Cancellation of a further 96 Builder Licences - a timely reminder to ensure year end financials comply with QBCC Minimum Financial Requirements

Continuing cost inflation, supply and weather delays along with labour resourcing pressures have resulted in trading losses for many builders over FY22, eroding working capital and net tangible assets (NTA).

While builders are required to lodge annual accounts later this year, the information is prepared as at **30 June 2022**.

With only 3 weeks remaining in the financial year, builders should immediately test their compliance with the Queensland Building and Construction Commission's (QBCC) Minimum Financial Reporting Requirements (MFR) to ensure there is enough time to rectify any deficiencies before year end.

Key things to look out for

- Net Tangible Assets is not Net Assets, and needs to be calculated applying the QBCC's prescriptive guidelines. Whilst the QBCC's Minimum Financial Requirements (MFR) state that "all relevant current Australian Accounting Standards must be applied to the financial information of the Licensee", the MFR regulations contain additional requirements that are to be applied. Most critical being the exclusion of:
  - Intangible assets
  - Debtors over 180 days
  - Related Party Receivables where the related party does not have a positive NTA (also assessed using the MFR guidelines).

- A decline in Net Tangible Assets (NTA) can generate an obligation to provide an updated MFR report (signed by an independent accountant) regardless of whether the reported NTA is sufficient for the actual turnover likely to be achieved for the year by the business. The notifiable reporting thresholds are:
  - Decline of more than 20 per cent in Net Tangible Assets. (Categories 4 to 7); and
  - Decline of 30 per cent or more in Net Tangible Assets for Categories SC1 to Category 3.

- Additionally, Head Contractors required to maintain Project Trust Accounts should seek clarification about when money in the project trust accounts can be classed as an asset or revenue.

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What are the consequences of inaction?

- Failure to meet the reporting requirements can result in the suspension of a building license and fines of more than $2,600 for individuals and more than $13,000 for companies, or prosecutions for those that do not submit their reports by the due date.
- Earlier this week the QBCC cancelled 96 building licences for failing to lodge mandatory annual financial reports. It follows the suspension of 2600 licences in December 2021, another 400 in January and a further 1000 in March 2022.
- The affected licence categories ranged from annual allowable maximum revenues of $800,000 to $3 million (category one) to more than $240 million (category seven).
- Of the cancelled licences, QBCC advised two were from categories five to seven and one was in category four. The remainder were smaller contractors.

What is required to be lodged?

- Financial information lodged with the QBCC must be prepared under the Australian Accounting Standards including:
  - a profit and loss statement;
  - a balance sheet;
  - a debtors and creditors report;
  - a statement of cashflows;
  - notes to the financial statements containing notes required by the Australian Accounting Standards*;
  - a written declaration verifying the information contained in the documents mentioned above*; and
  - a description of the measurement, within the meaning of the Australian Accounting Standards, on which the financial statements mentioned above, are based and the accounting policies or reports relevant to those financial statements*.
    * *(QBCC Financial Category 4 - 7 only)*
- Alternatively, if you are required to prepare annual reports for ASIC or ASX, a copy of these reports may be lodged to the Commission to satisfy this annual reporting requirements

If your company is affected, ensure that you have, or are in the process of providing your financial information to the QBCC.

Further information is available on the QBCC webpage or contact one of our Industry Specialists:

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