total net assets transferred, the difference is to be recognised as a loss on redemption of ownership interest in the recipient's operating result.
- In all cases (including with moG changes), the transferor and recipient agencies must agree on the values of the assets/liabilities transferred or accept the value as determined by the owner (i.e. Cabinet, Cabinet Budget Review Committee, Executive Council or portfolio Minister(s)) in such a timeframe to ensure the agreed transfer values are reflected in that financial year's annual financial statements.

Land Under Roads

- In relation to transfers of untitled land under roads, a once-off approval/designation must be obtained by those agencies that have acquired land designated for road purposes and are for the first time transferring such land to the Department of Resources.
- For such transfers to be accounted for against equity, this approval/designation must state that:
 - it is enduring in nature;
 - all land designated for road purposes is to be transferred to the Department of Resources (or whatever other name the relevant department had at the time of the approval/designation) at least before the end of the reporting period;
 - the transfers are a capital adjustment, i.e. to be adjusted against the equity of the transferor and recipient (to the extent that the transferor's Contributed Equity is insufficient, its Accumulated Surplus is to be adjusted); and

- **In such a timeframe to ensure the agreed transfer values are reflected in that financial year's annual financial statements, the recipient/transferor agencies must agree the value of all land under roads transferred during that year or accept the value as determined by the owner (i.e. Cabinet, Cabinet Budget Review Committee, Executive Council or portfolio Minister(s)).**

APPLICATION GUIDANCE

Transfers of assets and/or liabilities are either reciprocal or non-reciprocal. A non-reciprocal transfer is where a recipient and transferor directly assume/transfer assets and/or liabilities without giving/receiving approximately equal value in exchange.

Asset and/or liability transfers as a consequence of machinery-of-Government (moG) changes are examples of non-reciprocal transfers.

Whether a transfer of an asset(s) is voluntary (i.e. at the discretion of an agency) or involuntary (e.g. arising from a machinery-of-Government change), is irrelevant when determining the appropriate accounting treatment. As with all transactions, such transfers should be accounted for according to the substance of the transaction and the requirements of relevant accounting standards and this FRR.

Assets and/or liabilities transferred for no consideration, or for nominal consideration, should generally be transferred at the amounts at which they were recognised by the transferor immediately prior to the transfer. This means, in relation to Property, Plant and Equipment, the gross value, accumulated depreciation and accumulated impairment loss, if any, (as per the records of the transferor at the date of transfer) may be recognised by the recipient, where practicable, as an indication of the age and life cycle of the assets.

Interpretation 1038 does not explicitly consider the treatment for non-reciprocal transfers of liabilities or net liabilities between public sector entities. It is Treasury's view that non-reciprocal transfers of liabilities or net liabilities between Queensland Government entities are distributions to owners, and are to be accounted for in accordance with the principles of AASB 1004 and Interpretation 1038, subject to meeting the criteria of this policy, on the basis of the following:

- there is no AASB pronouncement that specifically applies to this situation;
- pursuant to paragraph 10 of AASB 108, an accounting policy needs to be determined; and

- in determining an appropriate accounting policy, paragraph 11(a) of AASB 108 states that consideration should be given to the applicability of requirements in Australian Accounting Standards dealing with similar and related issues. In this respect, AASB 1004 and Interpretation 1038 contain relevant requirements. Therefore, the principles of those pronouncements form the basis for the policy and guidance in this FRR.

Evidencing the Nature of Equity

Applying the principles in paragraph 8 of Interpretation 1038, a transfer of assets, assets and liabilities, liabilities or net liabilities is a 'contribution by owners'/'distribution to owners' where its equity nature is evidenced by any of the following:

- the issue/cancellation, in relation to the transfer, of equity instruments which can be sold, transferred or redeemed;
- a formal agreement (or amendment thereto), in relation to the transfer, establishing/reducing the financial interest in the net assets of the recipient which can be sold, transferred or redeemed;
- formal designation of the transfer (or a class of such transfers) by the State or a representative of the State as forming part of (or constituting a redemption of) the recipient's Contributed Equity, either before the transfer occurs or at the time of the transfer.

The formal approval/designation may occur in a variety of ways. Whatever means is used, it must specify that the transfer is to be adjusted against the recipient's and transferor's Contributed Equity and/or other components of equity. Refer to the Appendix to this FRR for examples of approvals/designations.

The ability to redistribute Government functions through a moG change evidences the State's capacity to redeem and transfer its financial interest in the net assets of a department. MoG changes are identified by issue of a Departmental Arrangements Notice (DAN).

Under the FA Act the owners' interest in a department can be adjusted directly against equity through appropriated equity injections/withdrawals. Such appropriated equity adjustments are determined by the owners of Queensland's wholly-owned public sector entities. The annual *Appropriation Acts* represent the formal designation required under Interpretation 1038.

To the extent that an equity adjustment is to Contributed Equity, and is not an appropriated equity adjustment under the FA Act, it is known as a non-appropriated equity adjustment.

With any non-reciprocal transfer of assets and/or liabilities, where the State (or a representative thereof) has not issued an approval/designation that meets the criteria in this FRR to enable accounting against equity, the transfer is to be recognised as income or expense, as the case may be.

Specifying components of equity

The State, as owner, has the discretion to distinguish between the entity's Contributed Equity and other components of equity e.g. Accumulated Surplus/Deficit (in accordance with the principles underlying paragraph 31 of Interpretation 1038) when making a distribution. For the purposes of an approval/designation regarding a 'distribution to owners', this means the State can specify the components of equity against which the distribution is to be allocated.

The entity making the transfer of assets and/or liabilities should record a decrease in its assets and/or its liabilities with a corresponding decrease/increase in Contributed Equity or other components of equity in accordance with the approval/designation. Conversely, the receiving entity should recognise a matching increase in assets/liabilities with a corresponding adjustment to its equity.

Generally, contributions by and distributions to owners are adjusted against Contributed Equity. To the extent that a capital contribution or distribution would cause the transferor's Contributed Equity to reduce below \$0, the balance should be adjusted against that entity's Accumulated Surplus. In turn, to the extent that this would cause the transferor's Accumulated Surplus to reduce below \$0, the balance should be recognised as an expense by the transferor and as corresponding revenue by the recipient.

Reserve balances cannot be transferred between agencies

Reserve balances, including Asset Revaluation Surpluses, cannot be transferred between agencies. Although such balances cannot be transferred, an approval/designation connected with a transfer can specify how a 'distribution to owners' is to be allocated between the various components of equity (including Accumulated Surplus/Deficit and available reserves), consistent with paragraph 31 of Interpretation 1038.

In the context of transfers of assets/net assets, a formal designation can classify part or all of a transfer as a 'redemption of ownership interest' (in the transferor) by the recipient, but only to the extent of the ownership interest recorded by the transferor immediately before the distribution is made (paragraph 43 of Interpretation 1038). This is acceptable because the recipient is receiving a

return of its investment (in the form of net future economic benefits). The criteria for accounting for a transfer as a 'redemption of ownership interest' (all or in part) in the transferor are set out in paragraph 13 of Interpretation 1038.

Where a transfer of liabilities/net liabilities meets the criteria for treatment as a 'distribution to owners' for the recipient (and therefore the State can specify the components of equity to be debited in the recipient's books), the transferor must only account for this as an increase in its Contributed Equity (as, under Interpretation 1038, a 'contribution by owners' can only be credited to Contributed Equity). In the context of transfers of liabilities/net liabilities, the owner has the discretion to designate such transfers for the recipient as:

1. a distribution to owners (and a contribution from owners for the transferor)
2. an increase in ownership interest
3. assumption of a liability through profit or loss.

Consistent Classification between Transferor and Recipient

Applying paragraph 11 of Interpretation 1038, if a non-reciprocal transfer of assets/net assets meets this policy's criteria for accounting as a contribution by owners by the recipient, then the transferor entity must classify the transfer as a distribution to owners (unless the transferor makes the transfer to an investee – in which case, the transfer is classified as acquisition of an ownership interest in the recipient).

Similarly, applying the concepts and principles in paragraph 11 of Interpretation 1038, if a non-reciprocal transfer of liabilities/net liabilities meets this policy's criteria for accounting as a distribution to owners by the recipient, then the transferor entity must classify the transfer as a contribution by owners.

Enduring designations

Interpretation 1038 indicates that a designation may be for a class of transfers, such that the designation authorises multiple separate transfers (and associated equity adjustments), and potentially between different entities, over a period of time (in this policy, these are referred to as "enduring designations"). In circumstances where an enduring designation is considered appropriate, the requirements and guidance of this FRR 4F.4 apply as far as relevant. Implementing an enduring designation also demands that the "initiating" agency take ongoing responsibility for reviewing its applicability over time (refer below).

In addition to the requirements and guidance of this FRR 4F.4, enduring designations should:

- adequately describe the nature and purpose (and, where possible, timing) of the transfers so it will be clear whether a specific future transfer is within or outside its scope;
- identify the transferor and transferee entities or, where this is not possible, criteria to identify those entities (similarly, so it will be clear whether a specific future transfer is within or outside its scope). In the case of departments, the designation should be drafted so it allows application to a potential new departmental name after a machinery-of-Government change (if that is the initial intention); and
- incorporate one or more event triggers for the designation to be reviewed, replaced or withdrawn from use. In particular, a significant change to the functions or identity of an entity specifically referred to in the designation would be an appropriate time to revisit the ongoing need for the designation and - where appropriate - to seek approval from the Government 'owners' to replace it with a new designation referring to the current entity name(s).

4F.5 TRANSFERS TO ENTITIES OUTSIDE THE QUEENSLAND PUBLIC SECTOR

POLICY

- **Non-reciprocal transfers of non-cash assets and/or liabilities (including a net liability position) between a department and entities not considered to be controlled by the Queensland Government (refer to section 4F.3) must be recognised through the department's Administered accounts, provided the transfers have been approved, at or before the time of the transfer, by Cabinet, CBRC, Executive Council or portfolio Minister(s) for the agencies concerned, UNLESS a department receives appropriation funding to compensate for any resulting loss. (In the latter situation, the transfer must be accounted for in the department's Controlled Statement of Comprehensive Income.)**

APPLICATION GUIDANCE

If a department meets the above policies to reflect a transfer in its Administered accounts, an initial adjustment should be made against the department's Controlled Contributed Equity account (and/or Accumulated Surplus where the balance of Contributed Equity is insufficient), and then Administered expenses/revenue ultimately need to be recognised.

For example:

Contributed Equity/Accumulated Surplus (controlled)	Dr	130	
Accumulated Depreciation (controlled)	Dr	50	
Accumulated Impairment Losses (controlled)	Dr	20	
Assets (controlled)	Cr		200
<i>(to de-recognise the asset from the controlled accounts)</i>			

Assets (administered)	Dr	130	
Contributed Equity (administered)	Cr		130
<i>(to initially recognise the asset in the administered accounts)</i>			

Grant Expense (administered)	Dr	130	
Assets (administered)	Cr		130
<i>(to recognise the transfer of the asset in the administered accounts)</i>			

Non-reciprocal transfers of assets and liabilities between a statutory body and entities external to the Queensland public sector can only be adjusted through the Statement of Comprehensive Income. This is because each entity belongs to a different economic entity (with different owners), so the transactions between the two entities will not be offset within the whole-of-Government consolidated financial statements. Unlike most departments, statutory bodies do not have administered activities and therefore they cannot adopt the above treatment.

4F.6 DISCLOSURE OF TRANSFERS ADJUSTED AGAINST EQUITY

REFERENCES

- FRR 2A *Basis of Financial Statement Preparation*
- FRR 2F *Machinery-of-Government Changes*

POLICY

- **Where an agency has accounted for asset and/or liability transfers directly against equity during the reporting period, it must disclose, for each asset and liability financial statement line item in its Controlled and Administered statements/notes (as applicable):**
 - **the net transfers in respect of each other agency; and**
 - **the total net transfers to/from other agencies.**
- **The above disclosures are not required in respect of comparative reporting periods.**

APPLICATION GUIDANCE

The disclosure requirements of this FRR 4F.6 are illustrated below. Agencies may use this as a guide for presenting their own disclosures where required but should tailor the wording/structure to reflect their own circumstances.

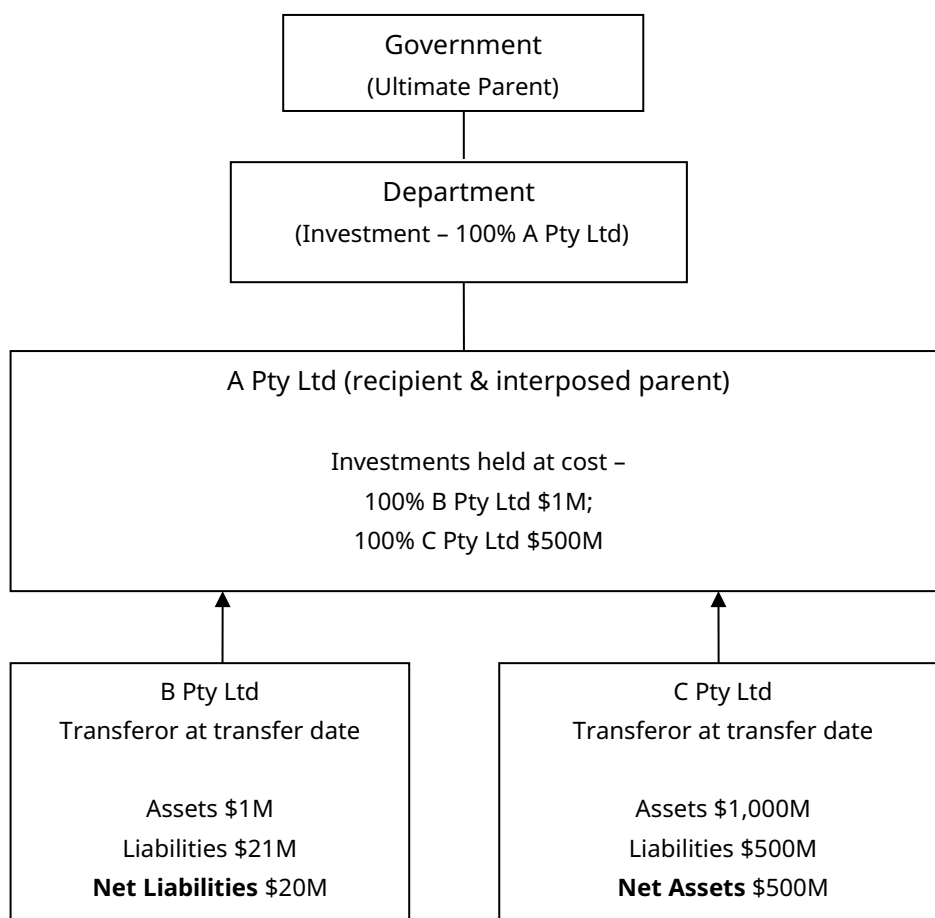
Illustrative Disclosure:

As a result of the Public Service Departmental Arrangements Notice (No. x), dated [Notice commencement date] 20xx, functions relating to wildlife support services were transferred in from the Department of ABC, responsibility for the function relating to the research into the sustainable development and conservation of Queensland's ecology was transferred to the Department of UVW, and the function relating to the development and publication of training material and information packs in relation to the sustainable development and conservation of Queensland's ecology was transferred to the Department of XYZ. As a result of these changes, the following assets and liabilities will be / were [adapt as appropriate] transferred:

Line Item	Net transfers IN from	Net transfers OUT to	Net transfers OUT to	Net Transfers IN(OUT)
	Agency ABC \$'000	Agency UVW \$'000	Agency XYZ \$'000	\$'000
<u>Assets</u>				
Cash	x	x	x	x
Receivables	x	x	x	x
Inventories	x	x	-	x
Non-current assets held for sale	x	x	-	x
Property, plant and equipment	x	x	x	x
Intangible assets	x	x	-	x
Investment property	x	-	x	x
Total Assets	x	x	x	x
<u>Liabilities</u>				
Payables	x	x	x	x
Interest-bearing liabilities and derivatives	x	x	-	x
Accrued employee benefits	x	x	x	x
Provisions	x	x	x	x
Total Liabilities	x	x	x	x
Net Assets(Liabilities)	x	(x)	(x)	x

APPENDIX 1 EXAMPLE OF A NET LIABILITY TRANSFER

Example of Contributions by/Distributions to Owners



Background

The Government has made a policy decision to restructure the activities and functions of the group of companies comprising A Pty Ltd, B Pty Ltd and C Pty Ltd, resulting in a wind-up of B Pty Ltd. C Pty Ltd is to transfer one of its borrowings (carrying amount \$250M) to A Pty Ltd.

All consequential transfers of assets and liabilities arise from a decision made by Government, without the discretion of any of the entities concerned. To reflect the Government's decisions on the accounting treatment of these transfers, the Government's approvals/designations, finalised before the transfer date, specify the following formal designations:

- The transfer of B Pty Ltd assets and liabilities (i.e. net liabilities) is to be accounted for by A Pty Ltd as a distribution to owners (to be adjusted against A's equity, rather than as an acquisition of an ownership interest), and by B Pty Ltd as a contribution by owners.

- The transfer of one of C Pty Ltd's borrowings is to be accounted for as a distribution to owners (rather than an acquisition of an ownership interest) by A Pty Ltd and a contribution by owners to C Pty Ltd. Both entities are to account for these as an adjustment against Contributed Equity, to the extent that they have a sufficient balance. To the extent that such adjustments would cause the transferor's Contributed Equity to reduce below \$0, the balance should be adjusted against that entity's Accumulated Surplus. To the extent that this would cause that entity's Accumulated Surplus to reduce below \$0, the balance should be recognised as an expense by the transferor and as corresponding revenue by the recipient.

The following illustrative journal entries assume that each entity has a sufficient credit balance for Contributed Equity.

Accounting Treatment

A Pty Ltd

Assets	Dr	\$1M		
Contributed Equity		Dr	\$20M	
Liabilities			Cr	\$21M

(Recognition of distribution to owners for the assumption of net liabilities from B Pty Ltd in accordance with formal designation)

Impairment Loss on Investment	Dr	\$1M		
Investment in B Pty Ltd			Cr	\$1M

(Recognition of impairment loss expense re investment asset not realised/recovered following wind up of B Pty Ltd)

Contributed Equity	Dr	\$250M		
Liabilities			Cr	\$250M

(Recognition of assumption of borrowings from C Pty Ltd against Contributed Equity, in accordance with formal designation as a distribution to owners)

B Pty Ltd

Liabilities	Dr	\$21M		
Contributed Equity			Cr	\$20M
Assets			Cr	\$1M

(Recognition of transfer of net liabilities to A Pty Ltd on wind up adjusted against Contributed Equity in accordance with formal designation as a contribution by owners)

Contributed Equity	Dr	\$21M	
Accumulated Surplus/Deficit			Cr \$21M

(To clear remaining equity balances following the transfer of net liabilities and the wind up of the company – assumes Contributed Equity balance of \$1M prior to transfer)

C Pty Ltd

Liabilities	Dr	\$250M	
Contributed Equity			Cr \$250M

(Recognition of the transfer of a borrowing to A Pty Ltd adjusted against Contributed Equity in accordance with formal designation as a contribution by owners)

APPENDIX 2 EXAMPLE APPROVAL/DESIGNATION

Example 1. Transfer of an asset between departments

This designation is to effect the transfer of an asset from the transferor *[insert name]* to the recipient *[insert name]*.

DESIGNATION OF TRANSFER

Department of *[insert name of transferor department]* transfers *[asset]* to the Department of *[insert name of recipient department]* as a result of a decision made by the owner or a representative of the owner in relation to *[insert event]*.

Transfer date – *[insert DD Month YYYY]*

	\$'000
Asset transferred to Department of <i>[insert name]</i>	\$xxx
Asset transferred from Department of <i>[insert name]</i>	\$xxx

or

The value of the asset transferred at date of transfer is to be agreed by *[insert date]*.

This designation is made pursuant to AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and FRR 4F Equity, Contributions by Owners and Distributions to Owners.

This transfer is designated as contributions by owners for the recipient, which is to be adjusted against the Department of *[insert name of transferor department]* and the Department of *[insert name of recipient department's]* Contributed Equity, to take effect on *[DD Month YYYY]*. To the extent that this would cause the Contributed Equity of *[the transferor department]* to reduce below \$0, the balance is to be adjusted against *[the transferor department's]* Accumulated Surplus. To the extent that this would cause *[the transferor department's]* Accumulated Surplus to reduce below \$0, the balance is to be recognised as an expense by *[the transferor]* and corresponding revenue by *[the recipient]*.

Approved by:

[Minister's / responsible body's signature]

[Minister's / responsible body's name]

[Minister's / responsible body's position]

[Date]

Example 2. Transfer of Assets to a Parent from its Subsidiary

DESIGNATION OF TRANSFER

This Notice is to effect the transfer of assets from the transferor [insert name of entity] to the recipient) [insert name of entity].

The transfer of assets and other things done under this designation are to be accounted for:

- as a 'distribution to owners' 'by the transferor;
- as a 'redemption of ownership interest' by the recipient; and
- in accordance with AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

The transfer of assets is to be considered as an adjustment of the recipient's ownership interest in the transferor and an adjustment to the transferor's Contributed Equity. To the extent that this would cause the Contributed Equity of [*the transferor entity*] to reduce below \$0, the balance is to be adjusted against [*the transferor's*] Accumulated Surplus. To the extent that this would cause [*the transferor's*] Accumulated Surplus to reduce below \$0, the balance is to be recognised as an expense by [*the transferor*] and as corresponding revenue by [*the recipient*].

Where the value of the assets transferred is greater than the value of the recipient's investment in the transferor, the balance is to be considered a 'contribution by owners' and therefore an adjustment to the Contributed Equity of the recipient.

This date of this designation is [*dd/mm/yyyy*].

Approved by:

[*Representative of the State as the 'owner'*]

or

[*(If Ministers) Transferor Minister's signature, name, and position*]

or

[*(If Ministers) Recipient Minister's signature, name, and position*]

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QUEENSLAND TREASURY

Financial Reporting Requirements for Queensland Government Agencies

CHAPTER 5 – FRR 5A to FRR 5D

**Applicable to 2025/26 or 31 December 2026
Financial Years**

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FRR 5A Statement of Cash Flows

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 mandatory policy items in practice.

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5A.1 PRESENTATION OF CASH FLOWS

REFERENCES

- AASB 107 *Statement of Cash Flows*
- AASB 1054 *Australian Additional Disclosures*
- Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*

POLICY

- **The required line items for the Statement of Cash Flows are as outlined in the corresponding model financial statements unless the line items are not applicable to the entity.**
- **An agency must report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.**
- **GST cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.**
- **To maintain consistency with whole-of-Government reporting, agencies must classify:**
 - **dividends paid as cash flows from financing activities; and**
 - **interest paid, and interest and dividends received, as operating cash flows.**
- **Cash flows in relation to the Paid Parental Leave Scheme are to be recognised as part of 'Cash flows from operating activities – Other'.**
- **A Statement of Cash Flows is not required for a department's 'administered' transactions if the 'note only' presentation is adopted.**

APPLICATION GUIDANCE

Agencies have discretion on how GST is presented in their statement of cash flow providing that GST cash flows are included on a gross basis as required by AASB 107 and Interpretation 1031.

To meet the reporting objective, several presentation options available to agencies. Option 1 is illustrated in FRR 6A and 6B, however agencies are free to choose a presentation that best reflects their particular circumstances.

Agencies should also ensure that the words “*inclusive of GST*” are only included for line items where GST is applicable.

Option 1. Gross operating flows + single net GST settlement line

Indicative presentation of line items:

Inflows

- User charges and fees (inclusive of GST)
- Grants and other contributions (inclusive of GST)

Outflows

- Payments for supplies and services (inclusive of GST)
- Grants and subsidies (inclusive of GST)
- One line: “GST received from / paid to ATO (net)”

Option 2. Gross operating flows with GST settlement separately itemised

Indicative presentation of line items:

Inflows

- User charges and fees (inclusive of GST)
- Grants and other contributions (inclusive of GST)

Outflows

- Payments for supplies and services (inclusive of GST)
- Grants and subsidies (inclusive of GST)
- Separate lines for:
 - GST paid to ATO
 - GST received from ATO

Option 3. Gross operating flows only with no explicit GST line

Indicative presentation of line items:

Inflows

- User charges and fees (inclusive of GST)
- Grants and other contributions (inclusive of GST)

Outflows

- Payments for supplies and services (inclusive of GST)
- Grants and subsidies (inclusive of GST)
- No separate GST line (as the “GST received from / paid to ATO” is reflected in the lines above).

Option 4. Gross operating flows - all GST amounts separately itemised.

Indicative presentation of line items:

Inflows

- User charges and fees
- Grants and other contributions
- GST collected from customers
- GST received from ATO

Outflows

- Payments for supplies and services
- Grants and subsidies (inclusive of GST)
- GST paid on supplies and services
- GST remitted to ATO



FRR 5B Related Party Transactions

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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5B.1 GENERAL DISCLOSURE MATTERS

REFERENCES

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 124 *Related Party Disclosures*
- AASB 128 *Investments in Associates and Joint Ventures*

POLICY

- **AASB 124 is only to be applied at the reporting entity level, not to lower levels of an agency (such as Commercialised Business Units (CBUs)).**

APPLICATION GUIDANCE

In working through the various elements of the related party definition in AASB 124, agencies should acknowledge that paragraph 9(a)(i) and (ii) have no application in a Government context (as “control”, “joint control” and “significant influence” are to be interpreted according to AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 128 *Investments in Associates and Joint Ventures*, respectively).

AASB 124 judgements generally applied on a case-by-case basis

Agencies need to exercise judgement about which related party transactions should be disclosed in financial statements based on all available information about transactions, in the context of AASB 124's requirements and the stated objective in paragraph 1 of AASB 124. Such judgements generally need to be made on a case-by-case basis.

Qualitative materiality more relevant to related party transactions

Qualitative materiality, according to the specific circumstances of a transaction, is more likely to be a key determinant of whether the transaction warrants financial statement disclosure.

Indicators of potential materiality include:

- if a transaction did not follow applicable employment/procurement processes that apply to unrelated parties (with an implication that the agency may be receiving/paying significantly more or less than with an unrelated party);

- if the terms and conditions of the transaction differ from those that would apply to unrelated parties (with an implication that the agency may be receiving/paying significantly more or less than with an unrelated party);
- if knowledge of the related party's involvement in the transaction could lead to a perception that the transaction may have/had a material financial impact on the agency; and
- in the case of employment of a KMP's close family member within the agency - the position is a senior/influential role within the agency.

Materiality assessment relative to the reporting entity, NOT related party

In assessing materiality of a related party transaction, the focus should be on the reporting entity, NOT necessarily any special advantage that the related party may have received compared to an unrelated person. If no identifiable impact can be determined for the reporting entity, then it would not likely warrant financial statement disclosure.

In disclosing material related party transactions, Treasury's position is that paragraph 18 of AASB 124 does not require the identification of the people or entities that are party to the transaction.

Where an agency's controlled entity is itself a reporting entity, that controlled entity needs to prepare its own general purpose financial statements and comply with AASB 124 from its own perspective.

In preparing consolidated financial statements, for transactions between any entity within the consolidated group and related parties external to that group, materiality should be assessed from the perspective of the consolidated group, rather than at the individual entity level. Where such transactions are with Government-related entities, the separate AASB 124 disclosure requirements for such transactions apply.

5B.2 TRANSACTIONS NOT CONNECTED WITH KMP

REFERENCES

- AASB 124 *Related Party Disclosures*

POLICY

- **The disclosure requirements of AASB 124 apply to both controlled and administered transactions and balances.**
- **Tier 1 agencies are required to adopt the limited disclosure approach for transactions with Government-related entities outlined in paragraphs 25 - 27 of AASB 124.**

APPLICATION GUIDANCE

Agencies need to implement their own approach to identifying related party transactions not connected with their KMP e.g. transactions with Government, controlled entities, associates, joint ventures, and other Queensland Government-controlled entities.

Parent & controlled entities might be Government-related entities

In terms of the categories of related parties listed in paragraph 19 of AASB 124, some of those parties (e.g. the whole-of-Government parent (where applicable) and controlled entities), also meet the criteria for Government-related entities (refer to the sub-section below). Hence, transactions with some of those categories of entities can be disclosed according to the separate requirements for Government-related entities (in paragraphs 25 – 27), instead of paragraph 18 of AASB 124.

Treasury doesn't expect agencies to have material transactions to disclose regarding post-employment benefit plans (refer to paragraph 9(b)(v) of AASB 124).

Also, sub-paragraph 9(b)(viii) of AASB 124 (key management personnel services) only applies where another entity takes full responsibility for the KMP roles, duties and responsibilities for the agency. That may involve providing individuals to operate the agency concerned (e.g. an employing office for a statutory body) or providing services to the agency that effectively constitute the planning, directing and controlling activities that would be undertaken by KMP.

Para.25-27 of AASB 124 apply to material administered transactions with Government-related entities

In making disclosures about material administered transactions/balances, agencies should determine their approach consistent with the limited amount of information otherwise provided about administered transactions and balances.

Where material administered transactions/balances are with other Queensland Government-controlled entities (refer to the sub-section below), the limited disclosure approach in paragraphs 25-27 of AASB 124 applies.

Government-related entity transactions

Government-related entities are any entities 'controlled' by the Queensland Government. For this purpose, the term 'control' is as per AASB 10 *Consolidated Financial Statements*. All departments, Government-owned corporations and almost all statutory bodies are Government-related entities.

One source of guidance about which entities are controlled by the Queensland Government is the list of Tridata entities in the WoGFIR manual, or the Controlled Entities note in the annual Report on State Finances of the Queensland Government (on Treasury's web site). However, there are other smaller Government entities also controlled by the Queensland Government but not consolidated as they don't meet the monetary thresholds for Tridata reporting. As necessary, agencies are advised to do their own research to confirm the legal status of entities they have significant transactions with.

Small number of entities not controlled by Queensland Government

Agencies should note that there are a small number of Queensland Government entities not regarded as being controlled by the Queensland Government (e.g. universities, grammar schools, and water distributor-retailers such as Queensland Urban Utilities). Therefore, those entities do not have the same Government "parent" for the purposes of identifying and disclosing transactions with a Government-related entity.

Assess significance – individually & collectively

Tier 1 agencies are responsible for assessing which Government-related entity transactions, if any, are individually significant or collectively significant to warrant disclosure under paragraphs 26-27 and BC22 of AASB 124 (Tier 2 entities being exempted from those disclosures under AASB 124). For that purpose, agencies should develop a position about what sort of Government-related transactions are 'significant' to them. This would ensure agency effort is focussed on identifying those types of transactions (about which there should be general corporate knowledge), rather than identifying all Government-related entity transactions.

Mirror disclosures between Government-related entities not necessary

As these disclosures do not impact on reported figures, and the significance of Government-related entity transactions depends on the individual entity, it is not necessary for each party to these transactions to have “matching” narrative disclosures.

Where one agency acts as “agent” for another Queensland Government entity, and reflects underlying transfers to/from that entity only in note disclosures, such transfers do not impact on the financial performance or position of the agent, so should not be considered for AASB 124 purposes.

5B.3 TRANSACTIONS CONNECTED WITH KMP

REFERENCES

- AASB 124 *Related Party Disclosures*
- FRR 3C *Employee Benefits Expenses and Key Management Personnel Remuneration*
- *Information Privacy Act 2009*
- Information Privacy Principles
- *Right to Information Act 2009*

APPLICATION GUIDANCE

Self-declaration by KMP is recommended approach

Self-declaration by KMP is Treasury’s recommended approach to collect the necessary information about related party transactions with KMP, their close family members and any entities that those people control or jointly control.

Declarations of interests currently made by KMP pursuant to *the Public Sector Act 2022* are not suitable for the purposes of AASB 124 for the following reasons:

- the objective of AASB 124 is to facilitate transparency about the extent to which an agency’s operating result or financial position has been affected by transactions with related parties, rather than for conflict of interest purposes;
- the existing declarations deal more with personal investments and other asset holdings, rather than identifying transactions with Queensland Government entities;
- the definition of “related party” for the purposes of AASB 124 is potentially significantly broader than what applies under the existing declarations; and

- legally, the information provided via the existing declarations is unable to be used for any other purpose (e.g. for disclosure in financial statements).

The people who meet the KMP definition for their agency (which the agency concerned determines) also comprise a much narrower sub-set of the people who provide declarations under the *Public Sector Act 2022*.

Appendix 1 – Recommended forms to collect related party information

Appendix 1 provides a recommended format for agencies to use to collect sufficient information from their non-Ministerial KMP regarding related party transactions (further guidance in using this format is outlined below). This format includes guidance for identifying who is “related” to a KMP, explains what transactions are not required to be declared by a KMP, and refers to the application of the *Information Privacy Act 2009* (IP Act) and the *Right to Information Act 2009* (RTI Act).

Agencies will note that KMP are to identify all their own related parties (both people and entities) in the declaration form. This information is necessary to enable external auditors to conduct the necessary audit work according to Australian Auditing Standard ASA 550 *Related Parties*.

Treasury acknowledges that application of AASB 124’s “close family member” definition may be difficult for KMP from diverse cultural backgrounds (e.g. KMP from Indigenous communities). In these circumstances, **IF** the guidance in Appendix 1 to the recommended declaration form is clearly not acceptable to the KMP concerned, the KMP may identify their “close family members” in the way that is acceptable to them.

Employment of Close Family Members

Part B of the declaration form covers the employment of close family members of the KMP in a position equivalent to, or above, Senior Executive Service (SES) classification. Where an agency is not subject to the SES classifications issued by the Public Sector Commission (PSC), the agency may refer to the SES remuneration rates issued by the PSC as a guide in determining the equivalent employment positions that are significant due to their seniority/influential nature within that agency. These rates are in the PSC directive “*Senior Executive Service – Employment Conditions*” which can be accessed at:

<https://www.forgov.qld.gov.au/pay-benefits-and-policy/directives-policies-circulars-and-guidelines>.

Agency practices for collection of information from non-Ministerial KMP

Agency responsibilities

Agencies need to implement their own strategies for co-ordinating collection of information from their non-Ministerial KMP, including:

- initial and ongoing education/advice for non-Ministerial KMP (particularly with turnover of KMP) about completion of declarations;
- skills and seniority of the officers who will be handling the personal information;
- secure arrangements for the storage of, and access to, completed declarations; and
- skills and seniority of the officers assessing whether or not financial statement disclosure is warranted, drafting any necessary disclosures, and dealing with external auditors about associated matters.

Who and when?

Agencies must only collect information from those agency-specific officers who meet the KMP definition for a material portion of the financial year (including where this was under a short-term staffing arrangement). There should be consistency with who will be reflected in the agency's KMP remuneration note disclosure. Agencies should also heed the guidance about identifying KMP for their agency (including for short-term arrangements) in FRR 3C Employee Benefits Expenses and Key Management Personnel Remuneration (refer to both FRR 3C.3 and FRR 3C.4).

Agencies responsible for determining frequency of collection

Agencies are responsible for determining how frequently they collect information from their non-Ministerial KMP, ensuring an appropriate balance between minimising administrative effort while optimising timely collection of information. More frequent information collection assists in identifying potential changes in a KMP's own related parties during the year. Agencies should also note:

- circumstances that should trigger information collection from KMP include abolition of an agency, significant organisational re-structuring within individual agencies, turnover of KMP, and short-term staffing arrangements that would meet the KMP definition (if those are for a material portion of the financial year – refer to FRR 3C.3);
- judgements about who meets the KMP definition at any time during the financial year (e.g. with short-term arrangements) may therefore be required much earlier than previously

(N.B. KMP only need to declare information in respect of the period(s) of time they met the KMP definition); and

- collection of information should be incorporated into the exit processes for KMP who leave the agency, where a significant amount of time has elapsed since their last completed declaration. Individual agencies need to determine their own strategy to facilitate this.

Working with completed non-Ministerial KMP declarations

Agency staff needs to be aware that the content of completed declarations, including any notes written on them, may be subject to disclosure under the RTI Act. As the completed declarations contain personal information, agencies need to ensure that they are managed and used in accordance with the requirements of the IP Act, including the Information Privacy Principles. To ensure there is no question about compliance with Information Privacy Principle 11 Limits on Disclosure, agencies should ensure that External Audit Plans and/or Client Assistance Schedules with external auditors include a standard request by auditors for access to completed declarations for the audit of the financial statements pursuant to the *Auditor-General Act 2009*.

The recommended declaration form in Appendix 1 is designed to enable agencies to implement greater security measures over information declared by KMP regarding their close family members and their controlled entities. Therefore, the Word versions available directly from the FRR web page facilitates collection of that personal information in a separate document (Part A), enabling that information to be stored separately from transactional information (Part B) used to determine financial statement disclosures.

Part A also contains an option to allow individual KMP to avoid repeating such personal information, provided the details in the KMP's own last fully completed Part A remain correct. Agencies will also note that explanatory information is now located in a separate Word document. Agencies are free to decide whether this division of material into separate documents is practical for them.

If agencies use Treasury's recommended declaration forms, (given the wording of the KMP certifications) agencies should rely on the information supplied by their non-Ministerial KMP, acknowledging that the KMP completes their declaration to their best of their knowledge. This declaration process, and AASB 124 itself, are not intended to identify, or deal with, governance or probity issues. However, where a transaction between the agency and a KMP-related person/entity comes to light, and has not been declared by the KMP concerned, agencies cannot ignore that information in complying with AASB 124. Agencies are reminded that those officers certifying the agency's annual financial statements are required to attest to the material compliance of those statements with prescribed requirements.

Agencies to undertake their own verification of transaction details

Agencies need to undertake their own verification of any transaction details declared by KMP (both figures and other information) before determining whether or not a financial statement disclosure will be required. Such verification is best undertaken soon after receipt of the completed declarations.

Agencies should note that the recommended declaration format does not ask the KMP to provide information about matters that the agency is best placed to “source”, based on the information declared (e.g. more specific information about the transaction, associated receivables or payables, provisions for impairment, bad debt expenses etc).

Not all information collected will be disclosed in financial statements

Not all information collected from KMP will be required to be disclosed in financial statements, or in the same level of detail as revealed via declarations.

Collection of information from Ministerial KMP

All Ministers’ related parties related to all Qld Govt-controlled entities

As all Ministers meet the KMP definition of the Whole-of-Government, all Ministers, their close family members, and any entities controlled or jointly controlled by any of those people, are related to all Queensland Government-controlled entities (refer to the latter part of FRR 5B.2) for related party transaction purposes.

Agencies must not collect information from Ministers

However, regardless of whether or not an agency’s responsible Minister (where applicable) is reported as part of its KMP, **agencies MUST NOT collect information from their Minister for related party disclosure purposes.**

Instead, the Ministerial information collection process will be centrally managed by Queensland Treasury, the Department of the Premier and Cabinet, and the Integrity Commissioner. The Queensland Audit Office (QAO) will also audit this information centrally.

Where transactions are identified, affected agencies will be contacted and advised ahead of audit certification of their financial statements by QAO. The information collected through that process will meet the needs of individual reporting entities that are controlled by the Queensland Government.

The central process will include:

- collection of information from Ministers and secure storage of that information;
- review of completed declarations to determine potential transactions to be disclosed;
- where such transactions are identified, liaison with relevant Queensland Government entities to verify transactional information collected will occur to obtain further information required for financial statement disclosures. Ordinarily, this liaison is planned to occur during June and July each year;
- drafting of proposed disclosures on behalf of the Queensland Government entity involved in the transaction;
- consultation with the Minister concerned re the proposed disclosure;
- negotiation of the proposed disclosure with QAO, and handling (in the first instance) of questions from external auditors regarding related party transactions connected with Ministers; and
- supply of the agreed financial statement disclosure to the entity involved in the transaction. This will ordinarily be supplied by early August each year.

APPENDIX 1 RECOMMENDED DECLARATION FORM TO COLLECT RELATED PARTY INFORMATION FROM NON-MINISTERIAL KMP

The following declaration format has been primarily designed to enable completion in Microsoft Word, and the key tables for completion by KMP incorporate drop-down lists and check boxes to assist with completion. Agency KMP should be encouraged to complete their declarations using Microsoft Word and is designed for completion in the following steps:

- Part A - Who are my close family members (irrespective of the existence of transactions)?
- Part A - Do I, or any of the people I've listed as close family members, control or jointly control any entities (irrespective of the existence of transactions)?
- Part B - Did I, or any of the people or entities I've already identified in the declaration, enter into a transaction with the reporting entity, according to any of the transaction types outlined in the declaration form?
- If the answer is "yes" to the above question, a limited amount of information about such transactions is requested of the KMP via Part B.

Before issuing blank declaration forms to KMP, agencies need to complete/review:

- in each Word document - identification of the agency and its controlled entities, and the period of time to be considered by the KMP when completing the declaration (which will depend on your agency practice regarding frequency of collecting declarations); and
- in the privacy statements in Part A and Part B - details of specific entities, to comply with information privacy requirements. "Names of entities that may be provided with copies of completed Part A/Part B" refers to other entities (other than Queensland Treasury and external auditors), if any, that will be involved in reviewing completed declarations and/or drafting of related party disclosures in respect of non-Ministerial KMP. If there are no other such entities, the sentence can be revised to refer simply to Queensland Treasury (in case of Treasury ever being asked for advice about a specific scenario).

Due to paragraph 9(a)(iii) of the “related party” definition of AASB 124, in determining whether there is a transaction to declare, KMP need to consider transactions that they, their close family members and/or any entities controlled or jointly controlled by any of them, have entered into with:

- the Government reporting entity for which they are a member of KMP; and
- where that reporting entity also controls any other entities – any of those controlled entities.

Agencies need to ensure this is clear to their KMP via the entities listed on the first pages of Part A and Part B.

DECLARATION OF RELATED PARTY INFORMATION BY NON-MINISTERIAL KMP

EXPLANATORY INFORMATION AND APPENDICES

Why you have received the accompanying declaration forms:

You have been identified by the Queensland Government entity named on first page of Part B as a member of its KMP.

“Key management personnel” (KMP) of an entity (e.g. the Queensland Government) are people with the authority and responsibility for planning, directing and controlling the activities of that entity, directly or indirectly.

Any questions in relation to the application of the KMP concept to you, or the completion of Part A and/or Part B, should be directed to the entity that distributed these forms to you.

Why you need to complete the accompanying declaration forms:

The *Financial Accountability Act 2009* requires that the published financial statements of departments and statutory bodies comply with Australian Accounting Standards.

The Australian Accounting Standards Board (AASB) has extended the scope of Australian Accounting Standard AASB 124 *Related Party Disclosures* (the standard) to include not-for-profit public sector entities. This is effective from 1 July 2016, and means that annual financial statements for 2016-17 and onward must comply with the standard.

The standard’s objective is to ensure that information provided in an entity’s financial statements highlights that the existence of, and transactions or amounts receivable/payable (including commitments) with, “related parties” may have affected the entity’s operating result and/or financial position.

For the purposes of the standard, related parties include KMP, their close family members, and entities any of those people control or jointly control. An illustration of how the related parties concept (for the purposes of this standard) applies is set out in Appendices 1 and 2.

Part A and Part B are designed to collect information from you to enable Queensland Government entities’ compliance with the standard. You will be requested to provide new declarations one or more times during each financial year in respect of periods of time you meet the KMP definition. This ensures relevant information for the full financial year is complete and collected in a timely manner. You will also be required to complete new declarations if you cease employment with your entity.

It is important that you carefully read and strictly follow the instructions and guidance contained in Parts A and B and in this guidance document, to optimise the relevance of the information provided.

NB. Completion of Parts A and B is in addition to declarations of interests you may have or may make under the Public Sector Act 2022. Those declarations do not provide the information required for compliance with the standard. For example, the standard uses a much broader definition of “related parties” (refer to Appendices 1 and 2), and the information required by the standard is about transactions and amounts receivable from/payable to Queensland Government entities.

What happens with the information you declare:

Your completed Parts A and B will be stored in compliance with relevant Queensland Government policies and entity-specific policies. Part A information that you provide will only be accessed by officers from the Queensland Audit Office.

Financial Statement Disclosures

Transactions you declare in Part B may be disclosed in the entity’s published financial statements, in aggregate (as far as possible) as required by the standard. Not all information collected via Part B may require disclosure in those statements.

Information from financial systems that is directly associated with a related party transaction declared in Part B (e.g. amounts payable/receivable, debts written-off etc) may also be used when preparing disclosures to be included in published financial statements.

Judgement will be exercised by appropriately skilled officers and negotiated with the Queensland Audit Office, in determining which transactions and amounts receivable/payable warrant disclosure, based on the information provided.

Information Privacy

The *Information Privacy Act 2009* (IP Act) permits the collection and use of the personal information required by Parts A and B for the preparation of financial statements, including the disclosure of such personal information in those statements. The IP Act allows you to access declarations provided by you. Where you have declared information that identifies other people, those people may be able to access any information that concerns them under the IP Act.

Right to Information

The declaration is subject to the provisions of the *Right to Information Act 2009* (RTI Act), and may be disclosed by application under the RTI Act.

Where an application is received pursuant to the RTI Act, the usual decision-making processes under the RTI Act apply in determining whether or not to release the information requested.

Definitions for Identifying Related Parties (People and Entities)

NB. The definition of “related parties” for this declaration is provided by Australian Accounting Standard AASB 124 Related Party Disclosures, and is much broader than the scope of people/entities that applies to declarations of interests made under the Public Sector Act 2022.

“Related parties” of an entity include:

- the entity’s own KMP (including the entity’s responsible Minister(s), if they meet the KMP definition);
- KMP of the entity’s parent (i.e. each Minister, as the Whole of Government (WoG) is the “parent” of Queensland Government controlled entities, and all Ministers are regarded as KMP of WoG);
- any close family members (refer below) of people in the above two groups; AND
- any entities controlled or jointly controlled (refer below) by a person from any of the above three groups.

According to the standard, “close family members” are those family members who may be expected to influence, or be influenced by, you in their dealings with the **insert names of entities identified on the first page of Part B**. Close family members includes:

- your spouse or domestic partner – including married and de facto couples and civil union partnerships;
- your children or children of your spouse/domestic partner –. The term “children” applies to all children (including biological children, step-children, adopted children and children-in-law), regardless of their age and their degree of financial dependency on you or your spouse/domestic partner;
- dependants of you or your spouse/domestic partner – including family members who are financially supported by you or your spouse/domestic partner; and
- in exceptional circumstances, other close family members - refer to Appendix 2. These are other family members who would be expected to influence you, or be influenced by you, in relation to any of the entity/entities identified on the first page of Part A and Part B. Such people are likely to be family members that you are in regular contact with. This is a judgement to be made by you. In other words, *if a stranger became aware of the circumstances of your relationship with that family member, is it reasonable that the stranger would conclude that your relationship with that person would bias your decision-making regarding any of the entity/entities identified on the first page of Part A and Part B? For example – influence may exist if a person is involved in a business activity or investment with another family member, or if a person has legal authority (e.g. by way of a power of attorney) to make decisions on behalf of another family member.*

Appendix 2 depicts the “close family members” concept.

For the purposes of completing the tables in Parts A and B2, the following categories should be used to classify close family members or related entities:

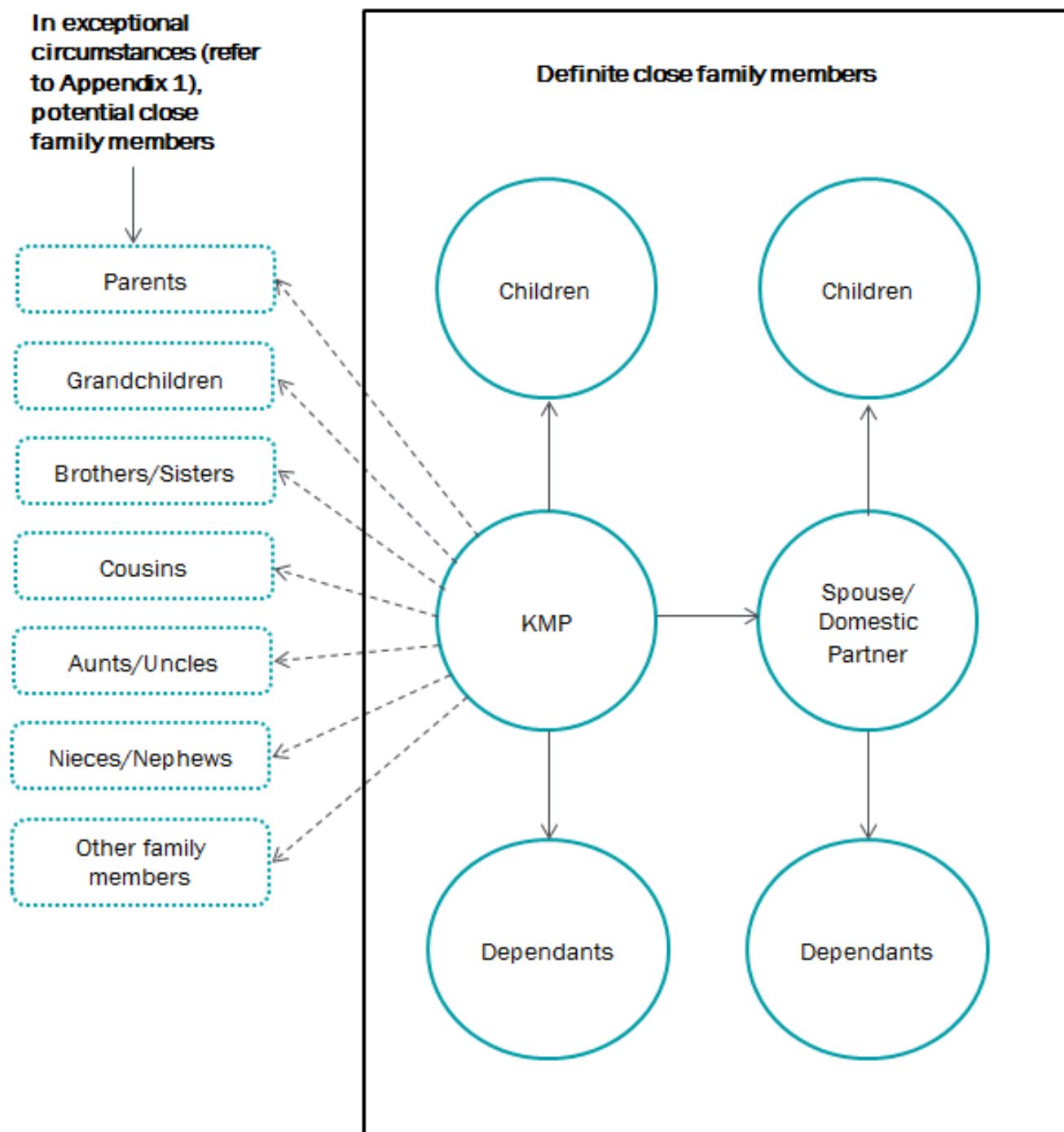
- Myself
- My spouse/domestic partner
- My child (N.B. Minors do not need to be named provided the minor and their age is identified on the declaration form).
- My dependant
- Child of my spouse/domestic partner
- Dependant of my spouse/domestic partner
- Another close family member (*where this applies, please instead enter the nature of the relationship*)
- Entity controlled/jointly controlled by me
- Entity controlled/jointly controlled by my spouse/domestic partner
- Entity controlled/jointly controlled by my child
- Entity controlled/jointly controlled by my dependant
- Entity controlled/jointly controlled by child of my spouse/domestic partner
- Entity controlled/jointly controlled by dependant of my spouse/domestic partner
- Entity controlled/jointly controlled by another close family member (*where this applies, please instead enter the nature of the relationship*)

Control or joint control of an entity

In assessing whether a person controls or jointly controls an entity:

- “entity” refers to an entity of any legal form e.g. sole trader, partnership, company, trust etc;
- “control” should be regarded as existing where:
 - a person has 50% or more of the entity’s voting rights e.g. as a director, KMP, trustee, through voting rights etc; AND
 - ownership of 50% or more of the entity’s equity; and
- “joint control” exists where there is a contractually agreed sharing of control i.e. decisions about key business activities require unanimous consent of the parties sharing control.

ILLUSTRATION OF WHO WOULD BE CLOSE FAMILY MEMBERS OF A KMP
(refer to note below)



Note:

For the purposes of the “related parties” definition, any entities controlled or jointly controlled by any of these people would have the same definite/potential relationship to the KMP as applies to those people themselves.

Declaration of Related Party Information by non-Ministerial KMP
PART A - IDENTIFICATION OF YOUR RELATED PARTIES

for the period/...../..... to/...../.....

The information in this Part A will solely be used by the Queensland Audit Office to undertake its obligations under Australian Auditing Standard ASA 550 Related Parties. If this information is not obtained via this Part A, QAO may use other means to identify your related parties.

ONLY SIGN THE BELOW CERTIFICATE IF YOU HAVE PREVIOUSLY SUBMITTED A FULLY COMPLETED PART A AND THE DETAILS IN YOUR LAST FULLY COMPLETED PART A REMAIN CORRECT. OTHERWISE PLEASE COMPLETE THE REST OF PART A.

Key Management Person's certification

I, (print name below)

(insert position title below)

1. declare that I have carefully read and understood this Part A and Appendices 1 and 2 (refer to separate guidance document);
2. declare that my related parties, including close family members and any entities controlled or jointly controlled by myself or a close family member (as per Appendices 1 and 2), identified in my last fully completed Part A remain accurate and complete in respect of the abovementioned timeframe; and
3. give permission for the Queensland Audit Office to continue to access my last fully completed Part A, as outlined in the privacy statement that accompanied that declaration.

Signed:

Date: _____/_____/_____

PLEASE COMPLETE THE REST OF PART A IF EITHER:

- **YOU HAVE NOT PREVIOUSLY SUBMITTED A FULLY COMPLETED PART A; OR**
- **THE DETAILS IN YOUR LAST FULLY COMPLETED PART A ARE NO LONGER COMPLETE AND ACCURATE**

Please list below any entities you control or jointly control (*refer to Appendix 1 in separate guidance document*):

Relationship of close family member to you <i>(please copy more blank rows including drop-down boxes, or attach separate sheet, if insufficient space)</i>	Name(s)	Name(s) of any entities that this person controlled or jointly controlled <u>at any time during the period this declaration covers</u>
"Close family members" who met that definition <u>at any time during the period this declaration covers</u> <i>(refer to the categories of "close family members" in Appendix 1 in separate guidance document). Click on the text in the rows below and choose from the drop down list supplied, if completing this Part A using Microsoft Word. This information is required, <u>regardless of whether or not that person/entity was a party to a transaction/arrangement with [insert name of agency and all controlled entities (where applicable) regardless of whether they are consolidated]</u></i>		
Select relationship to you		
Select relationship to you		
My child (include children-in-law, step-children etc)		
Select relationship to you		
Select relationship to you		
Select relationship to you		
Select relationship to you		
Select relationship to you		
Select relationship to you		
Select relationship to you		
Did you have any other family members who may influence, or be influenced by, you <u>at any time during the period this declaration covers</u>? If so, please also complete the details in each column below <i>(refer to Appendices 1 and 2 in separate guidance document):</i>		

Key Management Person's certification

I, (print name below)

(insert position title below)

1. declare that I have carefully read and understood this Part A and Appendices 1 and 2 (refer to separate guidance document);
2. declare that I have listed all my related parties (as per Appendices 1 and 2) that existed at any time during the period that this declaration covers, including close family members and any entities controlled or jointly controlled by myself or a close family member;
3. declare that, to my knowledge, the information provided in this Part A is accurate and complete;
4. declare that where I have provided information about a related party, I have advised that related party that I have declared information about them, the purposes for which that information will be used, and who may review that information (as per the below privacy statement); and
5. give permission for the disclosure of the information provided in this Part A to the Queensland Audit Office, as outlined in the below privacy statement.

Signed:

Date: _____/_____/_____

Privacy Statement – The main purposes of the collection of information via this Part A are to assist in:

- the preparation of financial statements in accordance with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
- the audit of those financial statements in accordance with Australian Auditing Standard ASA 550 *Related Parties*.

The collection of personal information on this Part A is authorised by the *Financial Accountability Act 2009*.

Information collected via this Part A will be disclosed to the **[insert names of entities that may be provided with copies of completed Part A]**, officers of the Queensland Audit Office and/or other authorised auditors under the *Auditor-General Act 2009* for the purposes of auditing the financial statements. The Queensland Auditor-General may disclose certain information collected via this form to the Crime and Corruption Commission, as permitted by the *Auditor-General Act 2009*. The personal information collected via this form will not be disclosed to third parties, other than those mentioned above, unless with consent or as authorised or required by law.

Declaration of Related Party Information by Non-Ministerial KMP

PART B - IDENTIFICATION OF RELATED PARTY TRANSACTIONS

for the period/...../..... to/...../.....

in relation to **[insert name of agency and all controlled entities (where applicable) regardless of whether they are consolidated]**

PART B1 - DETERMINE EXISTENCE OF RELATED PARTY TRANSACTIONS

NB. In completing Part B1:

- please ensure you also consider transactions/arrangements (including amounts payable/receivable) that commenced prior to and continued during the period of time covered by this declaration;
- whether or not cash was exchanged between the parties is irrelevant; and
- DO NOT include transactions/arrangements that apply to ordinary citizens (refer to guidance below).

“Ordinary citizen transactions”

These are transactions that form part of the usual course of business of the entity concerned, where the terms, conditions, rights, entitlements and obligations (e.g. payment charged) of the transaction are no different from those applying to any other member of the general public (or any other unrelated entity, as the case may be). For instance, if there is an exemption from payment, or a reduction in the payment, because of the related party relationship, the transaction is not an ordinary citizen transaction. Further, employment of a close family member should not be considered an ordinary citizen transaction.

Examples of ordinary citizen transactions may include:

- payment of registration fees for motor vehicles, professional registration etc;
- use of public hospital services;
- attendance at state schools;
- entry to Queensland Government events, facilities, national parks etc;
- usage of public transport;
- payment of fines, taxes and duties;
- occupation of public housing;
- payment for electricity; and
- deceased estate administration services.

1. During the period covered by this declaration, were any of your close family members (refer to Part A) employed (in a permanent, temporary, full-time or part-time capacity) with [insert names of entities entered on first page of Part B] in a position <u>equivalent to, or above, Senior Executive Service classification?</u> <i>N.B. Where an agency is not subject to the SES classifications issued by the Public Sector Commission (PSC), the agency may refer to the SES remuneration rates issued by the PSC in determining the equivalent employment positions that are significant due to their seniority/influential nature within that agency.</i>	Yes (if so, provide more details in Part B2) ☐	No ☐
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During the period covered by this declaration, were you or any people or entities identified as your related party (refer to Part A) a counterparty to any of the following types of transactions/arrangements with [insert names of entities entered on first page of Part B]?	Yes (if so, provide more details in Part B2)	No
2. Purchase/sale/transfer of goods (finished or unfinished), whether or not a price is charged, <u>where the total value of goods under the individual contract/arrangement is \$50,000 or more</u> – regardless of the amount of payments made/received during the period of this declaration	☐	☐
3. Purchase/sale/transfer of assets (monetary, physical, non-physical/intellectual property), whether or not a price is charged, <u>where the total value of assets under the individual contract/arrangement is \$50,000 or more</u> – regardless of the amount of payments made/received during the period of this declaration	☐	☐
4. Provision or receipt of services, whether or not a price is charged, <u>where the total value of services under the individual contract/arrangement is \$50,000 or more</u> – regardless of the amount of payments made/received during the period of this declaration (e.g. contractors/consultants)	☐	☐
5. Provision or receipt of ex gratia payments, gifts, grants/subsidies and/or other benefits (NB. “Ex gratia” means not legally due under a contract or otherwise)	☐	☐
6. Lease of item(s) – either as lessor or lessee - whether or not a price is charged, <u>where the total value over the term of the individual lease is \$50,000 or more</u> – regardless of the amount of payments made/received during the period of this declaration	☐	☐
7. Provision or receipt of a licence(s) to undertake an activity or use an item, whether or not a price is charged, <u>where the total value of the licence(s) is \$50,000 or more</u> – regardless of the amount of payments made/received during the period of this declaration	☐	☐
8. Provision or receipt of financial assistance (e.g. loans, settlement of debts to third parties, waiver of debts, equity contributions etc – in cash and/or in kind)	☐	☐
9. Provision or receipt of collateral, guarantees or indemnities	☐	☐
10. Entitlements to receive interest or obligations to pay interest	☐	☐
11. Commitment to do/provide/receive something in the future, whether or not that is subject to a future uncertain event or circumstances, <u>where the total value under the individual future commitment is \$50,000 or more</u>	☐	☐

PART B2 – PROVIDE DETAILS FOR RELATED PARTY TRANSACTIONS IDENTIFIED IN PART B1

Name of related party (include ABN if applicable)	Connection between you and related party <i>Click on the text in the rows below and choose from the drop down list supplied, if completing this Part B2 using Microsoft Word (refer also to the categories of relationships listed in Appendix 1 in separate guidance document)</i> <i>Please copy more blank rows including drop-down boxes, or attach separate sheet, if insufficient space</i>	Queensland Government entity that is party to transaction	Details of transaction / arrangement (including the category in Part B1 this relates to)	Terms/conditions etc* #	Total GST inclusive amount of transactions during period of declaration (regardless of total value of entire contract/ arrangement)#
EXAMPLE ONLY to guide completion: XYZ Pty Ltd ABN: xx xxx xxx xxx	Entity controlled / jointly controlled by child of my spouse/domestic partner	Department of ABC	Provision of consultancy services for corporate review (category 4)	- Tender submitted in response to public advertisement - Cash consideration - Amounts receivable/payable not secured	\$9,900
	Select relationship to you				
	Select relationship to you				
	Select relationship to you				
	Select relationship to you				
	Select relationship to you				
	Select relationship to you				

*** For terms/conditions, please state:**

- *whether or not the transaction / arrangement resulted from a public/open tender/advertisement process*
- *whether any consideration was provided/received and, if so, the nature of consideration (e.g. transfer of cash, transfer of physical asset etc)*
- *whether outstanding payables/receivables are secured by, or subject to, a guarantee*

Where transaction is employment of a close family member in a position equivalent to, or above, Senior Executive Service classification, please state:

- *position title or description of role as "terms/conditions"*
- *position classification level and paypoint (as applicable). If more practicable, that information can be declared instead of total remuneration*

Key Management Person's certification

I, (print name below)

(insert position title below)

1. declare that I have carefully read and understood this Part B and the Appendices in the separate guidance document;
2. declare that, to my knowledge, the information provided in this Part B is accurate and complete;
3. declare that where I have provided information about a transaction of a related party, I have advised that related party that I have declared information in respect of that transaction, the purposes for which that information will be used, and who may review that information (as per the below privacy statement); and
4. give permission for the disclosure of the information provided in this declaration to the relevant entities, as outlined in the below privacy statement.

Signed:

Date: ____/____/____

Privacy Statement – The main purpose of the collection of information via this Part B is to assist in the preparation of financial statements in accordance with Australian Accounting Standard AASB 124 *Related Party Disclosures*. The collection of personal information on this Part B is authorised by the *Financial Accountability Act 2009*.

Information collected via this Part B will be used, and may be disclosed, for the purposes of preparing disclosures to be included in published financial statements of **[insert name of relevant reporting entity]**. Those financial statements will be published in the entity's annual report, as required by law. Such disclosures, if significant at a Whole-of-Government level, may also be included in the Queensland Government's published Report on State Finances.

Information collected via this Part B will be disclosed to **[insert names of entities that may be provided with copies of completed Part B]**, and potentially officers of Queensland Treasury, as part of the process of preparing disclosures to be included in published financial statements. The information collected via this Part B will also be provided to officers from the Queensland Audit Office and/or other authorised auditors under the *Auditor-General Act 2009* for the purposes of auditing the financial statements. The Queensland Auditor-General may disclose certain information collected via this Part B to the Crime and Corruption Commission, as permitted by the *Auditor-General Act 2009*. The personal information collected via this Part B will not be disclosed to third parties, other than those mentioned above, unless with consent or as authorised or required by law.



FRR 5C Budgetary Reporting Disclosures

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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5C.1 APPLICATION OF BUDGETARY REPORTING REQUIREMENTS

REFERENCES

- AASB 1055 *Budgetary Reporting*

POLICY

- **An agency is required to comply with AASB 1055 and this policy if:**
 - **budgeted financial statements in respect of the agency were included in a Service Delivery Statement (SDS) as part of the annual State Budget papers for that financial year; or**
 - **the agency was established by a reallocation of functions from another agency subsequent to the last SDS, and budgeted financial statements for the new agency will be included in future SDSs.**
- **If an agency has been established subsequent to the SDS for that financial year, but not by a reallocation of functions from another agency, it is out-of-scope of the application of AASB 1055 and this policy for that financial year only (as no budgeted statements would have been tabled in Parliament in respect of that agency).**
- **Where an agency controls other separate reporting entities (that are not included in the SDS budgeted figures for the agency), AASB 1055 and this policy only apply to the department or statutory body reporting entity for which budgeted financial statements are (or will be) included in an SDS (i.e. the variance analysis is to be displayed at one level only, according to the reporting entity used for general purpose financial statements where budgeted financial statements for the same reporting entity are included in the SDS).**

APPLICATION GUIDANCE

AASB 1055 and this policy only apply where general purpose financial statements are prepared for a particular reporting period. Therefore, where a new agency has been allowed to defer the preparation of its first financial statements under s.40 of the FPMS, AASB 1055 and this policy only apply as from that agency's first general purpose financial statements. Where an agency has been abolished, AASB 1055 and this policy apply to the final financial statements of that agency.

Tier 2 Statutory Bodies

Statutory bodies eligible to adopt Tier 2 (Reduced Disclosure) Requirements are those that do not have their financial information consolidated into whole-of-Government financial statements, and generally do not have budgeted financial statements included in the SDS. For that reason, they are effectively outside the scope of AASB 1055. However, in the rare circumstances that such a statutory body has presented its original budget to Parliament for the financial year (outside the State Budget process), it would need to comply with the requirements of AASB 1055 and this policy.

Requirements do not apply to any part of an agency that is not itself a reporting entity.

For some agencies, budgeted financial statements are included in the SDS for parts of the agency (e.g. commercialised business units) that are not reporting entities – refer to FRR 2A Basis of Financial Statement Preparation for the reporting requirements for Commercialised Business Units (CBUs) and Shared Service Providers (SSPs). As with all accounting standards, AASB 1055 only applies to reporting entities. Therefore, AASB 1055 and this policy do not apply to any part of an agency that is not itself a reporting entity.

In certain SDSs, budgeted financial statements are included for different levels of aggregation (i.e. aggregated on a different basis to reporting entities used for general purpose financial statements). In such cases, the budgeted financial statements to be used for the purposes of AASB 1055 and this policy are those that are aggregated on the same basis as the reporting entity used for the agency's general purpose financial statements – these are generally identified in the SDS as "Reporting Entity" budgeted financial statements.

Where the SDS 'Reporting Entity' budgeted financial statements do not include all of the agency's controlled entities included in audited general purpose financial statements, AASB 1055 and this policy only apply to those controlled entities included (i.e. consolidated) in the agency's SDS 'Reporting Entity' budgeted financial statements.

Where an agency presents its administered items within the notes to its financial statements (consistent with the illustration in the Sunshine Department Illustrative Financial Statements), it is acceptable for the budget versus actual comparison for the administered items to also be presented in the same format.

5C.2 PRESENTATION OF ORIGINAL BUDGET INFORMATION

REFERENCES

- AASB 1055 *Budgetary Reporting*

POLICY

- **Agencies required to comply with AASB 1055 and this policy must present the original budgeted figures from the SDS for that financial year for the same reporting entity (subject to the below exceptions re subsequent machinery-of-Government (moG) changes and new/abolished agencies).**
- **Subject to paragraph 6(e) of AASB 1055, the budgeted figures to be displayed for the agency, along with a comparison to actual results and explanations of major variances, are those in the SDS:**
 - **Controlled Income Statement;**
 - **Controlled Balance Sheet (in respect of equity, agencies must display the variance analysis at the level of total equity only); and**
 - **Controlled Cash Flow Statement.**
- **Subject to paragraph 7(a) of AASB 1055, the budgeted figures to be displayed for the agency, along with a comparison to actual results and explanations of major variances, are those in the SDS:**
 - **Administered Income Statement; and**
 - **Administered Balance Sheet (however, agencies are not to include a variance analysis for administered equity).**

APPLICATION GUIDANCE

Agencies may elect to present the original budgeted figures required by AASB 1055 and this policy either on the face of the main financial statements or within the notes.

5C.3 USE OF ALTERNATE BUDGETS TO ORIGINAL BUDGET

REFERENCES

- AASB 1055 *Budgetary Reporting*

POLICY

- Where an agency has been established by a reallocation of functions from another agency subsequent to the SDS for that financial year, the figures in the SDS column headed “Adjusted Budget” in the following year’s SDS must be used.
- Where a department has been otherwise affected by a moG change since publication of the SDS for that financial year but continues to exist (with or without being renamed), the figures in the SDS column headed “Adjusted Budget” in the following year’s SDS must be used instead of the original SDS budget figures.
- Where an agency is abolished, original SDS budget figures must be used for the full financial year (i.e. unadjusted with no allocation) in the final financial statements of the abolished agency.
- Subject to the above exceptions for subsequent moG changes and new/abolished agencies, for the variance analysis itself:
 - agencies are NOT to use revised budget figures in place of original budget figures (paragraph 9 of AASB 1055 explains the meaning of “original budget”); and
 - agencies are NOT to present revised budget figures in addition to original budget figures.

APPLICATION GUIDANCE

For the purposes of this policy, a machinery-of-Government change means a reallocation of Government functions between departments that is in accordance with a specific Departmental Arrangements Notice.

Substitution of original budget figures with adjusted budget in limited circumstances

Treasury acknowledges that AASB 1055 requires budgetary reporting to be based on comparisons to original budget figures. However, where a moG change has impacted on an agency original

budgeted figures in that SDS generally no longer serve as a useful basis to compare to actual results (as acknowledged in paragraph BC16 of AASB 1055). Therefore, on the grounds of qualitative materiality, this policy requires replacement of original budget figures with “Adjusted Budget” figures in certain circumstances – refer to the above policies. In those circumstances, the basis of the budget figures disclosed should be explained by footnote to the “Adjusted Budget” columns.

How a new agency is established determines the correct budget figures to use

Similarly, where a new agency is established during the financial year as a result of a reallocation of functions from another agency, and the new agency is included in the next SDS, its budgeted statements in that SDS will display figures in the “Adjusted Budget” column (in respect of the functions that have been reallocated during the year). Such “Adjusted Budget” figures effectively represent original budget figures for such agencies.

New agencies may be out-of-scope of AASB 1055 under this policy

Any new agencies established during the financial year - but not from a reallocation of functions from another agency - and included in the next SDS will not display figures in the “Adjusted Budget” column in their budgeted financial statements. In those circumstances, for the first financial year only, such agencies are effectively out-of-scope of AASB 1055 and this policy.

For the application of this policy, figures in the SDS budgeted financial statements reported as “Adjusted Budget” are not to be impacted by non-moG adjustments. It is acknowledged that Adjusted Budget figures may be difficult to compute, particularly for the Statement of Financial Position and Statement of Cash Flows, where a moG change occurs part way through a financial year. In these circumstances, the Adjusted Budget figures should be calculated on a “best endeavours” basis.

For an abolished agency, this policy requires that the original SDS budgeted income statement, balance sheet and statement of cash flows is to be presented **unadjusted** in the final financial statements, covering the full financial year as set down in the SDS. This reflects the only pre-abolition published budget tabled in parliament. Abolished agencies are still required by FRR 5C.4 to provide an explanation of variances between their actual financial results and the budgeted financial statements – however the extent of these explanations will depend on the abolition circumstances. Abolished agencies should refer to the policy and guidance in FRR 5C.4. As required by this policy, where functions of an abolished agency are transferred to another agency, the recipient agency will include the budgetary impact of the transferred function within its “Adjusted Budget” in the following year’s SDS.

Most of the policies in this FRR 5C assume the usual timeframe of the SDS being published in June each year (i.e. prior to reporting date). If the timing of the annual State Budget changes in any year (e.g. if the SDS will not be published prior to the audited financial statements being certified by management), Treasury will assess the circumstances and develop an alternative approach to deal with those specific circumstances, if necessary. The following table illustrates the type of note explanations that agencies may consider using in these situations (alongside the format illustrated in the Sunshine Department illustrative financial statements.)

Scenario 1 - New agency established by reallocation of functions from another agency:

The department was created on [*Notice commencement date*] 20xx to assume certain responsibilities previously undertaken by the Department of ABC as outlined in [*insert note number here*]. These figures represent the budgeted figures for 20xx-xy, as published in the latest Service Delivery Statement tabled in Parliament.

Scenario 2 – Continuing department impacted by moG change:

On [*Notice commencement date*] 20xx, certain responsibilities were transferred to the department from the Department of ABC and the Department of UVW. Details of the transfer are outlined in [*insert note number here*]. As required by Queensland Treasury policy under such circumstances, the budget figures used in this comparison represent the Adjusted Budget figures for the financial year, as published in the latest Service Delivery Statement tabled in Parliament. The original budget figures in the previous Service Delivery Statement no longer serve as a useful basis to compare to the department's actual results.

Scenario 3 - Agency abolished:

On [*Notice commencement date*], certain responsibilities were transferred to the Department of UVW following abolition of the [*department/statutory body*] as outlined in [*insert note number here*]. As required by Queensland Treasury policy under such circumstances, the budget figures used in these final financial statements reflect the unadjusted, original budget for the full financial year as published in the latest Service Delivery Statement tabled in Parliament. The explanation of major variances between year-to-date actuals and original budget covers the abolition of the [*department/statutory body*] and other materially identifiable variations not connected to the abolition. Refer to note xx for information about abolition of the [*department/statutory body*] and the assets and liabilities transferred to Department of UVW.

5C.4 EXPLANATION AND DISCLOSURE OF BUDGET VARIANCES

REFERENCES

- AASB 1055 *Budgetary Reporting*

POLICY

- The comparison between budgeted financial statements and actual results is to be presented at the level of financial statement line items, setting out the following information:
 - original budgeted figures as published in the SDS (subject to the exceptions for moG changes and newly established agencies described above);
 - actual results; and
 - the dollar amount of any budget to actual variance.
- For the purpose of applying AASB 1055 and this policy, explanations of major variances are not required for any immaterial line items in the audited financial statements. Materiality for this purpose is to be assessed in accordance with FRR 2B Materiality.
- Subject to the line item's materiality, explanations must be provided, at a minimum, for the following variances that are larger than 5% of the budgeted figure for:
 - employee expenses (Statement of Comprehensive Income);
 - supplies and services (Statement of Comprehensive Income); payments for property, plant & equipment (Statement of Cash Flows); and
 - for all other material line items - variances larger than 10% of the budgeted figure.

- **Explanations of major variances must include the following information:**
 - **the specific transaction(s) and/or balance(s) that the variance relates to (including quantification, where possible); and**
 - **the underlying cause of the variance.**
- **For an abolished agency's final financial statements, explanations of major variances must include materially identifiable variances that are due to a reason other than the abolishment of the agency.**
- **Agencies are not to include corresponding information for the comparative year.**

APPLICATION GUIDANCE

Variance analysis and explanations of major variances

Consistent with paragraphs 6 and 7 of AASB 1055, for the variance analysis the line items of the budgeted financial statements (from the SDS) need to be aligned with the classification of line items of the corresponding actual financial statements.

Where there is a classification difference, agencies must reclassify the budgeted figures accordingly. Examples of line items for which this would be necessary include losses on sale/revaluation/impairment of assets (for the Statement of Comprehensive Income) and the various GST cash flow line items (for the Statement of Cash Flows).

Where a major variance between a budgeted figure amount and the corresponding actual is attributable to more than one reason, agencies are to exercise judgement in identifying and disclosing those reasons (both positive and negative) that most substantively explain the overall major variance.

Although there is to be no substitution of original budget figures (subject to the exceptions for subsequent moG changes or newly established agencies), revised budget figures may be appropriate to refer to as part of narrative explanations of major variances between the original budgeted figures and actual results.

Abolished Agencies

For agencies abolished part way through a financial year, allocating a portion of the original SDS budget to compare to the actual year-to-date results is not practical to provide meaningful explanations of individual variances at the line item level. Consequently, this policy requires abolished agencies to present a comparison of their actual year to date results with the original, unadjusted SDS presented to parliament.

The intent of the budget to actual variance explanations for an abolished agency is that the explanations disclosed convey meaningful information in the context of the abolition. While abolition will ordinarily be the substantive reason used by abolished agencies to explain variances between original budget and audited actuals, the explanation of variances would also include those that are obviously due to a reason(s) other than the abolition. The following circumstances are examples of such non-abolition variances:

- where actual year-to-date revenue and/or expenditure incurred for the part-year already exceeds the full year original budgeted item at abolition date.
- Where the proportion of actual expenditure for a line item relative to its original budget is significantly more or less than the proportion of actual to budgeted results for other line items. For example, an agency might be abolished half-way through a financial year. If 80% or more of the budget for supplies and services expenditure was already expended compared to other line items that were 40-50% expended against original budgeted amounts, it would be evident that the actual to budget variance for supplies and services was caused by factor(s) other than the abolishment of the agency.
- A significant revaluation of property, plant and equipment occurred post original budget.



FRR 5D Service Concession Arrangements and Other Public-Private Partnerships

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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5D.1 PUBLIC-PRIVATE PARTNERSHIPS

REFERENCES

- AASB 1059 *Service Concession Arrangements: Grantors*
- Queensland Treasury's Project Assessment Framework – *Queensland PPP supporting guidelines*

APPLICATION GUIDANCE

The term “public-private partnership” or “PPP” when used in this FRR means all projects and arrangements to which the *National PPP Policies and Guidelines* and the *Project Assessment Framework: Queensland PPP Supporting Guidelines* apply, or would apply if the projects were being entered into in the current financial year.

In public-private partnerships, the State (the grantor) enters into arrangements with private sector entities (the proponents/operators) to deliver to the public major economic and social assets/facilities and related services.

The Commonwealth Government's *National PPP Policies and Guidelines*, which are available at <https://www.infrastructure.gov.au/infrastructure-transport-vehicles/infrastructure-investment-project-delivery/national-guidelines-infrastructure-project-delivery>, set out the key features of PPPs – refer section 3 of the policy framework and sections 2.1 and 2.2 of the guidelines.

The Queensland Government's *Project Assessment Framework: Queensland PPP Supporting Guidelines* are available on Treasury's Project Assessment Framework web site at <https://www.treasury.qld.gov.au/programs-and-policies/project-assessment-framework/>

PPP arrangements generally fall into two broad categories – economic infrastructure arrangements or social infrastructure arrangements.

Economic infrastructure arrangements

Economic infrastructure arrangements involve the delivery and operation of economic infrastructure whereby the third-party users (i.e. end users) pay for use of the infrastructure asset directly to the operator (often within a regulated payment framework) over the life of the contract. This is sometimes referred to as a ‘demand-risk (i.e. patronage) transfer payment model’.

The typical characteristics of these arrangements generally include the operator being compensated for the upgrade, construction or acquisition of infrastructure assets by the grantor granting the operator the right to earn revenue from third-party users of the asset.

The grantor may also be required to pay an upfront payment in order to make the project more commercially attractive to a potential operator (e.g. a 'gap or subsidy' payment) or to compensate the operator for contract works undertaken on State owned assets (e.g. returned works).

Other than an upfront payment, the grantor will generally have no additional rights (other than the right to the residual interest in the infrastructure asset) or other obligations in relation to the infrastructure asset. In the event of a default by the operator or extended force majeure (i.e. where neither party is at fault), these types of service concession arrangements have generally been structured in such a way that if the asset was handed back to the State early, the State would have no obligation to compensate the operator.

Examples of PPPs that involve economic infrastructure assets include water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports and telecommunication networks.

Social infrastructure arrangements

Social infrastructure arrangements involve the delivery and operation of social infrastructure whereby the grantor pays for the third-party (i.e. community) use of the infrastructure asset through regular service payments to the operator over the life of the contract. Generally, the grantor pays an ongoing service payment to the operator regardless of the level of patronage of the social infrastructure asset as long as the asset is 'available for use'. This is sometimes referred to an 'availability payment model'.

The typical characteristics of Social Infrastructure arrangements involve the grantor paying regular service payments to the operator. Such payments generally include a capital component – compensation for the upgrade, construction or acquisition of infrastructure assets – and an operating component that compensates the operator to operate and maintain the infrastructure asset. In the event of a default by the operator or extended force majeure (i.e. where neither party is at fault), these types of service concession arrangements have generally been structured in such a way that if the asset was handed back to the State early, the State would have an obligation to compensate the operator.

Examples of service concession arrangements that involve social infrastructure include hospitals, TAFEs, schools, public transport and correctional facilities.

Accounting considerations for PPPs

PPPs are often complex arrangements that require detailed analysis before arriving at an appropriate accounting position.

AASB 1059 *Service Concession Arrangements: Grantors* applies to 'service concession arrangements', which are specific arrangements that meet the scope criteria of that standard. However, not all PPPs are service concession arrangements under AASB 1059. Other accounting standards (such as AASB 116 or AASB 16) may apply to those PPPs outside the scope of AASB 1059. Agencies who determine a PPP arrangement falls outside AASB 1059 must then consider the appropriate accounting for the PPP under other applicable standards.

The remainder of FRR 5D addresses the following issues:

- FRR 5D.2 examines the scope of AASB 1059 and contains guidance to help agencies assess whether an arrangement is a service concession arrangement.
- FRR 5D.3 contains guidance for accounting for service concession arrangements under AASB 1059.
- FRR 5D.4 contains guidance to help agencies decide on the most appropriate accounting treatment for PPP arrangements that fall outside of AASB 1059.
- FRR 5D.5 sets out Treasury's disclosure requirements for all PPPs, irrespective of whether the arrangements are in scope of AASB 1059.

5D.2 SCOPE OF AASB 1059

REFERENCES

- AASB 1059 *Service Concession Arrangements: Grantors*

POLICY

- **Service concession arrangements between Queensland public sector entities that are consolidated into Whole-of-Government are considered rare. Before applying AASB 1059 to such arrangements, agencies are first required to consult with Treasury regarding the application of the standard and Whole-of-Government implications.**

APPLICATION GUIDANCE

To be a service concession arrangement in scope of AASB 1059, a public-private partnership (PPP) must meet certain criteria as summarised below.

1. The operator must be providing public services related to the service concession asset on behalf of a grantor. (Para 2(a), B4–B9)
2. The operator must be managing at least some of the services under its own discretion, rather than at the direction of the grantor. (Para 2(b), B10)
3. The grantor must control or regulate: (Para 5(a), B15–B27)
 - a) what services the operator must provide with the asset,
 - b) to whom it must provide the services, and
 - c) at what price
4. The grantor controls any significant residual interest in the asset at the end of the term of the arrangement. (Para 5(b), 6, B32–B36)

Factors that are not included in the AASB 1059 scope assessment include who acquired, constructed or paid for the asset (the asset can be constructed/financed by the operator or it can be an existing asset of the grantor), or who legally owns the asset *during* the period of the arrangement (the asset can be owned by the grantor or the operator during this period).

Where an asset has physically distinct portions that are used for different purposes, agencies should assess each portion individually as to whether there is a service concession arrangement, when the difference in accounting treatment is expected to be material.

The following guidance is provided to assist agencies in deciding whether an arrangement is within the scope of AASB 1059. See also AASB 1059 Examples 1–5 for illustrative application of the standard's scope requirements.

1. Is the operator providing public services related to the service concession asset on behalf of the grantor?

What is a public service?

Public service is not defined in AASB 1059 or other accounting standard, although AASB 1059 paragraph B5 does provide examples of service concession assets. A public service would typically be a service that a government provides and is accessible to members of the community within its

jurisdiction, even if not everyone in the public uses the service. Usually, if the government is paying for a service to be delivered, it will likely be a public service.

Agency judgment is required in some cases where the government is not paying anything for the service.

Assets that also provide ancillary services

Some arrangements may involve a single asset that provides multiple services. In such circumstances, a judgement will be required as to the nature and relative significance of each separate component and services provided to determine if the asset provides public services.

For example, a courthouse building provides multiple services, such as courts, administrative offices and other associated services. The services provided by the administrative offices may be unrelated to the court services and therefore considered ancillary if they are insignificant to the arrangement as a whole, and in that case would not affect the assessment that the building provides public services. However, if the unrelated administrative services were significant to the arrangement as a whole, the courthouse building might be assessed as not providing public services.

Similarly, a hospital might provide multiple services such as normal surgical/medical health care services and other associated services (e.g. florists, newsagencies, cafeteria). The associated services are unrelated to the surgical/medical services and would most likely be insignificant ancillary services when compared to the arrangement as a whole. In this case, the associated services would not affect the assessment that the hospital provides public services.

Secondary assets

AASB 1059 para B7 discusses situations where 'secondary assets' constructed as part of a service concession arrangement for a 'primary asset' (for example, a car park for a hospital) are also regarded as providing public services.

In situations where there is no service concession arrangement for the primary asset (e.g. the hospital itself is not in a service concession arrangement), or where the secondary asset is in a separate arrangement to that of the primary asset (e.g. the car park is constructed and operated by a different party), the secondary asset would not be regarded as providing public services under para B7. Nevertheless, agencies should still consider whether the secondary asset provides public services by itself as a standalone primary asset, and if it does it can still meet the 'public service' criteria.

“On behalf of the grantor”

In a service concession arrangement, the operator must be providing the public services related to the asset *on behalf of* the grantor. Typically, in a PPP arrangement, the public sector grantor is assigned responsibility by the government for delivery of public services, and the private sector operator uses an asset to provide those public services on the grantor’s behalf.

Arrangements may exist between Queensland Government agencies that have features similar to those of service concession arrangements with external-to-government operators. By way of example, one agency may have legal or designated ownership of a particular asset while a second agency is responsible for delivering public services using that asset.

The second agency would be assigned the responsibility for operating the asset and delivering public services by legislative mandate or Cabinet/Ministerial direction, even though ownership continues to remain with the first agency. In such cases, the second agency will often be providing the public services to achieve its own service delivery objectives or mandate - not necessarily *on behalf of* the agency that owns the asset. Careful examination of the facts and circumstances is required before concluding such arrangements

For this reason, service concession arrangements between agencies are expected to be rare, and agencies are required to consult with Queensland Treasury’s whole-of-Government reporting team before concluding that an arrangement between two Queensland Government agencies constitutes a service concession arrangement under AASB 1059.

Other considerations

Not in paragraph 2(a) but present in the definition of a service concession arrangement is that the arrangement must be for a ‘specified period of time’. A permanent transfer of service provision is therefore not a service concession arrangement, it may instead be a sale as illustrated in AASB 1059 Example 5(a).

As outlined in para B8 of AASB 1059, where the services provided by an asset are used wholly internally by the agency to assist the agency in delivering public services, but the asset is managed by an external party, this will not meet the definition of a service concession arrangement. Such circumstances are more indicative of an outsourcing arrangement or a lease and agencies should consider whether other Accounting Standards apply in such circumstances.

2. Is the operator managing at least some of the services under its own discretion, rather than at the direction of the grantor?

This aspect of the scope criteria requires that the operator has management responsibility (e.g. operational decision making) for some of the services provided by the asset **and** those services managed by the operator contribute significantly to the public services provided by the asset (see AASB 1059 para B10).

When the grantor provides the operator specific operational instructions or directions for the provision of services, the operator does not have discretion or management responsibility, and the arrangement would be a service outsourcing contract from the grantor's perspective. Significant judgement is often required when deciding whether the services managed by the operator contribute significantly to the public services provided by the asset. The examples below illustrate the key principles in paragraph B10.

Example	Assessment	Conclusion
Operator constructs school buildings and provides, under its own discretion, facilities management, cleaning and security services.	Public services provided by the school are primarily education services. The operator's maintenance services do not represent a significant component of the public services provided by the school. Instead the maintenance services represent a service outsourcing arrangement to enable the grantor to provide public services (education) through the school.	The arrangements fails the criteria in 2(b) / B10, and is not within scope of AASB 1059. The agency would instead account for this arrangement under other accounting standards, such as AASB 116 or AASB 16.
Operator constructs hospital building and provides, under its own discretion, facilities management, cleaning and security services, along with employment and rostering of hospital staff.	Public services provided by the hospital are primarily health care services. The operator's employment and rostering of hospital staff is likely a sufficient indicator that the operator is managing at least some of the public services provided by the hospital.	The arrangement meets this scope criteria and is likely a service concession arrangement under AASB 1059 (provided other criteria also met)
Operator builds a toll road, collects tolls, and provides road maintenance services under its own discretion.	A road provides public services (i.e. transport) largely by itself as long as it is properly maintained. Therefore, the operator's maintenance services contribute significantly to the public services provided by the road.	The arrangement meets this scope criteria and is likely a service concession arrangement under AASB 1059 (provided other criteria also met)

3. Does the grantor control or regulate what services the operator must provide with the asset, to whom, and at what price?

For the three criteria in this section, the power to regulate includes regulation imposed on the operator by a third party. Where third party regulation exists, the PPP agreement need not specifically refer to such regulation as it is implied in the arrangement, and the grantor also need not control or be related to the regulator.

3(a) What services the operator must provide with the asset

To meet this criteria, the agreement (or regulation) should state what type/s of services the operator must provide with the asset, and specify a minimum service level in terms of quantity or availability of the services provided. For example, a public hospital PPP may require that the operator provide specified health services to public patients and the hospital be open at all times barring force majeure situations.

Some considerations are outline in the table below.

Considerations	Examples of indicators that the arrangement IS a service concession arrangement	Examples of indicators that the arrangement IS NOT a service concession arrangement
Does the PPP agreement specify the types of services and a minimum level of service?	The agreement specifies the services to be delivered and a minimum level of service.	The agreement only sets out a high-level objective (e.g. reduce youth crime) without specifying the services to be delivered, and/or the operator has wide discretion as to the quantity or availability of services provided.
Is the operator permitted to temporarily cease the provision of public services, and if so, under what circumstances?	The operator must obtain the grantor's approval before it can temporarily cease the provision of public services. The agreement can allow for cessation of services in certain situations that do not detract from the grantor's control, e.g. in force majeure situations or during repairs and upgrades to the asset.	The operator has discretion over the times when the asset operates. For example, the operator can choose to cease operation of the asset (and provision of public services) when demand is low and the income earned does not justify the operating costs.

Considerations	Examples of indicators that the arrangement IS a service concession arrangement	Examples of indicators that the arrangement IS NOT a service concession arrangement
Is the operator able to use the asset for alternate purposes or to provide additional services that are not specified in the agreement?	The operator must obtain the grantor's approval to use the asset for alternate purposes.	The operator may use the asset for alternate purposes or to provide additional services that may or may not be public services.

3(b) To whom the operator must provide the services

Usually in a service concession arrangement, the agreement requires that the operator must provide the public services to the general public (i.e. anyone who wants to use the service) or a subset of the public. The grantor may restrict certain types of users from accessing the service, for example – no tractors or cyclists on a toll highway. The restrictions on the types of users can also be imposed by a third-party regulator.

Where the operator charges users a fee or toll for use of a service, the fact that the operator is 'limiting' its provision of services to only those users who pay does not, by itself, cause the arrangement to fail this criteria.

3(c) At what price the services must be provided

Control over pricing include terms that set an initial price and place a limit on future price increases (e.g. a fixed percentage or CPI), or require all price increases to be approved by the grantor. The price may also be set at zero.

The grantor's control over pricing must be **substantive**. If in doubt, agencies should consider a situation where the operator raises prices beyond what is allowed in the agreement, or seeks a price increase that the grantor believes is too high. Does the grantor have sufficient power to restrict or limit the operator in these situations? Are there processes in place that will allow the grantor to achieve this control?

Additionally, pricing for public services can often be regulated by a third party, which would generally be sufficient to satisfy this scope criteria for the grantor.

4. Does the grantor control any significant residual interest in the asset at the end of the term of the arrangement?

This criterion is ordinarily satisfied by ownership of the asset being transferred to, or remaining with, the grantor at the end of the arrangement. An option for the grantor to purchase the asset at the end of the arrangement would not meet this criterion unless the purchase price is insignificant compared to the fair value of the asset at that time (e.g. \$1 purchase option).

This criterion is not relevant when an asset is used in a PPP for all or a major part of its economic life, because there will be no significant residual remaining at the end of the arrangement.

Where the term of the PPP consists of an initial period plus one or more extension options that can be exercised by the agency, for the purposes of determining the 'end of term of the arrangement' for para 5(b), the agency should assess whether it is probable that optional extension period/s will be exercised based on expectations of future demand for the public service provided by the asset. The probable or most likely outcome should then be used as the term of the arrangement for the AASB 1059 scope assessment.

5D.3 ACCOUNTING FOR SERVICE CONCESSION ARRANGEMENTS UNDER AASB 1059

REFERENCES

- AASB 1059 *Service Concession Arrangements: Grantors*

APPLICATION GUIDANCE

Lifecycle payments and AASB 1059 arrangements

Lifecycle payments refer to payments agreed upfront for renewals and replacements that are undertaken by the operator in a PPP throughout the life of the arrangement. Where the PPP arrangement falls within the scope of AASB 1059, the examples in the standard illustrate how to account for lifecycle payments.

1. Financial liability model (AASB 1059 Example 6)

Future replacements are incorporated into the calculation of the implicit interest rate at commencement of the arrangement. This results in a lower discount rate and less interest expense being incurred over the life of the arrangement.

When the replacement happens, the service concession asset and financial liability are both increased by the original estimate of the fair value (CRC) of the replacement.

2. Grant of Rights to Operator (GORTO) model (AASB 1059 Example 7)

Future replacements are not incorporated into initial revenue recognition calculations (this differs from IPSAS 32 Example 2). Under AASB 1059, each replacement is treated like a new SCA that lasts for the remaining term of the arrangement. As each replacement occurs, the service concession asset and unearned revenue liability are increased by the fair value (CRC) of the replacement. This liability is then recognised as revenue over the remaining term of the arrangement, even if the replacement component's useful life is different. The amount of revenue recognised each year increases with each subsequent replacement, thus resulting in more revenue being recognised towards the end of the PPP.

5D.4 ACCOUNTING FOR PUBLIC-PRIVATE PARTNERSHIPS OUTSIDE THE SCOPE OF AASB 1059

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 16 Leases*
- *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*
- *AASB 116 Property, Plant and Equipment*
- *AASB 1059 Service Concession Arrangements: Grantors*

APPLICATION GUIDANCE

PPPs can be structured in various ways. It is possible some PPP arrangements will not meet the scope criteria of AASB 1059. For example, the asset may not be providing a public service (but may meet some or all of the other criteria of AASB 1059). In other situations, the proponent may only be managing maintenance activities that do not contribute significantly to the public services provided by the asset.

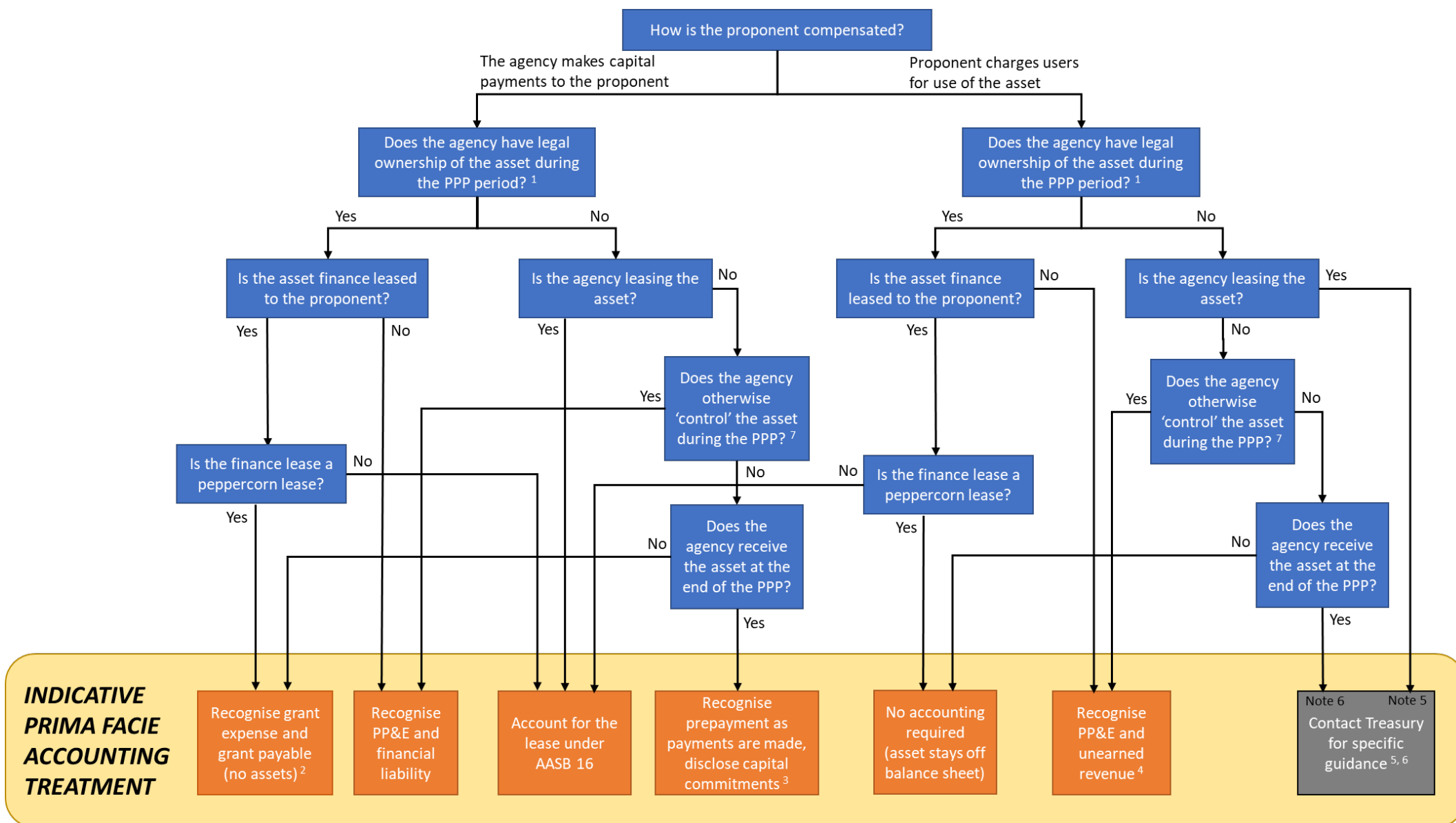
For PPP arrangements that fall out-of-scope of AASB 1059, the agency must determine the most appropriate way to account for the PPP that reflects the substance of the arrangement. Agencies encountering such situations should prepare and discuss their accounting position papers findings with QAO, noting that in such situations, the arrangement may be accounted for as either property, plant and equipment, a right-of-use asset (lease), or possibly not require on-balance sheet recognition.

In formulating position papers and accounting judgements, agencies may find it helpful to consider the following questions as a minimum:

1. What is the nature of the consideration exchanged - capital payments or user charges?
2. Who has legal ownership of the asset?
3. Who has accounting control of the asset?
4. Is there a finance lease of the asset to the proponent or a lease of asset to the agency?

The decision tree on the following page is provided to assist agencies in determining the most appropriate accounting treatment for PPPs outside of AASB 1059. Please note that this decision tree does not cover all possible PPP scenarios, and that hybrid arrangements where the proponent both charges users and receives payments from the grantor may require a combination of accounting treatments. Agencies are encouraged to seek Treasury advice if experiencing difficulties in applying this decision tree to a particular PPP arrangement.

Decision tree –Accounting for PPPs outside the scope of AASB 1059



Notes to the decision tree:

1. Typically, legal ownership of buildings and infrastructure will lie with the owner of the land on which it is constructed. Where an agency believes this is not the case, it must demonstrate sufficient evidence to its auditors that ownership of the building/infrastructure resides with a party other than the landowner.
2. If the agency is paying for the construction of an asset and either (i) never receives the asset; or (ii) is required to lease the asset to the proponent under a peppercorn finance lease arrangement; then it is in substance a grant to the proponent. A grant payable and grant expense should be recognised when the proponent becomes contractually entitled to receive the payments under the terms of the agreement.
3. In this situation, the agency is effectively committed to the purchase of a PP&E asset at the end of PPP and is pre-paying for that asset over the PPP period. Capital commitments must be disclosed under AASB 116 para 74(c). A capital prepayment can only be recognised where a significant residual in the asset exists at the end of the PPP, and the prepayment is also subject to annual impairment testing.
4. The unearned revenue here is recognised under an accounting policy developed under AASB 108 para 10-12 in the absence of a specifically applicable accounting standard and in consideration of the accounting requirements for GORTO arrangements in AASB 1059.
5. This scenario is expected to be extremely rare. Where the proponent is charging users for use of the asset, the agency is unlikely to have the right to obtain substantially all of the economic benefits from use of the asset, thus failing the AASB 16 lease identification criteria (para B21-B23). In addition, there may not be any lease payments involved.
6. In these circumstances, because the agency does not control the asset (e.g. buildings) during the PPP arrangement, Queensland Treasury considers the full amount of the asset should not be recognised upfront. Instead, Queensland Treasury's view is that the agency acquires a right to receive the asset at the end of the term, the value of which increases progressively over the term of the arrangement. Accounting for the progressive recognition and measurement of this asset can be complex, and as such, it is recommended that agencies contact Treasury for advice specific to the circumstances of their PPP arrangement.
7. When the agency does not own or lease the asset, it should assess whether it nevertheless still controls the asset by having the power to obtain the future economic benefits or service potential of the asset and to restrict the access of others to those benefits.

Lifecycle payments and arrangements outside AASB 1059

Agencies' treatment of lifecycle payments in PPP arrangements that are outside the scope of AASB 1059 must be consistent with the conceptual framework in respect of any assets or liabilities recognised.

Lifecycle payments attributable to *operating or maintenance activities* should be *expensed as incurred*.

Lifecycle payments attributable to *capital replacements* should be *capitalised* in accordance with the principles set down in accounting standards (e.g. AASB 116) and the NCAPs.

No assets should be recognised at the start of the PPP in relation to future replacements before any lifecycle payments are made.

(i) Time Specific or Clearly Defined Replacement Schedules for Individual Assets or Components

In PPP arrangements that contain clearly defined replacement schedules for specific assets, or components of complex assets, agencies should capitalise the cost of those replacements and depreciate over the remaining useful life of the asset or component as applicable.

Where lifecycle payments relating to material capital replacement payments are made in advance of the clearly defined or actual replacement occurring, Queensland Treasury's preference is this advance payment be recognised as part of capital work-in-progress asset until the future replacement occurs at which time the capital work-in-progress will be transferred to the asset. If it becomes apparent that the agency will not receive all of the replacements embodied in that recognised in prepayments, the advance payment must be written off.

(ii) No Specified Replacement Schedules or Minimum Replacement Specified for Individual Assets or Components

Some PPPs may require the agency to make lifecycle payments in advance of future asset replacements occurring, either as recurring payments or via periodic lump sums, but do not specify a comprehensively detailed replacement schedule or minimum level of replacements to be made.

Notwithstanding this, it is still necessary to make a judgement as to the capital versus operating nature of such lifecycle payments. Agencies are to make an assessment on a case-by-case basis as to what the substance of the lifecycle payments represent and adopt an accounting approach consistent with accounting standards, NCAPs and the conceptual framework.

Ordinarily, it is expected sufficient information will exist for agencies to make a reasonable determination or estimation of the capital and maintenance elements embodied in the PPP's contractual arrangements. This may include the use of budgeted asset management plans, forecast engineering work plans, scheduled maintenance bulletins or estimation reports from the proponent responsible for providing the maintenance / asset replacement services. Queensland Treasury's expectations around in these circumstances are as follows:

- Accounting judgements should consider the use of all available data to attribute (either partially or fully) the lifecycle payments between the capital element, with the balance attributable to maintenance (operating expenses). In certain circumstances, it may be more practical to determine the maintenance element first with the balance attributed to the capital element.
- As part of identifying the capital element, it is expected the timing of replacements for major or material asset components would also be identified where appropriate having regard to the available documentation and information sources as outlined in this section.
- Accounting for the capital component may be similar to the treatment outlined in (i) above if replacements of major or material asset components can be reasonably estimated to occur in particular years. Where this is impractical, the capital component of the lifecycle payment should be capitalised as part of the PPP asset when the payment is made.
- The frequency of comprehensive asset revaluations for the PPP asset will ensure that any timing differences (i.e. between the payment and when any material asset components are replaced) are effectively addressed through the asset revaluation cycle and be reflected in the asset revaluation surplus.
- Between comprehensive asset revaluations, an appropriate accounting judgement around depreciation should reflect the particular circumstances of the capital element and material capital components identified.
- Initial estimates of the allocation between capital and maintenance can be made, then adjusted each year and across the forward estimates, as more certainty around the capital component crystallises.

In some less common circumstances, asset replacements may be largely incidental, relatively minor, and only occur when needed as part of agreed maintenance services – with such replacements effectively inseparable from the maintenance services delivered.

Consequently, identifying what future replacements will ultimately be received in return for the lifecycle payments may be difficult to reliably quantify. Judgement will be required as to whether such lifecycle payments qualify for capitalisation, should be expensed in full or require apportionment between both categories.

5D.5 DISCLOSURES FOR PUBLIC-PRIVATE PARTNERSHIPS

REFERENCES

- AASB 1059 *Service Concession Arrangements: Grantors*

POLICY

- **To meet Queensland Treasury's minimum disclosure objectives for all public-private partnerships, irrespective of whether AASB 1059 Service Concession Arrangements or another Standard applies, agencies shall make the following disclosures for each individually material PPP arrangement in existence during the financial year, and the remaining PPPs in aggregate (including comparatives where applicable):**
 - (a) **A description of the arrangement including its duration and key features, the name of the other entities in the arrangement, and the value of assets and liabilities involved;**
 - (b) **The impact of the arrangement on revenue and expense line items; and**
 - (c) **A maturity analysis of the arrangement's future contractual cash inflows and outflows separately, on an undiscounted basis, in the following time bands:**
 - **within one year**
 - **one to five years**
 - **five to ten years**
 - **later than ten years**

APPLICATION GUIDANCE

To ensure consistency across PPP arrangements, and for whole-of-Government reporting purposes, the disclosures required by FRR 5D.5 apply to all PPP arrangements, whether or not they are service concession arrangements under AASB 1059. The requirements reflect the principle-based disclosure guidelines of paragraph 28 in AASB 1059 for service concession arrangements. Consequently, agencies who make disclosures under AASB 1059 will meet the disclosure requirements of 5D.5. Agencies may refer to FRR 6A for illustrative disclosures.

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