



**Guidelines for the Application of
the
Financial Requirements for
Licensing**

**Effective 15 November
2011**

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IMPORTANT

These guidelines have been issued to provide guidance to Appropriately Qualified Persons, Licensees and Applicants in the application of the Financial Requirements for Licensing (FRL) and reflect issues commonly encountered by both Appropriately Qualified Persons and BSA when assessing Applicants and Licensees for compliance with the FRL.

The Queensland Building Services Board Policy constitutes the financial requirements for the *Queensland Building Services Authority Act 1991* (“Act”). All Applicants for a licence and Licensees undertaking building work in Queensland, other than Supervisors, **MUST** comply with the policy.

The policy consists of the following documents, which must be read in conjunction with the Act and *Queensland Building Services Regulation 2003* (“Regulation”):

- *Financial Requirements for Licensing Policy*;
- Deed of Covenant and Assurance;
- Draft Client Engagement Letter; and
- BSA Draft Client Questionnaire.

Background

The FRL was introduced on 1 October 1999 through the *Queensland Building Services Authority Act 1991*.

The aims of the FRL Policy are to:

- Promote more financially viable businesses
- Foster more professional business practices in the building industry

This is achieved through minimising the incidence of financial failure by:

- Requiring Licensees to maintain adequate capital relative to the size of their business
- Requiring Licensees to take an active role in managing their financial affairs and keep appropriate financial records.

Your role as the Appropriately Qualified Person (AQP) is crucial for ensuring the integrity of the system and the protection of subcontractors, suppliers, consumers and other building industry participants. The AQP is an independent party in initially assessing if an Applicant/Licensee meets the FRL.

These Guidelines have been issued to assist AQP’s in applying the requirements of the FRL. BSA’s experience has been that the FRL has been in some cases genuinely misinterpreted, deliberately exploited by those who are seeking to misrepresent the true financial position of a Licensee or AQP’s have been negligent in meeting their professional and ethical obligations completing Independent Review and Audit Reports.

Independent Review Reports

In completing the Independent Review Report process, AQP's are attesting that they have:

- initially conducted an independent review (in accordance with relevant Australian Review and Accounting Standards) of the financial information/statements provided to them by the Licensee; and
- Then applied the requirements of the FRL Policy in extracting the figures to determine if the Applicant/Licensee meets the FRL tests, i.e. Net tangible assets > \$0, adequate capital relative to the size of their business and current ratio of at least 1:1.

Audit Reports

In completing the Audit Report process, AQP's are attesting:

- An audit has been completed and was carried in accordance with Australian Accounting Standards; and
- Then applied requirements of the FRL in extracting the figures to determine if the Applicant/Licensee meets the tests of FRL, i.e. Net tangible assets > \$0, adequate capital relative to the size of their business and current ratio of at least 1:1.

Common Issues with Completing the Reports

These issues are frequently encountered:

- Not correctly checking Net Tangible Assets
- Not correctly checking Net Real Unencumbered Assets
- Ticking the box for Related Entity Loan/Investment when no reasonable check has been carried out.
- Not ticking the box for Related Entity Loan/Investment assets but including them in the calculations
- Excluding Related Entity Loan/Investment liabilities from the calculations
- Inclusion of assets held in trusts in determining Net Tangible Assets
- Inclusion of Borrowing Costs and other Intangible Assets in the calculations
- Understating Actual Annual Turnover, not including other Income derived by Licensee
- Providing the wrong Report type for the level of annual turnover performed or sought
- Back-dating reports
- When preparing Statements of Financial Position (SOFP), not reviewing entire financial position of Covenantor.

General

Proper application of the Australian Review and Accounting Standards and the requirements of the FRL results in less time and resources invested by all parties in clarifying the true financial position of the Applicant/Licensee and most importantly less opportunity for rogue/inept operators to continue trading for longer than they should.

AQP's who either negligently or deliberately fail to properly apply the Australian Review and Accounting Standards and the requirements of the FRL not only fail to meet their own professional and ethical standards but can be directly responsible for other parties losing tens of thousands of dollars and in many cases, hundreds of thousands of dollars because a rogue/inept operator continued to trade for longer than they should or beyond their financial capacity. Many people, particularly sub-contractors and suppliers affected in this way have lost their own businesses (and family homes in some cases) as a result.

In closing, don't let your client pressure you for a result. In these circumstances you need to ask yourself how much is your client worth to you. **If your client's licence is suspended or cancelled this is not your fault. If you sign on the dotted line YOU are responsible for the report and it cannot be withdrawn at a later stage.**

While they do pay your fee for that job, you have your professional and ethical obligations to meet and BSA can and will prosecute you for negligently or deliberately supplying false or misleading information. In the case of the latter, a maximum penalty of two year's imprisonment applies. Following a successful prosecution BSA will also refer you to your member Association for disciplinary action and publicise your prosecution.

Check whether the report is for a BSA Compliance Audit and if so ask for a copy of the BSA Compliance Audit Notice. Reports supplied for a BSA Compliance Audit are heavily scrutinised, in many cases by experienced forensic accountants.

If uncertain on any aspect of the FRL, seek clarification from BSA and make sure you familiarise yourself with the FRL, Guidelines and Reports.

About This Document – PAGE 4

The reference in the 2nd paragraph to “declared net tangible asset position” applies to all Licensees and refers to the Net Tangible Assets stated within the Declaration or Report which is being relied upon to support the total annual turnover of the Licensee.

For Category 1 – 8 Licensees, the type of Report required depends on the Applicant or Licensee’s financial category, which is determined by their Net Tangible Asset position.

An Independent Review Report or an Audit Report must be completed where it is probable that the total annual turnover will be >\$300,000.

Warning – PAGE 4

Contractors who continue to perform building work without a licence or while their licence is suspended are liable to be prosecuted or face disciplinary action and may prejudice their rights to payment for work they have carried out.

S2.1.1– DECLARATIONS

S2.1.1– Declarations – PAGE 11

Those Applicants and Licensees who require an Allowable Annual Turnover (AATO) of NOT more than \$100,000, and do NOT hold a Builder class of licence, may provide declarations in accordance with this section.

Applicants and Licensees trading through trust structures (as Trustee) will not be able to provide self certifying declarations unless it holds sufficient Net Tangible Assets in its own right. Such entities cannot rely upon trust assets to meet this requirement.

S1.6 – DEFINITIONS

Allowable Annual Turnover – PAGE 7

- For Licensees providing a Declaration (SC1 or SC2) the Allowable Annual Turnover is for the next 12 month **renewal** period.
- For those Licensee’s relying upon an FRL Report – the Allowable Annual Turnover applies to the **12 month subsequent reporting period** commencing the day after the year end date of the accounts used in the FRL Report.

For example, a Licensee has a licence renewal due on 31 October 2009, and provides a Report based on 30 June 2009 year end accounts. The Allowable Annual Turnover issued to the Licensee (based on this Report) will be for the 12 months from 1 July 2009 or later.

Actual Annual Turnover

- Actual Annual Turnover is the TOTAL revenue derived by the Licensee, from all sources, for the 12 month period of review on which the Report has been based, and must be stated on the Report.
- For Trust structures, Actual Annual Turnover is calculated as total revenue of the Trustee, PLUS total revenue of the Trust or Trusts it administers.
- Revenue includes dividends, interest received, distributions, grants, subsidies, management fees, rental income and the like. It does not include GST collected on behalf of the Australian Tax Office. The definition of Revenue is the same as that of the Australian Accounting Standards.

Assets – PAGE 7 and 8

- In determining Net Tangible Assets, any **equity deficiency within a trust** the Licensee is responsible for must to be taken into account in determining the Net Tangible Assets of the trustee Licensee.
- Assets **do not** include contingent assets. Contingent assets are defined as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of more uncertain future events not wholly within the control of the entity.

Example: A debt subject to legal action where the matter has not been heard, a judgment not made or no amount yet awarded is a contingent asset. If the legal action has been finalised then collectability needs to be established before the amount can be included as an asset.

- Shares in companies that are not publicly listed companies are not to be included as assets whether they are collectible or not. This **also applies to units** held in unlisted unit trusts. Unlisted shares and units are disallowed assets for BSA purposes.

Current Assets – PAGE 8

Assets are classified as current when:

- (a) it is expected to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) the asset is held primarily for the purpose of trading;
- (c) it is expected to realise the asset within twelve months after the reporting period; or
- (d) the asset is cash or a cash equivalent (as defined in AASB 107) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets shall be classified as non-current.

Disallowed assets (which include unverified/uncollectible Related Entity Loan assets) **shall not be included** in the total for current assets when calculating the current ratio or for any other purpose.

Intangible assets shall not be included as a current asset in any circumstances in the calculation of the current ratio and are not to be included in the calculation of net tangible assets.

Current Liabilities – PAGE 8

A liability is classified as current when:

- (a) liability is expected to settle in its normal operating cycle;
- (b) the liability is held primarily for the purpose of trading;
- (c) the liability is due to be settled within twelve months after the end of the reporting period; or
- (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

All current liabilities must be taken into account in determining the Current Ratio including current Related Entity Loan or Investment liabilities.

Debtors – PAGE 9

Debtors mean only debtors that are collectible. As minimum requirement debtors:

- at 180 days old from invoice date must be 50% written off, or have a provision made
- at 365 days old from invoice date must be totally written off, or have a provision made.

Intangible Assets – PAGE 9

Intangible Assets are identifiable non-monetary assets without physical substance and include, but are not limited to, Goodwill, Intellectual Property, Formation Expenses, Value of Trademark, Patent and Borrowing Expenses.

Inventory – PAGE 9

Inventory, except for construction contract work in progress, shall be valued for balance sheet purposes at the lower of cost or net realisable value as set out in AASB 102 *Inventories*.

Construction contract work in progress shall be valued in accordance with AASB 111, *Construction Contracts*.

Related Entity Loans And Investments– PAGE 10

Related Entity Loans means only those Related Entity Loan **assets** that are verified as collectible from Related Parties. Collectable is defined as the debtor entity having net tangible assets as at balance date sufficient to repay the loan in full, and that the debt is not in dispute.

Where all related entity asset loans are classified as current in the balance sheet then all related entity liability loans are also to be classified as current.

Related Entity Investments means only those Related Entity Investments assets where it can be verified the investment has a value equal to that shown in the Balance Sheet of the Applicant or Licensee.

Where a Related Entity Investment is in the form of shares or units in trusts, then they will be considered to be “Shares” for the purposes of the FRL, and will be excluded from the calculations where they are held in non listed companies or trusts.

Related Entity Investments shall not be valued using equity accounting methodology. BSA may at its discretion accept a valuation of a Related Entity Investment using equity accounting methodology but only where BSA considers the valuation to be reasonable based on a satisfactory explanation of the methodology used by an auditor contained within audited general purpose financial statements.

S2. – APPLYING THE MINIMUM PRESCRIBED REQUIREMENTS

S2.2 Appropriately Qualified Person For Review Report/Audit Report – PAGE 12 and 13

Holders of a current public practising certificate from the Institute of Chartered Accountants in Australia (ICAA), CPA Australia (CPA) and National Institute of Accountants (NIA) are able to also complete Independent Review Report – Audit Exemption (For Turnover Categories 4-8) and Independent Review Report (For Turnover Categories 4-8 – 1st Year only).

S2.4 Net Tangible Assets – PAGE 15

For SC1 and SC2 Applicants or Licensees, a declaration completed by the Applicant or Licensee can be used to satisfy this requirement. The Applicant or Licensee must have the Net Tangible Assets **in their own right**. A Deed of Covenant and Assurance cannot be used to meet NTA requirements for SC1 and SC2 applications/renewals.

For Category 1 to 8 Applicants or Licensees, the AQP is required to give an opinion in the FRL Report that the Applicant or Licensee has sufficient NTA in their own right for the level of turnover being sought or conducted, which is ever the highest.

For Category 1 to 8 Applicants or Licensees who do not have sufficient NTA in their own right for the level of turnover being sought or conducted (which ever is the highest) may provide an FRL Report and rely upon a Deed of Covenant and Assurance from a related entity as stated in this policy, where appropriate for the Applicant or Licensee's structure. The **entire financial position** of the entity providing the assurance must also be reviewed by the same AQP that is preparing the FRL Report.

In determining the NTA position for all Applicants or Licensees, the person completing the Declaration or Report must consider the entity's entire financial position, including related entities.

S2.4.3 Asset Valuations – PAGE 16

Current assets must continue to be valued in accordance with AASB 111 *Construction Contracts* or AASB 102 *Inventories*, *as the case may be*, or otherwise in accordance with Australian Accounting Standards.

S2.4.4 Related Entity Loans and Investments – PAGE 16

To verify that a Related Entity **Loan** or Investment **asset** is collectable the Appropriately Qualified Person, at the very least, must perform a review of the related entity and determine, based on the related entity's Balance Sheet and other financial records, that the related entity has the financial capacity to repay the loan in full as at the Balance Sheet date.

To verify a Related Entity **Investment asset** the Appropriately Qualified Person, at the very least, must perform a review of the related entity and determine, based on the related entity's Balance Sheet and other financial records, that the investment in the related entity has a value of at least what is shown in the Balance Sheet of the entity.

If requested, the AQP shall provide to the Authority the evidence used to verify the collectability of the Related Entity Loan or the value of the Related Entity Investment.

S2.4.5 Assurance of Assets By Deed Of Covenant and Assurance – PAGE 16

Table C - Possible Assurers:

Where reference is made to assurers for an "Individual or Company acting as trustee" being "Beneficiaries of the trust administered by Licensee as Trustee", this is limited to only those direct Beneficiaries **which are not subject to or under a legal disability**, and have sufficient assets in their own right to assure to the Applicant or Licensee.

Assets held in trust (by any entity) cannot be assured to the Applicant or Licensee by way of Deed of Covenant and Assurance.

S2.6 Financial Monitoring Requirements – PAGE 19

Internal Management Accounts referred to in this section mean Statement of Financial Performance, Statement of Financial Position (formerly Trading, Profit & Loss and Balance Sheets) and Statement of Cash Flows.

Such financial statements shall be compiled and presented so as to show a true and fair view of the profit (or loss) for the period and of the Licensee's financial position as at the balance date.

The following Australian accounting standards are mandatory for non-reporting entities when preparing internal management accounts for BSA;

- AASB *Framework for the Preparation and Presentation of Financial Statements* (known as the Framework);
- AASB 101 *Presentation of Financial Statements*;
- AASB 102 *Inventories*;
- AASB 107 *Cash Flow Statements*;
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- AASB 110 *Events after the Balance Sheet Date*;
- AASB 111 *Construction Contracts*;
- AASB 136 *Impairment of Assets*;
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- AASB 1048 *Interpretation and Application of Standards*;
- Plus any other standards relevant to the Licensee's business

S3. - FINANCIAL INFORMATION REQUIRED ON LICENCE APPLICATION AND RENEWAL

S3.2 & 4.1 - Applying/Renewing – Allowable Annual Turnover of \$100,000 Per Annum and Under

This option is available to Licensees/Applicants who have no intention of, and are not likely to, turn over more than \$100,000 per annum in the Licence Year from all sources, and have at least \$6,000 in Net Tangible Assets in their own right, and are applying for or renewing a Trade Contractor or Designer class of licence only.

This option is **not** available to those applying for a Builder class of licence.

S3.3 & 4.2 - Applying/Renewing – Allowable Annual Turnover of \$300,000 Per Annum and Under

This option is available to Licensees/Applicants who have no intention of, and are not likely to, turn over more than \$300,000 per annum in the Licence Year from all sources, and have at least \$18,000 in Net Tangible Assets in their own right.

S3.5 & 4.4 – Applying/Renewing – Allowable Annual Turnover of More Than \$12million Per Annum

Reference to “signed Financial Statements” means special purpose or general purpose financial statements complied in accordance with the Australian Accounting Standards and Corporations Act 2001, and must be provided with all Independent Review Reports and Audit Reports.

For those Applicants or Licensees that provide financial statements **that do not contain** a signed and dated Directors Declaration will be considered as having provided Draft accounts, and the information will be considered deficient.

GENERAL INFORMATION

Collectable

Where the term ‘collectable’ is used throughout the FRL Policy its meaning is to be taken as including convertible to cash. For Related Entity Loans it means the debtor entity has net current assets and net tangible assets as at balance date sufficient to repay the loan in full.

Australian Accounting Standards

Where the FRL policy or the Guidelines for the Financial Requirements for Licensing mention Australian Accounting Standards its meaning is to be taken as a reference to the standard currently in force.

Use Of General Purpose Financial Statements

Where a Licensee/Applicant is required under the provisions of the *Corporations Act 2001* to prepare general purpose financial statements, such statements are also to be used in compiling the Independent Review or Audit Report or other financial statements submitted to the Authority as may be required from time to time.

Where however an Independent Review or Audit Report is modified by the inclusion of additional clauses or raises an emphasis of matter then such Independent Review or Audit Report may not be acceptable for licence renewal or audit purposes.

Use Of and Standards To Be Applied To Special Purpose Financial Statements

Licensees which are non reporting entities under the provisions of the *Corporations Act 2001* may use Special Purpose Financial Statements which must include the following Australian Accounting Standards: -

- AASB Framework for the Preparation and Presentation of Financial Statements (known as the Framework);
- AASB 101 *Presentation of Financial Statements*;
- AASB 102 *Inventories*
- AASB 107 *Cash Flow Statements*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 110 *Events after the Balance Sheet Date*
- AASB 111 *Construction Contracts*
- AASB 136 *Impairment of Assets*;
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- AASB 1048 *Interpretation and Application of Standards*
- Any other Australian Accounting Standards which are required to give a true and fair view of an entity's operations for the accounting period and of its financial position as at balance sheet date; and
- Any non-compliance with the above minimum accounting standards should be disclosed and the financial impact of that departure also be disclosed in the notes to the financial report.

Non reporting entities have an obligation to prepare special purpose financial statements as and when required by the Authority. Generally, such financial statements are not requested by the Authority for Applicants and Licensees whose turnover is less than \$12million pa, but must be able to be produced if requested.

Cashflow Statements

BSA will NOT impose the need to prepare/provide Cash Flow Statements for a non-reporting entity in order to apply for or renew a licence, unless specifically requested by BSA.

- The circumstances in which Cash Flow Statements would be requested would be where the entity is subject to a Compliance Audit, or a Licence Condition has been imposed.
- Such circumstances are normally only commenced where BSA believes that Licensee either does not meet FRL, or is not trading within terms. The need to provide or prepare Cash Flow Statements will be specifically advised to the licensee.

Licence Conditions

Failure by a licensee to comply with any condition imposed by BSA may result in the suspension/cancellation of that licence.

BSA may impose a condition under s36.1.(a) of the *Queensland Building Services Authority Act 1991* (the Act) if it believes the licensee may have insufficient financial resources to meet possible liabilities in relation to building work.

BSA may also impose condition/s under s36.1(b) of the Act if some other proper grounds exist.

The following is a list of other common circumstances where a condition may be placed on a licence;

- ***To stop a licensee from taking on new work.*** Used when a licensee has either exceeded their Annual Allowable Turnover with little likely hood to increase it or because their financial viability is in serious question;
- ***To monitor a licensee's financial position on an ongoing basis.*** Used when BSA has concerns about a licensee's financial viability even though they meet, or appear to meet, the FRL;
- ***To require payment of a licensee's debts within normal trading terms.*** Used when BSA has information a licensee has not been paying their debts when due but they have provided financials that purport to meet the FRL;
- ***To monitor a licensee's debtors and creditors on a regular basis.*** Used when BSA has received a number of complaints of non payment and the licensee has provided have provided financials that purport to meet the FRL but there are concerns regarding the accuracy of the listings provided or the reasons why the debts are not being paid;
- ***To require a licensee to only seek credit from subcontractors and suppliers where they have informed those parties of their financial position to enable the parties to make informed decisions about dealing with a licensee at risk of financial failure.*** Used in circumstances where the licensee is known to not meet FRL but is undergoing a formal business turnaround process;
- ***To obtain regular updates regarding a licensee's work in progress and full details of those jobs.*** Used when there are ongoing complaints of slow progress which lead BSA to question a contractor's financial viability;

- ***To require an excluded individual or permanently excluded individual to have no position of influence within a licensed company.*** Used to warn the public in circumstances where BSA believes an excluded or permanently excluded individual is an influential person for a licensed company;
- ***To require a licensee to update their contact details on the licensee register.*** Used in circumstances where a licensee is extremely difficult to contact and using many different addresses; and
- ***Any other circumstance as appropriate.*** Used as deemed appropriate in the circumstances.

AMENDMENT REGISTER		
DATE	SECTION	AMENDMENT
30/11/09 – Version 1.1		First release of document
31/3/10 – Version 1.2	2.4 Net Tangible Assets	Inclusion that only Covenantors for the licensee structure can provide Deeds, and review of Covenantor entity must be conducted by same AQP.
	2.4.5 Assurance of Assets by Deed	Clarification that assured assets must be owned by Covenantor, and assets held in trust cannot be assured.
	3.5 & 4.4 Applying/Renewing – AATO of more than \$12million per annum	New section – confirming what signed financial statements are expected, and when they are to be provided.
	General Information – Use of Special Purpose Financial Statements	Inclusion that non reporting entities have obligation to prepare special purpose financial statements for BSA, but not generally required for Category 1 to 3.
	General Information – Cash Flow Statements	New section – confirming cash flow statements only required on request by BSA
	General Information – Licence Conditions	New section – outlines common circumstances where a financial condition may be placed on a licence.
15/11/11 Version 1.3	Related Entity Loans and Investments	Inclusion that BSA may at its discretion accept a valuation of Related Entity Investments using the Equity method on general purpose financial statements.
	Australian Accounting Standards	New Section – Confirming that references to the Accounting standards are taken to be the standard currently in force.