

Policy and Guidelines Paper

Accounting Policy: Guidance on Administered Items

Preface

The responsibilities of a government entity may encompass activities that do not lead to an increase/decrease of its controlled assets or liabilities, i.e. it is merely administering the activities on behalf of the State Government or another State Government entity.

AASB 1050 *Administered Items* requires the disclosure of activities administered by a reporting entity. However, it does not provide sufficient guidance in identifying administered items. This NSW Treasury Policy and Guidelines Paper (TPP) provides further guidance with examples to assist NSW government entities distinguish between controlled items and administered items.

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Note

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Contents

Preface.....	Error! Bookmark not defined.
Contents.....	Error! Bookmark not defined.
Executive Summary.....	Error! Bookmark not defined.
AASB 1050 Guidance.....	2
Scope of AASB 1050 and its guidance	2
Examples in AASB 1050	2
Key Criteria in identifying Administered Items	2
Treasury Guidance and Examples	3
Treasury Guidance on Assessing Controlled Items and Administered Items	3
Examples of Controlled Items and Administered Items	4
Appendix A Potential indicators of control.....	9
Appendix B Frequently Asked Questions.....	111
Further information and contacts.....	13

Executive Summary (H1)

AASB 1050 *Administered Items* (AASB 1050) was released in 2007. The development of AASB 1050 was limited to relocating the requirements from a previous standard, a limitation acknowledged by the AASB. The lack of guidance and the extent of judgment required in applying AASB 1050 leads to challenges in its consistent application by government entities.

This paper provides practical guidance for NSW government entities on assessing whether transactions/assets/liabilities are administered items within the scope of AASB 1050. The objectives are to:

- comply with requirements in Australian Accounting Standards;
- minimise the judgment required in the assessment, and increase consistency in applying AASB 1050 across the sector;
- minimise unnecessary duplication of financial information between entities; and
- report the same items as administered or controlled appropriately, in the financial statements of individual entities and at the consolidated level.

Administered items are those not controlled, but “administered” by the entity on behalf of the State or other State government entities. NSW Government agencies should treat items as administered only when either of the following criteria is met (often the two limbs are interlinked in practice):

- benefits: the entity does not have the power to use the assets / revenue proceeds, or incur the liabilities/expenses, for its own purpose/for the achievement of its own objectives, without further authorisation; or
- discretion: the entity does not have substantial discretion over any of the following aspects of the transaction:
 - the amounts of the transaction (e.g. the amount to be transferred to eligible beneficiaries)
 - the identity of the transaction counterparty (e.g. beneficiaries)
 - the timing of the transaction (e.g. payment)
 - the conditions under which the transaction is to incur (e.g. payments are to be made)

Please refer to Appendix A for a list of indicators on an entity’s benefits from and discretion over a transaction.

Where agencies identify new administered items, information should be provided to the relevant agency that controls those transactions, so that the agency can record the transactions in its financial statements.

AASB 1050 Guidance

Scope of AASB 1050 and Its Guidance

While AASB 1050 requires disclosure of administered items, it does not provide a definition. Instead, AASB 1050 provides some examples and factors to consider for guidance.

Examples in AASB 1050

Examples of administered items include:

- taxation (AASB 1050.15);
- user charges, fines and fees the entity collects but is unable to use for its own purpose without further authorisation (AASB 1050.11);
- government assets that the entity manages in the capacity of an agent (AASB 1050.11);
- income and expenses related to amounts that the entity is responsible for transferring to eligible beneficiaries, consistent with legislation or other authority, but that the entity does not control (AASB 1050.17); and
- where amounts are transferred to eligible beneficiaries and the identity of the beneficiaries and the amounts to be transferred to them are determined by reference to legislation or other authority (AASB 1050.20).

Examples of controlled items include:

- trusts that the entity controls and from whose activities the entity obtains benefits (AASB 1050.10); and
- appropriations to enable government entities to perform their services (AASB 1050.16).

These examples of administered items, except for taxation, are not definitive. Judgment is required when determining which items are administered when using these examples in AASB 1050.

Key Criteria in Identifying Administered Items

AASB 1050 does not contain key criteria for “controlled” or “administered”, including how these terms link to an entity’s potential role as merely an “agent” responsible for administering (AASB 1050.11, AASB 1050.20). Instead, AASB 1050 provides some guidance around the factors to consider when assessing an item as controlled, rather than administered, including:

- power to use the proceeds for its own purpose/for the achievement of its own objectives without further authorisation (AASB 1050.11, AASB 1050.13, AASB 1050.16); and
- discretion over:
 - the amounts to be transferred to eligible beneficiaries (AASB 1050.20),
 - the identity of the beneficiaries (AASB 1050.20),
 - the timing of payment (AASB 1050.23),
 - the conditions under which the payments are to be made (AASB 1050.23).

AASB 1050.23 acknowledges that in some cases it may not be clear whether the entity controls the item and judgment is required. For example, amounts may be appropriated to a government department for subsequent transfer, but the government department can exercise significant discretion in determining the amount or timing of payment, the identity of beneficiaries and the conditions under which the payments are to be made. In such cases, preparers and auditors use their judgement in deciding whether the government department controls the amounts to be transferred.

Treasury Guidance and Examples

Treasury Guidance on Assessing Controlled Items and Administered Items

Criteria of administered items

The NSW Treasury position is that items are likely to be administered if either of the following criteria is met (although the two limbs are often interlinked in practice):

- benefits: the entity does not have the power to use the assets / revenue proceeds, or incur the liabilities/expenses, for its own purpose/for the achievement of its own objectives without further authorisation; or
- discretion: the entity does not have substantial discretion over any of the following:
 - the amounts of the transaction (e.g. the amount to be transferred to eligible beneficiaries);
 - the identity of the transaction counterparty (e.g. beneficiaries);
 - the timing of the transaction (e.g. payment); or
 - the conditions under which the transaction is to incur (e.g. payments are to be made).

Criteria of controlled items

In other words, items are controlled if both of the following criteria are met:

- the entity has the power to use the proceeds for its own purpose/for the achievement of its own objectives¹ without further authorisation^{2, 3} (assuming the appropriate delegation is in place, if applicable); and
- the entity has substantial⁴ discretion over at least one of the following:
 - the amounts of the transaction (e.g. the amount to be transferred to eligible beneficiaries);
 - the identity of the transaction counterparty (e.g. beneficiaries);
 - the timing of the transaction (e.g. payment); or
 - the conditions under which the transaction is to incur (e.g. payments are to be made).

Notes:

1. *In certain instances, it may not be clear whether an activity is part of an entity's service objectives. This often occurs when an activity is carried out in response to a government exigency. The activities in response to the unexpected urgent needs may not necessarily fit within the ordinary service delivery objective of any government entities. Under such circumstances, the entity the state government holds directly/primarily accountable for the activity is deemed to carry out the activity for the achievement of its own objectives.*

2 *Where an entity's objective is to carry out activities on behalf of the State or another State government entity, whether further authorisation is needed is particularly important in the control versus administered assessment. For example, tax collection agencies' responsibility is to collect tax on behalf of the State. They only have the authority to deploy the funds appropriated, rather than the taxes collected, to enable them to carry out their tax collection services (AASB 1050.16). Therefore, funds appropriated which the agencies can use, at their discretion, for their tax collection activities is their controlled item, while taxes collected is their administered item. This is in line with tax collection agencies' objective/purpose of tax collection itself, as opposed to the State's objective/purpose of raising revenue via taxation (and other means), for government services and community needs (along with other non-revenue related objectives).*

3. *"Further authorisation" refers to authorisation external from the entity. It does not include approvals that need to be obtained from within the entity in line with the entity's internal control process. This is because the internal process/protocol is under the entity's control.*

4. Management judgment is needed when applying the “substantial” threshold. For example, where a responsible entity has some flexibility in respect of the timing of payments, but the flexibility is significantly restricted by the relevant legislation, that has guidelines about the timing of payment, e.g. without undue delay. This would indicate that the entity does not have substantial discretion over the timing of payments. In comparison, if the payment schedule is based on/restricted by an internal policy only, that the entity can change at its discretion, it indicates that the entity has substantial discretion over the timing of payments.

This is consistent with the definition of “control” of an asset in AASB 15.33, i.e. **the ability to direct the use of, and obtain substantially all of the remaining benefits.** This includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. According to para Aus49.1 of the *Framework for the Preparation and Presentation of Financial Statements*, in the context of not-for-profit entities, future economic benefits is synonymous with the notion of service potential, and is used as a reference also to service potential.

Where further guidance is needed

Treasury expects that entities will be able to determine whether an item is controlled or administered under most circumstances by following the above principles. Where the distinction between controlled and administered is still unclear, the observation is that the item is more likely to be controlled than administered. Entities are encouraged to consult Treasury Accounting Policy team if further guidance is required to make the determination.

Examples of Controlled Items and Administered Items

The following examples illustrates the Treasury recommended approach for administered items:

Example 1 – Payments to a Commonwealth agency and the related appropriations

Facts:

- There is a bilateral agreement between NSW and the Commonwealth, for NSW to pay a fixed amount to the National Disability Insurance Agency (NDIA), a Commonwealth (Cwth) agency, that provides disability services to eligible NSW residents. Treasury provides the funding to the NSW department through appropriations, that the department then uses to make the payments to NDIA, in accordance with the bilateral agreement.
- NSW has relinquished responsibility for the related disability services provided by NDIA, on transitioning to the NDIS.
- Eligible beneficiaries and their entitlements are determined under the NDIS Act.

Assessment:

- The NSW department does not have the power to use the appropriations attributable to the contractual payments to NDIA for its own purpose/for the achievement of its own objectives because:
 - The funding is not used for the department’s service objectives (disability services are no longer part of the department’s service objectives since NSW joined the NDIS).
 - The department cannot use the funding for its other activities. The Appropriations Act normally provides a minister with the discretion over use of appropriations within the cluster. However, in this particular case, the external legislation/agreement (i.e. the enforceable agreement between NSW and Cwth and the Cwth NDIS Act) effectively removes that discretion.
- The NSW department has no substantial discretion over any of following because they are all predetermined in the bilateral agreement and the Cwth NDIS Act:
 - the amount of payments to NDIA
 - the identity of the counterparty, i.e. NDIA and ultimate beneficiaries of NDIS
 - the timing of payments to NDIA
 - the conditions under which the NSW department is obliged to make payments

**Example 1 – Payments to a Commonwealth agency and the related appropriations
(continued)**

Conclusion:

- *The appropriations received by the NSW department attributable to the contractual payments to NDIA, and the department's payments to NDIA are administered income and expense of the department.*

Example 2 – Taxation revenue

Facts:

- A state department contains a division that is responsible for collecting state taxes.
- Details on how to administer collection of tax are specified in the relevant tax legislation and regulations, including the identities of taxpayers, taxation basis & rates & thresholds & formula, timing of tax notices and payments, consequences of late payments, etc.
- Taxation collected must be remitted to the state's Consolidated Fund.
- The department is provided a separate appropriation to cover its costs of collecting tax revenue.

Rationale:

- The department does not have the power to use the proceeds from taxation for its own purpose/for the achievement of its own objectives, because the tax revenue must be remitted to the Consolidated Fund. The tax revenue cannot be used to support the department's own activities, including tax collection. The funding to support the departments' activity of taxation collection is separately sought and approved.
- The department has no substantial discretion over any of following, because they are all predetermined in the relevant tax legislation and regulations:
 - the amount of tax to be collected
 - the identity of the taxpayers
 - the timing of tax collection
 - the conditions on tax collection.

Conclusion:

- *The tax income collected by the department is administered income of that department.*

Example 3 – COVID-19 stimulus grants program

Facts:

- A state government announced a grants program to support small businesses as part of its response to COVID-19. A department received the funding from the Consolidated Fund via exigency appropriations to implement the grant program.
- The department has an agreement with Agency B under which Agency B is responsible for assessing the grant applications against the criteria pre-set by cabinet and making payments on its behalf.
- Agency B's objectives do not include responsibility for small business. Rather, Agency's B's main objective is to provide a customer interface for other government agencies, with citizens.
- The eligibility criteria of the applicants and unit grant threshold were approved by cabinet and subsequently announced to the public. There is minimal judgment required when assessing eligibility for and amounts of the grants.
- Agency B's payments of the grants rely on the funds transferred from the department. It does not make payments if it has insufficient funds. If Agency B holds surplus funds at the conclusion of the program, these must be transferred back to the department.

Assessment:

- Agency B does not have the power to use the funds transferred from the department for its own purpose/for the achievement of its own objectives. Agency B's objectives do not include supporting small business, the funds must be spent on the grant payments and any unused funds must be repaid to the department.
- Implementation of the grant program is part of the department's service objectives. The funds are used for the achievement of its objectives.
- Agency B has no substantial discretion over any of following, because they are all predetermined in the publicly announced principles and by the timing of funds transfers from the department:
 - the amount of grant to be paid
 - the identity of the eligible grant recipient
 - the timing of grant payments
 - the conditions on grant payments
- In comparison, the Department has substantial discretion over the timing of grant payments.

Conclusion:

- *The grants payment is a controlled expense item for the department and the corresponding exigency appropriations is a controlled revenue item.*
- *The grants payments made on behalf of the department, and the corresponding funds transfer from it, are administered items of Agency B.*

Example 4 – Hotel quarantine program

Facts:

- The Australian government released COVID-19 hotel quarantine orders that mandated a 14-day hotel quarantine period for anyone returning from overseas. In response, the state treasurer allocated funding from the state's contingency fund to a department for the costs associated with the quarantined passengers arriving in that state from international flights.
- The department has a project agreement with Agency B under which Agency B is responsible for selecting external security service providers and making payments on behalf of the department. Agency B holds agreements with individual service providers.
- A list of qualified service providers was approved by the department and this was included in the project agreement. There are 6 approved service providers in total.
- Agency B's service objective is to support local and state government agencies to deliver critical infrastructure initiatives by providing expert advisory, planning, delivery and support services.
- The department releases funds to Agency B upon approval of the management report from Agency B showing actual spending and forecasts based on expected passengers. Funds transfers are made to Agency B one week prior to the payment due date. Agency B must implement proactive investigative measures to identify inaccurate or fraudulent invoices before making payments on behalf of the department according to the project agreement. All unspent funds will be transferred back to the department.

Rationale:

- Agency B does not have the power to use the funds transferred from the department for its own purpose/for the achievement of its own objectives, because it must be spent on the hotel quarantine costs and any unspent amount must be transferred back to the department. Given Agency B's service objective, i.e., "support local and state government agencies to deliver critical infrastructure initiatives by providing expert advisory, planning, delivery and support services", Agency B's controlled activities are mainly related to provision of advice and program/project support services, as opposed to program/projects themselves. It is therefore unlikely the quarantine program would be a controlled activity of Agency B.
- Arrangements to quarantine incoming international travellers were not planned as a service objective of the department. It is an unusual and non-reoccurring event that does not necessarily fit within any ordinary service delivery objectives across any government agency. In the absence of any government agency with a stated service objective directly related to this hotel quarantine program, it is deemed to be the department's service objective given the funding was directly appropriated to the department without any further elaboration/clarification of its roles and responsibilities (i.e. the department is by default primarily accountable for the program. This is in comparison to Agency B's role, which is clearly defined in the project agreement as "on behalf of the department").
- Agency B has no substantial discretion over any of following:
 - the amount to be paid, which is determined by the level of service demand (dependent on the number of incoming passengers which is beyond the state government's control, and instructions through independent government agencies) and the unit price charged by the service providers (determined by the department to a large extent given its approval of the qualified service providers).
 - the identity of the service providers, because qualified service providers must be approved by the department. Although in theory Agency B is able to select among the approved providers, the discretion is limited given there are only 6 approved providers in total.
 - the timing of payments which is restricted by the timing of funding released by the department.
 - the conditions on payments which is determined by the department.
- In comparison, the department has substantial discretion over the identify of service providers, and the timing and conditions of payments. It also has certain discretion over the amount to be paid.

Example 4 – Hotel quarantine program (continued)

Conclusion:

- *The payments to the security service providers are a controlled expense item for the department and the corresponding fund receipts from the State Contingency Fund is a controlled revenue item.*
- *The payments to service providers made on behalf of the department, and the corresponding funds transfer from the department, are administered items of Agency B.*

Appendix A Potential Indicators of Control

The list below identifies potential indicators for the two limbs of the control criteria, i.e. an entity's entitlement to benefit from a transaction, and the entity's discretion over the transaction. The "X" indicates to which criterion the question relates. Not all indicators in the list need to be met for an item to be "controlled"; meanwhile, there could also be indicators not in the list that make an item "controlled".

<u>Potential indicators</u>	<u>Benefits</u>	<u>Discretion</u>
Activities Overall		
Do the activities directly relate to the entity's operational objectives?	X	
Are the activities undertaken or performed without the entity having any discretion as regards to decision-making? <ul style="list-style-type: none"> - Discretion over the expenditure of the funds such as who is to receive the funds, how much of the funding would they receive. - Can the funds be directed/utilised for other activities? 		X
Do the activities arise at the discretion and direction of the entity, rather than on behalf of the state government or another state government entity?		X
Revenues		
Does the entity control the benefits arising from the transaction and can it utilise the funds to achieve its objectives?	X	
Is further authorisation required to use the proceeds collected by the entity? (e.g. acting on behalf of government in collecting taxes, fines, user charges, etc.)	X	
Is the fee/charge fixed under relevant legislation?		X
Does the authorising legislation/document for collection or raising of the revenue require the revenue to be fully paid to the Consolidated Fund?	X	
Does the entity have discretion about the transaction (discretion can include the ability to set terms and conditions, fee structure, etc.)		X
Expenses		
Does the expense form part of the cost of operating the entity in the pursuit of its objectives?	X	
Does the entity have discretion about whether to incur the expense, and if so, how much it will incur?		X

<u>Potential indicators</u>	<u>Benefits</u>	<u>Discretion</u>
Assets and Liabilities		
Can the entity deny and regulate access to the assets?		X
Does the entity determine how the future economic benefit is to be deployed in achieving the entity's objectives?	X	
Does the entity have discretion to alter the asset / liability without needing to obtain approval from the government or another party?		X
Does the entity have ultimate control over the decisions made in relation to the assets/liabilities?		X
Does the entity keep proceeds from the disposal of the assets / incurrence of liabilities?	X	
Is the liability incurred as a result of the operations of the entity in achieving its objectives?	X	

Appendix B Frequently Asked Questions

1. Is appropriations revenue controlled or administered?

The rebuttable assumption is that revenue appropriated from the authority under the annual *Appropriations Act* is a controlled item of principal departments and the special offices specified in the *Appropriations Act*. This is because each cluster's coordinating minister has the legal authority from the *Appropriation Act* to direct the use of the appropriated funds among cluster agencies (except for the special offices). This authority is delegated to the principal departments to enable them to carry out their overall cluster responsibilities, including the allocation of cluster grants.

This assumption is rebutted where a principal department does not have the power to use the funds for its own purposes, or does not have substantial discretion over any aspects of the transactions the funds are used for. Examples identified include:

- The appropriated funds must be used for payments of which all aspects have been pre-determined by the State government. Please refer to Example 1 in this TPP.
- The appropriated funds must be transferred to a special deposit account that is not controlled by the principal department. Please refer to Q3 below about special deposit accounts.

2. Is cluster grant revenue controlled or administered?

Similar to appropriations revenue, the rebuttable assumption is that cluster grant revenue is controlled by the recipient cluster agencies. This is because cluster agencies can normally derive benefits through the use of the funds to satisfy their public service obligations and have broad discretion as to how they spend those funds.

This assumption is rebutted where a cluster agency does not have the power to use the funds for its own purpose, or does not have substantial discretion over any aspects of the transactions designated for the usage of funds. This could happen where:

- There is a specific agreement/arrangement between the principal department and cluster agency that removes the cluster agency's discretion over the use of the funds.
- There is existing government legislation that restricts the use of the funds in extensive detail, such that the cluster agency has no substantial discretion over the identity of eligible beneficiaries, conditions, timing or amount of payments to the beneficiaries.

3. Are activities in a special deposit account, or a restricted cash account, controlled or administered?

Special deposit accounts are often used for a specified purpose. However, this does not necessarily mean the entity responsible for the activities in such accounts does not control them.

The principles in this TPP apply equally to special deposit accounts. This means the assets are controlled by the entity, if the purpose of the special deposit account is aligned with the achievement of the entity's objectives, and the entity has substantial discretion over use of the funds (assuming the appropriate delegation is in place).

The same applies to other "quarantined" funds (e.g. held in a restricted cash account) for a specified purpose.

For example, a principal department is responsible for the assessment, collection and administration of Special Infrastructure Contributions ('SIC') under the *Environmental Planning and Assessment Act*. The 'SIC' is a levy placed on developers, and the use of these funds is quarantined for a specific purpose, to help fund regional infrastructure within specific geographical locations. The fund and its subsequent use is controlled by the department because:

- The purpose of the fund is aligned with the department's business objective, and
- The department has sufficient discretion about how these monies are directed within the boundary of the legislation, such as determining the infrastructure projects to be funded using the levy collected.
- The department has the responsibility to regulate land release and urban infill development, including managing aligned activities such as the provision of assets by developers alongside development approvals (in lieu of monetary settlement of contribution payable, i.e. "works in kind" settlement) and the negotiation of State planning agreements to ensure state infrastructure is provided by developers in support of 'out-of-sequence' development activities.

4. Are transfer payments controlled or administered?

"Transfer payment" is a concept described as "amounts to be transferred to third parties or recoupment of such amounts previously transferred by the government department" in AASB 1050.18.

Transfer payments are often considered as administered, although they are not necessarily always administered. According to AASB 1050.19, it "depends on whether the government department controls the assets to be transferred". AASB 1050.23 also acknowledges that judgment is needed in determining whether transfer payments are controlled or administered, e.g. when the responsible entity can exercise significant discretion in determining the amount or timing of payment, the identity of beneficiaries and the conditions under which the payments are to be made.

Therefore, the assessment criteria of controlled and administered items in this TPP also apply to transfer payments. An entity can still 'control' a transfer payment, if both of the control criteria in this TPP are met.

5. Which government entity controls the federal funding under National Partnership Agreements (NPA)?

Federal funding is currently distributed through different channels.

- Federal funding collected by Treasury and distributed to agencies via the appropriations process

The relationship with National Partnership Agreements is effectively severed before the funding enters the appropriations process. Principal departments receive appropriations from the Consolidated Fund, into which federal funding was paid under the NPAs, rather than the federal funding itself. The appropriations revenue is then classified into controlled or administered items (please refer to Q1 about appropriations revenue).

- Federal funding collected by the responsible entity directly

This is grant revenue (or other revenue under applicable AASB standards, such as AASB 15) of the recipient entity. The assessment criteria for controlled and administered items in this TPP applies.

Further information and contacts

For further Information or clarification on issues raised in the discussion paper, please contact:

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