

FRR 2E Controlled and Administered Items, Trust Transactions and Agency Arrangements

INTRODUCTION

Policy items, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

Application Guidance, indicated by plain text under the “Application Guidance” sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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2E.1 TRUST TRANSACTIONS AND AGENCY ARRANGEMENTS

REFERENCES

- AASB 15 *Revenue from Contracts with Customers*
- *Framework for the Preparation and Presentation of Financial Statements*

POLICY

- **The notes to the financial statements must show details of any material transactions and balances in relation to trust or agency arrangements, including revenue, expenditure, assets and liabilities, together with applicable audit arrangements.**
- **Where the agency earns fees and/or incurs expenses in the course of rendering services as a trustee or manager of a trust, these must be recognised as controlled transactions.**

APPLICATION GUIDANCE

Transactions/balances that do not meet the criteria of controlled transactions/balances must be properly assessed against the criteria for administered transactions/balances.

Agency and Trust Arrangements – Not Controlled or Administered Activities

In those rare circumstances where a department is acting solely as an agent for another entity (i.e. where the transactions do not meet the criteria for administered or transfer payments, and a department acts as a collection agent for another entity), the transactions/balances do not form part of the agent department. Such transactions/balances should not be recognised as either controlled or administered.

Similarly, trust arrangements are neither controlled nor administered and, as with agent arrangements, the associated transactions and balances are disclosed only in the notes to the financial statements. A trust arrangement is an obligation, recognised at law, where an agency holds funds wholly or partly for the benefit of another party without deriving any benefit or being able to utilise the funds itself for the achievement of its own objectives.

An example may be where a hospital holds patient monies in a Patient Fiduciary Fund. These monies are received and held on behalf of patients with the hospital having no discretion over the monies. As such, they are not part of the hospital's assets recognised in its financial statements and would be disclosed separately in the notes to the financial statements as Trust Monies.

AASB 15 paragraphs B34-B38 set out the criteria for identifying whether an entity is acting as a principal or as an agent in respect of amounts it collects. Illustrative Examples 45 to 48 in IFRS 15 illustrate this distinction.

Principal versus Agent Considerations and 'Pass-through' Grant Transactions

For the avoidance of doubt, the guidance under this heading does not relate to monies appropriated to Departments to provide grant funding to Statutory Bodies under that department's responsibility. Departments apply the requirements of AASB 1050 *Administered Items* (para.17-23) in relation to transfer payments (refer to section titled "Transfer Payments" in FRR 2E.2 below.) and whether such transfer payments are classified as "controlled" or "administered" under that Standard.

Departments should note paragraph AusB34.1 of AASB 15 - *"Notwithstanding paragraphs B34-B38, not-for-profit entities that are government departments shall apply the requirements of AASB 1050 Administered Items to administered items."*

Agencies may, in some circumstances, find themselves interposed as an intermediary between a grant funding provider and the ultimate recipient and receive grant funding to be passed on a third party (who may be internal or external to the Queensland Government). This might arise where an agency is party to a contract, but it has no obligation or control over the transfer of goods or services to the customer – rather, its obligations are limited to solely transfer (or 'pass-through') cash between other relevant parties. These 'pass-through' funding arrangements warrant careful assessment to ensure the accounting treatment matches the substance of the transaction.

Whether the intermediary agency recognises revenue and expenses for the funding received and passed on depends on whether the agency is administering the grant as principal or as an agent. Key considerations in this assessment are the extent of judgement the agency

exercises in selecting the recipients of the funding and determining the amount paid to each recipient.

Where the intermediary agency exercises more than an insignificant amount of judgement in either selecting the recipients of the funding or determining the amount paid to each recipient, the agency will ordinarily be acting as **principal** and should recognise **revenue** (with a corresponding debit to cash or receivables) in accordance with either AASB 15 or AASB 1058, and **expenses** (with a corresponding credit to cash or payables) as incurred.

Where the intermediary agency has no discretion or exercises only an insignificant amount of judgement in selecting the recipients of the funding and determining the amount paid to each recipient, the agency will ordinarily be acting as an **agent** and should recognise a **payable (financial liability)** when the monies are received, and reduce the payable when the monies are paid out (that is, nil revenue and expense is recognised).

Amounts received by the agency to cover its costs for administering the grant should be recognised as revenue in accordance with either AASB 15 or AASB 1058 as appropriate.

Note: The concept of controlled and administered transactions/balances applies to GOVERNMENT DEPARTMENTS ONLY. Statutory bodies should therefore disregard the policy and guidance relating to controlled and administered items and have regard to all remaining policy and guidance contained in this FRR.

2E.2 DISTINCTION BETWEEN CONTROLLED AND ADMINISTERED TRANSACTIONS AND BALANCES (DEPARTMENTS ONLY)

REFERENCES

- AASB 1050 *Administered Items*

POLICY

- **Departmental financial statements must clearly distinguish between those transactions and balances that are “controlled” by the department and those that are “administered” by it on behalf of the State.**

- **Where the distinction between controlled and administered is not clearly apparent:**
 - **revenues that do not meet the definition of a controlled receipt under s.7(2) of the FA Act are administered;**
 - **expenses, other than transfers to the Consolidated Fund, are controlled unless agreement has been obtained from Treasury to recognise them as administered; and**
 - **assets and liabilities are controlled unless Treasury approval has been obtained to recognise them as administered.**
- **Where “administered” transactions or balances are material in the context of the department’s overall financial performance or position, they must be reported as discrete financial statements. Otherwise, they may be disclosed as notes to the “controlled” financial statements (distinguished clearly from controlled items).**
- **However, where a department’s administered transactions or balances are material in the context of the department’s overall financial performance solely due to the quantum of administered transfer payments under AASB 1050, then discrete financial statements need not be presented, providing the administered transactions are disclosed as notes to the “controlled” financial statements and distinguished clearly from controlled items.**
- **Departments must disclose an accounting policy explaining the distinction between controlled and administered items.**

APPLICATION GUIDANCE

The financial operations of departments comprise those either controlled by the department (which directly relate to its operational objectives and arise at the discretion and direction of the department), and those that a department administers for woG purposes (over which the department does not have control but which it is charged with administering efficiently and effectively).

Criteria for Distinguishing Controlled from Administered Activities

All transactions and balances of a department, except those arising from trustee and/or agent functions, must be categorised as either controlled or administered.

In considering whether an item is controlled or administered, the following criteria in Table 1 may be useful. Where responses are mixed i.e. both controlled and administered, the default positions apply as set out in the policy above.

Professional judgement is to be applied in the assessment process. In some situations, the classification of associated items (e.g. assets, revenue, administrative expenses, etc.) may be a useful guide to classifying the transaction/balance in question.

Table 1: Criteria for Distinguishing Controlled from Administered Activities

QUESTION	YES	NO
Activities Overall		
Do the activities directly relate to the department's operational objectives?	Controlled	Administered
Are the activities undertaken or performed without the department having any discretion as regards to decision-making?	Administered	Controlled
Do the activities arise at the discretion and direction of the department?	Controlled	Administered
Do the activities arise on behalf of the Government as a whole?	Administered	Controlled
Revenues		
Does the department control the benefits arising from the transaction and can it utilise the funds to achieve its objectives?	Controlled	Administered
Is further authorisation required to use the proceeds collected by the department? (e.g. acting on behalf of government in collecting taxes, fines, user charges, etc.)	Administered	Controlled
Does the revenue increase the department's assets or decrease the department's liabilities?	Controlled	Administered
Is the fee/charge fixed by the accountable officer of the department under s.13(1)(b) of the FPMS or fixed under other legislation?	Controlled	Administered
Does the authorising legislation/document for collection or raising of the revenue require the revenue to be paid to the Consolidated Fund?	Administered	Controlled

QUESTION	YES	NO
Is the provision of goods/services directly to the payer in return for the payment?	Controlled	Administered
Does the department have discretion about the transaction (discretion can include the ability to set terms and conditions, fee structure, etc.)	Controlled	Administered
<i>Expenses</i>		
Does the expense form part of the cost of operating the department in the pursuit of its objectives?	Controlled	Administered
Does the expense decrease the department's assets or increase the department's liabilities?	Controlled	Administered
Does the department have discretion about whether to incur the expense, and if so, how much it will incur?	Controlled	Administered
<i>Assets/Liabilities</i>		
Can the department deny and regulate access to the assets?	Controlled	Administered
Does the department determine how the future economic benefit is to be deployed in achieving the department's objectives?	Controlled	Administered
Does the department have discretion to alter the asset without needing to obtain approval from the government or another party?	Controlled	Administered
Does the department have ultimate control over the decisions made in relation to the assets/liabilities?	Controlled	Administered
Does the department receive proceeds from the disposal of the assets?	Controlled	Administered
Is the liability incurred as a result of the operations of the department in achieving its objectives?	Controlled	Administered

Administered versus Controlled Revenue

For a transaction to give rise to administered revenue, the department must not be able to utilise the funds to achieve its objectives. Administered revenues arise where the department levies and/or collects revenue on behalf of the woG e.g. most taxes, penalties and fines. In such circumstances the receipt of the revenue does not increase the department's assets or decrease its liabilities.

Also, the payer of the taxes, penalties and fines does not directly receive a good or service from the department in return for the payment. Under s.17(2) of the FA Act, all such administered receipts must be paid into the Consolidated Fund.

In contrast, for a revenue item to be controlled by a department, the agency must control the benefits arising from the transaction. A department can utilise controlled funds for its own purposes and in the achievement of its own objectives. Generally, an indication that a payment received by a department is a controlled fee or charge is when a good or service is provided by the department directly to the payer in return for the payment. Controlled revenues include departmental service appropriation revenue, a fee or charge fixed by the accountable officer of the department under s.13(1)(b) of the FPMS or fixed under other legislation and the other revenues described in s.7(2) of the *Financial Accountability Act 2009* (FA Act).

Taxes, Fines and Penalties

Where a department responsible for levying and collecting taxes, fines and penalties does not control the future economic benefits embodied in these items, the transactions should be classified as administered. However, any expenses directly incurred in collecting the amounts should be regarded as controlled unless an administered item appropriation has been received/or is receivable in respect of those expenses.

Administered versus Controlled Expenses

For a transaction to give rise to a controlled expense, the expense must form part of the cost of operating the agency in the pursuit of its objectives. Controlled expenses include those assets consumed, or liabilities incurred, in the process of providing departmental services for the purpose of performing the functions of the department. Controlled expenses may include:

- wages, salaries and other employee entitlements;
- operating costs;
- depreciation; and
- grants and subsidies when the department has discretionary powers as to recipient, value and conditions attaching to the payment of the grant/subsidy.

Transfer Payments (AASB 1050, paragraphs 17 to 23)

Transfer payments are treated as either administered or controlled revenues and expenses depending on whether the department controls the funds to be transferred. Amounts received and paid are classified as administered transfer payments where:

- legislation or other authority determines the recipient and value of the transfer; and
- the department has no discretion as to the payment to be made or the eligible recipients e.g. certain welfare payments.

Where amounts are appropriated to a department for subsequent transfer and the department can exercise significant discretion in respect of the amount and timing of the payment, the identity of the beneficiaries and the payment conditions, the transfer payment is classified as controlled. Irrespective of the classification, the department should monitor and enforce any relevant eligibility criteria that have been set under policy guidelines or legislation.

In some instances, it may not be clear whether a department controls the amount to be transferred to eligible beneficiaries. In such cases, professional judgement should be applied in consultation with Treasury.

Administered versus Controlled Assets

Most departments do not hold administered assets. For an asset to be considered administered, the department must be unable to use the asset to achieve its own operational objectives. An example would be Crown land administered by a department for broad Government purposes (e.g. land under roads).

Where administered revenue is accrued as a receivable, a corresponding expense and liability should be accrued to recognise that the administered revenue is payable to the woG.

In contrast, for an item to give rise to a controlled asset, the department must be responsible for determining how the future economic benefits embodied in the asset are to be deployed in achieving its objectives and is able to deny or regulate access of others to the benefits of that asset.

Legal title or physical possession does not automatically result in control but departments should not classify assets as administered solely on the basis that they cannot dispose of them freely. Rather, when restrictions do exist in relation to controlled assets, the nature and basis of the restrictions must be disclosed as a note to the department's financial statements.

Controlled assets may include receivables, inventories and like consumables, and non-current physical and intangible assets, but exclude those assets that are held on a woG basis.

Administered versus Controlled Liabilities

Most departments do not have administered liabilities. For a liability to be administered, the liability must not relate to departmental activities but be incurred by the department on behalf of the Government as a whole. In contrast, for an item to give rise to a controlled liability, the department must have incurred the liability as a result of its operations and in the achievement of its objectives. Departmental liabilities may include:

- payables and accruals e.g. employee benefits, dividends;
- provisions e.g. restoration and rehabilitation;
- interest-bearing liabilities e.g. loans;
- repayable advances used to finance the department's operations or to purchase controlled assets; and
- lease liabilities in respect of department's leased assets.

2E.3 ADMINISTERED TRANSACTIONS (DEPARTMENTS ONLY)

REFERENCES

- AASB 1050 *Administered Items*

POLICY

- **Administered transactions must be accounted for using the principles and requirements that apply to controlled transactions of the same nature.**
- **The required line items for disclosure of administered income and expenses are as outlined in the Sunshine Department Illustrative Financial Statements (FRR 6A) at Note F1-1 unless the line items are not applicable to the entity.**
- **A reconciliation of payments from Consolidated Fund to administered revenue must be shown in a note to the financial statements.**
- **Transfers of appropriations and appropriations for unforeseen expenditure must be supported by appropriate Treasurer/Governor in Council approval.**

APPLICATION GUIDANCE**Administered Appropriations**

Administered revenue also includes any administered item appropriations to undertake activities such as 'transfer payments' e.g. grant payments where the department has no discretion in the selection of eligible recipients and/or determining the amount of payment and/or any conditions attaching to the payment.

Administered appropriations are ordinarily classified as revenue in the period in which they are received, unless a legitimate exception occurs under legislation or accounting standards. Exceptions occur where:

- a department is provided with funds to purchase an administered asset and funding is made by way of an administered equity injection; or
- funds were budgeted for and revenues were recognised but not received, that is, an administered revenue receivable balance existed.

Administered Expenses

Administered expenses mainly relate to transfer payments where the department is acting solely on behalf of the woG e.g. distribution of grant payments where the department has no discretion regarding the distribution of those payments. Administered expenses also can arise as a result of the depreciation and maintenance of administered assets.

2E.4 ADMINISTERED BALANCES (DEPARTMENTS ONLY)**REFERENCES**

- AASB 1050 *Administered Items*

POLICY

- **Administered balances must be accounted for using the principles and requirements that apply to controlled balances of the same nature.**
- **The required line items for disclosure of administered assets and liabilities are as outlined in the Sunshine Department Illustrative Financial Statements (FRR 6A) at Note F1-4 unless the line items are not applicable to the entity.**