

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 Parts 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 Parts 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 Parts 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.

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

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

REFERENCES

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

APPLICATION GUIDANCE

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

Definition of Not-for-Profit Entity

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

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

Assessment of an Agency's Classification

When assessing an agency's classification, management must:

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

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

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

- the legislation (including subordinate legislation) and/or Constitution establishing the agency states that the agency's principal objective is the generation of a profit/surplus; and
- any profit/surplus generated is available to be distributed to 'State' owners.

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

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

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

A conclusion that an agency is for-profit or not-for-profit would include a number of these factors which provide strong evidence that the overall intention or objective of the agency is to make a profit or plan to be profitable in the future. The requirement to conduct an agency's activities with the objective of having 'a commercial focus' or 'be financially viable'

so that its operations are efficiently conducted is not, in itself, sufficient to classify an agency as for-profit, particularly if there is no requirement or intention to generate a profit¹.

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.

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.

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/financial-statement-guidelines>).

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

REFERENCES

- AASB 1052 *Disaggregated Disclosures*

POLICY

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

APPLICATION GUIDANCE

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

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

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