INTRODUCTION

The purpose of this FRR is to outline policies and guidance for accounting for machinery-of-Government (moG) changes. 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.

MoG changes occur through Public Service Departmental Arrangements Notices (DANs) approved by the Governor in Council. These Notices detail the changes made and the effective dates of commencement of those arrangements, and are published in the Queensland Government Gazette.

Further guidance on accounting for contributions by/distributions to owners arising from moG changes is contained in FRR 4F Equity, Contributions by Owners and Distributions to Owners.

Policy items, indicated by shaded bold print, form the Minimum Reporting Requirements (MRRs) referred to in sections 42(1) and 43(1) of the Financial and Performance Management Standard 2009 (FPMS). These are mandatory for departments. Statutory bodies must also have regard to these requirements and apply them where they are considered relevant in the circumstances; and

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.1 ABOLISHED DEPARTMENTS

REFERENCES

- *Financial Accountability Act* (FA Act) (s.62)
- *Financial and Performance Management Standard 2009* (FPMS) (Part 3 – Division 2, s.53)
- 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 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 (most likely as part of the next month’s transactions, for practical reasons).

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 the Queensland Audit Office (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 (i.e. via journal entry), subject to consultation with QAO.

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.

Where the above applies, 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.44/s.52)
- FRR 2A Basis of Financial Statement Presentation
- FRR 4F Equity, Contributions by Owners and Distributions to Owners

APPLICATION GUIDANCE

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

Financial statements for new departments are to be titled for the period beginning on the first day of the month following redistribution of functions, where that is the applicable date as per s.44 of the FPMS. In this situation, note disclosures should clearly explain where transactions from date of redistribution to the end of that previous month are reported.

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

If the transferring department is abolished, financial statements for the new department are to be prepared from the day after the commencement date (when the transfer is legally taken to have effect). However, transactions from abolition date until the end of the month should not be included if they are included in an abolished department’s final financial statements on the grounds of immateriality (refer to the guidance in FRR 2F.1).
2F.3 CONTINUING DEPARTMENTS

REFERENCES

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

POLICY

- If a material prior period error is identified in respect of assets or liabilities transferred from another existing Queensland Government agency, and that error arose from that transferor's accounting treatment, both agencies must agree on the nature and amount(s) of the retrospective adjustments to be recognised. Retrospective adjustments to equity are to be made against the Contributed Equity account “Non-appropriated Equity”.

- If a material prior period error is identified in respect of assets or liabilities transferred from an abolished Queensland Government agency whose final financial statements have been finalised, and that error arose from the abolished agency’s accounting treatment, the existing agency must consult Treasury’s Fiscal Reporting team regarding likely retrospective adjustments (due to the implications for whole-of-Government reporting).

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

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

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

2F.4 FINANCIAL STATEMENT DISCLOSURES

POLICY

- In conjunction with the applicable requirements of FRR 2A.3 and FRR 2A.4, the notes to the financial statements must outline:
  
  - the nature and extent of the significant change in functions and 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

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 for the new agency. For further advice, please contact Queensland Treasury’s Banking Unit at Govbank@treasury.qld.gov.au.

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*

Agencies must refer to FRR 5C Budgetary Reporting Disclosures when applying AASB 1055 in the context of machinery-of-Government changes or creation/abolition of a statutory body.

**Asset Values**

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.

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 4D Liabilities discusses adjusting and non-adjusting events in the context of liabilities, and describes the disclosures required for each. Further guidance can be found in AASB 110 *Events after the Reporting Period*. 
2F.6 ADDITIONAL REFERENCE MATERIAL

The following reference material is available to assist agencies managing moG changes:


QAO checklist for organisational change (https://www.qao.qld.gov.au/better_practice)