



AAPP 113 ACT ACCOUNTING POLICY PAPER ON THIRD PARTY MONIES

Chief Minister, Treasury and Economic
Development Directorate

Policy start date: 30 June 2022

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1. INTRODUCTION

1.1 APPLICATION

1.1.1 Purpose

This ACT Accounting Policy addresses the classification and appropriate reporting of 'Third party monies' from an accounting perspective. The policy aims to assist ACT Government agencies in ensuring 'Third party monies' are reported correctly and consistently in their financial statements.

There are no AAS or IFRS standards which deal specifically with 'Third party monies', however the concepts included in the *Framework for the Preparation and Presentation of Financial Statements* (Financial Framework) should be applied. Consideration should also be given to AASB 10 *Consolidated Financial Statements*, AASB 15 *Revenue from Contracts with Customers* and AASB 1050 *Administered Items* when determining if an arrangement should be accounted for as 'Third party monies'.

There is no intention that the ACT Accounting Policies will replicate the Accounting Standards or legislation. Consequently, agencies should ensure that they have a thorough understanding of the content of the standards and legislation before reading and applying relevant ACT Accounting Policies.

This policy is to be read in conjunction with the following:

- > *Financial Management Act 1996 (FMA)*;
- > *Trustee Act 1925 (Trustee Act)*;
- > *Public Trustee and Guardian Act 1985*;
- > *Framework for the Preparation and Presentation of Financial Statements* (Financial Framework);
- > *AASB 10 Consolidated Financial Statements*;
- > *AASB 15 Revenue from Contracts with Customers*;
- > *AASB 1050 Administered Items*;
- > *AASB 101 Presentation of Financial Statements*; and
- > *AASB 107 Statement of Cash Flows*.

1.1.2 Application Date

This ACT Accounting Policy applies to reporting periods beginning on or after 1 July 2021. For agencies whose financial year ends on 30 June this policy is applicable to financial years ending on or after 30 June 2022. For agencies whose financial year ends on 31 December this policy is applicable to financial years ending on or after 31 December 2022.

1.1.3 Agencies Covered by this Policy

This policy applies to ACT Government Agencies, that is Directorates and Territory Authorities.

1.1.4 Contact

If you have any questions regarding this Policy, please contact the Financial Reporting and Framework (FRF) Branch to provide further clarification. Contact details are listed on the website: <https://www.treasury.act.gov.au/accounting>.

1.1.5 Application of Policy

Requirements of this policy are included in **bold** text, with un-bolded text being background information/commentary.

1.1.6 Scope

This policy uses the term ‘Third party monies’ to reflect arrangements which, for accounting purposes, are disclosed separately in the notes to the financial statements.

In legislation and agreements a variety of terms, such as ‘Trust money’, ‘Third party monies’ and ‘Assets held in trust’ may be used to describe arrangements where one party holds money or other items (assets) in ‘trust’ on behalf of another party. All these arrangements, regardless of the term used to describe it, should be assessed using this policy to determine if they should be accounted for as ‘Third party monies’.

This policy does not apply to:

- the Public Trustee and Guardian (PTG) trusts which are legislated by the *Public Trustee and Guardian Act 1985* and included in the Special Purpose Financial Statements; or
- unclaimed monies that have been transferred to the Territory Bank Account or the Public Trustee and Guardian under the relevant legislation.

2. IDENTIFYING ‘THIRD PARTY MONIES’

2.1 OVERVIEW

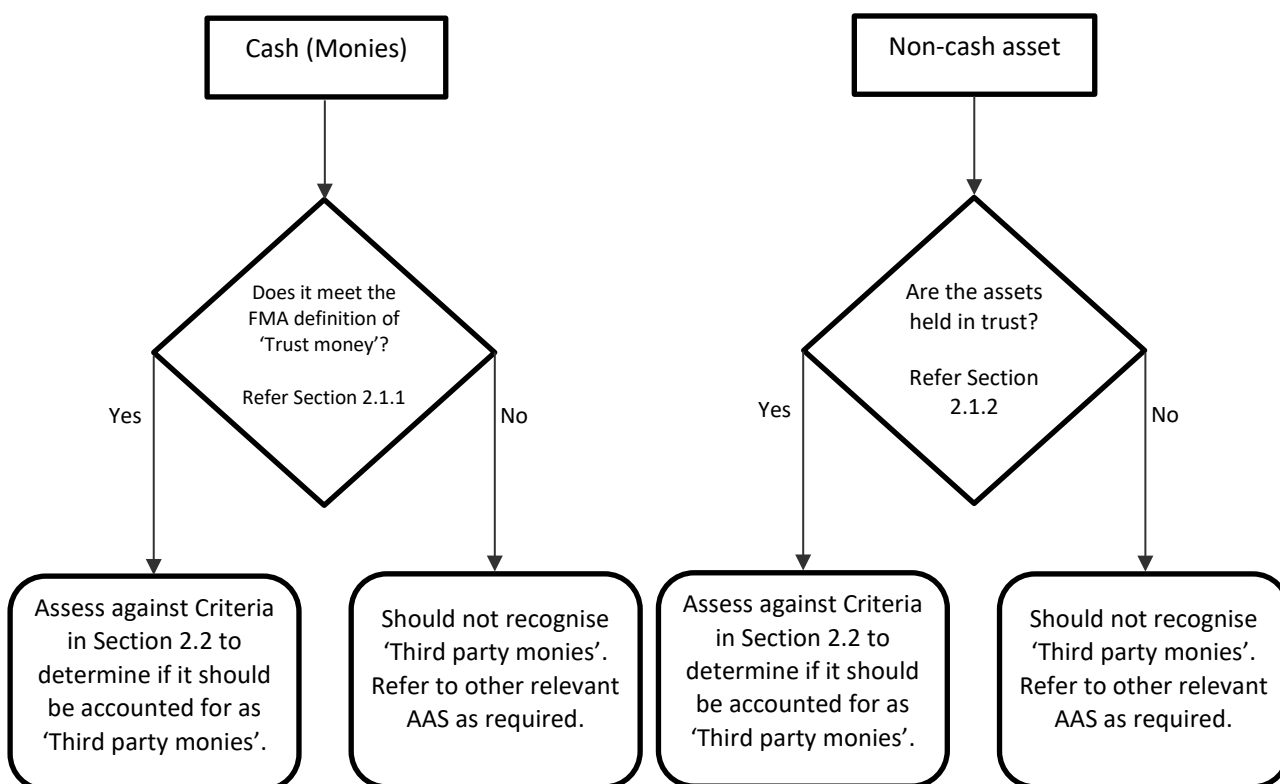
‘Third party monies’ are required to be separately disclosed in the notes to the agency’s financial statements. That is, they are not to be included in the agency’s operating statement, balance sheet, the statement of changes in equity or statement of cash flows (combined referred to as ‘face statements’) as they are not controlled by the agency or the Government and the agency cannot use or benefit from the money/items.

If the agency determines that the monies/items are not ‘Third party monies’ from an accounting perspective but rather are an asset of the agency, or revenue through a principal-agent arrangement, they should be reported on the face statements of the controlled financial statements. Where monies/items are Territorial items then they should be reported on the face statements of the Territorial financial statements.

As illustrated in the flowchart below, this policy requires that cash (monies) which meet the definition of FMA 'Trust money', or non-cash assets which are 'Assets held in trust', be assessed against the criteria listed in Section 2.2 to determine if they should be accounted for as 'Third party monies'.

Note that there can be divergences between legal and accounting requirements and as such cash or non-cash assets may be considered to be 'Trust money' or 'Assets held in trust' from a legal perspective but not be 'Third party monies' from an accounting perspective.

Flowchart 1: Overview of 'Third Party Monies' Policy



2.1.1 Trust Money (as per FMA)

The FMA contains specific clauses relating to trust monies.

Any monies, excluding 'Assets held in trust', reported in the financial statements as 'Third party monies' must meet one of the definition criteria listed below.

The FMA Dictionary defines *trust money* as:

- (a) money deposited with the Territory pending the completion of a transaction or the determination of a dispute and that may become repayable to the depositor or payable to the Territory or anyone else; or
- (b) all money that is paid into a territory court for possible repayment to the payee or a third party because of any Act, order, instruction or authority; or
- (c) money that belongs to or is owing to any person and is collected by the Territory because of an agreement between the Territory and that person; or
- (d) unclaimed money that is owing to or belongs to anyone and is deposited with the Territory; or
- (e) money that is paid to the Territory in trust for any other lawful purpose including interest on trust money.

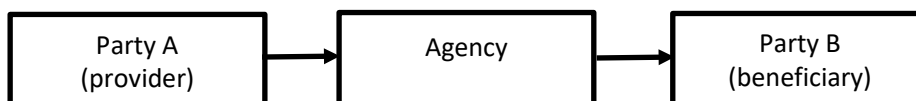
If the transaction does not meet the definition of trust monies under the FMA, it should not be reported as 'Third party monies', with the exception of 'Assets held in trust' which do not fall under the FMA definition of 'Trust money'. However, agencies should note that meeting the definition of 'Trust money' under the FMA does not automatically mean that the arrangement should be reported as 'Third party monies'.

Agencies are required to assess each arrangement against the criteria included in Section 2.2 to determine the appropriate accounting, noting that there can be divergences between legal and accounting requirements.

Examples of the types of arrangements that may fall under the FMA definition of trust money include:

- Arrangements where the agency holds money 'in trust' on behalf of another party. There is usually an agreement, and the money is held for a particular reason or purpose, such as a pending court decision or as a type of security. These may be referred to in agreements as 'trust monies'.
- Arrangements where the monies have been received from one party, the provider, and held (usually by an intermediary) on behalf of another party, the beneficiary. A provider can be an individual, an organisation or another agency that gives the money which are then held as 'Third party monies'. The beneficiary is the end recipient of the money that had been held as 'Third party monies'. An agreement/contract will usually stipulate the agency's terms and conditions in relation to the management and transferring of the funds.

Diagram 1: Other Arrangements with an Intermediary



These arrangements will generally involve three parties, however, there are situations where the provider and the beneficiary are the same person/party or the agency acting as the intermediary may end up as the beneficiary. In these cases, the beneficiary is usually determined by a future outcome/event, such as a court decision or the end of a lease in the case of rental bonds. If the agency has historically been the end beneficiary, it may indicate that the funds are assets and not 'Third party monies'.

- Unclaimed monies which are monies that meet the definition of trust money are held in a directorate trust banking account and are required to be declared unclaimed where:
 - (a) not less than six years has elapsed since the date the money became payable; and
 - (b) during that period, no-one entitled to the money has requested that the money be paid to him or her or according to his or her direction (FMA Part 7.53A).

The following are not considered unclaimed monies held by the ACT Government. They are dealt with by non-ACT Government bodies, such as the Australian Securities and Investment Commission and the Australian Taxation Office:

- Unclaimed superannuation;
- Bank account balances;
- Life insurance policies;
- Company shares; and

- Unclaimed TAB dividends.

The treatment of unclaimed money is dealt with through the *Unclaimed Money Act 1950*, the *Agents Act 2003* and the *Legal Profession Act 2006*. The Public Trustee and Guardian administers unclaimed money in line with the relevant legislation. Unclaimed money held by the PTG in line with the above legislation is not dealt with further in this policy.

Example 1 – Arrangement Meets the Definition of Trust Money under the FMA

Agency A collects an amount from Company B to be paid to either Company B or Company C, pending a court decision.

Analysis:

There is a provider and beneficiary in the example above. It is possible for the provider and beneficiary to be the same party (e.g. Company B) as the agency is holding the funds 'in trust' pending the court decision.

The above arrangement meets Part (a) of the FMA definition of 'Trust money' as it is money deposited with the agency pending the court decision. Therefore, it should be assessed against the criteria in Section 2.2 of this policy to determine if it should be accounted for as 'Third party money' from an accounting perspective.

Example 2 – Arrangement Meets the Definition of Trust Money under the FMA

As per an agreement, Agency A collects an amount from construction company, Company B, as a 'security' type of arrangement. The money will be returned to Company B, if and when, the terms of the agreement are met.

Analysis:

In this situation, Company B is the provider and may also be the beneficiary, if the terms of the agreement are met. Agency A may also be the beneficiary, if the terms of the agreement are not met.

The above arrangement meets Part (a) of the FMA definition of 'Trust money' as it is money deposited with the agency pending the completion of the terms of the agreement. Therefore, it should be assessed against the criteria in Section 2.2 of this policy to determine if it should be accounted for as 'Third party money' from an accounting perspective.

Example 3 – Does Not Meet the Definition of Trust Monies under the FMA Act

Agency A collects money from Company C in relation to a licence that has been applied for but not yet granted due to outstanding paperwork. There is no agreement other than the licence application which does not include terms and conditions relating to the holding of the funds until the completion of the paperwork.

Analysis:

The above example does not meet any component of the definition of 'Trust money' under the FMA. That is, the money is for the payment of a good that is yet to be provided (i.e. the licence), it is not 'deposited' with the Territory pending the completion of the transaction. The money is also not paid to Agency A in 'trust'. Agencies should ensure they do a complete assessment against the definition and document their analysis.

As the above does not meet the definition of 'Trust money' under the FMA it cannot be recognised as 'Third party monies'.

Refer to AASB 15 and Accounting Policies on revenue on the [Accounting in the ACT Government - Treasury](#) website for guidance on how to account for the revenue, including the timing of recognition and treatment if a refund is likely to be paid where the agreement is withdrawn.

2.1.2 Assets Held in Trust

'Assets held in trust' are non-cash assets (such as bank guarantees and property, plant or equipment) that an agency holds 'in trust', for the benefit of beneficiaries. As noted above, the term 'Third party monies' used in this policy is also taken to include non-cash assets held in trust where they meet the criteria discussed in Section 2.2 below. An example of 'Assets held in trust' are the non-cash assets from deceased estates, which are held in trust for the beneficiaries.

For the purposes of this policy, the term 'item' is used to describe 'assets held in trust' to avoid confusion over 'assets held in trust' and 'assets of the agency'.

2.2 CRITERIA TO DETERMINE WHETHER AN AMOUNT SHOULD BE ACCOUNTED FOR AS 'THIRD PARTY MONIES'

Agencies should assess all relevant arrangements to determine if they meet the criteria to be recognised as 'Third party monies'.

Relevant arrangements are those that meet the FMA definition of 'trust money' and non-cash assets which are held in trust. Although money and other non-cash assets are 'assets', for accounting purposes it is necessary to determine whether they are the asset of the agency or an asset of another party that the agency is holding in trust on their behalf. The following criteria should be considered when determining whether an arrangement should be accounted for as 'Third party monies' by the agency:

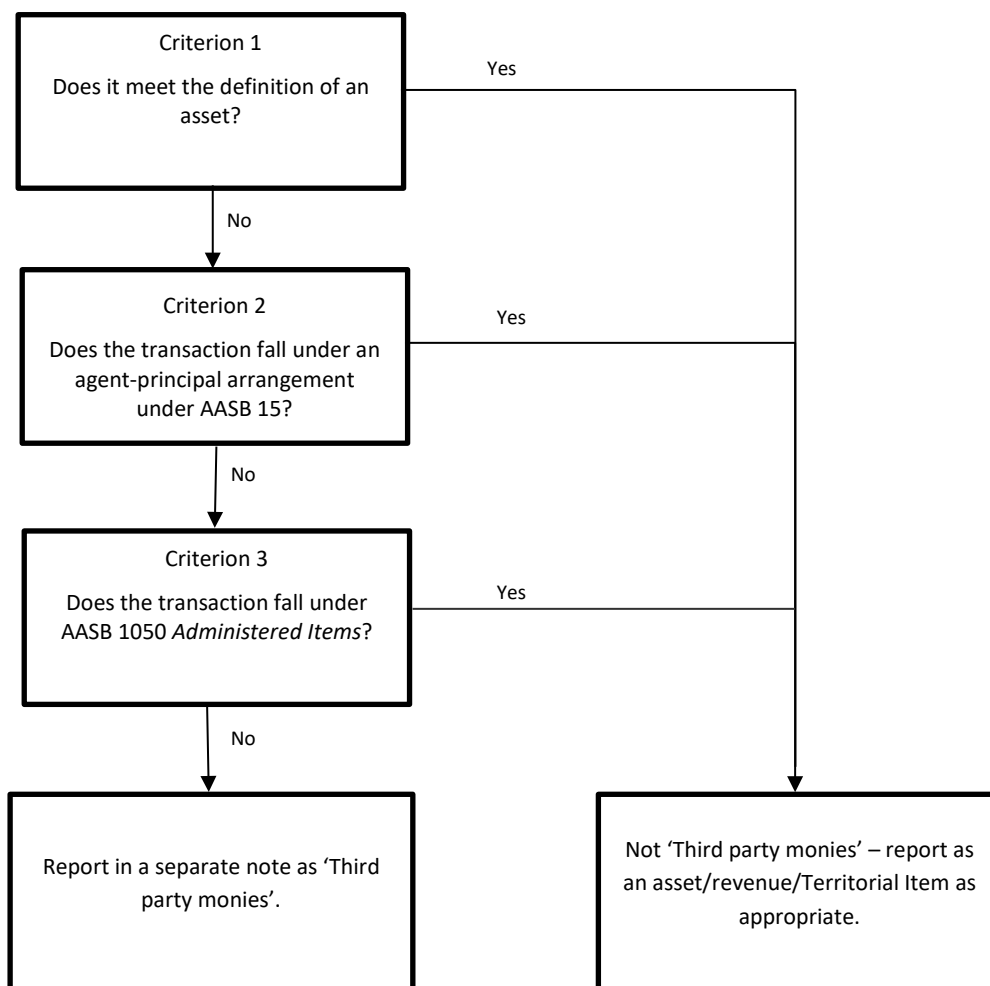
Criterion 1 – Does the money/item meet the definition of an asset of the agency?

Criterion 2 – Does the money/item fall under an agent-principal arrangement under AASB 15 *Revenue from Contracts with Customers*?

Criterion 3 – Is the money/item considered to be a Territorial Item (does it fall under AASB 1050 *Administered Items*)?

The flowchart below can be used to assist in identifying whether the money/item should be treated as ‘Third party monies’.

Flowchart 2: Criteria to Determine Whether an Amount is ‘Third Party Monies’

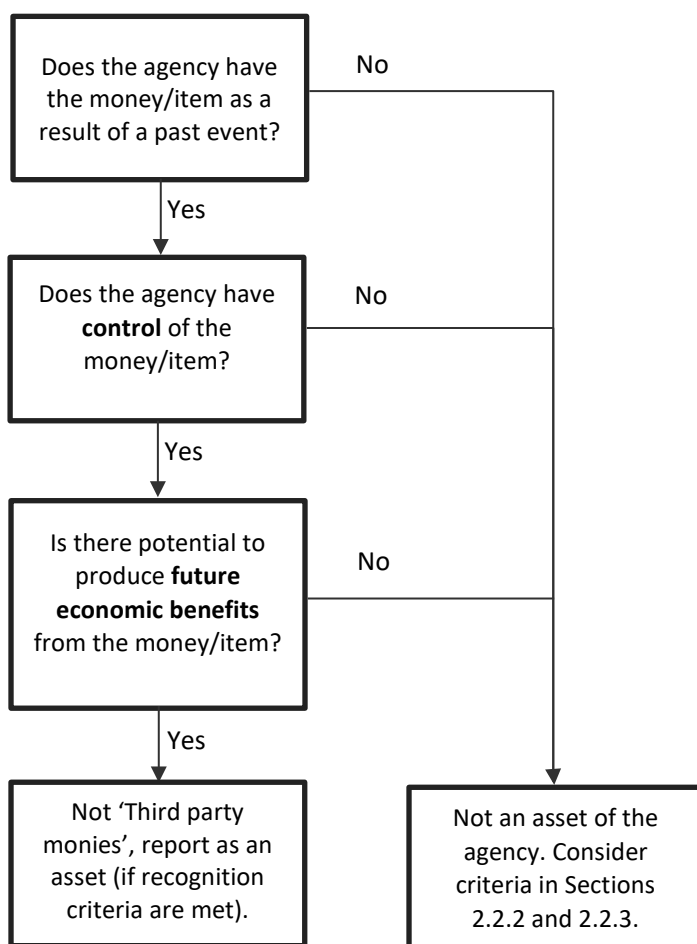


2.2.1 Criterion 1 – Is the Money/Item Considered an Asset of the Agency?

If an agency identifies that the money/item in question satisfies the definition of an asset then it should not be reported as ‘Third party monies’ and the agency should consider if the amount should be reported on the face statements and in the associated notes as an asset and related revenue, where relevant. An asset should only be recognised on the face statements where both the definition and recognition elements are met (*Financial Framework* para 83). Where it is identified that the money/item is an asset of the agency rather than ‘Third party monies’, the revenue transaction, when appropriate and any associated expense or liability should also be recognised on the face statements and in the associated notes.

An asset is a ‘resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity’ (*Financial Framework* para 49). When considering these elements, the underlying substance and economic reality of the transaction, and not merely the legal form, should be assessed (*Financial Framework* para 51). Where the definition of an asset is met, it should be recognised where it is probable that future economic benefits associated with the item will flow to the agency and it can be reliably measured (*Financial Framework* para 83).

Flowchart 3: Criteria to Consider to Determine if the Money/Item is an Asset of the Agency



The following two elements need to be considered to determine whether the money/item is an asset of the agency:

- **Control** – this is a key element in determining whether the money/item is an asset of the agency. If the agency does not have control over the money/item, it will not meet the definition of an asset of the agency and the money should be assessed against the criteria in Sections 2.2.2 and 2.2.3 to determine if it is ‘Third party monies’.

An agency controls money/item if it has the power to obtain the future economic benefits flowing from the underlying resource and can restrict the access of those benefits to others. That is, control may be demonstrated where the agency, and no other party, has the present ability to direct the use of the resource and obtain the benefits that may flow from it. Although the capacity of an agency to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when the agency does not own the item.

- Control is often associated with legal rights of the asset, including the right to ownership, however the control component of the definition may be met without legal ownership (*Financial Framework* para 57). Agencies should consider if there is legislation, a contract or agreement in place and if it stipulates which party has control over the money/item.
- AASB 15 *Revenue from Contracts with Customers* outlines certain elements which may indicate that an agency has control over an asset. In particular, if an agency has control of an asset it can direct the use of, and obtain substantially all of the remaining benefits from the asset (AASB 15 para 33). Control can also be demonstrated by being able to prevent other entities from directing and/using the asset for their own benefit (AASB 15 para 33).
- **Potential to produce future economic benefits** – Future economic benefits can be described as the scarce capacity to provide benefits to the entities that use them. For government, future economic benefits are about an agency meeting its objectives. This includes the provision of goods and services to customers that have the capacity to satisfy human wants and needs. The fact that agencies do not charge their customers for goods and services does not preclude the agency from benefiting from the assets used to provide the goods and services.

The potential to produce future economic benefits is to be able to contribute, either directly or indirectly, to the flow of cash or cash equivalents to the agency (*Financial Framework* para 53) or to provide goods and services in accordance with the agency's objectives. This may be to provide goods and services without receiving net cash inflows (*Financial Framework* Aus 54 para 1).

- As per AASB 15 para 33, potential cash flows can be obtained either directly or indirectly, and include:
 - using the asset to produce goods and services, including public services;
 - using the asset to enhance the value of other assets;
 - using the asset to settle liabilities or reduce expenses;
 - selling or exchanging the asset;
 - pledging the asset to secure a loan; and
 - holding the asset.

The following questions may be useful to consider when determining whether the money/item is an asset of the agency or whether it is 'Third party monies', noting that one specific question alone may not be sufficient to determine that money/item is an asset of the agency:

- Does the agency have the ability to decide how to use the money/item? Where the agency has complete decision making power over the money/item, it could suggest that it is an asset of the agency.
- Can the agency invest the money or use it to settle liabilities as they fall due? Similar to the ability to decide how to use the money as per the question above, where the agency can freely invest or use the money to settle their own liabilities, it may suggest that it is an asset of the agency. Alternatively, if there are specific limitations on the investment of the money, or the agency is unable to invest, it may suggest it is 'Third party monies'. As per the FMA section 53, the Treasurer may invest trust monies as if the Treasurer were a trustee, and therefore the nature and any conditions on investment should be considered as a whole, refer to further guidance at the end of this section.

- Can the agency receive the future economic benefits from the money/item? To meet the definition of an asset of the agency, the agency must be able to receive future economic benefits, as outlined above in this section. Where the agency receives future economic benefits, for example, where the money/item can be used to settle the agency's liabilities, it may suggest that the money/asset is an asset of the agency and not 'Third party monies'.
- Can the agency prevent others from receiving benefits from the money/item? This should be considered in conjunction with whether the agency can receive the benefits itself or determine who receives the benefits. If an agency can receive them, or determine who does, it may suggest control and it may indicate that it is an asset of the agency. In the situation of 'Third party monies', although the intermediary 'holds' the money/item in a way that others cannot benefit, the agency itself also does not generally benefit. Also, the agency does not generally determine the beneficiary, as this would be determined by legislation, an agreement or an external decision maker (such as a court).
- Is there legislation/an agreement which specifies that the monies must be held in a bank account, separate from the agency's transactional bank account? Where this is the case, it may indicate that it is 'Third party monies' and not an asset of the agency.
- Are there any specific agreements/contracts relating to the money/item? What is stipulated in these? Where the agreements or contracts provide for the agency to use and benefit from holding the money/item, it may suggest that this is an asset of the agency.
- Is there any legislation related to this money/item? What is stipulated? Where the legislation provides for the agency to freely use and benefit from holding the money/item, it may suggest that this is an asset of the agency. Alternatively, where legislation limits the agency's ability to control the money/item, it may suggest that the amount should be disclosed as 'Third party monies'.
- Is the agency subject to credit risk in relation to the money? If it is subject to credit risk, it may suggest that it is an asset of the agency rather than 'Third party monies'.
- Is a fee received from the third party in relation to the holding and management of the money/item? This may indicate that the agency is acting as an agent in relation to the money/item and that it is not 'Third party monies'.

The above questions should be considered as a whole, that is, to be considered an asset of the agency, the money/item must meet both the control and future economic benefits test, simply being able to invest/use the money/item will not be enough to recognise the asset on the books of the agency if the agency is unable to receive the benefits.

As per FMA Part 7 Section 53 the Treasurer may invest Trust money as if they were a trustee under the *Trustee Act 1925*. The *Trustee Act* states that a 'trustee' includes:

- a legal representative, the public trustee and guardian and a trustee company; or
- every implied or constructive trustee in relation to payments into court – in relation to stocks and securities, includes the deposits with, or the transfer to, the Supreme Court of the stocks or securities (*Trustee Act* Part 4 Section 94F).

The public trustee and guardian is defined in the *Public Trustee and Guardian Act 1985* and is a public servant who is a public trustee and guardian under Section 5 or the public trustee and guardian in its corporate capacity under section 8. As noted in Section 1.1.6 above, this policy does not apply to PTG.

The *Trustee Act* legislates the powers of investment by the trustee, unless it is expressly forbidden by the trust instrument (*Trustee Act* para 14). As noted above, the ability of the Treasurer to invest trust money under the *Trustee Act* would generally not be enough to be considered an asset of the agency as the agency is unlikely to be able to receive the benefits of the investment or the trust money/item.

Example 4 – Does Not Meet the Definition of an Asset (control)

Agency A collects money from Citizen B (a third party) and holds it until a court decision is handed down which will determine who the money should be paid to, either Citizen B or Citizen C. As per the applicable legislation, Agency A cannot invest the money or use it for its own purposes. The legislation requires that the money is held in trust in a separate bank account.

Analysis:

<i>Consideration</i>	<i>Assessment</i>
Does the arrangement meet the FMA definition of trust monies?	Yes, this meets part (a) of the definition of trust monies as the money is deposited with Agency A pending the determination of a dispute and it may become payable to the depositor or someone else, Citizen C.
Does the agency have the money due to a past event?	Yes, Agency A has the money as a result of the applicable legislation.
Can the agency decide how to use the money?	No, as per the legislation the funds must be held in the separate bank account until a court decision is made.
Can the agency invest the money or use it to settle obligations?	No, the agency is unable to use the funds to settle liabilities and cannot invest.
Are there limitations on the ability to invest the money?	The agency is unable to invest the money as per the legislation.
Do the funds need to be held separately from the agency transactional accounts?	Yes, as per the legislation, the funds must be held in a separate trust bank account to the transactional bank account.
Can the agency prevent others from receiving benefits from the money?	To the extent that it is in the agency trust account, others cannot receive the benefit, However, following the court decision, the agency cannot prevent either Citizen B or Citizen C from receiving the benefits as per the decision.

Example 4 – does not meet the asset (control) criterion (continued)

<i>Consideration</i>	<i>Assessment</i>
Are there specific agreements, contracts or legislation relating to the money?	The legislation specifies that Agency A collects the money pending the court decision and specifies some of the requirements around the holding of the money in trust.
Is a fee received for holding and managing the money?	No.
Does the agency receive future economic benefits from the money, noting that this can be to meet the agency's objectives or providing goods/services.	No, the agency will not be the beneficiary and cannot use the funds.
<i>Assessment</i>	<p><i>This arrangement meets the definition of trust monies under the FMA and therefore has been assessed against the relevant accounting criteria to determine if it should be disclosed as 'Third party monies'.</i></p> <p><i>As per the above considerations, it can be determined that Agency A does not have control of the funds and will not receive future economic benefits. Therefore, the money cannot be considered an asset of Agency A.</i></p> <p><i>The arrangements should now be assessed as per the following sections (Sections 2.2.2 and 2.2.3). If it is determined that the arrangement is not an agent-principal arrangement or Territorial items, it should be recognised as 'Third party monies'.</i></p>

2.2.2 Criterion 2 – Does the Money/Item fall under an Agent-Principal Arrangement under AASB 15 *Revenue from Contracts with Customers*?

Agencies should consider whether the transaction and the monies held would be considered revenue through an agent-principal relationship as per AASB 15 *Revenue from Contracts with Customers*. This will occur when the agent plays a role in arranging for another party (the principal) to provide goods or services (AASB 15 para B34). Indicators that an agency controls the specified good or service before it is transferred to the customer and is therefore the principal, not agent, include (AASB 15 para B37):

- the agency is primarily responsible for fulfilling the promise to provide the specified good or service;
- the agency has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return); or
- the agency has discretion in establishing the price for the specified good or service. Sometimes an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

Refer to AASB 15 *Revenue from Contracts with Customers* and the ACT Accounting Policy Paper on *AASB 15 Revenue and AASB 1058 Income for Not-For-Profit (Including Transition)* for further guidance to determine if a transaction should be accounted for as revenue of an agent.

If it is determined that the agency is acting as an agent in the transaction, revenue equal to the amount of fee or commission to which the agency expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party should be recognised on the face statements (AASB 15 para B36). The remaining money received, which will be paid to the principal should be recognised as an asset and a corresponding payable until settled, the agency should not gross up the revenues and expenses. These amounts should not be reported as 'Third party monies'.

2.2.3 Criterion 3 – Is the Money/Item Considered to be a Territorial Item?

In the context of the ACT Government, the term 'Territorial' is used instead of 'Administered', as covered by AASB 1050 *Administered Items*. This policy will use the term 'Territorial'.

If an agency identifies that the money/item in question does not meet the criteria in Section 2.2.1 and Section 2.2.2, the agency should consider if the money/item meets the definition of Territorial items.

Territorial items are income, expenses, assets and liabilities that a Territory agency administers but does not control. Items are Territorial where decisions relating to their use are primarily made by the Government. Examples may include items such as tax revenue, user charges, fines and transfer payments, which should be reported in line with AASB 1050 *Administered Items* and are not 'Third party monies'. They should be reported in the Territorial statements and not as an asset or as 'Third party monies' in the agency's Controlled financial statements.

‘Third party monies’ and transfer payments¹ may have some similar characteristics, however as noted above, require different reporting. Transfer payments are those that the agency is responsible for transferring to eligible beneficiaries, consistent with legislation or other authority, but that they do not control (AASB 1050 para 17). AASB 1050 para 18 provides examples of transfer payments, including:

- family allowances;
- disaster reliefs; and
- grants/subsidies made to other governments or private sector (AASB 1050 para 18).

Note, the above list is not an exhaustive list but is included to assist agencies in assessing whether the amount in question is ‘Third party monies’ or a Territorial item.

In the case of both ‘Third party monies’ and Territorial items the agency does not have the power to direct the use of funds, that is, the agency does not have control. The following questions can be used to identify the characteristics of the situation to assist in determining if the monies are ‘Third party monies’ or Territorial items:

- Who/where are the monies/items received from and in what manner are they collected? Monies/items received through fines or taxes are more likely to be considered Territorial Items.
- What is the purpose of the monies/items? Why does the agency hold them? Are the monies/items received in order to meet the Government’s or agency’s objectives or are they received for another purpose? If they are received to meet the Government or agency’s objectives they are more likely to be considered Territorial Items.
- Are there restrictions on how the monies/items can be used? Is this covered by an agreement or legislation? Consideration of the agreement or legislation will need to be given to determine the appropriate treatment. Both Territorial items and ‘Third party monies’ may arise from agreements or legislation. Consideration to what is specified in the agreement may assist in identifying which category the money falls under.
- Who is the end recipient (the beneficiary) of the monies in question and how are they identified? Who identifies the beneficiaries and determines the amount to be distributed? Where the agency or the ACT Government determines the recipients in the course of meeting the Government’s objectives, it may suggest it is a Territorial item. If the beneficiaries are determined by a court, an external party, based on particular performance events, such as receiving completion certificate, or time requirements, such as end of lease, it may suggest that it is ‘Third party monies’.
- When does the beneficiary receive the funds/items? Is the distribution dependant on a particular event or decision? Payment of the funds in one transaction (i.e. return/payment of funds to beneficiary) may be more indicative of ‘Third party monies’, however there are cases where Territorial Items are also provided in one payment, such as for disaster relief. Distribution based on meeting certain requirements, such as satisfactory completion of the

¹ ‘Transfer Payments’ in this context are not the same as ‘Transfer Payments to Government’ which are included in the Model Financial Statements.

requirement, or through a decision by a court or similar may suggest ‘Third party monies’. However, other aspects would need to be considered, as some Territorial items may also require the completion of certain requirements.

The final three questions in isolation may not provide evidence as to whether they are Territorial Items or ‘Third party monies’, however understanding the background to the transaction/monies is important and the above information should be able to be used as a whole to assist agencies in determining the appropriate treatment.

Example 5 – Territorial or ‘Third party monies’?

Agency A collects user charges on behalf of the ACT Government and in line with legislation is responsible for holding the funds in trust. Agency A is then responsible for transferring the funds to a range of external beneficiaries to meet the Government’s objectives. The beneficiaries are determined by a specific list of criteria provided by the ACT Government (i.e. not at the discretion of the agency). The agency cannot use the money it collects to meet its own liabilities or receive any financial benefit, they must be used as directed by the Government.

Analysis:

In this case, the legislation specifies that Agency A collects the funds in Trust for the lawful purpose of then providing to specific beneficiaries and therefore meets the FMA definition under element (e).

An asset cannot be recognised as the agency does not have control as to how the money is used nor does it have access to future economic benefits. Furthermore there is no agent-principal arrangement (Note that agencies should perform a complete assessment to support these conclusions, refer to Sections 2.2.1 and 2.2.2.).

The following factors should be considered to make an assessment of whether the money is Territorial or ‘Third party monies’.

<i>Consideration</i>	<i>Assessment</i>
Who/where are the monies/items received from and in what manner are they collected?	The amount is from the collection of user charges, suggesting Territorial.
What is the purpose of the monies/items?	To meet the Government’s objectives and the agency has the responsibility of administering the transfer of the funds. This suggests Territorial.
Are there restrictions on how the monies/items can be used?	The agency is unable to use the funds to settle their own liabilities and can only be used as directed by Government. Although the agency would also not be able to use ‘Third party monies’ to settle their own liabilities as well, the fact that the money is used as directed by Government suggests Territorial.

Example 5 – Territorial or Third Party Monies? (Continued)

<i>Consideration</i>	<i>Assessment</i>
Who is the end recipient (the beneficiary) of the monies in question and how are they identified?	A range of external parties, as identified based on a specific list of criteria provided by the ACT Government. The agency cannot direct the use of the funds, it must be in accordance with the criteria provided. Furthermore, the agency does not receive any financial benefit. This suggests Territorial.
<i>Assessment</i>	Given the considerations noted above, it is has been assessed that the monies are Territorial and not third party monies.

As a result of the above assessment, the money should not be recognised as ‘Third party monies’ but instead reported as a Territorial item. Furthermore, if this amount was to be included in the agency’s Controlled financial statements, users could incorrectly assume that the agency could use these funds (AASB 1050 para 13).

3. ACCOUNTING FOR ‘THIRD PARTY MONIES’

3.1 ACCOUNTING REQUIREMENTS

3.1.1 ‘Third Party Monies’

If the monies meet the definition of trust money as per the FMA definition above and have been assessed under section 2.2 as meeting the definition of third party monies, then the trust money must be accounted for separately (FMA Part 7 para 49) and proper accounting records should be maintained for any inflows or outflows.

Where it is identified that the money/asset is considered to be ‘Third party monies’, it should be disclosed in a separate ‘Third party monies’ note in an agency’s financial statements. It should not be included in the operating statement or balance sheet as doing so may provide an inaccurate picture of resources that the agency has access to.

3.1.2 Assets

Where it is identified that the money/item is an asset of the agency, reference to the applicable accounting standards should be made to ensure the correct treatment.

3.2 DOCUMENTATION

Where material judgements are made in the classification as either 'Third party monies', a controlled asset or a territorial asset, or agent-principal arrangement, the agency should ensure a workpaper has been prepared to support the classification. Considerations made by the agency in accordance with this policy should be clearly presented in this workpaper.

3.3 PRESENTATION AND DISCLOSURE

As per the Model Financial Statements, where cash assets are considered to be 'Third party monies', the following should be disclosed:

- a description of the monies, including the nature/purpose for which the monies are held;
- any material judgements made when classifying money as 'Third party monies' in the Material Accounting Policies section of the 'Third party monies' Note; and
- provide cash disclosure of the trust's activities during the year and financial position at the reporting date.

Where non-cash assets are considered to be 'Third party monies', the following should be disclosed:

- a description of the assets, including the nature/purpose for which the assets are held;
- any material judgements made when classifying assets as 'Third party monies' in the Description and Material Accounting Policies section of the 'Third party monies' Note; and
- include an accrual presentation of the trust's activities during the year and financial position (i.e. assets and liabilities) at the reporting date.

Non-cash asset disclosures are not included in the Model Financial Statements. For further guidance, please contact the Financial Reporting and Framework Branch.

3.3.1 Collection of Money by One ACT Government Agency on behalf of Another ACT Government Agency

Where an agency holds 'Third party monies' for a beneficiary that is another ACT Government agency, where appropriate, the beneficiary agency should report the relevant transactions relating to the monies on its face statements. An exception to this would be where the beneficiary agency recognises a contingent asset. Where the provider is an external party, the transactions in the beneficiary's statements should reflect that the transactions are with the provider, an external party and not with the intermediary, a related entity.

For revenue related transactions, consideration will need to be given to the appropriate reporting by the beneficiary, to determine whether the other side should be reported as a receivable or cash. The specific situation for each arrangement would need to be considered to determine whether a receivable or cash would be appropriate. The following may be useful to consider when determining the appropriate classification:

- Has the provider paid or is payment still outstanding? Would it be appropriate to recognise a receivable? It may not be appropriate to recognise a receivable if the other party has already paid.

- Are systems in place to enable the identification of providers who have paid and those who have invoices outstanding?
- Are the funds held by an intermediary kept in a separate bank account and easily identifiable?
- Is there legislation/contracts which specifies the beneficiary?

Example 6 – Disclosure when Multiple Agencies are Involved

Agency A collects and holds 'Third party monies' from residents and on a set date, approximately 10 days after the end of each month, transfers the monies to Agency B. This money is held in a separate bank account by Agency A as specified by legislation and the residents who have paid can be identified. Agency A provides Agency B with details at the end of each month.

Analysis:

Agency A will report these funds as 'Third party monies' when received and Agency B should record the relevant transactions within their financial statements.

In this specific example, at the end of the month, Agency B knows the amount that Agency A has collected on their behalf, and therefore revenue and an appropriate asset, cash, should be recognised. As the money has been received from the external party (i.e. they would not be recognising a payable), the identity of the provider and the amount can easily be identified it is appropriate to recognise cash.

In considering whether to report the transaction as a related party transaction or from an external source, the provider (residents) and not the intermediary should be considered. In this example, Agency B would recognise the transactions from external sources (residents) and not as related entity transactions with Agency A.

For an illustrative example of 'Third party monies' disclosures, refer to the Model Financial Statements available on the [Accounting in the ACT Government - Treasury](https://www.treasury.act.gov.au/accounting) page at <https://www.treasury.act.gov.au/accounting>.

Cash and non-cash items should be consolidated in agency financial statements where the agency can demonstrate control. Where the money/items fall under another standard, they should be reported as per that standard on the face statements.

4. OTHER CONSIDERATIONS

Where an agency identifies that there has been a prior period error, reference should be made to AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AADP 301 'ACT Accounting Disclosure Paper on Accounting for Changes in Accounting Policy and Accounting Estimates and Correction of Prior Period Errors' on the [Accounting in the ACT Government - Treasury](https://www.treasury.act.gov.au/accounting) page.

The following would be considered a prior period error:

- an amount has previously been reported as 'Third party money' but should have been reported as an asset of the agency; or
- where previously reported assets of the agency should have been classified as 'Third party monies'.

If an agency has previously reported 'Third party monies' but following assessment it is identified that it should be reported on the face statements, agencies should identify the most appropriate line items to recognise them. The line items that should be reported against will differ depending on the circumstances, but could include, for example, on the asset side: 'cash and investments', the relevant line item for non-cash assets or contract assets and a payable on the liability side. Agencies should consider if there are any impacts on the operating statement.

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1.0	8 June 2022	Financial Reporting and Framework Branch	First release
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