## 1 Summary of significant accounting policies

### (a) Statement of compliance

The department has prepared these financial statements in compliance with section 42 of the *Financial and Performance Management Standard 2009*.

These financial statements are general purpose financial statements and have been prepared on an accrual basis in accordance with Australian Accounting Standards and Interpretations and requirements applicable to not-for-profit entities. Except where stated, the historical cost convention is used.

The financial statements are authorised for issue by the Director-General and Chief Finance Officer at the date of signing of the management certificate.

### (b) The reporting entity

The financial statements include the value of all income, expenses, assets, liabilities and equity of the Department of Transport and Main Roads including RoadTek.

The department's controlled entity, Transmax Pty Ltd, is considered not to be material and is not consolidated in these financial statements. Refer to Note 29.

The objectives of the department are:

- putting the customer at the centre of all we do
- delivering a fit-for-purpose transport network
- partnering with government, industry and the community
- living One TMR – enabling people to do their best.

**Departmental services and principal activities**
The identity and purpose of the services and principal activities undertaken by the Department of Transport and Main Roads during the reporting period are as follows:

***Transport system investment planning and programming***
The objective of this service area is to develop policy frameworks for the future development of the transport system and to plan and prioritise strategic investment in effective, efficient and sustainable integrated transport infrastructure, systems and services.

***Transport infrastructure management and delivery***
The objective of this service area is to construct, maintain, manage and operate an integrated transport network accessible to all.

***Transport safety, regulation and customer service***
The objective of this service area is to improve customer service and to manage and regulate the transport system safely, economically and sustainably and without imposing unnecessary red tape.

***Passenger transport services***
The objective of this service area is to lead and shape Queensland's overall passenger transport system.

***RoadTek***
RoadTek is a major provider of transport infrastructure solutions primarily through regional and remote areas of Queensland, with civil construction and engineering services, structures management, electrical construction and maintenance, fleet management and related services.

### (c) Machinery-of-Government changes

**Department of Housing and Public Works**
As part of the Government Employee Housing Centralisation Project, assets were transferred from the department to the Department of Housing and Public Works effective from 1 July 2014, to the value of $31.819m.

The decrease in assets has been accounted for as an adjustment to contributed equity as disclosed in the Statement of changes in equity.

**Gold Coast Waterways Authority**
As a result of a Machinery-of-Government change in December 2012, cash of $3.091m was transferred from the department to the Gold Coast Waterways Authority during 2014–15.

**Queensland Rail**
As a result of the Public Service Departmental Arrangements Notice (No.4) 2014*,* the Queensland Rail Fines and Investigations Unit was transferred to the department including seven employees, effective from 24 November 2014.

### (d) Administered transactions and balances

The department administers, but does not control, certain resources on behalf of the government. In doing so, it has responsibility and is accountable for administering related transactions and balances, but does not have the discretion to deploy these resources for the achievement of the department's objectives.

Administered transactions and balances are disclosed in Note 31.

### (e) Trust transactions and balances

The department performs certain agency and trust transactions and acts only in a custodial role for these transactions and balances.

These transactions and balances are not material and are not disclosed in the financial statements.

### (f) Revenue

**Appropriation revenue for services**
Appropriations provided under the *Appropriation Act* are recognised as revenue when received.

**User charges, fees and fines**
User charges, fees and fines are recognised as revenues when the revenue is earned and can be measured reliably with a sufficient degree of certainty.

**Grants and other contributions**
Grants, contributions, donations and gifts that are non-reciprocal in nature are recognised as revenue in the period in which the department obtains control over them. Where grants are received that are reciprocal in nature, revenue is progressively recognised as it is earned, according to the terms of the funding arrangements.

Contributed assets and services are recognised at their fair value.

### (g) Cash

Cash represents all cash on hand, cash at bank and cheques receipted but not banked at 30 June.

The departmental bank accounts are grouped within the whole-of-government banking set-off arrangement with Queensland Treasury Corporation and do not earn interest.

### (h) Receivables

Trade debtors are recognised at the amounts due at the time of sale or service delivery. Settlement on these amounts is generally required within 30 days from invoice date.

The collectability of receivables is assessed periodically with allowance being made for impairment.

All known bad debts were written off as at 30 June. Changes in the allowance for impairment are based on loss events as disclosed in Note 30.

The department recognises an administered receivable for the balance of Penalty Infringement Notices and Traffic Offence Notices outstanding at 30 June. If the ticket is not paid within 56 days, the debt is transferred to Queensland Treasury and is not reported in the financial statements.

### (i) Non-current assets classified as held for sale

Non-current assets held for sale consist of those assets that management has determined are available for immediate sale in their present condition, and for which their sale is highly probable within the next twelve months.

In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, when an asset is classified as held for sale, its value is measured at the lower of the asset's carrying amount and fair value less costs to sell. Such assets are no longer amortised or depreciated upon being classified as held for sale.

### (j) Acquisitions of assets

Actual cost is used for the initial recording of all non-current physical and intangible asset acquisitions. Cost is determined as the value given as consideration plus costs directly attributable to the acquisition, including all other costs incurred in preparing the assets ready for use. However, training costs are expensed as they are incurred.

Where assets are received free of charge from another Queensland Government entity, whether as a result of a Machinery-of-Government or other involuntary transfer, the acquisition cost is recognised as the gross carrying amount in the books of the transferor immediately prior to the transfer together with any accumulated depreciation.

Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset.

### (k) Intangibles

Intangible assets with a cost equal to or greater than $100,000 are recognised in the financial statements. Items with a lesser cost are expensed.

The department's intangible assets, with the exception of easements, are not revalued as there is no active market for any of these assets, which are recognised and carried at cost less accumulated amortisation and accumulated impairment losses.

### (l) Property, plant and equipment

**General**
All items of property, plant and equipment are recognised when the purchase value exceeds the following thresholds:

- Land $1
- Buildings $10,000
- Heritage and cultural $5000
- Plant and equipment $5000
- Infrastructure $10,000

The threshold for assets subject to a finance lease varies dependent on the property, plant and equipment class components contained within the lease.

All other items with a cost less than the above thresholds are expensed.

**Land under roads**

The aggregate value of land under roads is measured and disclosed in Note 16 as land until road declarations for each land portion are confirmed.

Where a road declaration is confirmed, the title is extinguished and ownership reverts to the state represented by the Department of Natural Resources and Mines, in accordance with Queensland Government policy.

**Infrastructure assets**

The department's infrastructure assets consist of the following components:

- Roads – includes surfacing, pavements and formation earthworks
- Structures – includes bridges, tunnels and major culverts
- Other – mainly includes navigation channels, breakwaters, revetments, jetties, pontoons and boat ramps.

**Capital work in progress**

Capital work in progress is held at cost and represents property, plant and equipment assets currently under construction.

### (m) Amortisation of intangibles and depreciation of property, plant and equipment

For each class of asset, other than infrastructure assets, the following depreciation and amortisation rates are used:

| Class | Depreciation/ amortisation method | Depreciation/ amortisation (range in years) |
|---|---|---|
| Intangibles – purchased | Straight-line | 2 - 15 |
| Intangibles – internally generated | Straight-line | 2 - 23 |
| Intangibles – other | Straight-line<br><br>Not depreciated | 12<br><br>Indefinite life |
| Land | Not depreciated | Indefinite life |
| Buildings | Straight-line | 3 - 100 |
| Heritage and cultural | Cultural and preservation policies – not depreciated | Indefinite life |
| Plant and equipment | Straight-line | 1 - 50 |

Property, plant and equipment subject to a finance lease is depreciated on a straight line basis over the expected useful life of the asset.

Assets under construction (work in progress) are not depreciated until they reach service delivery capacity, which is when construction is complete and the asset is ready for use as intended by management.

Where complex assets have significant separately identifiable components with different service lives that are subject to regular replacement, these components are assigned useful lives and are depreciated accordingly.

The following depreciation rates are used for infrastructure sub-components:

| Component | Sub-component | Depreciation method | Depreciation (range in years) |
|---|---|---|---|
| Roads | Surfaces | Straight-line | 2 - 40 |
| | Formation earthworks | Not depreciated | Indefinite life |
| | Formation earthworks | Straight-line | 20.5 - 71.5 |
| | Pavements | Equivalent Standard Axle (ESA) growth rate over time | 6 - 53 |
| Structures | – | Straight-line | 20 - 100 |
| Other | – | Straight-line | 2 - 110 |

The depreciation and amortisation rates applied are based on a number of factors including expected usage, the asset's expected wear and tear, and expected obsolescence. The estimation of useful life is based on the department's past experience and planned replacement program, and is reviewed on an annual basis.

### (n) Revaluation of property, plant and equipment

Plant and equipment assets are measured at cost in accordance with Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector*.

Land, buildings, heritage and cultural and infrastructure assets are measured and reported at their revalued amounts, being the fair value at the date of valuation, less any subsequent accumulated depreciation and accumulated impairment.

The cost of items acquired during the financial year materially represent their fair value at the end of the reporting period.

Heritage and cultural assets and infrastructure assets are independently valued on an annual basis. Land and building assets are assessed by qualified valuers at least once every five years with appropriate indices being applied in the intervening years.

Any revaluation increment arising on the revaluation of an asset is credited to the asset revaluation surplus of the appropriate class, except to the extent it reverses a revaluation decrement for the class previously recognised as an expense. A decrease in the carrying amount on revaluation is charged as an expense, to the extent it exceeds the balance, if any, in the revaluation surplus relating to that class.

On revaluation, accumulated depreciation is restated proportionately with the change in the carrying amount of the asset and any change in the estimate of remaining useful life.

**Infrastructure – roads and structures**
Infrastructure assets are measured at depreciated current replacement cost based on a greenfield construction site for the road network. A greenfield construction for valuation purposes includes removal of existing infrastructure assuming no main road is in the corridor.

For valuation purposes, it is assumed that all road sections and structures in the infrastructure network would be replaced with the modern equivalent, adjusted for changes in utility and production capacity, if the department was required to replace them.

The valuation methodology, which is under review to ensure it continues to align with best practice, is a resource-based assessment using a series of road stereotypes that identify road types, terrain, climate, and soil type. These road stereotypes are then priced by commercial estimating firm Aquenta Consulting Pty Ltd for raw materials, cost of construction processes and other construction inputs using current market rates.

These unit rates, including underlying assumptions and specific details contained in the stereotypes, are ratified annually by an expert panel consisting of a cross-section of engineers and staff from a range of disciplines across the department in conjunction with Aquenta Consulting Pty Ltd.

Note 16 further explains the processes and assumptions related to infrastructure valuation.

### (o) Fair value measurement

All assets and liabilities of the department for which fair value is measured or disclosed in the financial statements, are categorised within the following fair value hierarchy, based on the data and assumptions used in the most recent specific appraisals:

- Level 1 – represents fair value measurements that reflect unadjusted quoted market prices in active markets for identical assets and liabilities
- Level 2 – represents fair value measurements that are substantially derived from inputs (other than quoted prices included within level 1) that are observable, either directly or indirectly
- Level 3 – represents fair value measurements that are substantially derived from unobservable inputs.

In accordance with AASB 13 *Fair Value Measurement* and Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector,* the department's asset classes held at fair value are categorised as follows:

- Land – level 2
- Buildings – level 3
- Heritage and cultural – level 3
- Infrastructure – level 3.

Note 16 further explains the inputs and assumptions used in assessing fair value.

### (p) Leases

A distinction is made in the financial statements between finance leases that effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership, and operating leases, under which the lessor retains substantially all the risks and benefits.

Where a non-current physical asset is acquired by means of a finance lease, the asset is recognised at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Lease payments are allocated between the principal component of the lease liability and the interest expense.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and are expensed in the periods in which they are incurred.

Incentives received on entering into operating leases are recognised as liabilities.

### (q) Payables

Trade creditors are recognised on receipt of the goods or services ordered and are measured at the agreed purchase or contract price, gross of applicable trade and other discounts. Amounts owing are unsecured and are generally settled on 28 day terms, with the exception of payments to bus operators which the department is contractually required to pay by the fifteenth day of the month.

Other payables such as grants and subsidies and property resumptions have varying settlement terms.

### (r) Financial instruments

**Recognition**
Financial assets and financial liabilities are recognised in the Statement of financial position when the department becomes party to the contractual provisions of the financial instrument.

**Classification**
Financial instruments are classified and measured as follows:

- Cash – held at fair value
- Receivables – held at amortised cost
- Shares – held at cost
- Accrued employee benefits – held at amortised cost
- Payables – held at amortised cost
- Borrowings – held at amortised cost.

Borrowings are initially recognised at fair value, plus any transaction costs directly attributable to the borrowings, and then subsequently held at amortised cost using the effective interest rate.

### (s) Employee benefits

**Sick leave**
Prior history indicates that on average, sick leave taken each reporting period is less than the entitlement accrued. This is expected to continue in future periods.

Accordingly, it is unlikely that existing accumulated entitlements will be used by employees and no liability for unused sick leave entitlements is recognised.

As sick leave is non-vesting, an expense is recognised for this leave as it is taken.

**Annual leave and long service leave**
Under the Queensland Government's Annual Leave Central Scheme and Long Service Leave Central Scheme, a levy is made on the department to cover the cost of employees' annual leave and long service leave entitlements. The levies are expensed in the period in which they are payable. Amounts paid to employees for annual leave and long service leave are claimed from the schemes quarterly in arrears.

No provision for annual leave or long service leave is recognised in these financial statements. The liabilities are held on a whole-of-government basis and are reported by Queensland Treasury.

**Resignation benefit**
Employees employed under the *Civil Construction, Operations and Maintenance General Award - State 2003* are entitled to a pro-rata benefit not exceeding eight weeks of their wage on resignation from the department.

**Superannuation**
Employer superannuation contributions are paid to QSuper, the superannuation plan for Queensland Government employees, at rates determined by the Treasurer on the advice of the State Actuary. Contributions are expensed in the period in which they are paid or payable. The department's obligation is limited to its contribution to QSuper.

No liability is recognised for accruing superannuation benefits in these financial statements. The liability is held on a whole-of-government basis and is reported by Queensland Treasury.

### (t) Provisions

Provisions are recorded when the department has a present obligation, either legal or constructive as a result of a past event. They are recognised at the amount expected at reporting date for which the obligation will be settled in a future period. Obligations are reviewed at each reporting date to ensure the amounts accurately reflect the best estimate of the department's obligations.

### (u) Financing and borrowing costs

Finance costs are recognised as an expense in the period in which they are incurred.

No borrowing costs are capitalised into qualifying assets.

### (v) Insurance

The department's road assets are not insured. The risk associated with these assets is therefore borne by government. In certain circumstances, damage to the road network is proportionally covered through the Australian Government's Natural Disaster Relief and Recovery Arrangements.

The department insures its open tender road construction contract activities for both material damage and product liability under the Principal Arranged Insurance Program. As well as providing cover for the department and its employees, it also covers the other parties to open tender construction contracts such as contractors, superintendents and sub-contractors.

Most of the department's other non-current physical assets and risks are insured through the Queensland Government Insurance Fund. Premiums are paid on a risk assessment basis. Under this scheme the department's liability is limited to $10,000 for each claim.

In addition, the department pays premiums to WorkCover Queensland for its obligations for employee compensation.

### (w) Contributed equity

Non-reciprocal transfers of assets and liabilities between wholly-owned Queensland State Public Sector entities as a result of Machinery-of-Government changes are adjusted to contributed equity in accordance with Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Appropriations for equity adjustments are similarly designated.

### (x) Taxation

The department is a State body as defined under the *Income Tax Assessment Act 1936* and is generally exempt from Australian Government taxation with the exception of Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

Effective 1 July 2014 the department, with the exception of the RoadTek commercialised business unit, is no longer subject to payroll tax.

RoadTek, is subject to the requirements of the National Tax Equivalents Regime (NTER). The liability for income tax equivalents under NTER is calculated substantially on the same basis as a corporate tax payer.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the tax asset can be used.

### (y) Accounting estimates and judgements

The preparation of financial statements necessarily requires the determination and use of certain critical accounting estimates, assumptions, and management judgements that have potential to cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period. Such estimates, judgements and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods as relevant.

Estimates and assumptions that have a potential significant effect are outlined in the following financial statement notes:

- Note 1(m) Amortisation of intangibles and depreciation of property, plant and equipment
- Note 1(n) Revaluation of property, plant and equipment
- Note 1(o) Fair value measurement
- Note 16 Property, plant and equipment
- Note 19 Provisions
- Note 28 Contingencies.

### (z) Currency, rounding and comparatives

Amounts included in the financial statements are in Australian dollars and have been rounded to the nearest $1000, or where that amount is $500 or less, to zero, unless disclosure of the full amount is specifically required.

Comparative information is restated where necessary to be consistent with disclosures in the current reporting period.

### (aa) New and revised accounting standards

**Effective for the first time in 2014–15**
At reporting date all new and revised standards and interpretations issued by the Australian Accounting Standards Board that are relevant to the department and effective for the current reporting period have been adopted.

In 2014–15 AASB 1055 *Budgetary Reporting* has been applied for the first time. All other accounting policies are consistent with those applied in the previous financial year.

AASB 1055 specifies budgetary disclosure requirements for the whole-of-government General Government Sector (GGS), and not-for-profit entities within the GGS.

In response to this new standard, the department has included in these financial statements a new note, Budgetary reporting. Refer to Note 33. This note discloses the department's original published budgeted figures for 2014–15 compared to actual results, with explanations of major variances, in respect of the department's Statement of comprehensive income, Statement of financial position and Statement of cash flows. It also includes a comparison between the original published budgeted figures for 2014–15 compared to actual results, and explanations of major variances, in respect of the department’s major classes of administered income, expenses, assets and liabilities.

No other new standards and interpretations are expected to have a material impact on the department’s financial statements.

**New Australian Accounting Standards issued but not yet effective**
Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the department for the financial reporting period 30 June 2015 in accordance with Queensland Treasury mandated policy. The department is continuing its assessment of the impact of these pronouncements on the financial statements.