

Monday, 12 December 2022

Ms Samantha Giles  
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**By email:** [Samantha.Giles@epw.qld.gov.au](mailto:Samantha.Giles@epw.qld.gov.au)

Dear Ms Giles

### **Minimum Financial Requirements (MFR) reporting**

The Institute of Public Accountants (IPA), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 304,000 accountants in Australia. Our membership believes that the MFR reporting regime, outlined in the *Queensland Building and Construction Commission (Minimum Financial Requirements) Regulation 2018* (the MFR Regulation) is imposing excessive and unnecessary regulatory requirements on both the accounting profession and the licensed Queensland building industry.

This needs immediate attention and rectification.

Our concerns arise due to the interaction of the triggers for MFR reporting with the recent reforms implemented by the Australian Accounting Standards Board (AASB). These reforms remove the ability for some for-profit entities to prepare Special Purpose Financial Statements (SPFS) to satisfy legislative financial lodgement requirements. For financial years commencing on or after 1 July 2021, impacted entities must prepare and lodge General Purpose Financial Statements (GPFS) that comply with all Australian Accounting Standards (AAS).

We are aware of, and appreciate, the engagement with the Department of Energy and Public Works (DEPW) and the Queensland Building and Construction Commission (QBCC) during the development of both the MFR legislation and the AASB reforms that sought to ensure the regulatory reporting burden being imposed on its licensees was appropriate. In response, the legislation governing annual reporting only requires Category 4-7 licensees to produce GPFS and allows Category 1-3 licensees, given their size, to lodge internal management accounts.

However, the same proportionate regulatory approach was not observed with the statutory MFR reporting requirements. As a consequence, when the MFR triggers are activated, these regulations require all Category 1-7 licensees to prepare and lodge a GPFS with the QBCC.

Our expectation, and that of our members, was that the circumstances requiring an MFR report would be rare. However, the recent experience of our members is that the current economic conditions, especially those in the building industry, have meant that more entities than originally anticipated must now meet MFR reporting requirements. The result is a burdensome reporting requirement on Category 1-3 licensees who must not only prepare internal management reports to satisfy their annual reporting requirements, but also prepare a GPFS for inclusion in their MFR report when the circumstances for this report are triggered.

The need to prepare a GPFR for MFR reporting is concerning because:

- The preparation of GPFS requires extensive knowledge and experience of applying all AAS, including the application of significant professional judgement in respect of many accounting policy choices and estimates. It also requires the establishment of accounting systems and processes that can capture the financial information presented in GPFS. Since Category 1-3 licensees are normally only required to prepare internal management accounts to fulfil their annual financial reporting obligations, they are unlikely to have invested in sophisticated accounting systems and processes needed for the preparation of GPFS. The same problem is unlikely to arise in the case of Category 4-7 licensees as they should already be able to prepare GPFS due to their annual reporting requirements.
- The preparation of GPFS entails the provision of financial information not only for the most recent financial year, but also the provision of comparatives for the previous financial year, as required by AAS. Therefore, when a MFR reporting obligation is triggered, GPFS will have to be prepared for both the most recent year and the previous year for comparative purposes.
- Feedback for our members indicates that the circumstances that give rise to an obligation to prepare and lodge an MFR Report occur more frequently than may have been originally anticipated. These include circumstances of an administrative nature (e.g., change in director) that do not represent a 'significant change' which is the trigger that warrants the preparation and lodgement of an MFR report that includes GPFS.

For these reasons, we believe the current MFR reporting regime gives rise to unnecessary regulatory burden and exceeds the requirements that the government anticipated when the legislation was drafted.

We acknowledge that internal management accounts may not always be a suitable basis for the MFR reporting requirements. However, there is an alternative solution to requiring GPFS as part of the MFR report. This would involve the preparation and lodgement of SPFS that comply with a selection of prescribed minimum AAS. This approach would be similar to that currently adopted for charities registered with the Australian Charities and Not-for-profits Commission, and public companies limited by guarantee, which prepare and lodge financial reports with the Australian Securities and Investments Commission under the *Corporations Act 2001*.

We offer to work with the QBCC and the Queensland Government to develop a fit for purpose reporting framework that addresses the QBCC's regulatory needs in respect of the MFR regime.

In the longer term, we propose advocating to the AASB the development of a fit for purpose reporting regime for small to medium sized entities (SMEs). The AASB is currently involved in the development of a fit for purpose accounting standard for smaller not-for-profits and we believe a similar approach may be warranted for SMEs in the for-profit sector, including Category 1-3 licensees.

We note that our proposed solution will require legislative change and recommend that the following steps be taken to address this matter:

1. Amend the definition of "signed financial statements" (Schedule 3 of the MFR Regulation) that must accompany an MFR report to permit the use of a prescribed format SPFS for Category 1-3 licensees while retaining the need for a GPFS for Categories 4-7 licensees.
2. When any of the specified circumstances that give rise to the requirement to prepare an MFR report arise, provide the QBCC with the discretion to determine whether an MFR report is required.

We believe these matters should be addressed as a matter of priority and welcome the opportunity to further discuss this issue with you.

Further details providing background to our concerns raised above and the proposed solution is set out in **Attachment A** to this letter.

Yours sincerely

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## Attachment A

### Minimum Financial Reporting requirements

Set out below are further details relating to our recommendations for Minimum Financial Requirement reporting (MFR), which are contained in the [Queensland Building and Construction Commission Act 1991 \(Qld\)](#) (the QBCC Act) and the [Queensland Building and Construction Commission \(Minimum Financial Requirements\) Regulation 2018](#) (the MFR Regulation).

#### Recommendation 1

***Requiring Category 1-3 licensees to prepare Special Purpose Financial Statements (SPFS) in a prescribed format rather than General Purpose Financial Statements (GPFS) when submitting an MFR Report by amending the definition of "signed financial statements" (Schedule 3 of the MFR Regulation) that must accompany that report.***

#### Background

[Schedule 3](#) of the MFR Regulation defines an MFR report as a report about the licensee's financial position that must be signed by a 'qualified accountant' and include 'signed financial statements'. The current definition of 'signed financial statements' specifies that these financial statements must be prepared under the 'prescribed accounting standards' which are defined as those issued by the Australian Accounting Standards Board (AASB) (see **Appendix B – Definitions**).

When the MFR regulation was drafted, the accounting standards framework in the for-profit sector included Statement of Accounting Concept *Definition of the Reporting entity* (SAC 1) which allowed the preparation of SPFS where entities were not reporting entities, i.e., they did not have users dependent on GPFS for their information needs.

In 2020, the AASB completed a major overhaul of its for-profit accounting standards framework and removed the ability of a range of for-profit entities to use SAC 1 to prepare SPFS when satisfying their legislative reporting requirements, if those requirements referred to compliance with accounting standards.

Since the MFR regulations are a 'requirement in legislation to prepare financial statements in accordance with Accounting standards,' the AASB reforms now mean that a Tier 1 or Tier 2 GPFS is mandated by this legislative definition.

Therefore, without further action from the Department of Energy and Public Works/Queensland Government, every time a MFR report is required from 1 July 2022 a Tier 1 or Tier 2 GPFS must be prepared to accompany it. This date is one year later than the date of application of the AASB reforms, which otherwise applied from 1 July 2021, due to the existence of the Queensland Building and Construction Commission (QBCC) transitional provisions regarding their implementation.

In undertaking its reforms, the AASB was cognisant of the fact that the production of GPFS that comply with all AAS is an expensive and complex exercise. This is because a GPFS requires the application of the recognition and measurement requirements of all of the accounting standards and the inclusion of associated levels of disclosure that satisfy the possible information needs of a wide variety of users. GPFS also requires the inclusion of a full set of comparatives for the preceding financial period.

Such reports are designed to best meet the reporting needs of 'economically significant entities' who have a wide group of users in need of information that they cannot command for themselves. For this reason, the Australian Securities and Investments Commission (ASIC), under the *Corporations Act 2001*, only applies the reforms to large proprietary companies with more than \$50 million in assets and \$25 million in revenue. Similarly, the annual reporting requirements of QBCC licensees only applies to Category 4-7 licensees.

While the AASB develops and issues Australian Accounting Standards, the responsibility of ensuring that the reporting framework based on these accounting standards is appropriately targeted to a suitable population of entities rests with the relevant regulator, who must ensure that its reporting thresholds or prescribed requirements are such that the costs of preparing GPFS do not outweigh the benefits.

### Our concerns

We do not believe that a QBCC licensee who falls in the following categories are 'economically significant entities' envisaged by the AASB when it undertook its reforms:

- **Category 1** (Maximum Revenue<sup>1</sup> >\$800,000 and <\$3,000,000)
- **Category 2** (Maximum Revenue >\$3,000,000 and <\$12,000,000)
- **Category 3** (Maximum Revenue >\$12,000,000 and <\$30,000,000).

Requiring these entities to produce GPFS for any reporting purpose is inappropriate and costly. It results in the production of information in a format that exceeds the QBCC's regulatory requirements for such information. This is something the QBCC Act already acknowledges by only requiring Category 4-7 entities to prepare GPFS for annual reporting purposes. Given this approach to annual reporting, requiring Category 1-3 licensees to produce GPFS on an ad-hoc basis in response to an MFR trigger is burdensome. This is because the preparation of a GPFS requires:

- detailed knowledge of the accounting standards and their application, which often involves significant professional judgement;
- supporting accounting systems and processes that are more sophisticated than those used to produce internal management accounts; and
- the production of information for both the current and preceding financial year to comply with the accounting standards.

Examples of the details of the extent of these additional costs are set out in **Appendix C – Transitioning to Tier 2 GPFS**.

However, we acknowledge that Category 1-3 licensees should be subject to more rigorous regulation than the two lowest self-certifying categories, SC1 (<\$200,000 revenue) and SC2 (between \$200,000 and \$800,000 revenue), which are generally exempt from the need to provide a financial report to support their MFR reporting obligations, subject to a QBCC request (as per [Regulation 11G](#) of the MFR Regulation).

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<sup>1</sup> Maximum Revenue is defined in section 11J of the QBCC MFR Regulation.

### Detailed recommendations

We recommend amending the definition of 'signed financial statements' contained in Schedule 3 of the MFR regulation such that:

- For Category 1-3 licensees, the term means "Special Purpose Financial Statements in the prescribed format" and
- For Category 4-7 licensees, the term means "General Purpose Financial Statements prepared in accordance with Australian Accounting Standards".

The "prescribed format" for an SPFS is a set of financial statements that comply with the following Australian Accounting Standards as a minimum:

- **AASB 101** – *Presentation of Financial Statements*
- **AASB 107** – *Statement of Cash Flows*
- **AASB 108** – *Accounting Policies, Changes in Accounting Estimates and Errors*
- **AASB 1048** – *Interpretation of Standards*
- **AASB 1054** – *Australian Additional Disclosures*.

This approach would align with the current approach under the *Corporations Act 2001* for public companies limited by guarantee and for charities registered with the Australian Charities and Not-for-profits Commission (ACNC).

In addition, if there are other accounting standards or specific accounting requirements within the accounting standards that are considered relevant, these can be added to the prescribed minimum requirements.

We would be pleased to provide the QBCC with any assistance it may require to develop a prescribed special purpose report that meets its regulatory needs, without imposing an unreasonable regulatory burden on its regulated population. We believe that using this approach would provide the QBCC with the necessary rigour over the content of lodged financial information for the MFR regime on a more cost-effective basis.

Whilst we appreciate that the preparation of SPFS, as opposed to internal management accounts, may also require some similar transition impacts to those discussed above that relate to the preparation of GPFS, we believe the resourcing needed will be of a lesser magnitude. We also anticipate that many affected entities may already be preparing SPFS for tax compliance or internal management purposes, resulting in minimal additional effort.

#### **Recommendation 2**

***When any of the specified circumstances that give rise to the requirement to prepare an MFR report arise, provide the QBCC with the discretion to determine whether an MFR report is required.***

We believe that the list of events that trigger the requirement for a MFR report should be reviewed. The list of triggers, identified as 'significant change', that could give rise to an MFR report are listed [here](#).

Some of the triggers, such as changing an executive officer ([Regulation 11F](#) of the MFR Regulation), are administrative in nature. There are other mechanisms the QBCC can use to satisfy itself as to how the change has impacted the entity and its finances, including seeking more specific and targeted information from the entity involved, if necessary. We are happy to work with the QBCC to develop reporting that satisfies regulatory needs in this regard.

The production of GPFS is a costly and resource-intensive process. It is generally only meant to be required for annual reporting by regulators for entities that are considered of "economic significance" in the for-profit space. While that report can then be used to satisfy a range of regulatory obligations, requiring GPFS for all the circumstances identified as MFR triggers is both onerous and an unnecessary regulatory burden. It is even more onerous when the entity is not required to produce GPFS annually, and so a licensee is unlikely to have the systems and processes in place to produce such a comprehensive view of its activities (see our comments in the cover letter and Appendix C).

Accordingly, we recommend a review of the MFR reporting triggers for Category 1 to 3 licensees for their appropriateness, bearing in mind the costs and benefits associated with preparing the prescribed MFR report and provide the QBCC with the discretion to determine whether an MFR report is required when a trigger occurs.



## Appendix B – Definitions

### Key Regulatory Requirements

MFR Reporting is governed by the *Queensland Building and Construction Commission (Minimum Financial Requirements) Regulation 2018* (the MFR Regulation).

Schedule 3 of the MFR Regulation provides the definitions for 'MFR Report' and 'signed financial statements':

**MFR report**, for a licensee, means a report about the licensee's financial position that–

- (a) Is in the approved form and signed by a qualified accountant; and
- (b) Complies with part 3, division 4; and
- (c) Includes signed financial statements for the licensee; and
- (d) Relates to–
  - (i) If the report is given to the commission within 4 months after the end of a reporting year–the reporting year; or
  - (ii) Otherwise–the reporting year in which the report is prepared, for the part of the year that has expired no more than 30 days before the report is given to the commission.”

**signed financial statements**, for a licensee, means all of the following–

- (a) Financial statements prepared under the prescribed accounting standards, including–
  - (i) a profit and loss statement; and
  - (ii) a balance sheet; and
  - (iii) an aged debtors and creditors report that includes the date each invoice is due to be paid or received; and
  - (iv) a statement of cash flows;
- (b) notes to the financial statements mentioned in paragraph (a) required under the prescribed accounting standards;
- (c) a declaration signed by the licensee, or an executive officer of the licensee, verifying the information contained in the documents mentioned in paragraphs (a) and (b);
- (d) a description of–
  - (i) the measurement, within the meaning of prescribed accounting standards, on which the financial statements mentioned in paragraph (a) are based; and
  - (ii) the accounting policies or reports relevant to the financial statements;



- (e) for a category 4, 5, 6 or 7 licensee—details of each debtor for the licensee, categorised according to whether the amounts owing became due and payable in the following periods—
- (i) less than 90 days before the day the statements are made;
  - (ii) 90 to 179 days before the day the statements are made;
  - (iii) 180 to 365 days before the day the statements are made;
  - (iv) More than 365 days before the day the statements are made.”

Section 4B defines ‘prescribed accounting standard’

- (1) A **prescribed accounting standard** means any of the following documents published by the Australian Accounting Standards Board—
- (a) Australian Accounting Standards;
  - (b) Statements of Accounting Concepts;
  - (c) Interpretations;
  - (d) Framework for the Preparation and Presentation of Financial Statements.
- (2) Also, if a document mentioned in subsection (1) is amended or replaced, a **prescribed accounting standard** includes the document as in force immediately before it was amended or replaced.
- (3) However, subsection (2) applies in relation to a document only for a period of 12 months starting on the day the amendment or replacement takes effect.

Item 3.5 of the QBCC approved form indicates that signed financial statements that apply AASB 101, AASB 15 (construction revenue/WIP), AASB 16 (leases) and any other relevant Australian Accounting Standard would be acceptable. However, this would now appear to conflict with the definition of signed financial statements in the Regulations.

Section 11C of Part 3 Division 4 requires the information contained in the MFR report to be current and describes that as meaning the information must be less than 4 months old and must be signed by a qualified accountant no more than 30 days before the day the report is given to QBCC.

## Appendix C – Transitioning to Tier 2 GPFS

Please see below the experiences of the members of IPA, CA ANZ and CPA Australia regarding transitioning to Tier 2 GPFS.

### IPA

The change in licensee Categories 1-3 financial reporting requirements for MFR reporting purposes is significant. For some licensees this will exacerbate existing financial pressures on their business. Members have provided the following cost estimates:

- Pass additional journals to bring accounts from tax basis to Tier 2 GPFS Simplified basis:
  - \$2,000 - \$10,000+ per entity depending on complexity.
  - Keeping in mind the journals would need to be done at least quarterly (or more often) so that there is comparative data available in case a MFR might be required in the future.
- Prepare GPFR – compilation engagement:
  - \$1,500 - \$2,500+ per entity.
  - Some MFR may require GPFS for multiple entities.
- Complete and Sign MFR:
  - \$1,500 - \$4,000+.
  - Signing the MFR is more than just filling the form and completing calculations, it requires a level of checking source documentation to support the numbers in the financial report, classifications, etc.

The above estimates also consider difficulties licensees are currently experiencing with some accounting software packages not being able to accommodate the preparation of GPFS and requiring entities to transition to other accounting software packages to meet the more complex requirements introduced by the above changes.

### CA ANZ

Many of our members providing services to licensees in categories 1-3 are finding it difficult, costly and time consuming to produce GPFS from the accounting records of their clients and to then explain and justify to those clients why these costs need to be incurred. The need to include comparatives in this GPFS increases these challenges.

In addition, these costs will need to be incurred each time an MFR report is required, unless the clients are prepared to invest in making permanent changes to their systems, which are unnecessary for their other current annual reporting purposes.

We surveyed our members in 2019, seeking to understand the transition costs of moving from special purpose financial reporting to general purpose financial reporting and the responses indicated that costs in the order of \$500-\$5000 were expected by 40% of respondents and more than \$5000 by a further 55%.

The additional time and skills involved in preparing GPFS is placing increasing pressure on these smaller practitioners who are already dealing with a skills shortage. Some do not regularly provide

GPFS for their clients, meaning that these clients must seek another qualified accountant to provide the MFR, which further increases costs and introduces inefficiencies.

The fluctuating nature of conditions in the building industry currently is causing some clients to move into a higher licence category than would be anticipated by their historic levels of activity. They also expect to remain in those higher licence categories for a longer term.

### CPA Australia

- Many of the licensees at the lower end of the Category 1-3 spectrum do not necessarily appreciate the technicalities of SPFS versus GPFS and our members are finding it challenging to explain the differences to their clients, who fail to see the justification for the additional costs involved in the preparation of GPFS.
- Inflationary pressures are contributing to some of the SC1 and SC2 licensees moving into the Categories 1-3 range. Similarly, the recent floods have resulted in an increase in rectification work in the building industry, which is causing some licensees to fall within Categories 1-3, albeit temporarily.
- Labour shortages in the accounting profession are increasing pressure on those with the necessary skills to prepare GPFS.