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

DELIVERING FOR QUEENSLAND

Queensland Government

Translating and interpreting assistance

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 profit[1].

[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 <u>not required</u> 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

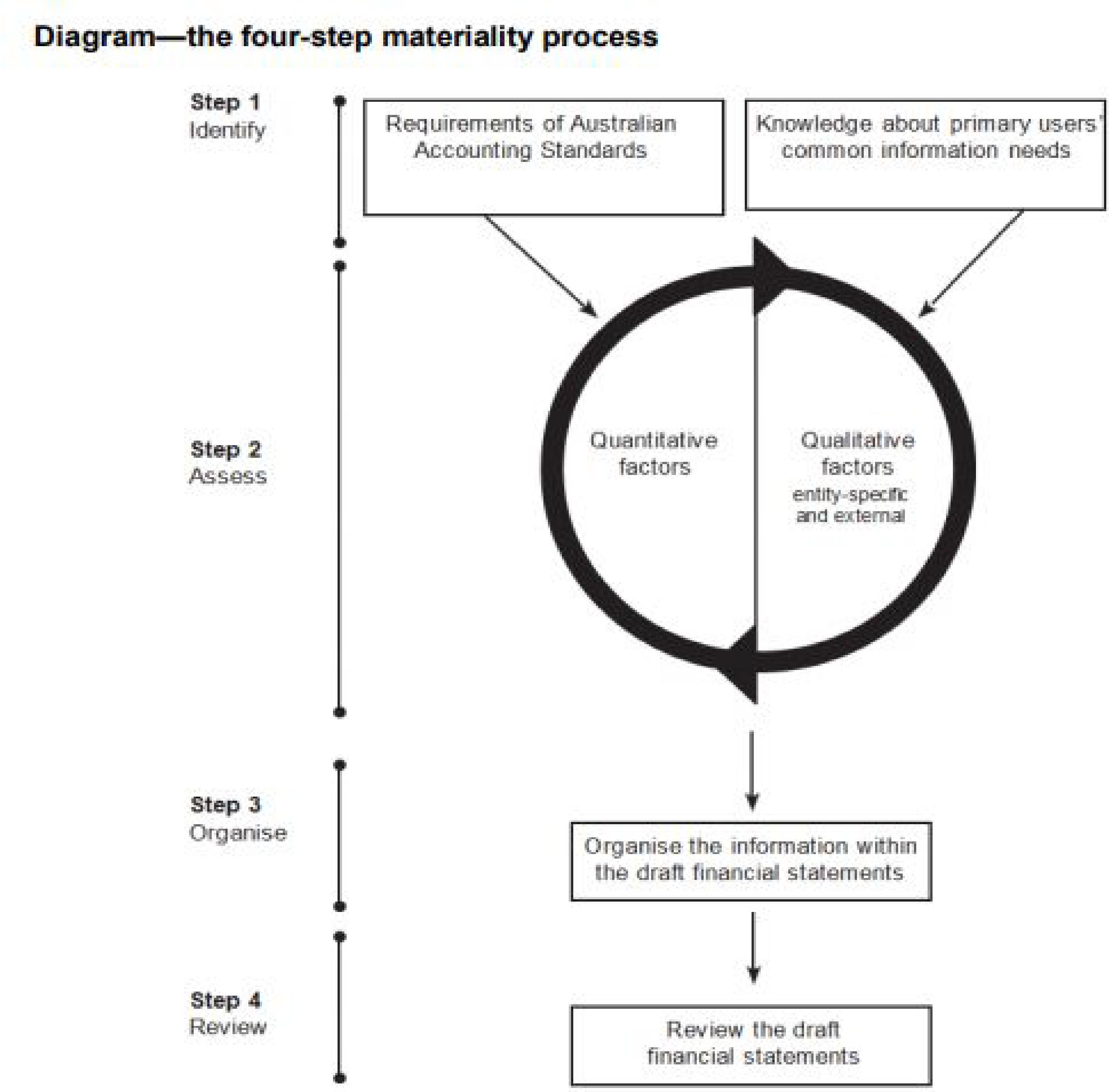
Application of the AASB Practice Statement: Making Materiality Judgements

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 <u>all</u> 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



<u>Materiality in the Context of Financial Reporting</u>

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 <u>only</u> 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 <u>also</u> 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.

<u>Qualitative Aspects (Nature)</u>

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. <u>The presence of a qualitative factor lowers the thresholds for the quantitative assessment of the particular materiality judgement being made</u>. 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 disproportionally 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 <u>qualitatively material</u> 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.*

- <u>Other thresholds/benchmark judgements</u> *(*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*

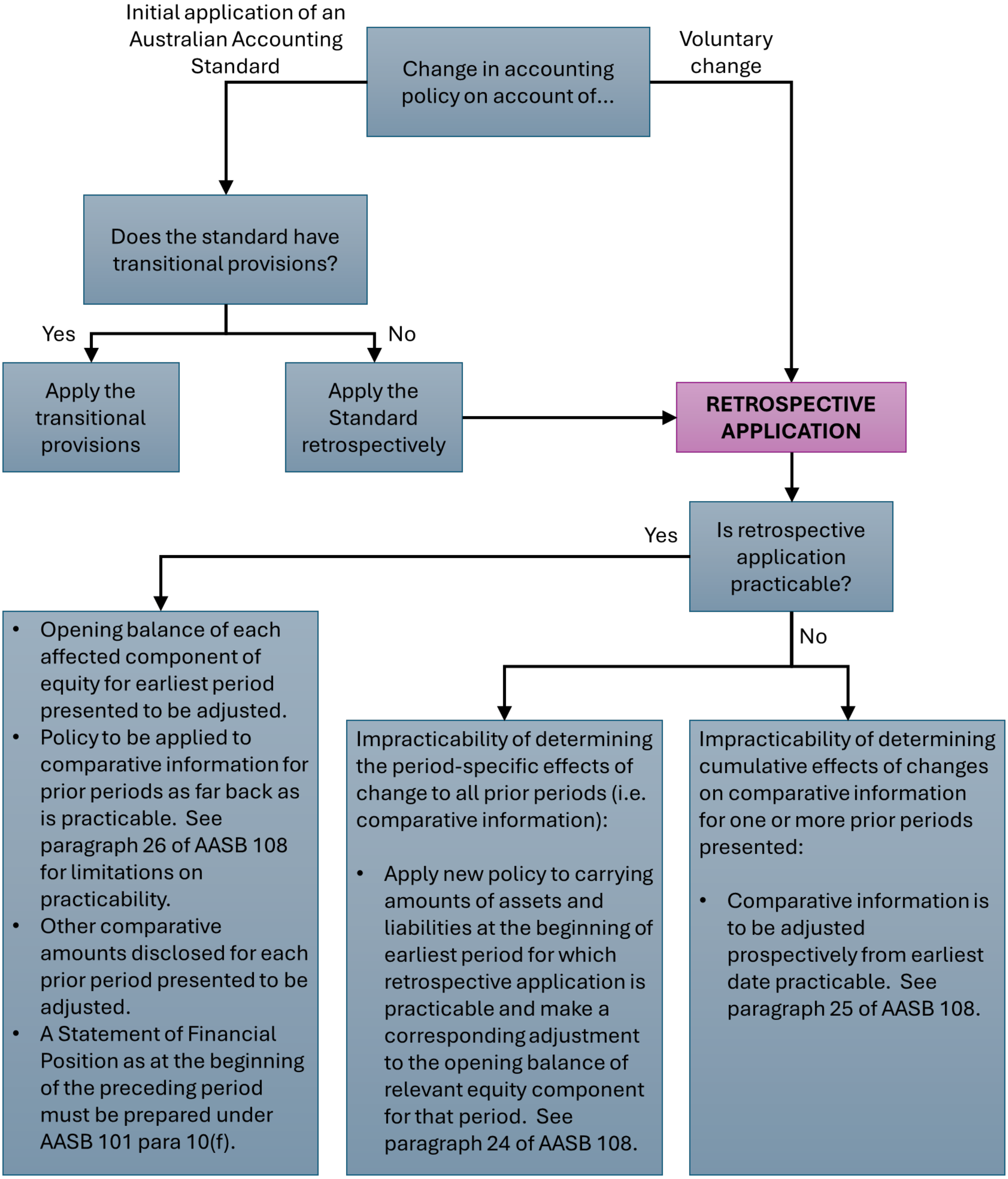
APPLICATION GUIDANCE

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 <u>each page</u> of the financial statements, <u>including the notes</u>.**

- **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 "*controlled receipt*" 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 <u>the day after</u> 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 departmentis 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 applies – refer to paragraphs 31 – 33 of AASB 10.

Materiality of Controlled Entities – FRR 2B

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

Consistent Accounting Polices 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 <u>not</u> 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

<u>Interests in Associates</u>

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.

<u>Interests in Joint Arrangements – Distinguishing Between Joint Operations and Joint Ventures</u>

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 <u>two types of joint arrangements under AASB 11</u>, according to the rights and obligations of the parties, <u>being 'joint operations' and 'joint ventures'</u>. 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 <u>only to the extent</u> 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 <u>only after</u> 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
(to record initial investment)		
DR Investment in associate	60	
CR Profit from associate - revenue		60
(to record share of profits in associate)		
DR Cash at bank	20	
CR Investment in associate		20
(to record dividend from associate & reduction in carrying amount of investment)		

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

treasury.qld.gov.au