Government of **Western Australia**
Department of **Treasury and Finance**

Treasurer's Guidance Handbook

November 2026

Treasurer’s Guidance Handbook

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Acknowledgement of Country

This report was prepared by the Department of Treasury and Finance (WA Treasury) on the traditional Country of the Whadjuk people of the Noongar Nation.

WA Treasury respectfully acknowledges the Traditional Custodians of Country throughout Western Australia and their continuing connection to Country, Culture and Community.

We pay our respects to all members of Western Australia’s Aboriginal communities and their cultures and to Elders past and present.

We acknowledge and pay tribute to the strength and stewardship of Aboriginal people in sustaining the world's oldest living culture and value the contribution Aboriginal people make to Western Australia's communities and economy.

We recognise our responsibility as an organisation to work with Aboriginal people, families, communities, and organisations to make a difference and to deliver improved economic, social and cultural outcomes for Aboriginal people.

Further information relating to this report may be obtained by emailing
Financial.Policy@dtf.wa.gov.au

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TG 1 Foundation

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Understanding the Financial Management Framework 2. Treasurer's instructions 3. Treasurer's Guidance
Relevant Treasurer's instruction(s) (TI)	TI 1 *Foundation*
Other Related Instrument(s)	Section 78 of the *Financial Management Act 2006* (Treasurer's instructions, issue of etc.)
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Current Version	v1.4

1. Understanding the Financial Management Framework

Under section 53 of the *Financial Management Act 2006* (the Act), the accountable authority of each agency — whether an individual or a governing board — is ultimately responsible for ensuring the agency operates efficiently, economically, and in compliance with applicable laws and Treasurer's instructions. This includes maintaining robust internal controls and ensuring transparency and accountability in financial operations. This responsibility cannot be delegated and requires a robust approach to decision-making, oversight and financial discipline.

The chief finance officer (CFO) supports the accountable authority by providing both financial expertise and an in-depth understanding of the agency's unique business, goals, and systems.

The WA financial management framework consists of:

Legislation – primarily the *Financial Management Act 2006* (and regulations) and the *Government Financial Responsibility Act 2000*. In addition, the enabling Acts of some statutory authorities include financial provisions, which create specific financial management requirements for those authorities.

Treasurer's instructions – mandatory requirements that operationalise the Act.

Accounting Policy Positions – guidance issued to promote a consistent approach across agencies where there is uncertainty or choice in applying an accounting standard. Each position reflects Treasury's view, but agencies remain ultimately responsible for complying with the relevant accounting standards.

Treasurer's Guidance – non-mandatory but recommended guidance to help agencies implement, apply and maintain sound financial management practices effectively.

In addition, there are several supporting resources – such as the Financial Administration Bookcase, model annual reports, and manuals.

Essentially, the Acts set the overarching legal obligations, the TIs translate those obligations into practical, enforceable requirements, and the accounting positions, TGs, manuals and models provide best-practice advice for implementation.

2. Treasurer's instructions

Treasurer's instructions (TIs) are mandatory directions issued by the Treasurer under section 78 of the Act. They establish detailed requirements for the management, accounting, and reporting of money and property in the Western Australian public sector.

2.1 Legal Basis

Section 78 of the Act gives the Treasurer the power to issue these instructions.

They are legally binding on all agencies. (Section 78(3) states that a person who is an accountable authority or an officer is to comply with the Treasurer's instructions.)

Agencies must follow the TIs unless the Treasurer grants an exemption.

Terms used in the TIs have the same meaning as in the Act.

2.2 Application to Departments, Statutory Authorities, Sub-Departments, Deemed Departments, Government Trading Enterprises

The Act and TIs apply to:

- Departments established under section 35 of the *Public Sector Management Act 1994*.
- Sub-Departments established under section 56(2) of the Act.
- Deemed departments listed in section 5(1) of the Act and others prescribed in FM regulations.
- Statutory Authorities: Listed in Schedule 1 to the Act.

Government Trading Enterprises (GTEs) – GTEs are governed by the *Government Trading Enterprises Act 202*3 (GTE Act) and their enabling legislation. They are not subject to the Financial Management Act (2006) or to the Treasurer's Instructions, except in a limited way under Part 8 of the GTE Act.

Part 2 and Part 3 Division 3 of the Act apply to accounts operated within the Public Bank Account (PBA), and sections 81 and 82 apply to GTEs in relation to operational matters. However, TIs do not apply to GTEs for their reporting requirements.

In every material case where the Act and regulations, the TIs, written directions issued by the Treasurer, or the agency's financial management manual do not specify requirements in terms of a financial management matter, the matter should be referred to the chief finance officer, who is to provide guidance to the agency.

Agency	The Act	TIs	AASB Standards
Departments	✓	✓	✓
Statutory authorities (Schedule 1)	✓	✓	✓
Sub-departments	✓	✓	✓
Deemed departments	Modified in Schedule 2	✓	✓
GTEs	Part 2 and Part 3 Division 3 apply to accounts operated within the PBA. S.81 and 82.	×	✓

2.3 Application to Universities

Universities fall outside the whole–of–government reporting framework and do not receive appropriation. However, for accountability purposes, they prepare annual reports in accordance with the Act.

Each university's enabling legislation applies the provisions of the Act, except for sections 13 (bank accounts), 14 (overdrawing bank accounts), and 40 (annual estimates).

Under section 78(1) of the Act, the Treasurer may issue instructions on State financial management. For universities, this authority is limited by their enabling legislation, meaning TIs apply only to:

- annual reporting;
- the preparation of financial statements under the accounting standards;
- key performance indicators; and
- the establishment and maintenance of accounts.

TIs that address operational matters are not applicable to universities. Although they are not explicitly excluded, reliance is placed on the provisions within each university's statute.

For financial reporting, TI 8 *Financial Accounting and Reporting* and certain requirements of TI 9 *Financial Statements* do not apply, as universities follow the Financial Statement Guidelines issued by the Commonwealth Department of Education. The excluded requirements are:

- Requirement 3 *Annual Estimates*;
- Requirement 4 *Application of Australian Accounting Standards and Other Pronouncements*;
- Requirement 5 *Statements of Comprehensive Income*;
- Requirement 6 *Statements of Financial Position*; and
- Requirement 7 *Application of Tiered Reporting - Simplified Disclosures*.

2.4 Exemptions

Where an agency seeks an exemption from one or more of the TI Requirements, the application for exemption is to be submitted to the Under Treasurer.

The application for exemption should:

- state the reasons why the exemption is necessary;
- specify proposed alternative actions or procedures, if applicable;
- indicate the duration of the exemption i.e. ongoing, or for a specified period; and
- provide any other relevant supporting documentation in support of the application.

Agencies should continue to comply with the TI Requirements, until an exemption is approved by the Treasurer under TI 1 *Foundation* – Requirement 2 *Exemptions*.

Agencies should establish and maintain a register of exemptions granted by the Treasurer. For additional guidance on maintaining registers, please refer to TG 12 Registers – Chapter 1 Exemptions to Treasurer's instructions granted.

3. The Treasurer's Guidance Handbook

The Treasurer's Guidance Handbook, which is made up of chapters or "TGs", is an invaluable resource for public sector agencies seeking to maintain sound financial management. Its value lies in practical, experience-based guidance that helps agencies fulfil not just legal compliance, but also good governance and financial stewardship.

The TGs comprise two broad categories of content:

- Explanatory material that assists with understanding and applying the legislation and TIs for agencies under the Act.
- Broader guidance that supports good practice in agency financial management more generally.

It is important to understand that TGs are not mandatory in the same way as the Treasurer's instructions. However, their non-mandatory status should not be misconstrued as meaning the guidance is unnecessary or irrelevant. On the contrary, the TGs have been developed with input from experienced CFOs and financial practitioners across the Western Australian public sector. They reflect well-considered approaches to common challenges.

Agencies are expected to carefully assess the guidance before deciding whether to adopt specific recommendations. Where guidance is not adopted, accountable authorities and CFOs should ensure their decisions are supported by sound reasoning and clear documentation, having regard to:

- The operational needs and circumstances of the agency
- Risk management and internal controls
- Cost-benefit considerations
- Implications for accountability and reputation

A practical example of the value of the guidance is in managing incurring and certifying registers. *TI 5 Requirement 1* mandates that agencies are to maintain a register but does not specify the level of detail. Agencies must therefore exercise judgment in determining its register's structure and content. *TG 12* offers recommendations on what to include. While not exhaustive, the guidance reflects sound, experience-based practices developed in consultation with public sector CFOs.

Key points to bear in mind:

- The TG does not mandate particular entries but provides examples of what has proved useful and effective in practice.
- The CFO must decide on the level of detail, tailoring the register to the agency's structure, size, level of complexity, and the nature of transactions it typically enters into.
- If a CFO decides not to follow one or more of the TG recommendations, this decision should be supported by clear justification and appropriate documentation.

This example underscores the principle behind TGs – they are not prescriptive, yet they provide an excellent base for agencies to build upon. By using the guidance as a reference point, agencies can strengthen their internal controls, promote greater transparency, and safeguard their reputation.

Version Control

Version	Date	Section	Amendments
v1.0	30 September 2024	All	Initial publication
v1.1	13 December 2024	All	Minor editorial amendments to enhance readability
v1.2	17 June 2025	All	Minor editorial amendments to enhance readability
v1.3	2 January 2026	1. Understanding the Financial Management Framework	Additional guidance added to support understanding of the Financial Management Framework.
		2.2 Application to Departments, Statutory Authorities, Sub-Departments, Deemed Departments, Government Trading Enterprises	Additional guidance added on the application of the Act and TIs to Departments, Statutory Authorities, Sub-Departments, Deemed Departments and Government Trading Enterprises.
		2.3 Application to Universities	Additional guidance added on the application of the Act and TIs to Universities.
		3. Treasurer's Guidance	Additional guidance added to support understanding and application of Treasurer's Guidance.
		All	Minor editorial amendments to enhance readability.

TG 2 Accountability

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Chief Finance Officers
Relevant Treasurer's instruction(s) (TI)	TI 2 *Accountability*
Other Related Instrument(s)	• Section 53 of *Financial Management Act 2006* (Functions of accountable authorities) • Section 57 of *Financial Management Act 2006* (Chief finance officers, designation and functions of)
Last Updated	2 January 2026
Current Version	v2.3

1. Chief Finance Officers

1.1 Introduction

The role of Chief Finance Officer (CFO) is critical to agency performance and is a key strategic partner and enabler of business outcomes. CFOs are required to provide a value-adding role which supports decision-making throughout the agency. A success profile for CFOs is contained within the Finance Capability Framework for the WA public sector. As the CFOs focus is strategic financial management, the officer fulfilling the role must be conversant with general accounting concepts, the latest accounting pronouncements issued by the Australian Accounting Standards Board and relevant corporate governance and performance management practices.

TI 2 *Accountability* – Requirement 2 *Chief Finance Officer* mandates requirements for CFOs to be 'suitably qualified' and to have direct access to the accountable authority of the agency. This chapter provides guidance on the roles and qualifications of CFOs.

1.2 Chief Finance Officer Designation

> *Section 57(1)(b) of the Financial Management Act 2006 states that the accountable authority of an agency is to advise the Treasurer and the Auditor General of the office, post or position so designated.*

The accountable authority's obligation to advise the Treasurer of the office, post or position designated as CFO under section 57(1)(b) of the Act can be discharged by notifying the Under Treasurer of the appointment in writing. Advice of the name of the person occupying the office, post or position is not required.

1.3 Supporting the Chief Finance Officers Strategic Partner Role

The following business practices are important to support the CFO's role of being a key strategic partner and enabler of business outcomes:

- that the CFO holds a position in the organisational structure that reports directly to the accountable authority; or
- that the CFO attends regular meetings of the corporate executive (or equivalent board) to report on financial management issues. In this regard, regular attendance to present on issues such as financial performance is regarded as having direct access; or
- that the CFO regularly (at least once a month) briefs the accountable authority on financial management issues; and
- the accountable authority refers directly to the CFO for advice on the financial implications of policy decisions before such decisions are approved. This is consistent with the responsibilities of the accountable authority under section 53[1] of the Act.

When selecting a CFO, the accountable authority should refer to the CFO Success Profile, a useful tool for identifying the expectations, accountabilities, skills and experience of a competent CFO.

[1] Section 53 of the Act – Functions of accountable authorities

1.4 Chief Finance Officers Expertise and Qualifications

Section 57 of the Act requires that the appointed CFO must possess a sound understanding of the agency in order to discharge their obligations under section 57(2). Membership of a professional accounting body is to ensure ongoing professional development and maintenance of appropriate (and up to date) skills and knowledge. The experience requirement is to ensure a solid foundation of experience from which the CFO can draw from in executing their responsibilities. When determining the experience requirement for the person to be appointed as CFO, it is essential to consider the type of agency. For example, while public sector experience may be essential for a CFO role in the health or education departments, commercial experience may be preferred for agencies whose focus is commercial.

Where one agency (the provider) provides financial services to another agency, it is possible for a 'suitably qualified' employee of the provider to be appointed as the recipient agency's CFO. The appointment should be limited to a person employed as a public service officer under the *Public Sector Management Act 1994*. In this regard, the CFO could not be appointed through a contract for services.

Acting for extended periods of time i.e. more than three months by personnel that are not 'suitably qualified' does not fulfil the expected role of the CFO.

Where personnel are not 'suitably qualified' and are expected to act in the position of the CFO beyond three months, the accountable authority of an agency should comply with the TI 2 – Requirement 2 *Chief Finance Officer* in the following ways:

- as a matter of priority, endeavour to appoint a 'suitably qualified' person to the office, post or position designated as CFO within three months; or
- appoint a 'suitably qualified' person to act in the role beyond the 'limited time[2]; or
- redesignate another office, post or position as CFO in order to have a 'suitably qualified' person fulfilling the role; or
- appoint a 'suitably qualified' employee of the provider as CFO, where the provider is the agency providing financial services to another agency pursuant to Chapter 1.4 of this Guidance.

[2] "Limited time" refers to a period beyond three months during which personnel, who may not be suitably qualified, are expected to act in the position of the CFO.

FAQs

Is it necessary to advise the Under Treasurer when another officer is acting in the CFO role to cover leave and the acting period is under three months?

No. Section 57(1) of the Act requires the accountable authority to advise the Treasurer and the Auditor General of the office, post or position designated as CFO. The requirement to advise the Under Treasurer is when there is a change in the post, office or position designated as CFO, not when there is a change in the person occupying the position as CFO.

The CFO position will become vacant very shortly, and there is an urgency to fill the position. However, as we are approaching the holiday season, it is unlikely that this position can be filled immediately through a recruitment process. Therefore, we are seeking clarification if a person can be appointed temporarily under a contract for services arrangement, while a recruitment process is underway?

No. Section 57(1)(a) of the Act contemplates an agency having a CFO at all times so that the accountable authority of an agency is to ensure that, for the agency, an office, post or position is designated CFO. Therefore, an external consultant appointed under a contract for service cannot be appointed CFO of the agency as the person is not in an office, post or position within the agency.

The CFO issue may be resolved in a number of ways:

a) appoint a person on a temporary basis to perform the CFO function as an employee of the agency.

b) appoint a CFO from another agency; however, the ability to do so depend on circumstances, so it is recommended that you first seek State Solicitor's Officer (SSO)'s advice before making any external appointments (refer to the next FAQ for further guidance).

Can an agency appoint a CFO from another agency?

Yes, agencies may appoint CFOs from other agencies; however, the ability to do so depend on circumstances, so it is recommended that they first seek SSO advice before making any external appointments.

Under the TG 2 Accountability, where one agency (the provider) provides financial services to another agency, it is possible for a 'suitably qualified' employee of the provider to be appointed as the recipient agency's CFO. The appointment should be limited to a person employed as a public service officer under the *Public Sector Management Act 1994.*

The ability of an accountable authority to appoint an employee outside his/her agency as CFO would depend on the legal relationship between the accountable authority and the 'office, post or position' of the employee, and that the advice of the SSO should be sought in each instance.

Version Control

Version	Date	Section	Amendments
v2.0	30 September 2024	All	Initial publication
v2.1	13 December 2024	All	Minor editorial amendments to enhance readability
v2.2	17 June 2025	All	Minor editorial amendments to enhance readability
v2.3	2 January 2026	All	Minor editorial amendments to enhance readability

TG 3 Financial Sustainability

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Financial Sustainability 1.1 Committing Expenditure 1.2 Variances in Capital Expenditure 2. Resource Agreements 3. Guarantees and Indemnities 4. Borrowings 5. Key Performance Indicators 6. Explanatory Statement
Relevant Treasurer's instruction(s) (TI)	TI 3 *Financial Sustainability*
Other Related Instrument(s)	Section 80 of the *Financial Management Act 2006* (Act of Grace payments)
Last Updated	06 November 2026
Current Version	v3.5

1. Financial Sustainability

1.1 Committing expenditure

Section 53(1)(cb)(ii) of the Act states that the accountable authority of an agency has the function of ensuring that officers of the agency who commit and incur expenditure on behalf of the agency do so in a manner that is not inconsistent with any State government policy prescribed by the TIs.

Agencies should ensure approved budget is available before committing expenditure to ensure compliance with the approved expense limit - TI 3 *Financial Sustainability* – Requirement 1.3 *Financial Sustainability*. This instruction prescribes the State government policy that agencies must obtain government approval before committing expenditure.

Failure to manage within the approved expense limit will not only result in breaching the Act and TI 3 but may also lead to financial difficulty for the agency as defined in section 51A(1) of the Act and thus attract disciplinary actions.

Committing expenditure is not only limited to where an agency is required to make payment but also includes where an agency enters into an agreement that creates legal obligations for making payment in future. For example, an agency may enter into a contract for a supply for goods or services in the following financial year. As the expense will be recognised in that financial year, Expenditure Review Committee (ERC) consideration is required unless it has been budgeted for in the forward estimate.

Before committing expenditure, agencies must establish an approved budget that sufficiently covers the cost of the goods or services for the duration of the agreement.

For the purposes of this instruction, committing expenditure excludes non-discretionary changes to an agency's expense limit that are outside the agency's control such as non-cash accounting adjustment at year-end.

1.2 Variances in Capital Expenditure

This chapter guides the management of expenditure and variances in expenditure on capital works as part of the Western Australia State Government Asset Investment Program (AIP), including but not limited to variations in cost, time and scope of projects and the repurposing of surplus unspent moneys, to ensure prudent financial management across the public sector.

1.2.1 Terms and Definitions

Term	Definition
Estimated Total Cost	The estimated total cost of a capital work within the Asset Investment Program reported in an agency's Budget Statements.
Tender Outcome	• The cost of a capital work contract as specified in the awarded contract. A tender outcome does not generally include other costs of a capital work such as client costs or any other contracts associated with the capital work.

1.2.2 The Asset Investment Program

Deliverability and Budget Implications

The AIP represents a major investment and financial risk to the state. Cost and time overrun on major AIP projects can expose the State to increased risk. There are broader implications for its overall finances, because unexpected and increased funding requirements deplete cash surpluses, increase net debt levels and creates concern among credit rating agencies.

It is vital, therefore, that agencies understand and manage their projects and that agency project cashflows are aligned to achievable schedules.

AIP Approvals and Management

Asset investment proposals require consideration by the ERC, a standing committee of Cabinet chaired by the Treasurer.

A key function of ERC is formulation of the annual State Budget. It must consider asset investment proposals against competing Government priorities and finite resources. ERC asset investment decisions determine the approved parameters (costs, risks, benefits, scope and time) within which a project is to be planned, procured, built and commissioned.

Treasury makes recommendations to ERC after scrutinising all proposals, an undertaking analysis to ensure that the right assets are delivered at the right time, the right location, and represent value for money. Treasury must have a sound understanding of project assumptions and parameters. This understanding requires that agencies prepare robust, balanced and well-justified business cases and project definition plans for asset investment projects. Further details in asset planning and management policies and guidelines are provided in the Strategic Asset Management Framework (available on the WA Government website).

Project Cost Control

Agencies are expected to manage their projects to approved budget and parameters, and should any parameters be at-risk, they are expected to:

- mitigate impacts;
- manage change controls;
- pro-actively engage with key stakeholders and governance bodies through transparent status reporting and early warnings; and
- manage cost increases from within contingencies or absorb them through reprioritisation.

Requests for additional funding

Requests for additional project funding, whether through ERC or the annual budget process, require:

- a revised or updated business case that includes costed options to ensure the project remains value for money;
- evidence that effective governance is in place; and
- cost escalation aligned to the building cost index.

Repurposing unspent capital funding

To ensure that unspent moneys are allocated in accordance with Government priorities, agencies seeking to repurpose unspent moneys from completed capital works are to seek the prior approval of the Treasurer, as Chair of the ERC.

1.2.3 Major Projects Governance

The Major Projects Governance Structure applies to major non-residential building projects ($100M plus capital costs) for all agencies except Government Trading Enterprises or the Transport Portfolio. It also applies to high-risk or highly complex minor non-residential building projects on a case-by-case basis.

Role of the Project Agency

The Project Agency is the one that holds the project's capital works budget. It provides project strategic leadership, direction and stewardship, it chairs the Project Steering Committee and Project Control Group through all project stages and is accountable to and provides advice to the portfolio Minister.

The accountable authority of the project agency is the single point of accountability throughout the life of the project. The accountable authority seeks ERC approval for the asset investment decision and, if applicable, re-submits business cases to ERC, along with costed alternative options.

The Project Agency CFO is the critical financial quality assurance resource for the accountable authority and is expected to be engaged by major project teams from the outset of planning through financial investment decisions and project delivery to transition into operations. The CFO is required to interrogate and endorse project cost plans as part of the project development phase as well as for any supplementary funding requests during project delivery.

Role of the Department of Housing and Works

The Department of Housing and Works (DHW), which is authorised to deliver capital public works under delegation of the Minister for Works under the *Public Works Act 1902*, is responsible for procuring and delivering the asset in line with the ERC-approved parameters.

There must be a project engagement agreement between the project agency and DHW that outlines the:

- scope of paid (and free) services, costs, and time;
- reporting lines, requirements, and frequency; and
- dispute resolution processes.

It is responsible for the capital works delivery within approved parameters and the quality and functionality as described in the financial investment decision approved by Government. It is obligated to inform the accountable authority of potential deviations (or a risk of deviations) from these parameters and may inform Treasury where project alterations are being contemplated that should be brought to the attention of ERC.

Finance supports Project Agencies and provides expertise as project managers. Its Infrastructure Delivery Unit can provide advice on managing project challenges.

1.2.4 Capital Underspends

Regardless of the funding source for capital works, agencies are to seek prior approval from the Treasurer, as Chair of the ERC, to repurpose any savings identified at tender outcome or thereafter, for capital works to another capital works.

This chapter applies to a capital work, irrespective of the number of contracts involved or whether or not the capital work is subject to a Gateway Review or another project assurance framework.

2. Resource Agreements

2.1 Introduction

Resource agreements are part of the State's financial management framework, articulating agency level government desired outcomes, services to be delivered, parliamentary appropriations to be provided, and performance targets to be achieved.

Resource agreements are to be agreed by the agency's accountable authority, the relevant portfolio Minister(s), if applicable, and the Treasurer.

The accountable authority's adherence to the targets agreed in the resource agreement is crucial to the achievement of the Government's financial targets, published each year as part of its budget strategy in accordance with the *Government Financial Responsibility Act 2000*.

2.2 Preparing and Submitting draft resource agreements

Agencies are required to prepare a draft resource agreement under section 42[3] of the Act, unless listed in the Treasurer's direction. When preparing the draft resource agreement, agencies should use the templates specified in TG 13 Treasury Forms and Templates to ensure consistency and adherence.

In accordance with section 42(1)(b) and (3) of the Act, the Treasurer (or his/her delegate) will, for each financial year, designate a date by which an agency must submit a draft resource agreement to the Treasurer. The designated date will be formally communicated to the agency via the annual Budget Circular or a separate letter.

The agency is to submit the draft resource agreement to Treasury, acting as an agent of the Treasurer, on or before the designated date.

Before submitting a draft resource agreement to Treasury, the agency should provide the intended final version to their Treasury analyst for verification and endorsement of numerical input.

The draft resource agreement submitted to Treasury may be:

(i) signed in counterpart by the accountable authority and the relevant Minister(s); and

(ii) provided via email to the relevant Treasury analyst.

Note: Section 44[4] of the Act provides that the Treasurer may, at any time in the financial year, modify an agency's resource agreement by giving written notice to the accountable authority.

Treasury will give written notice of modifications for financial targets at key times in the financial year, likely at Mid-year Review and Estimated Outturn. In accordance with section 44(3) of the Act, the resource agreement, with the modification specified in the notice, becomes the resource agreement for the agency for the remainder of the financial year.

[3] Section 42 of the Act – Preparation of draft resource agreements

[4] Section 44 of the Act – Modifying resource agreements

3. Guarantees and Indemnities

3.1 Introduction

Guarantees and indemnities generally require grantors to make payments to third parties when specified circumstances either occur or fail to occur. These obligations may either be imposed by written law or set out in other formal documents, such as letters.

Statutory guarantee or indemnity is granted under the authority of a written law, while non-statutory guarantee or indemnity (termed 'surety') is issued under the Crown's prerogative.

The government policy is that the issue of sureties be limited to the Treasurer after having been first approved by Cabinet.

3.2 Scope

The following are not considered guarantees or indemnities for the purposes of TI 3 *Financial Sustainability* – Requirement 3 *Guarantees and Indemnities*:

- asbestosis claims against agencies;
- action taken against teachers by aggrieved parents for school matters, such education standards or injuries resulting from inadequate supervision;
- action taken by patients against hospitals or doctors;
- obligations for damages in respect of pending lawsuits;
- repair costs to cover damages caused to buildings or other property in the normal course of the agency's business; and
- indemnities issued incidental to the performance of another function, such as the purchase of goods or services. An example would be a contract where the purchaser indemnifies the supplier of software against any unauthorised use of that software.

Notwithstanding anything in TI 3 – Requirement 3, an agency should, when requested by the Under Treasurer, provide such information in respect of guarantees and indemnities.

Statutory guarantee and Indemnities

Statutory guarantees and indemnities are to be granted in accordance with the written law.

Sureties

Sureties are granted by the Treasurer after Cabinet's approval has been obtained.

Agencies are to make a Cabinet submission for the grant of a surety. Once approved, Treasury will arrange for the Treasurer to issue the surety.

3.3 Register

TI 3 *Financial Sustainability* – Requirement 3.2 *Guarantees and Indemnities* mandates the maintenance of registers for guarantees and indemnities when issued by either the State or an agency. For detailed guidance on managing these registers, please refer to TG 12 Registers – Chapter 3 Guarantees and indemnities. The registers are necessary for the reporting of guarantees and indemnities in the Annual Report on State Finances.

4. Borrowings

4.1 Introduction

Under the State's financial management framework, agencies are not permitted to borrow funds unless specifically authorised by their enabling legislation. The form for borrowing approvals varies across the sector. It may require the approval of one or more of the Governor, Treasurer, Minister and the accountable authority.

The borrowing of funds impacts the State's total public sector net debt. In order to ensure prudent financial management across the sector and that the State's potential exposure is known, the Government has determined that the accountable authorities seeking to borrow funds under the authority of their enabling legislation must seek the prior approval of the Treasurer.

Furthermore, sufficient details should be recorded for each borrowing of funds to permit adequate planning and control of repayments (interests and principal).

4.2 Scope

Borrowings, lease liabilities and service concession financial liabilities all impact the State's total public sector net debt. However, the definition of 'borrowing' is limited to legal usage of the terminology and excludes liabilities recognised solely for the purposes of financial reporting.

4.3 Approval Process

The net debt implications of lease liabilities and service concession financial liabilities are considered as part of the annual Budget, Mid-Year Review and supplementary funding processes. Consequently, approval for these liabilities is implicit in Budget Statements, Annual Estimates, Mid-Year Review documents, and approvals (if any) for supplementary funding.

Approval for agencies' borrowing will normally be granted during the Annual Budget or Mid-Year Review processes in the form of:

(i) an approved borrowing balance outstanding at 30 June in each of the budget and forward estimates; and

(ii) an approved borrowing limit during the budget year. Quarterly borrowing limits for the budget year may also be approved where necessary.

This approval will be based on financial information submitted by agencies to Treasury for the purposes of the preparation of the annual Budget and/or Mid-Year Review documents.

If a variation is required outside of those processes, sufficient information should be submitted by agencies to Treasury to allow the Treasurer to arrive at an informed decision.

4.4 Register

The agency should ensure that a register of borrowings is established and maintained. Please refer to TG 12 Registers – Chapter 4 Borrowings for more information.

5. Key Performance Indicators

5.1 Introduction

Section 61(1) of the Act requires agencies and universities to prepare and include key performance indicators (KPIs) in their annual reports. Furthermore, section 63(1) of the Act requires KPIs to be submitted to the Auditor General for audit. Therefore, unless otherwise directed in writing by the Treasurer, agencies and universities must report KPIs in accordance with the Act.

Accordingly, agencies and universities must report at least one key effectiveness indicator for each outcome and one key efficiency indicator for each service (or at least one key cost effectiveness indicator for each outcome). Any changes to KPIs that result in non-compliance with these requirements require Treasurer's direction under the Act. Other changes that add, modify or discontinue outcomes, services or key effectiveness/efficiency indicators require prior approval as defined in TI 3. Approval must be obtained on or before the end of a reporting period to have effect for that period.

Approval for changes to agency KPIs must be obtained under TI 3 – Requirement 5 even though the changes have been approved in the Budget Process and reflected in the Budget Papers. In some cases – particularly where KPI changes arose as part of broader government decisions, such as machinery of government restructures – agencies have assumed that budget approval satisfied all necessary approval steps. However, regardless of the mechanism through which changes occur, agencies should ensure that the relevant approvals are obtained to support full compliance.

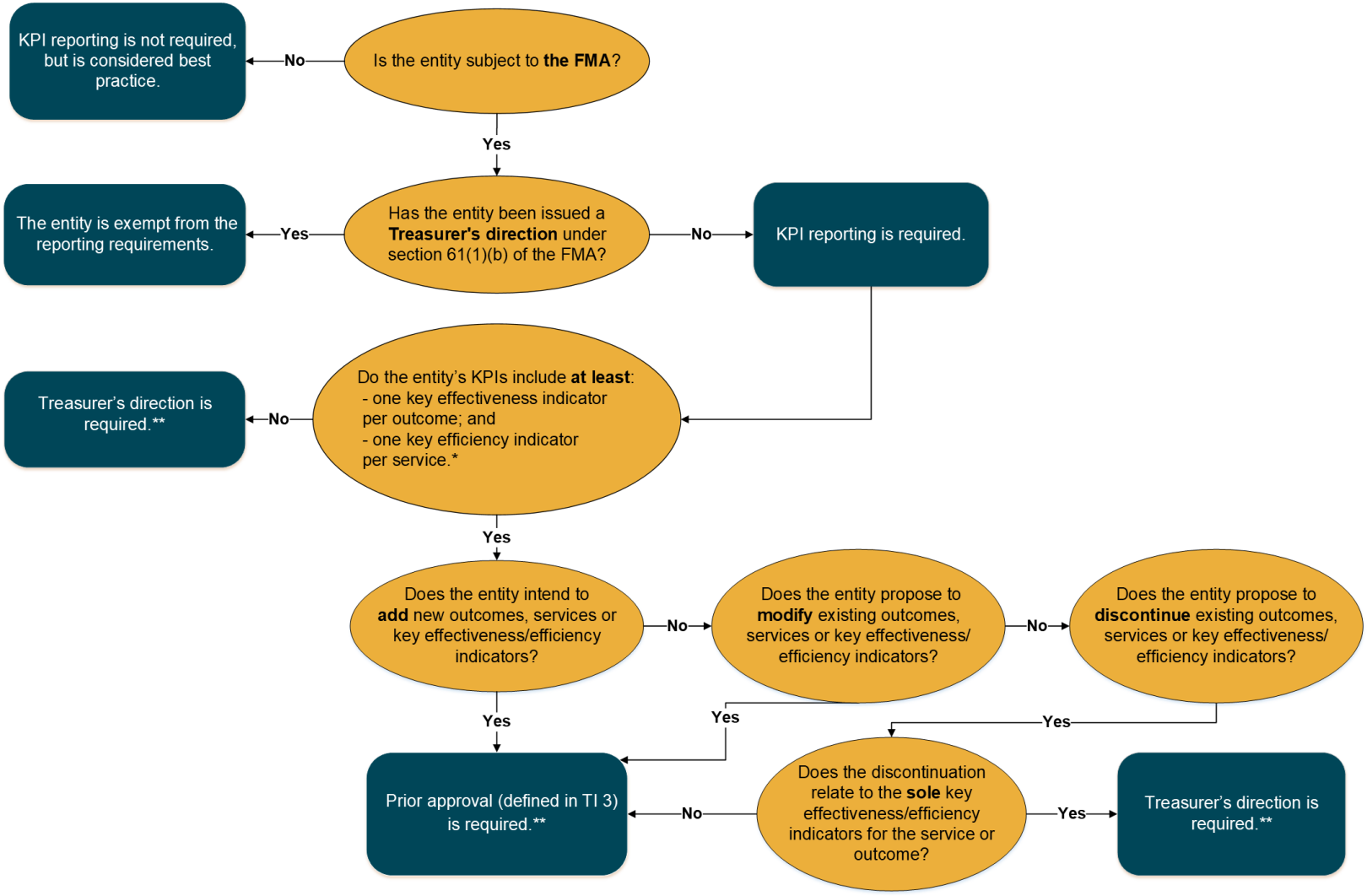
The reporting of KPIs cannot be exempted under TI 1 – Requirement 2 *Exemptions*.

Changes to the methodology underpinning a KPI, such as altering data sources, sampling techniques, or measurement processes, can significantly influence the results reported, even when the KPI itself appears unchanged. For example, an indicator that relies on survey responses could move from a voluntary, self-selected online survey to a structured, randomly sampled approach administered across a wider range of participant groups. While the KPI itself appears identical, the revised methodology alters the underlying data source, the representativeness of respondents, and the volume and distribution of feedback. As a result, reported performance may differ materially from prior years – not because the actual performance has changed, but because the measurement technique has become more rigorous. In such cases, the methodology change should be reviewed by the Treasury analyst, as the impact on results may be material enough to effectively constitute a modification of the KPI, thereby requiring prior approval as defined in the TI.

The diagram below outlines the appropriate approval requirements for KPIs reporting.

KPIs should be prepared using the Outcome Based Management framework. Performance reporting helps interested parties, such as Parliament, the community and client groups, to assess agency performance in achieving outcomes and obtaining value from services delivered. They also help agencies and universities to understand their own performance by facilitating strategic planning, enhancing resource management and highlighting areas for improvement.

Diagram: Approval Requirements for Reporting & Changing KPIs



* Or at least one key cost effectiveness indicator for each outcome.
** Approval must be supported by adequate justification and obtained on or before the end of the reporting period.

5.2 Outcomes

5.2.1 Agencies

Outcomes clarify the contributions agencies are expected to make towards achieving government goals. This linkage creates a hierarchy in which the purpose of each service provided by an agency can be traced to a government goal. All outcomes in the Western Australian public sector are expressed as 'agency level government desired outcomes'.

Agency level government desired outcomes will, in the case of agencies subject to a separate division in the Consolidated Account Expenditure Estimates, be disclosed in the budget statements in accordance with instructions issued annually by Treasury. In the case of other agencies, they will be either drawn from the enabling legislation or specified/endorsed by the Minister.

Agency level government desired outcomes are pitched at agency level in the sense that they reflect the purposes of an agency. Agencies may not have complete control over outcomes due to other influences, but they are accountable for their efforts to contribute towards achieving the outcomes. This accountability should be reflected in the development and reporting of key performance indicators. Where appropriate, agencies are encouraged to work jointly towards achievement of the outcomes.

When an agency provides controlled funds to another party for achievement of outcomes, the agency providing the funds must report on the performance of the expenditure in accordance with TI 3 *Financial Sustainability* – Requirement 5 *Key Performance Indicators*. If the party receiving the funds is also subject to this requirement, its reporting of the performance of the expenditure must be consistent with that of the agency providing the funds.

5.2.2 Universities

Approved strategic outcomes/objectives are pitched at university level in the sense that they reflect the purposes of a university. Universities may not have complete control over outcomes due to other influences, but they are accountable for their efforts to contribute towards achieving the outcomes/objectives. This accountability should be reflected in the development and reporting of key performance indicators.

5.3 Services

5.3.1 Agencies

Outcomes are achieved (over time) through the delivery of services. Services are in the nature of outputs, programs or policy advice. Agencies may refer to services as outputs if they are standardised and can be measured in terms of quantity and cost. Agencies may refer to services as programs if they comprise a number of related but non-standardised services. Agencies may also refer to services as policy advice if policy advice is a material activity of the agency.

5.3.2 Universities

Approved strategic outcomes/objectives are achieved (over time) through the delivery of services. Services are in the nature of outputs or programs. Universities may refer to services as outputs if they are standardised and can be measured in terms of quantity and cost. Universities may refer to services as programs if they comprise several related but non-standardised services.

5.4 Key Performance Indicators

Agencies and universities are advised to identify and report KPIs of effectiveness and efficiency, or cost effectiveness, in their annual reports.

Effectiveness indicators provide information on the extent to which agency level government desired outcomes or approved strategic outcome/objectives have been achieved, or contributed to, through the delivery of services.

It is recognised that there may be lags between the provision of services and achievement of outcomes. To reflect this, it may be appropriate for agencies and universities to estimate the projected timing of outcomes and forecast milestones that indicate progress towards achieving outcomes.

An outcome may be influenced by the services of other agencies, and the levels of support provided by government and external influences such as cost pressures and demographic changes. Consequently, effectiveness needs to be reported with narrative and not simply in numerical form. The narrative should not only disclose progress towards outcomes (and the amount of resource inputs in the case of cost effectiveness) but also discuss other influences on outcomes.

Another form of performance indicator is cost effectiveness, which relates outcomes directly to inputs. An outcome may be generated by a number of services, so the inputs allocated to those services may have to be aggregated when cost effectiveness is being calculated. To aggregate inputs that are dissimilar in type, volume and/or consumed resources, it is necessary to weight them, with the most commonly used method being weighted average cost.

Cost effectiveness indicators can provide an overview of agency/universities effectiveness and efficiency, and in some sense measure efficiency where per unit cost is impracticable, for example when programs or policy advice are delivered.

Although this requirement only requires the reporting of cost effectiveness indicators when the reporting of efficiency indicators is not feasible, agencies/universities are encouraged to also report cost effectiveness indicators in other circumstances where doing so clarifies their performance or adds value to performance information.

Efficiency indicators generally relate services to the level of resource inputs required to deliver them. They are usually expressed in the form of an index, ratio, unit or some other form of comparison. While the most common efficiency indicator focuses on financial resources, e.g. per unit cost and per capita cost, efficiency indicators could be expressed in service quality or timeliness, e.g. percentage of actions completed within target timeframes. Physical efficiency (i.e. productivity) indicators that relate physical inputs to physical outputs may also be used, for example, units of output per machine hour. A ratio between one of the inputs and an output is only meaningful when other factors (such as other inputs, quality and timeliness) are held constant.

Although required to address the scope of agency/university operations, KPIs only need to cover material expenses or activity levels of the services provided by the agency (and its subsidiaries and related bodies) or the university. Materiality of the expenses or activity levels covered by KPIs is meant in the same sense as in Australian Accounting Standards.

5.5 Characteristics of KPIs

To fulfill their purposes, KPIs should:

- be relevant;
- be appropriate; and
- fairly represent indicated performance.

Relevant means performance indicators must be logically related to the needs of stakeholders. For agencies, the indicators should relate to clearly defined agency level government desired outcomes and services that communicate what is to be measured and assist with resource allocation decisions. For universities, the indicators should relate to clearly defined strategic outcomes/objectives and services that communicate what is to be measured and assist with resource allocation decisions.

Appropriate means performance indicators should enable users to assess an agency or a university's performance. The indicators should be selected to facilitate an accurate understanding of the extent to which an agency has achieved predetermined targets and/or trends in performance. Appropriateness can be achieved by examining the indicators currently being used or developed by other organisations or peak bodies in the same field. Using widely recognised indicators also facilitates benchmarking. The indicators are also more likely to be appropriate if they are used for internal management as well as for external reporting. The appropriateness of the indicators is enhanced by agencies or universities disclosing, to the extent possible, information about trends over time and/or comparisons with similar service providers.

Appropriate indicators reduce the risk of distorting the incentives of an agency or a university. For example, it would be inappropriate for the indicators to encourage an agency/a university to focus on a large number of less severe cases (e.g. health or criminal) where better results could be achieved by focusing on a smaller number of more severe cases.

Appropriate indicators should be supported by explanations, either in the form of narrative or notes to tables, to ensure that the significance of statistics is clearly explained.

Fairly represent indicated performance means that performance indicators are free from bias and can be measured (in either quantitative or qualitative terms) so that appropriately qualified individuals working independently could verify them.

Note that KPIs will be audited against these characteristics in accordance with section 15(3)(c) of the *Auditor General Act 2006*. As such, the Office of the Auditor General (OAG) should only be contacted once management has internally approved the proposed changes to KPIs. OAG may review the proposed changes for providing input on matters that could impact audit requirements or raise other audit issues. In this regard, OAG's review is not an audit or an endorsement for seeking approval of the Under Treasurer or the university's governing body.

5.6 Annual Reports

Agency/University annual reports should include a comparison of actual results against budget targets for KPIs. Material variations between targets and actual results should be explained in the annual report. Explanations should provide reasons for and details of any material variation for each key effectiveness indicator and each key efficiency indicator (or each key cost effectiveness indicator).

For budget-funded agencies, targets are usually specified in the budget statements and the supporting resource agreements or equivalent performance documents (and subsequently changed in accordance with TI 3 – Requirement 5.2). Agencies that do not publish targets in the budget statements or universities are encouraged to disclose targets in annual reports, statements of corporate intent, or publicly issued strategic plans.

An annual report should clearly identify those KPIs that are audited by the Auditor General. Agencies/Universities are required to report in annual reports against all targets that have been set, enabling stakeholders to assess agency/university performance in achieving outcomes/objectives and delivering services. Consistent with good governance protocols, it is important that any changes irrespective of whether they occur in a reporting period or at the commencement of a reporting period are brought to stakeholders' attention. Stakeholders should also be able to see the reasons why the outcomes, services and KPIs are changed from one to the next.

For agencies where responsibility for a service or achievement of an outcome is transferred to another agency, in the absence of any approved changes, the existing service, outcome and related KPIs should be reported by the transferee agency. Further annual reporting requirements are set out in TI 8 *Financial Accounting and Reporting* – Requirement 3 *Agency Annual Reports*.

5.7 Agency Provision of Controlled Funds

Controlled funds are spent to achieve agency level government desired outcomes. Agencies either spend the controlled funds themselves or pass them to another party to enable that party to achieve the outcomes. An agency that passes controlled funds should report on the expenditure of those funds.

The recipient agency may also need to report on that expenditure. Reporting by both agencies must be consistent, but the funding agency may report at a more strategic level than the recipient agency.

5.8 Certification of KPIs

Section 61(1) of the Act requires financial statements for a financial year and key performance indicators be prepared and included in an annual report. The financial statements are to be certified in accordance with TI 9 *Financial Statements* – Requirement 2 *Certification of Financial Statements*. Accordingly, the key performance indicators are to be certified in accordance with TI 3 *Financial Sustainability* – Requirement 6 *Certification of Key Performance Indicators* to give users of the annual report the same level of confidence as with the financial statements.

Where an agency has been abolished, section 69(2) of the Act requires key performance indicators be prepared and included in the final report to the extent they are practicable. Those key performance indicators must also be certified in accordance with TI 3 – Requirement 6.

6. Explanatory Statement

6.1 Introduction

To demonstrate accountability and stewardship for resources provided to agencies, such agencies should explain major variances between:

- the actual results and annual estimates for the reporting period; and
- the actual results for the reporting period and for the immediately preceding reporting period.

6.2 General Government Sector

The general government sector (GSS) is defined in AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The composition of the government sectors is published annually in Budget Paper No.3 'Economic and Fiscal Outlook' and Annual Report on State Finances.

AASB 1055 *Budgetary Reporting* requires general government sector agencies to disclose actual results against original budgeted financial statements presented to Parliament for the reporting period along with explanations of major variances. The Standard does not require disclosure of budgets for comparative periods.

Agency budgets are not necessarily classified consistently with actual results prepared in accordance with Australian Accounting Standards. Whilst recognition and measurement changes of original budgets are not required, agencies must reclassify their budget lines so that they can be compared with the actual results.

6.2.1 Major Variances

Explanatory variance narratives are required to disclose details of, and the reasons for, all major variances in the line items comprising the total. This includes variances that offset each other.

'Major variances' arise from qualitative and quantitative circumstances.

Qualitative consideration of major variances requires agencies to consider whether narrative omission would mislead readers of the financial statements or whether other written laws require disclosure of the variances.

Quantitative definition of major variances is determined in TI 3 *Financial Sustainability* by reference to a 10% movement of the line item and a calculated dollar aggregate.

6.2.2 Annual Estimates

In some instances, a department's financial aggregates are combined with those of other statutory authorities to form a Division of the Consolidated Account Expenditure Estimates. TI 9 *Financial Statements* – Requirement *3 Annual Estimates* requires such a department and statutory authorities to publish annual estimates specific to the agency on its website as soon as practicable after the Minister approved them.

In addition, where practical, agencies are encouraged to include approved annual estimates in their annual report of the preceding financial year.

For the purposes of TI 3 *Financial Sustainability* – Requirement 7 *Explanatory Statement*, agencies should disclose whether their original budget for the relevant financial year are the estimates published in the budget papers, or the estimates published in accordance with TI 9 – Requirement 3, or the estimates published in the statement of corporate intent (or business/operational plan).

6.3 Non-GGS Agencies

The Public Transport Authority of Western Australia (PTA), though classified as a public non-financial corporation (i.e. non-GGS agency), is required by TI 3 – Requirement 7 to disclose actual results against original budgeted financial statements and prior year's actual results as if it is a GGS agency. The operating subsidies it receives annually from Government is considered material.

For other non-GGS agencies, TI 3 – Requirement 7 only requires them to disclose actual results against original budgeted financial statements and prior year's actual results for income and expense line items (i.e. not for balance sheet and cashflow line items). They should disclose whether their original budget for the relevant financial year are the estimates published in the budget papers, or the estimates published in accordance with TI 9 – Requirement 3, or the estimates published in the statement of corporate intent (or business/operational plan), or, where any other written provides that section 40 of the Act does not apply, the estimates prepared in accordance with that other written law. If the estimates are not publicly available, a copy of the approved estimates should be included in the agency annual report.

Version Control

Version	Date	Section	Amendments
v3.0	30 September 2024	All	Initial publication
v3.1	13 December 2024	All	Minor editorial amendments to enhance readability
v3.2	17 June 2025	All	Minor editorial amendments to enhance readability
v3.3	2 January 2026	5.1 Introduction	Clarification on where the Treasurer's approval is required.
		5.1 Introduction	Diagram added to illustrate the approval requirements for reporting and changing KPIs
		6.3 Non-GGS Agencies	Non-GGS agencies (except PTA) are to disclose major variances for their income and expense line items.
		All	Minor editorial amendments to enhance readability
v3.4	25 May 2026	5.1	Strengthens guidance on KPIs, including clearer approval and reporting processes, providing clarity when Treasurer approval is required, supporting more consistent interpretation and application across agencies.
v3.5	06 November 2026	5.3	Minor editorial amendments to enhance readability.

TG 4 Risk Management and Internal Control

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Financial Management Manuals 2. Risk Management 3. Internal Control 4. Insurance 5. Managing Foreign Exchange Risk 6. Custody of Public Property and Other Property 7. Records of Public Property and Other Property 8. Shortages and Surpluses of Money 9. Write-offs 10. Retention of Accounting Records
Relevant Treasurer's instruction(s) (TI)	• TI 3 *Financial Sustainability* • TI 4 *Risk Management and Internal Control* • TI 5 *Expenditure and Payments* • TI 9 *Financial Statements* • TI 10 *Internal Audit*
Other Related Instrument(s)	• AS ISO 31000:2018 Risk management – Guidelines • *Auditor General Act 2006* • *Electronic Transactions Act 2011* • Section 48 of the *Financial Management Act 2006* (Write-offs) • Section 49 of the *Financial Management Act 2006* (Loss of official money or property, liability of officers for) • Section 53 of the *Financial Management Act 2006* (Functions of accountable authorities) • Regulation 5 of the *Financial Management Regulations 2024* (Monetary limits for write-offs (Act s. 48)) • *State Record Act 2000* • Section 57 of the *Taxation Administration Act 2003* (Writing off tax liability)
Last Updated	2 January 2026
Current Version	v4.3

1. Financial Management Manuals

1.1 Introduction

The financial management manual is a key document within an agency that assists in promoting sound practices, procedures and policies regarding matters of financial management. It provides the means by which relevant changes in procedures, practices and policies are communicated and formalised throughout the organisation. The manual assists users to become fully conversant with the agency's method of operation and ensures limited disruptions to operations.

TI 4 *Risk Management and Internal Control* – Requirement 1 *Financial Management Manuals* requires agencies to maintain a financial management manual and prescribes the minimum contents.

The accountable authority, chief finance officer (CFO), and senior management must ensure the agency has a fit-for-purpose manual, which must take into account relevant legislation and other mandatory requirements, and must be well-defined, kept up-to-date, and readily accessible to staff.

While preparation and review of the manual in most instances would be the responsibility of the CFO, the ultimate responsibility (evident through the certification requirement) for having a fit for purpose manual is placed upon the accountable authority as the head of the agency.

In addition to the overarching responsibilities of the accountable authority and the CFO, all members of senior management are expected to contribute to the development and maintenance of the financial management manual. Each senior management member should ensure that the financial controls, delegations, and procedures relevant to their respective areas of oversight are accurately reflected in the manual. This collaborative approach ensures that the manual is comprehensive, practical, and aligned with the agency's operational and compliance needs.

The manual should be tailored to suit the agency, making it a practical document that helps employees perform their duties effectively. The level of detail to be included in the manual is at the discretion of the accountable authority, assisted by the CFO and is commensurate with the significance, scope and complexity of the organisation's operations.

Subsidiary financial management information system documentation may either be included in the manual or documented through references directing users to the relevant information.

The manual is the property of the agency, which should establish sufficient controls to ensure that the accuracy and currency of the manual is maintained and that all officers have access to the current version.

1.2 Contents of financial management manuals

The Financial Management Manual is to comply with and be consistent with the Act and the *Auditor General Act 2006* and any other relevant legislation.

The manual must be available to all members of staff of the agency and must be complied with in all matters relating to financial management of the agency.

The manual should contain all relevant details as to the policies and principles that apply to the financial management and external financial reporting of the agency. Detailed information can be found in the Financial Management Manual Guide.

1.3 Certification of financial management manuals

The certification required by TI 4 *Risk Management and Internal Control* – Requirement 1.2 *Financial Management Manuals* should be signed and dated by the accountable authority with the proviso that where the accountable authority is:

- An individual, using Template 9A, the Certification of the financial management manual should be signed by that individual; or
- A body, using Template 9B, the Certification of the financial management manual should be signed by the Chief Executive Officer (CEO)[5] of that agency and endorsed by a member of the agency body/board[6].

The templates (9A and 9B) are designed for broad application and may not cover every conceivable circumstance. In cases where an agency operates as a single person body corporate, the choice of template depends on the provisions of its governing legislation:

- If the legislation does not provide for a CEO, Template 9A should be used; or
- If the legislation provides for a CEO, Template 9B would be more appropriate.

Agencies are required to certify their financial management manuals annually to the Under Treasurer prior to their relevant financial year-end.

[5] Not all agencies have a CEO. For those that do, the CEO is equivalent to the most senior officer within the agency. CEOs signing the certification statement are certifying that the operation elements of the agency financial management manual policies and procedures are fit for purpose.

[6] Body/Board member is signing the certification statement to endorse the manual on behalf of the relevant agency's body/board.

2. Risk Management

2.1 Introduction

Agencies should integrate risk management into all activities and functions because it is an essential component of effective internal control.

Standards Australia, AS ISO 31000:2018 *Risk management – Guidelines*[7] defines risk as 'the effect of uncertainty on objectives. It reflects the deviation from achieving the expected objectives of an agency and may be positive and/or negative.

The establishment and maintenance of a risk management framework and processes can assist agencies in meeting objectives and improving decision making through the implementation of strategies to manage risk exposure from internal and external sources. This is achieved by mitigating the likelihood and impact of negative events and increasing the likelihood and impact of positive events, such as identifying opportunities that agencies can utilise to help improve capital and resource allocations.

Risk impacts all levels of government, from an agency to the whole-of-government and should not be assessed in isolation. Effective risk management protects the agency, whole of government and the community from unnecessary expenses/losses.

An agency's risk management is the responsibility of the accountable authority, who is supported in this regard by the agency's internal audit function and internal audit committee. This is outlined in TI 10 *Internal Audit.*

2.2 Standard Requirements

Where possible, agency risk management policies and processes should be consistent with Standards Australia, AS ISO 31000:2018 *Risk management – Guidelines*[6], which provides guidance on effective and efficient risk management.

AS ISO 31000:2018 can be used to manage any type of risk and is not industry specific. The guidelines can be tailored to an individual agency and its situation.

Managing risk is founded on the principles, framework and processes included in AS ISO 31000:2018 which focus on value creation and protection. These factors can be adapted or improved so they are appropriate to an agency.

When undertaking a risk assessment, an agency should carefully analyse and identify all material risks relevant to its activities and functions with respect to, but not limited to:

- financial risks;
- reputational risks;
- operational risks;
- project risks;
- shared risks with other agencies; and
- emerging risks such as climate change risks and cyber security risks.

[7] Please note that access to this document requires a purchase.

Risk management is a dynamic and evolving process; therefore, continual improvement of an agency's risk management framework and processes is essential. In this regard, risk management processes should be reviewed annually and updated where necessary to ensure they remain relevant and suitable to the agency.

2.3 Risk Management Framework

Effective risk management is essential for government agencies to achieve their objectives, deliver services efficiently, and uphold public trust. This guidance chapter outlines a comprehensive framework for integrating risk management into all aspects of government operations.

(i) Understanding Risk Management: Risk management is not an isolated function but an integral part of strategic planning, management, and daily activities within government agencies. AS ISO 31000:2018 provides guidance for developing a sound risk management framework tailored to governmental contexts.

(ii) Responsibilities of Government Officers: Accountable authority and statutory bodies, along with their management teams, hold the responsibility for establishing a robust internal organisational culture and process for identifying and managing risks. While the Head of Internal Audit assists with risk management, the ultimate accountability for implementing the risk management framework rests with the accountable officer or statutory body.

(iii) Objectives and Strategies: Risk management objectives and strategies should align with the agency's vision and strategic objectives. A clear risk management direction should be articulated, supported by policies, and operating principles. The framework should encompass methods for identifying, treating, monitoring, and reviewing risks, alongside establishing roles and responsibilities for effective risk management.

(iv) Integration of Risk Management: Risk management must be seamlessly integrated into the government's philosophy, culture, governance policies, and decision-making structures at both strategic and operational levels. Successful integration requires a focused approach, clear direction, consideration in decision-making, and investment in building organisational capacity and capability.

(v) Vertical Integration: This involves aligning risk management with objectives at all levels of the agency, from strategic to operational, and ensuring its incorporation into planning, reporting, and evaluation mechanisms.

(vi) Horizontal Integration: Integrating risk management into government systems, processes, and practices, particularly in planning and decision-making processes, fosters a coordinated approach to identifying and treating risks across all levels of the agency.

(vii) Cultivating Organisational Culture: Effective risk management requires embedding it into the organisational culture. Executive and senior managers should champion and model risk management behaviours, while all staff should be encouraged to develop risk management skills and incorporate risk management into their roles and responsibilities.

(viii) Review Mechanisms: Regular reviews of the risk management framework are essential to ensure its effectiveness and relevance. Internal auditors may assist in providing assurance on the framework's operation, and responsibility for reviewing the framework may be allocated to a dedicated committee, such as a risk management committee or audit committee. All WA Government agencies should schedule regular reviews of crisis management and business continuity plans to ensure preparedness for potential disruptions.

By implementing a robust risk management framework, government agencies can enhance decision-making, achieve strategic objectives, and deliver services efficiently while maintaining public trust and accountability.

2.4 References

Agencies must consider the following TIs regarding risk management:

- TI 4 *Risk Management and Internal Control* – Requirement 4 *Insurance*;
- TI 4 *Risk Management and Internal Control* – Requirement 5 *Managing Foreign Exchange Risk*; and
- TI 10 *Internal Audit*

Agencies should be aware of other risk-related information including:

- Standards Australia AS 8001-2021 *Fraud and corruption control*;
- International Organisation for Standardisation *ISO 14091:2021 Adaptation to climate change – Guidelines on vulnerability, impacts and risk assessment*;
- Whole of Government ICT Disaster Recovery for Business Continuity Policy and supplementary guide are available from: Supplementary guide - ICT Disaster Recovery for Business Continuity Policy;
- Whole-of-Government Cyber Security Policy and supplementary guide are available from: WA Government Cyber Security Policy;
- AS/NZS ISO/IEC 27005:2012 *Information technology—Security techniques—Information security risk management* (ISO/IEC 27005:2011, MOD); and
- Good governance for public sector agencies (www.wa.gov.au)

3. Internal Control

3.1 Introduction

Internal controls are essential for government agencies to safeguard assets, maintain accurate financial records, ensure operational efficiency, and comply with regulations. These controls can be categorised into two main types: financial and non-financial.

Financial Internal Controls:

Financial internal controls focus on managing financial transactions effectively and ensuring their proper authorisation, processing, and recording. Key examples include:

- Payment Approvals and Authorisations: Establish clear procedures for approving and authorising payments to vendors, suppliers, or employees, ensuring compliance with agency policies.
- Financial Delegations: Define and communicate levels of authority for financial transactions to ensure accountability and proper oversight.
- Processing of Remittances: Implement robust processes for handling incoming and outgoing payments, including reconciliations to verify accuracy.
- Banking Requirements: Maintain policies and controls for managing bank accounts, deposits, withdrawals, and reconciling bank statements regularly.
- Accounting Reconciliations: Conduct periodic reviews to compare financial records with external sources, identifying and addressing any discrepancies.

Non-Financial Internal Controls:

Non-financial internal controls encompass measures beyond financial transactions, crucial for achieving agency objectives and delivering services effectively. Examples include:

- Internal Accounting Controls: Establish guidelines and procedures for maintaining accurate records and documentation of non-financial transactions.
- Administrative Controls: Ensure that administrative transactions align with management's authorisations and organisational policies.
- ICT Controls: Implement measures to manage information systems, technology, and data securely, protecting against unauthorised access, data breaches, and cyber threats.

While financial controls are vital for maintaining the integrity of financial transactions, non-financial controls are equally essential for managing operational risks, ensuring compliance with internal policies, and safeguarding agency resources. Agencies should adapt and apply compliance processes consistently across both financial and non-financial controls to uphold organisational standards and objectives.

For further guidance on non-financial internal controls, refer to the Office of the Auditor General Report on Information Systems Audit.

3.2 Scope

The scope of internal control activities within each agency should encompass various procedures and mechanisms tailored to its specific operations. These activities aim to promote operational effectiveness, ensure compliance with regulations and standards, mitigate risks, and safeguard assets. Key components of internal control activities include:

- **Regular Review of Risk Profiles:** agencies should conduct regular assessments of their risk profiles to identify potential threats and vulnerabilities. These assessments help in proactively managing risks and developing appropriate control measures.
- **Compliance with Internal Policies and Procedures:** establishing and enforcing internal policies and procedures to ensure consistency and adherence to organisational standards. Regular monitoring and enforcement are necessary to promote compliance throughout the agency.
- **Compliance with Applicable Laws, Regulations, and Accounting Standards**: agencies must ensure compliance with relevant laws, regulations, and accounting standards governing their operations. Compliance measures should be integrated into internal control processes to mitigate legal and regulatory risks.
- **Mitigation of Errors, Fraud, and Irregularities:** processes such as delegations of authorities, segregation, and rotation of duties help reduce the likelihood of errors, fraud, or other irregularities. By clearly defining responsibilities and implementing checks and balances, agencies can enhance accountability and transparency.
- **Completion and Accurate Recording of Activities:** internal controls should ensure that activities supporting agency objectives are completed as intended, accurately recorded in the financial system, and accurately reflected in financial and performance reports. This involves maintaining accurate documentation and implementing robust recording procedures.

Regular monitoring and evaluation of internal control activities are essential to identify areas for improvement and maintain their effectiveness over time.

3.3 Management & Responsibility

Management holds the responsibility to ensure that internal control processes are both cost-effective and aligned with the operational needs of the agency, while also being adaptable to changing requirements. To fulfill this obligation, management should:

- **Recruit Staff with Adequate Skills:** prioritise recruiting staff with the necessary skills and expertise to effectively contribute to the achievement of agency objectives. This ensures that the workforce is equipped to carry out their responsibilities within the internal control framework.
- **Provide Appropriate Training:** invest in providing relevant training and development opportunities to staff to enhance their understanding of internal control processes and their role in maintaining effective controls. This ensures that employees are equipped with the knowledge and skills needed to fulfill their responsibilities effectively.
- **Undertake Regular Reviews:** conduct periodic reviews of internal controls and processes to assess their continued effectiveness in achieving the stated objectives. These reviews help identify areas for improvement, remain responsive and ensure that internal controls and processes remain cost-effective and aligned with agency needs.
- **Implement Mechanisms for Process Review:** establish mechanisms to regularly review existing processes and consider implementing new processes as needed, based on ongoing operational and risk assessments. This proactive approach ensures that internal controls remain responsive to changes in the operating environment and emerging risks.
- **Maintain Updated Documentation:** ensure that financial management manuals and other agency-specific documentation are kept up-to-date and accurately reflect current operations and objectives. This ensures that staff have access to relevant guidance and procedures to support effective internal control implementation.

By adhering to these principles, this ultimately contributes to the achievement of agency objectives while maintaining accountability and compliance.

4. Insurance

4.1 Introduction

The accountable authority should ensure there is an appropriate level of insurance cover over all insurable risks of the agency.

The accountable authority should review the insurance arrangements before the renewal of each policy or class of policies.

As approved by Cabinet on 17 June 1996, agencies are required to participate in RiskCover unless specifically exempted by the Treasurer.

An exemption would only be granted if the Treasurer is satisfied that greater efficiency is demonstrated by an alternative arrangement.

4.2 RiskCover

In response to various reports including the Office of the Audit General Report #10 of 1995 [pp44-50], "Review of Government Insurance Arrangements", Cabinet decided on 1 July 1997 to establish RiskCover.

RiskCover is a managed fund self-insurance arrangement for government public authorities. Government appointed the Insurance Commission of WA, which has continuously managed the self-insurance scheme since appointment. Admission or cessation of participation by public authorities is at the discretion of the Treasurer.

For reporting purposes, RiskCover is mentioned in the Notes to the Statements within the Insurance Commission annual report, but the transactions and balances are not consolidated into the Commission's primary financial statements. For Government Finance Statistical purposes, RiskCover is deemed to be a Public Financial Corporation and its results are submitted into Treasury's Strategic Information System for consolidation of sectorial and whole of government results.

RiskCover charges premiums by way of premium deposit and premium adjustments. These are initially advised to agencies for the budget process (December to March) and formally confirmed in June.

The premium deposit is clearly marked for the following financial year, whereas the premium adjustments relate to closed periods. Premium adjustments are actuarially assessed at public authority level owing to the not-for-profit rationale for the self-insurance scheme.

4.3 Terms and Definitions

Term	Definition
Premium Deposit	The premium charged by the insurer at the inception of a contract under which the final premium depends on conditions prevailing over the contract period and so is not determined until the expiry of that period[8].

[8] AASB 1023:19.1

FAQs

Is it compulsory for an agency to be a member of the RiskCover Fund or can they seek insurance from other private markets?

All agencies are required to be a member of and contribute to the RiskCover Fund, unless specifically exempted by the Treasurer. An exemption may be granted if the Treasurer is satisfied that greater efficiency is demonstrated by an alternative arrangement.

5. Managing Foreign Exchange Risk

5.1 Introduction

Foreign exchange risk (also known as currency risk or exchange rate risk) arises where an organisation has agreements or arrangements denominated in, or conditional on, foreign currency prices. The value of the currency payments or receipts is dependent on continuous fluctuations in Australian dollar exchange rates with those denominated currencies. Any adverse movements in exchange rates, if unmanaged, could lead to significant cash outflows and/or financial obligations, and potentially result in adverse impacts on expense limits, financial performance and expected outcomes.

In the public sector, foreign exchange risk from an agreement or arrangement may leave agencies unable to fund operations within their appropriation limits. Agencies may be required to seek supplementary funding (including debt) or be forced to delay, abandon or scale back publicly committed services. If sufficiently material, such an outcome could compromise wider whole-of-government finances.

Accordingly, it requires the accountable authorities to ensure that any agreement or arrangement that carries a foreign exchange risk are considered and appropriately managed. The accountable authority must seek and obtain advice from the Western Australian Treasury Corporation (WATC) and, if appropriate, engage WATC to manage the foreign exchange risk for those agreements or arrangements that exceed the minimum threshold identified in TI 4 *Risk Management and Internal Control* – Requirement 5.1 *Managing Foreign Exchange Risk*, except where any written law applicable to the agency permits otherwise. The accountable authority should also assess the ongoing risk of any new or existing agreement or arrangement that carries a foreign exchange risk.

5.2 Requirement

In complying with TI 4 – Requirement 5.1, the accountable authority may establish a threshold greater than A$50,000, subject to materiality, but not greater than A$100,000.

The accountable authorities must identify, measure and manage foreign exchange risk at the earliest stage possible, preferably during the business case development and procurement planning phase.

Foreign exchange risk can occur when:

- an agency purchases goods or services that originate from overseas;
- an agency makes payments or receives payments in foreign currency;
- an agency has the option to pay or receive the Australian dollar or a foreign currency;
- a supplier's foreign currency price is to be translated into an Australian dollar price based on an exchange rate at the time of contract award; and
- payment for goods or services is denominated in the Australian dollar, but the Australian dollar price is dependent on an exchange rate (commonly within a price variation clause).

The accountable authority must seek and obtain advice from WATC before entering into any agreement or arrangement that meets or exceeds the threshold at TI 4 – Requirement 5.1, where a foreign exchange risk may arise.

In developing internal guidelines for use by the agency in relation to the management of foreign exchange risk, the accountable authority should consider the following TIs:

- TI 3 *Financial Sustainability* – Requirement 2 *Resource Agreements*: The accountable authorities must be mindful of the current year's resource agreement and avoid committing future cash outflows without prior Government approval.
- TI 4 *Risk Management and Internal Control* – Requirement 2 *Risk Management*: The accountable authorities are required to manage risks appropriately. Therefore, the management of foreign exchange risk should be documented in the agency's financial management manual and must involve WATC in managing that risk for the agency, unless any written law applicable to the agency permits otherwise.

5.3 Identification of Foreign Exchange Risk

Identifying foreign exchange risk can be a complex endeavour, especially when dealing with non-determinable cash flows, where quantifying the risk becomes increasingly challenging as uncertainty grows. While the examples provided below are not exhaustive, they shed light on various scenarios where foreign exchange risk may manifest:

(i) **Contractual Cash Flows in Non-Australian Dollar Currency**: The most obvious risk arises when future cash flows, whether payments or receipts, are designated in a currency other than the Australian dollar. Assessing foreign exchange risk in such cases is relatively straightforward when future cash flows are certain. However, fluctuations in exchange rates can lead to unexpected losses for agencies whose appropriations are in Australian dollars, potentially necessitating supplementary funding.

(ii) **Flexibility in Contract Terms**: Care must be taken when contracts allow for alterations or termination. In some cases, it may be more prudent to maintain exposure to foreign currency fluctuations rather than mitigating the risk.

(iii) **Volume Uncertainty**: Uncertainty regarding future trade volumes introduces additional complexity. Risk management strategies must account for this uncertainty, starting with a thorough identification of the inherent risks.

(iv) **Foreign Suppliers' Risk Mitigation**: Suppliers sourcing products from overseas often face foreign currency risk themselves and may seek to transfer this risk to their contractual counterparties. This can be achieved through contractual clauses such as rise and fall provisions or by proposing risk-sharing arrangements.

(v) **Contracts with Price Variation Contingent on Exchange Rate Movements**: Contracts or arrangements that allow for price adjustments based on exchange rate movements require careful analysis to understand the underlying risk.

(vi) **Revenue or Expense Linked to Non-Australian Dollar Indices**: Fluctuations in currency exchange rates can impact revenues or expenses tied to non-Australian dollar indices. Understanding and managing such exposure requires thorough analysis of contractual terms.

In summary, identifying and managing foreign exchange risk involves navigating various complexities and requires a nuanced understanding of contractual terms and market dynamics.

FAQs

Is the accountable authority allowed to authorise an officer of an agency to establish a new threshold, provided it is under $100,000?

No. Authorisations given to officers are for operational functions of an agency. Establishing new thresholds are a policy matter and therefore require the accountable authority to action them.

6. Custody of Public Property and Other Property

6.1 Introduction

According to section 53(1)(c) of the Act, it is the responsibility of accountable authorities to manage all public and other property within their agency's control. This directive aims to ensure accountability, prevent fraudulent activities, and maintain accurate records of public and other property.

6.2 Terms and Definitions

Term	Definition
Public Property	Encompasses all property, except for public money and statutory authority money, held on behalf of the State or a statutory authority.
Other Property	Includes assets held by the State or a statutory authority for individuals or entities other than the State or a statutory authority.

6.3 Stocktake Requirements

Public and other property must undergo regular checks against the information recorded in the property register or property records.

Stocktakes should ideally involve the participation of at least two officers who are not directly responsible for property management.

Any disparities discovered between the recorded property and the actual inventory during stocktakes must be promptly reported to the accountable authority. Adjustments to property records should be made accordingly, and appropriate follow-up actions should be taken.

6.4 Stocktake Frequency

The frequency of stocktakes should be determined based on the risk and importance of each category of property. Agencies should also take into account their risk management framework, as outlined in TI 4 Risk Management and Internal Control – Requirement 2 Risk Management. To ensure thorough oversight, property should be subject to stocktaking on a rotating basis, ensuring all items are checked at least once every three financial years.

6.5 Lost Public Property

If public property cannot be located during a stocktake, it is treated as lost and must be written off following the guidance provided in Chapter 9 Write-offs of this Guidance.

Case study

An agency is tasked with managing a diverse range of assets, including vehicles, machinery, and equipment. To ensure accountability and prevent fraud, the department adheres to Chapter 6.3 Stocktake Requirements. However, there is a need for clarity regarding the involvement of personnel directly responsible for asset management in stocktaking processes.

Refinement of Responsibilities:

Determining the individuals deemed "directly responsible" for property management should be a collaborative process between the individual agency and its internal audit committee. This clarification is crucial for effectively segregating duties and should be documented within the agency's financial management manual to ensure consistency and comprehension.

Segregation of Duties:

The core principle underlying this process is the segregation of duties, a fundamental component of internal controls aimed at preventing errors and fraud. By clearly defining responsibilities, agencies can mitigate risks and enhance overall accountability.

Involvement of Independent Officers in Stocktakes:

While the ideal scenario involves independent officers conducting stocktakes without direct involvement in property management, certain situations call for a balanced approach:

(i) Technical or Specialised Assets: In instances where assets comprises highly technical or specialised items, independent officers may require assistance from individuals familiar with the assets to accurately assess their condition and identify any potential obsolescence.

(ii) Cost-Effectiveness: Practicality and cost-effectiveness should be considered, particularly in remote regions where staffing is limited. In such cases, it may not be feasible or efficient to deploy independent officers solely for asset verification purposes.

Flexibility in Implementation:

The policy should allow for flexibility in its application to accommodate these nuances while upholding the overarching objective of maintaining the integrity of stocktaking processes. Striking a balance between the need for independence and practical considerations is essential for optimising resource allocation without compromising accountability.

Incorporating these considerations into the agency's procedures will enhance the effectiveness of stocktaking processes and contribute to the establishment of robust financial management practices.

7. Records of Public Property and Other Property

7.1 Introduction

In accordance with TI 4 *Risk Management and Internal Control* – Requirement 6 *Custody of Public Property and Other Property* and – Requirement 7 *Records of Public Property and Other* Property, agencies are required to establish and maintain records for public property and other assets. These records serve multiple purposes, including meeting regulatory requirements, facilitating financial reporting, and enabling the write-off of public property as outlined in section 48 of the Act. The instruction mandates the establishment of formal registers for assets valued at $5,000 or more, with adequate recording for assets below this threshold. Details of register requirements are documented TG 12 Registers – Chapter 6 Public property and other property with a value of $5,000 or more. Furthermore, it provides guidelines for determining asset values, types of assets to be recorded, and procedures for exemptions.

7.2 Record Requirements

Register Requirement: Agencies must maintain registers[9] for public property and other assets valued at $5,000 or more, including copyrights, patents, trademarks, and licenses. Additionally, adequate records should be kept for assets valued below $5,000.

Record Details: Registers should contain comprehensive details such as descriptions, original costs, acquisition dates, manufacturer's identification numbers, agency identification numbers, and asset locations.

Networked Assets: Consider recording entire asset networks valued at $5,000 or more, unless circumstances warrant separate recording for individual assets valued below this threshold.

Exemption Possibility: Agencies may seek exemptions from the $5,000 limit, with the accountable authority having the discretion to approve higher thresholds up to $10,000.

Types of Assets: Record various asset types including plant, equipment, furniture, land, buildings, intellectual property, personal property, etc., in the asset register.

Value Determination: Determine asset values based on original acquisition costs by the agency. If original costs are nominal, use fair values for valuation.

Asset Register Use: Utilise the asset register for financial reporting purposes if the $5,000 limit aligns with the asset capitalisation threshold in TI 9 *Financial Statements* – Requirement 4 *Application of Australian Accounting Standards and Other Pronouncements*.

Adequate Records for Low-Value Assets: Maintain sufficient records for assets below $5,000 to identify assets, acquisition dates, and sale details, if applicable.

Write-off Procedures: Maintain records of all public property to facilitate potential write-offs authorised by the accountable authority, Minister, or Treasurer in accordance with TG 12 Registers – Chapter 14 Write-offs.

[9] Refer to TG 12 – Chapter 6

Protection Measures for Attractive Assets: Implement appropriate protection measures, particularly for attractive assets like electronic devices, under the agency's risk management framework.

FAQs

Can the accountable authority of an agency set a lower cost threshold (i.e. $1,000) for the purposes of internal control?

Yes. In the case of portable and attractive items, appropriate measures should be taken to protect assets of minor value. This may include maintaining a register of such items below the $5,000 threshold for insurance and risk management purposes. The agency has discretion as to what measures are appropriate as part of its risk management strategy and should formalise this in the financial management manual.

The policy to record minor assets that are portable and attractive between $1,000 and $5,000 would appear to be the control/measure that the Department considers is appropriate in protecting its assets and would therefore be consistent with the intent.

8. Shortages and Surpluses of Money

8.1 Introduction

In circumstances where shortages and surpluses of money may occur, an appropriate level of control is necessary to ensure probity, to safeguard money and to maintain accurate and consistent accounting records. This requires the establishment of relevant reporting, investigation and accounting procedures. All shortages of money should be reported in the agency's annual financial statements.

The objective is to ensure that such procedures are implemented. While allowing agencies to determine procedures appropriate to their circumstances, this instruction sets responsibilities and includes some procedural requirements to achieve a desirable level of consistency with respect to the treatment of shortages and surpluses of money. This requirement should be read in conjunction with section 49 of the Act which details the circumstances where an officer may be held liable for the shortage of money.

8.2 Terms and Definitions

Term	Definition
Shortage	Any shortfall in expected funds, including cashier discrepancies, thefts, or other losses.
Surplus	Any excess funds beyond anticipated amounts.

8.3 Treatment of Shortages and Surpluses

Shortages

Shortages are considered agency losses and must be addressed using agency funds.

Prompt banking of an equivalent amount to the shortage is required, with funds credited to the Consolidated Account.

Surpluses

Surpluses should be promptly banked and credited to a miscellaneous revenue account.

Procedures for processing surplus-related claims, including written submissions and thorough investigations, must be established. Claims require validation by the accountable authority before any refunds or payments are made.

The following guidelines are provided to assist in establishing procedures that deal with claims in respect of surplus of money or part thereof:

- all claims should be in writing;
- an investigation should be conducted into the circumstances of each claim;
- a written report providing details of the claim and the results of the investigation should be prepared by an independent investigating officer; and

- before any payment or refund is made the accuracy and validity of the claim should be demonstrated to the satisfaction of the accountable authority or officer designated by the accountable authority for such purpose.

9. Write-offs

9.1 Introduction

Write-offs under section 48[10] of the Act apply to losses of public property, and bad debts due to the State or a statutory authority. The purpose of this Guidance is to ensure that write-offs are conducted in accordance with legal requirements and regulations, thus in promoting financial transparency and accountability.

9.2 Terms and Definitions

Term	Definition
A loss of public property	An event where public property is lost, destroyed or damaged. For example, a laptop is stolen from an agency or a building controlled by an agency is destroyed or damaged by fire.
Bad debts due to the State or a statutory authority	Debts are considered to be bad when irrecoverable. That is, when it is improbable that the amount could be recovered, or it would be uneconomical to fully recover the amount.
Matter	A set of circumstances, events or things giving rise to a write-off.
Relevant amounts	Under section 48[12]: • amounts in respect of public property held for or on behalf of the State and revenue and other debts due to the State; or • amounts in respect of public property held for or on behalf of a statutory authority and revenue and other debts due to the statutory authority.

9.3 Identification of losses of property and bad debts

Write-offs under section 48 of the Act apply to losses of public property, and bad debts due to the State or a statutory authority.

9.3.1 A loss of public property

Asset revaluation decreases under the following Australian Accounting Standards are not write-offs under section 48:

- AASB 9 *Financial Instruments*;
- AASB 102 *Inventories*;
- AASB 116 *Property, Plant and Equipment*;
- AASB 128 *Investments in Associates and Joint Ventures*; and
- AASB 136 *Impairment of Assets*.

[10] Section 48 of the Act – Write-offs

Right-of-use assets under AASB 16 *Leases* and service concession assets under AASB 1059 *Service Concession Arrangements: Grantors* are not public property for the purposes of section 48.

Where public property is appropriately disposed of in accordance with procedures and practices detailed in an agency's financial management manual, section 48 does not apply. For example, an agency may elect to donate 'old' laptops to charity.

9.3.2 Bad debts due to the State or a statutory authority

A decision to write off a debt under section 48 does not legally extinguish the debt and thus does not amount to forgiveness (or waiver) of the debt.

Write-offs under section 48 do not apply to revenue and other debts due between departments/sub-departments as they are not legal entities separate from the State.

Although write-offs under section 48 apply to revenue and other debts due between statutory authorities and between a statutory authority and a department/sub-department, agencies are encouraged to negotiate to resolve any disputes and make the required payments.

A credit note is not considered a write-off under section 48 where it is issued to correct an error in the original sale or the refund of a good or service. This can be distinguished from a bad debt that arises when a customer does not pay, and the debt could not be recovered.

9.4 Approval

The agency should ensure that authorisation is obtained from the appropriate person for the write-off under section 48.

The power to write off amounts is granted by section 48 of the Act, and the limits to the amounts which can be written off by various individuals are prescribed by Regulation 5 of the *Financial Management Regulations 2024*.

Accountable authorities cannot delegate their power to write off under section 48 to officers in the agencies. However, it would not be unreasonable for an accountable authority to authorise officers within the agency to approve, on a day-to-day basis, write-off of a routine nature or for minor amounts. Such write-offs are to be submitted to the accountable authority on a periodic basis for their ultimate approval.

In limited cases, the agency's enabling legislation may authorise the accountable authority to delegate its power to write off under section 48 of the Act. If accountable authorities are uncertain whether they have this power, they should seek legal advice from the State Solicitor's Office.

9.4.1 General monetary limits for write-offs

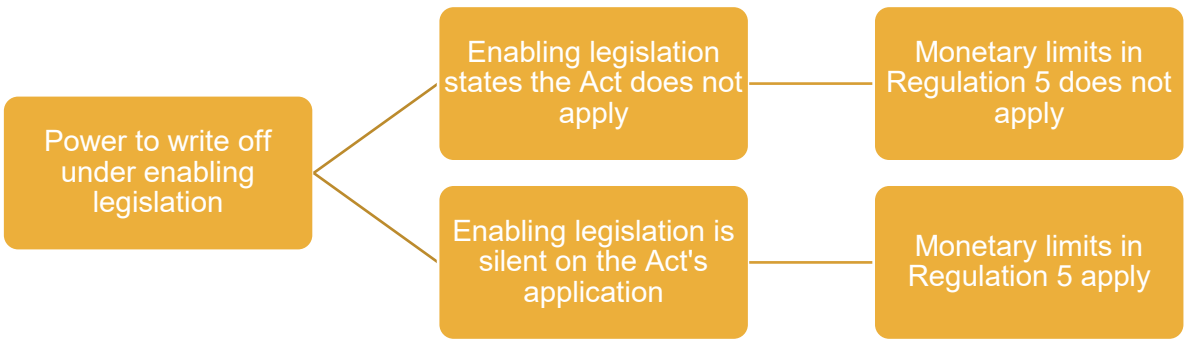
Regulation 5 of the *Financial Management Regulations 2024* sets out the monetary limits in terms of the relevant amount that may be written off by the accountable authority or the Minister without the prior approval of the Treasurer, and Minister with the prior approval of the Treasurer as summarised in the table below:

Reference	Limits	Authorisation
Section 48(2)	up to $200,000	agency's accountable authority
Section 48(3)	up to $500,000	agency's responsible Minister
Section 48(4)	over $500,000	agency's responsible Minister with the prior approval of the Treasurer

In submitting a request for a write-off, agencies should endeavour to include all relevant information for consideration by the authorising person. For example, it may include:

- a brief outline of the circumstances leading to the write-off;
- last time the entity made payment;
- write-offs of [item] in [period] as a percentage of total [item] if relevant;
- the relevant amount to be written off; and
- proposed action to minimise write-offs in the future in relation to the item, if applicable.

Unless an Act expressly states that section 48 of the Act does not apply, the monetary limits in Regulation 5 apply to the amounts that may be written off.



9.4.2 Relevant amount of public property

Public property that has a value equal to or greater than the asset capitalisation threshold may be capitalised for financial reporting purposes[11]. Note that the asset capitalisation threshold for intangible assets may be set higher than the limit for physical assets.

[11] Refer to TI 8 Financial Accounting and Reporting

The table summarises the relevant amount to be written off in various scenarios:

Scenario	Relevant amount to be written off
Public property is capitalised	Carrying amount recognised in the financial statements
Public property is not capitalised (This is likely to be immaterial in the public sector, e.g. a laptop)	Cost of replacing the public property with a new item (i.e. no need to adjust for obsolescence)
Public property (e.g. building) is damaged	Cost of repair or replace

The asset register must be updated to reflect the write-off of assets.

9.4.3 Revenue and other debts

Write-offs under section 48 are required when amounts in respect of revenue and other debts due to the State or a statutory authority are considered irrecoverable.

In determining whether a debt is recoverable, an agency might consider the following factors:

- whether the debtor can be located.
- it is economical (in relation to the value of the debt) to pursue recovery.
- the medical, financial or domestic circumstances of the debtor at that time.
- the likelihood of successful debt recovery through legal proceedings.

9.4.4 Subsequent recovery of amounts that have previously been written off.

The approval to write-off of a relevant amount in respect of a debt does not relieve the debtor from the obligation to pay, nor does it prohibit action to enforce the payment from being taken. There have been cases where the relevant amount that was written off has been subsequently recovered following a change in the debtor's circumstances.

Where a debt is partially recovered, the relevant amount written off is the difference between the debt and the amount recovered.

9.4.5 'One matter'

The monetary limits set under Regulation 5 and the relevant amount that may be written off under section 48 of the Act are in respect of one 'matter' concerning items of public property and revenue and other debts due to the State or a statutory authority.

Individual items of public property and revenue and other debts to be written off may be considered as separate matters or grouped together as a single matter depending upon the circumstances leading to the need for the write-off. The grouping of individual items is not conditional upon the likeness or number of such items but on whether or not the items are linked together by a set of circumstances. In determining what constitutes a set of circumstances, events or things and which items are linked together, judgement should be exercised.

The following examples may assist:

- where a fire destroys various items of public property, the loss of these items could reasonably be considered as a single matter as the various items are linked together by a single event of the fire; and
- following an audit in which a number of salary overpayments were identified and required to be written off, the write-off of these overpayments could reasonably be considered as a single matter as they are linked together by the event of the audit.

By contrast, individual debts to be written off would constitute separate matters because they are not normally linked together by a single event.

9.5 Registers

An agency should establish and maintain a register of all relevant amounts and items written off. Guidance on the management of this register can be found in TG 12 Registers – Chapter 14 Write-offs. The register must be made available to officers of the Office of the Auditor General when required.

9.6 Disclosure

Agencies should disclose details of write-offs under section 48 of the Act or under other written laws in the notes to the financial statements in accordance with TI 9 *Financial Statements*.

FAQs

What is the approval process to write-off of a relevant amount that exceeds $500,000?

There is a four-step process for seeking approval to write off amounts that exceed $500,000:

- The accountable authority seeks the endorsement of the responsible Minister* and requests the Minister to obtain the Treasurer's approval.
- The Minister's office seeks formal approval from the Treasurer.
- Treasury evaluates the request, make recommendations to the Treasurer, and drafts a response to the Minister on behalf of the Treasurer.
- Should the Treasurer approve, the Minister may write off relevant amounts and inform the agency of his/her decision.

* The accountable authority should direct the write-off request to the agency's Minister only.

What should be included in the request for a write-off approval of an amount exceeding $500,000?

The request should include the following:

Memo to the Minister from agency

- Agency writes to the relevant Minister requesting the Minister to approve the write-off with the prior approval of the Treasurer pursuant to section 48(4) of the Act.
- The memo would include background information of the amount to be written-off.
- Include a paragraph stating the requirement of section 48(4) of the Act that the Minister may write off relevant amounts that are greater than the monetary limit of $500,000 with the prior approval of the Treasurer (e.g. As the Minister responsible, I am seeking your prior approval to write-off the amount in excess of $500,000 as required by section 48(4) of the Act).
- Attach a letter/memo to the Treasurer that the Minister needs to sign.

Letter/memo from the Minister to the Treasurer (drafted by the agency)

Are there any guidelines in terms of the approval process for the forgiveness or waiver of debts?

Unlike write-offs, which can be written off under section 48, forgiveness (or waivers) of debts can only be authorised under other written laws, such as the *Public Health Act 2016*.

There is a major distinction between forgiveness or waivers and section 48 write-offs:

- The forgiveness/waiver removes responsibility of the debtor to repay (extinguishes legal obligation to repay).
- Section 48 is authority to write-off and cease pursuing the debt but does not impact the legal obligation of the debtor to repay the debt.

We recommend seeking a legal opinion from the State Solicitor's Officer for matters regarding forgiveness (or waivers) of debts.

10. Retention of Accounting Records

10.1 Introduction

Accounting records must be retained to provide an adequate audit/management trail of financial transactions. Retention facilitates management's knowledge of the agency, expedites audits by both internal audit and the Auditor General, and compliance with legislation. Under the *State Records Act 2000* the State Records Commission (the Commission) has responsibility for establishing Principles and Standards by which State records are to be selected as State archives and for determining the retention periods for State records that are not to be State archives. Furthermore, unauthorised destruction of government records is an offence under the *State Records Act 2000*.

The Commission's Standards address:

- Government Recordkeeping;
- Recordkeeping Plans;
- Appraisal of Records;
- Restricted Access Archives;
- Outsourcing;
- State Archives Retained by Government Organisations and associated Archival Storage Specification; and
- Managing Digital Information.

The Commission's Standards include the *General Retention and Disposal Authorities (GRDAs) for State and local government information*. The GRDAs covers financial and accounting records common to most agencies and prescribes the minimum retention periods of specified records without the need for further recourse to the State Records Office or the Commission. However, accountable authorities should apply any additional retention requirements imposed by any other law or duty relevant to their records, prior to approving the destruction of their records.

Accountable authorities should also be aware that:

- an agency is required to transfer its archives to the State archives collection when those archives become twenty-five (25) years old;
- if an agency wishes to retain custody of its archives beyond the compulsory transfer period, the records must be identified in its Recordkeeping Plan, in accordance with *the State Records Act 2000*; and,
- some degree of flexibility may be exercised in the retention of original records that have been reproduced in another format in accordance with the *Evidence Act 1906* (concerning the modifications of best evidence rules), subject to the *State Records Act 2000* and the Commission's Standards.

A reference to 'policies and standards issued by the State Records Commission' includes the GRDAs and its successor policy instruments.

10.2 Terms and Definitions

Term	Definition
Accounting Records	As defined in the Auditor General Act 2006, encompass all financial documentation pertinent to an agency's operations.

10.3 Record Management

Destruction of Accounting Records: Accounting records can only be disposed of following established policies and standards set forth by the State Records Commission. Prior approval from the accountable authority is necessary for disposal, unless specific laws mandate longer retention periods.

Retention Period and Inspection: Records supporting financial statements must remain accessible for inspection for two years following completion of the audit by the Auditor General. They must be retained as per approved standards even after this inspection period.

Storage and Reproduction of Records: Reproduced records must adhere to the agency's approved Recordkeeping Plan and be capable of clear reproduction for the specified retention period.

Integration with financial management manual: The agency's financial management manual should reference the Recordkeeping Plan, outlining procedures and controls to ensure accounting records remain unaltered post-audit.

10.4 State Record Act 2000

Recordkeeping Plan: Agencies must develop and adhere to a Recordkeeping Plan (the Plan) approved by the Commission, covering retention and disposal procedures.

Variations and Justifications: Any deviations from standard retention periods must be justified in the Plan, including agency-specific records not covered by general guidelines.

Original Records Reproduced: The Plan should address the handling of original records reproduced in alternate formats, considering factors such as cost and evidentiary value.

Physical and Electronic Formats: Records may be maintained in physical or electronic formats, with risks managed in accordance with the *Electronic Transactions Act 2011* and relevant legislation.

Operational Considerations: Beyond legal requirements, agencies should consider practicality and historical significance when determining retention periods.

Consultation and Further Information: Agencies should consult the State Records Office as needed. Additional information is available on their website.

10.5 Further information

Further information on the keeping of records is available at the following website address: http://www.sro.wa.gov.au/state-recordkeeping/recordkeeping-faq

Version Control

Version	Date	Section	Amendments
v4.0	30 September 2024	All	Initial publication
v4.1	13 December 2024	All	Minor editorial amendments to enhance readability
		1.3 Certification of financial management manual	Updated the wording to provide clarification on the certification of financial management manuals.
v4.2	17 June 2025	1 Financial Management Manuals	Includes additional explanation around the role of senior management in contributing to the financial management manual.
		4.3 Terms and Definitions (Insurance)	The term and definition for 'Materiality' have been removed.
		9 Write-offs	The monetary limits have been updated to reflect the limits in the *Financial Management Regulations 2024*, and general guidance has been added around approvals for write-offs.
		All	Minor editorial amendments
v4.3	2 January 2026	All	Minor editorial amendments

TG 5 Expenditure and Payments

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Authorisation of Payments 2. Payment Records 3. Payments and Returned Payments 4. Act of Grace and Ex Gratia Payments 5. Credit Cards – Authorised Use 6. Timely Payment of Accounts
Relevant Treasurer's instruction(s) (TI)	• TI 1 *Foundation* • TI 4 *Risk Management and Internal Control* • TI 5 *Expenditure and Payments* • TI 8 *Financial Accounting and Reporting* • TI 10 *Internal Audit*
Other Related Instrument(s)	• *Cheques Act 1986 (Cth)* • *Construction Contracts Act 2004* • *Corruption and Crime Commission Act 2003* • *Procurement Act 2020* • *Public Sector Management Act 1994* • *Public Works Act 1902* • Section 32 of the *Financial Management Act 2006* (Certain payments and transfers to be authorised) • Section 74 of the *Financial Management Act 2006* (Delegation by Treasurer) • Section 80 of the *Financial Management Act 2006* (Act of Grace payments) • *Unclaimed Money Act 1990*
Last Updated	2 January 2026
Current Version	v5.4

1. Authorisation of Payments

1.1 Introduction

Section 32[12] of the *Financial Management Act 2006* (the Act) provides that a payment or transfer may be made only if the payment or transfer is authorised in the manner prescribed by the TIs.

Certifying officers must ensure that the criteria under TI 5 *Expenditure and Payments* – Requirement 1.5 *Authorisation of Payments* have been satisfied before authorising a payment or transfer. The payment or transfer should be authorised in the operational area which incurred the transaction, with due consideration to separation of duties. The certifying officers must not authorise a payment or transfer for a transaction which they have incurred.

This chapter is not intended to cover the use of the Western Australian Government Purchasing Cards (credit cards) as their use is governed by TI 5 *Expenditure and Payments* – Requirement 2 *Credit Cards* and the agency's approved credit card policy. Note that credit cards should only be used for low value and high volume transactions.

The procurement of goods and services is one of the most significant processes at agencies. All procurement must be completed in accordance with Western Australian Procurement Rules.

These rules are designed to ensure that the best value for money is achieved, taking into consideration the Government's economic, social and environmental priorities. In addition, payments for those goods and services need to be governed by appropriate levels of controls to ensure operational effectiveness and efficiency.

1.2 Controls

TI 5 *Expenditure and Payments* – Requirement 1 *Authorisation of Payments* specifies only the minimum level of controls agencies must implement in making payments and transfers. Agencies should implement additional control mechanisms to assure themselves of the legitimacy and accuracy of payments and transfers.

The following factors are relevant in developing and reviewing such a control mechanism:

- all payments and transfers must be authorised;
- potential risks to the payment authorisation process (e.g. fraud) must be identified and mitigated through implementing appropriate levels of controls including robust procedures and practices;
- all information required for the payment authorisation process is to be effectively communicated both within and outside the agency to all parties concerned; and
- the levels of controls in place are to be regularly monitored for their appropriateness and effectiveness, including being reviewed at least annually by the Internal Audit Committee.

[12] Section 32 of the Act - Certain payments and transfers to be authorised

Any additional control mechanism should be developed in regard to the agency's risk management framework which is required by TI 4 *Risk Management and Internal Control* – Requirement 2 *Risk Management*. Together they are to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud.

1.3 Appointments

The powers and functions assigned by the accountable authorities are to be formally established under an instrument, recorded and reviewed on a regular basis.

A written instrument of authorisation or delegation should be established, and at a minimum assign a monetary limit to a position and/or person as approved by the accountable authorities.

In respect to the appointment of certifying and incurring officers in TI 5 *Expenditure and Payments* – Requirement 1.2 *Authorisation of Payments*, the term 'in writing' also includes electronic forms of writing. The accountable authorities may authorise the chief finance officers (CFOs) to appoint certifying and incurring officers. However, the CFOs should not be charged with the duty to appoint certifying and incurring officers if they are certifying or incurring officers.

The accountable authorities may appoint a person outside of the agency as a certifying or incurring officer, provided that the person is engaged for the purposes of supporting the agency (e.g. under a contract for services).

Furthermore, in an electronic environment, incurring may have been performed by a system operating at the agency (e.g. through the 3-way matching process[13]) and thus there is no need for an officer to incur the transaction. Such details should be documented in the agency's financial management manual as required by TI 4 *Risk Management and Internal Control* – Requirement 1 *Financial Management Manuals*.

1.4 Segregation of Duties

No single officer should be able to control all aspects of the payment authorisation process, such that different officers should be responsible for ordering goods or services, receiving goods or services, incurring transactions and authorising payments.

Where this is not reasonably practicable at an agency, an alternative arrangement may be endorsed by the agency's Internal Audit Committee which is required to be chaired independently under TI 10 *Internal Audit* – Requirement 1 *Internal Audit* and approved by the accountable authority. Note that under any alternative arrangement, the same officer must not be authorised to perform incurring and certifying in relation to a payment or transfer. The approved arrangement is to be detailed in the agency's financial management manual.

[13] The 3-way matching process is a process of matching the invoice, purchase order, and receiving report to verify the details of a purchase before making a payment.

1.5 Four Functions

An officer should be authorised to perform only one of the following functions:

- **Ordering**: Goods or services are generally ordered by an officer raising a purchase order, after seeking quotations or completion of a tender process (if applicable). Full details or specifications of the goods or services, the agreed price and delivery instructions are to be included in the order.
- **Receiving**: Goods or services ordered are generally received by an officer, with evidence retained of the receival.
- **Incurring**: An authorised officer will check the purchase order, receiving report and tax invoice for any difference. This review should be documented before the officer incurs the transaction. In some instances, Incurring is fully performed by the 3-way matching process and thus not required to be done by an officer.
- **Certifying**: An authorised officer will review evidence of the transaction, check account balances (bank account and special purpose account (SPA)) and certify the invoice for payment. The officer must not authorise the payment until all the requirements in TI 5 – Requirement 1.5 have been satisfied.

In this regard, delegations and authorisations play a vital part in internal control that ensures an appropriate level of accountability is assigned. When implemented, delegations and authorisations could save costs, minimise the risk of fraud or error resulting from inappropriate approval of transactions, and maximise efficiency, decision making and timeliness.

1.6 Responsibilities

The CFO should ensure that certifying and incurring officers are aware of their responsibilities.

Certifying and incurring officers should undertake checks and make enquiries as necessary to verify and authorise each transaction. They need not have personal knowledge of each transaction but are required to do all that a reasonable person would do in the circumstance.

In ensuring that money is lawfully available for making a payment or transfer, a certifying officer should ensure that the payment or transfer will not exceed the balance of a SPA and that there is adequate money in the agency's bank account to make the payment or transfer when it becomes due.

It should be noted that adjustments between accounts which are within an appropriation item, or a SPA are generally not considered transfers for the purposes of TI 5 – Requirement 1. Nevertheless, policies and practices should be established to ensure that such adjustments are authorised in a manner appropriate to the circumstance.

However, where other money (i.e. trust money) is held in a SPA, a certifying officer should be aware that adjustments between SPAs for such money would constitute a transfer under TI 5 – Requirement 1, even though they might be held in the same bank account.

1.7 Exemptions to Purchase Order Requirements

A key component of the control framework for payments is the importance of a purchase order. A purchase order is effectively a formal commitment by the agency to purchase goods and/or services from a supplier. In order to maintain good financial governance, purchase orders should be raised for all financial commitments and approved by staff with appropriate authority before goods and services are purchased.

According to TI 5 *Expenditure and Payments* – Requirement 1.7 *Authorisation of Payments*, suitable exemption arrangements can be determined by the accountable authority and Internal Audit Committee of the agency.

For purchase orders to not be raised there should be documented policies and procedures as to why they are exempt, including:

- Recurring varied amounts (i.e. utilities);
- Not procurement of goods or services (i.e. fees, charges, levies and fines);
- Remuneration in nature (i.e. employee entitlements);
- Low risk (i.e. invoices from other government agencies); or
- Emergencies below $5,000 (i.e. repairs and maintenance).

1.8 Systems

Agencies use different methods for processing payments and transfers, ranging from manual, paper-based processes to fully integrated digital systems. The specific approach adopted to meet the requirements of the TI will depend on each agency's processes and risk management framework:

- In a manual environment, a certifying officer may rely on an incurring officer to confirm that the requirements in TI 5 – Requirement 1.5 are met. In such cases, the CFO may authorise the incurring officer to verify the requirements in subparagraphs (ii), (iii), (iv), (v), (vi) and (vii).
- In an electronic environment, a certifying or incurring officer may rely on the agency's systems — such as automated checks or three-way matching process — to ensure compliance with TI 5 – Requirement 1.5. Even in a digital setting, an incurring officer may still verify a payment or transfer by physically signing a payment record.

FAQs

Does TI 5 *Expenditure and Payments* – Requirement 1 *Authorisation of Payments* apply to payments made by the corporate credit card? (i.e. the associated invoice stamped & signed by ordering, receiving, incurring & certifying officers)

TI 5 Requirement 1 *Authorisation of Payments* does not apply to payments made by credit cards as outlined in the supporting guidance chapter. However, please refer to the information in TI 5 *Expenditure and Payments* – Requirement 2 *Credit Cards*.

Are there any special requirements for updating/adding someone on to the incurring/certifying list at all? We can just add the names on the list. Do we need to have a Governing Council approval, etc?

The incurring and certifying officers have to be appointed by the accountable authority (the Governing Council) before being added to the register. This is a requirement of TI 5 *Expenditure and Payments* – Requirement 1.2(i) *Authorisation of Payments*.

2. Payment Records

2.1 Introduction

In accordance with TI 5 *Expenditure and Payments* – Requirement 1 *Authorisation of Payments*, certifying officers will only authorise a payment or transfer of funds if they are satisfied that the criteria within TI 5 *Expenditure and Payments* – Requirement 1.5 *Authorisation of Payments* has been met.

2.2 Payment Record Inclusions

A payment record that contains sufficient data would assist a certifying officer in meeting those requirements. The accountable authority of an agency should authorise what constitutes a payment record. The accountable authority of an agency may authorise the CFO to determine a payment record. Appropriate controls should also be established to ensure that all payment records are processed correctly.

Where a payment record does not embody the creditor's claim, the creditor's claim should be attached to that payment record or, alternatively, sufficient reference should be recorded on the payment record to identify the claim and the claim should be endorsed with the details for payment.

A payment record should provide, wherever possible, sufficient data to establish:

- the name, address and any other relevant identifying information of the claimant;
- particulars of the goods or services supplied;
- dates of supply or periods of service;
- the order, requisition, contract or arrangement under which the goods or services have been supplied;
- invoice number;
- the amount of the claim;
- discounts, if any;
- the account to which the posting is to be applied; and
- the classification of the expenditure or transfer of money.

2.3 Payment Environment

In an electronic environment, a certifying officer may rely on the systems operating at the agency to satisfy the requirements in TI 5 – Requirement 1.5. The accountable authority must authorise at which point in the payment process the agency has a payment record and the form it will take for the purpose of authorisation by a certifying officer.

However, it is possible for a certifying officer to authorise a payment manually (by physically signing a payment record) even though the payment process is carried out on the systems. In such circumstances, the accountable authority should authorise the form of a payment record for authorisation by a certifying officer.

In a manual environment, the accountable authority should authorise the form of a payment record.

3. Payments and Returned Payments

3.1 Introduction

A payment may be made once the payment has been authorised in accordance with TI 5 *Expenditure and Payments* – Requirement 1 *Authorisation of Payments*.

Payments may be made by (i) cheque; (ii) electronic funds transfer (EFT), to an account at a bank or another financial institution nominated by the creditor; or (iii) direct debit of an agency's bank account for payments of a recurring nature or for payments to the Western Australian Treasury Corporation. Additional level of controls should be implemented for the use of cheques.

For the purposes of the above paragraph, the term 'payments' does not include (i) payments by the Western Australian Government Purchasing Cards (credit cards); or (ii) payments for salaries and wages in accordance with any written law, industrial award or industrial agreement.

3.2 Cheques & Signatories

Appropriate controls over returned, uncollected and stale cheques, as well as returned EFTs should also be implemented to ensure that they are not fraudulently converted and that the interests of those rightfully entitled to the payments are protected.

All cheques should be signed:

- by two officers, appointed in writing for the purpose, unless otherwise approved by the accountable authority; and
- in handwriting except where the accountable authority has approved the use of electronic signatures.

Notwithstanding the provisions of the paragraph above, a certifying officer must not be approved to be the sole signatory on a cheque in respect of a payment that the certifying officer has authorised.

A record of appointments of cheque signatories should be maintained. The record should include the specimen signature of each signatory and the details of any conditions of the appointment.

All appointments of signatories for cheques should be confirmed on an appropriate bank form and either notified to:

- the Under Treasurer – for cheques drawn against the Government of Western Australia Bank Account – Main Account; or
- the accountable authority– for cheques drawn against all other accounts of the Public Bank Account.

Where the accountable authority has approved the use of facsimile signatures, appropriate controls should be implemented to provide for the security, transfer and custody of the facsimile stamps or plates, or the electronic medium containing the encoded signature(s).

A record should be maintained for all returned, uncollected and stale cheques and returned EFTs (unclaimed monies) held by an agency in a sundry creditors account.

To ensure that proper control is maintained within an agency when appointing signatories to sign cheques, consideration should be given to:

- the placing of a monetary limit on the value of each individual cheque that the signatories may draw and sign; and
- limiting the purposes and accounts for which signatories may draw and sign cheques.

To be useful as a control and reference document, the record of appointments of cheque signatories should not be maintained by a cheque signatory.

The record of returned, uncollected and stale cheques, as well as returned EFTs must be reviewed annually at the end of each calendar year (i.e. 31 December) to identify any amount that has been unclaimed for six years and is therefore required to be credited to the Consolidated Account in accordance with the *Unclaimed Money Act 1990*.

The procedure for lodging unclaimed monies with Treasury and to credit the Consolidated Account is available at Unclaimed money | Western Australian Government (www.wa.gov.au)

The *Cheques Act 1986* (Cth) defines a stale cheque as one "where, at any time, a cheque appears on its face to have been drawn more than 15 months before that time". It is the drawee institution on whom the cheque is drawn that may refuse payment of a stale cheque.

3.3 Direct Debits

The accountable authority may enter into direct debit agreements for payments:

- of a recurring nature e.g. utilities, credit card payments, merchant fees, bank fees, superannuation contributions, rentals etc; or
- to the Western Australian Treasury Corporation.

Agencies should ensure, as far as practicable, that the authorisation of payments is carried out in accordance with TI 5 – Requirement 1, prior to the bank account being debited for the above transactions, and that controls are in place for ensuring the accuracy of such amounts.

4. Act of Grace and Ex Gratia Payments

4.1 Introduction

A payment made under section 80[14] of the Act is referred to as an act of grace payment.

Even when payment would not otherwise be authorised by law or necessary to meet a legal liability, the Treasurer has the power to authorise payment to a person if satisfied that it is appropriate to do so because of special circumstances.

The Treasurer has also delegated the power to authorise act of grace payments of up to $250,000 to Ministers of the Crown under section 74(1)[15].

Unlike act of grace payments, which are authorised by section 80, ex gratia payments are authorised by Cabinet under non-statutory executive power.

4.2 Approval process for act of grace payments

When recommending that the Treasurer (or Minister) authorise an act of grace payment under section 80, agencies must justify in writing, providing adequate explanation and support, why authorisation for the payment is appropriate.

The Act does not define what constitutes 'special circumstances' for the purposes of section 80. An agency must consider the circumstances and assess the reasonableness and validity of each request for act of grace payments before recommending that the Treasurer or a Minister authorise payment.

An agency should seek advice from the State Solicitor's Office or guidance from Treasury if, in a particular case, it is uncertain:

- whether it is appropriate to make a payment; or
- about the quantum of a payment.

Where a request for an act of grace payment is not directly attributable to actions of an agency, or the matter is considered to be contentious, complex or uncertain, the agency should refer the matter to Cabinet ahead of seeking authorisation.

When an agency recommends that a Minister other than the Treasurer authorise an act of grace payment, it must ensure that the Minister authorises the payment "under delegated authority from the Treasurer".

4.3 Costs not considered to be act of grace payments

Costs relating to the following matters are not considered act of grace payments:

- payments to satisfy a judgement, and
- payments arising from out of court settlements, which stand in lieu of judgements, and which may be evidenced by deeds of release or the filing of documents in court where legal action has commenced.

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14 Section 80 of the Act – Act of grace payments

15 Section 74 of the Act – Delegation by Treasurer

4.4 Funding for act of grace payments

Ordinarily, an act of grace payment should be funded from the relevant agency's existing budget. Where supplementary funding is required, the agency must obtain the Treasurer's approval for such funding in accordance with TG 6 – Chapter 2 *Supplementation of Appropriations* are to 'deliver services', any act of grace payment should be linked to, or be incidental to, the services delivered by the agency. In cases where there is no apparent linkage, the agency should seek guidance from Treasury as to the appropriate funding arrangement.

4.5 Disclosures of act of grace payments

TI 8 *Financial Accounting and Reporting* – Requirement 3.2(i) *Agency Annual Reports* requires an agency to disclose its act of grace payments in its annual report.

The disclosure of ex gratia payments is not required. However, an agency should consider disclosing ex-gratia payments in its annual report for transparency.

4.6 Registers

It is recommended that an agency maintain a register of all act of grace payments. Guidance on the management of this register can be found in TG 12 *Registers* –– Chapter 10 *Act of Grace Payments*.

5. Credit Cards – Authorised Use

5.1 Introduction

The use of credit cards can result in significant benefits through reducing paperwork and streamlining purchasing activities for low value, high volume transactions. Recognising these benefits, the Western Australian Government introduced the use of credit cards for purchasing goods and services. The only credit cards to be used are those issued by a provider listed on the Common Use Arrangement (CUA) – Purchasing Card Services and Expense Management System. Information about this CUA is available at the following website – Common Use Arrangements (CUAs) (www.wa.gov.au). TI 5 *Expenditure and Payments* – Requirement 2 *Credit Cards* complements the CUA and related Western Australian Government Purchasing Card Guidelines.

5.2 Written Notice

As per TI 5, when cardholders become aware that they used their credit cards for personal purposes, they must provide written notice under Requirement 2.6(i) *Credit Cards* which must include:

(i) details of the circumstances giving rise to the use of the credit card for a personal purpose;

(ii) details of that use of the credit card; and

(iii) the amount of the personal expenditure.

Upon receipt of a written notice under Requirement 2.6(i) the CFO must record the personal expenditure as a debt in the agency's accounts.

Upon receipt of a payment under Requirement 2.6(ii) *Credit Cards* the CFO must credit the payment against the debt recorded in the agency's accounts under the paragraph above.

If a cardholder gives a written notice to the CFO under Requirement 2.6(i), but fails to comply with Requirement 2.6(ii), the CFO must inform the cardholder's notifiable authority of that failure as soon as is reasonably practicable.

5.3 Credit Card Reviews

In order to ensure a credit card is not used for a personal purpose, a review must be performed under TI 5 *Expenditure and Payments* – Requirement 2.5 *Credit Cards* immediately upon a cardholder ceasing to hold a credit card.

Agencies should consider conducting a periodic review of all credit cards issued, including resolving long–standing unacquitted transactions.

5.4 Credit Card Policy

For the purposes of TI 5 *Expenditure and Payments* – Requirement 2.3 *Credit Cards*, a credit card policy should (as a minimum) clearly articulate:

- processes and controls for the issue, management and cancellation of a credit card including credit card limits, validation and acquittal of expenditure;
- the purposes for which a credit card may be used (including what is reasonable expenditure);
- a cardholder's obligations (including during leave periods); and
- processes for discharging any debt for personal expenditure on a credit card.

A credit card policy should also prohibit using the cash advance feature of a credit card unless the accountable authority has given express approval in a particular instance.

Agencies should consider including in their internal policies the requirement that, if a credit card is used for a personal purpose in contravention of TI 5 – Requirement 2, the misuse must be recorded in the description against the particular transaction in their accounts.

Agencies should consider incorporating fraud prevention and detection control plans for credit cards in their risk management policies, procedures and practices as required by TI 4 *Risk Management and Internal Control* – Requirement 2 *Risk Management*.

Any failure by a cardholder to repay a debt for personal expenditure may invoke the disciplinary provisions of the *Public Sector Management Act 1994*.

Misuse of a credit card may also constitute misconduct under the *Corruption and Crime Commission Act 2003*.

6. Timely Payment of Accounts

6.1 Introduction

Government can contribute to the continued viability of businesses by settling payments promptly. TI 5 *Expenditure and Payments* – Requirement 3 *Timely Payment of Accounts* sets out the settlement timeframes that agencies must meet when making payments. This policy also applies where agencies purchase goods or services from other agencies.

Payments for invoices at $1 million or above for goods or services are to be made in accordance with TI 5 *Expenditure and Payments* – Requirement 3.1(i) *Timely Payment of Accounts*. Agencies are to adhere to the payment terms set out in TI 5 – Requirement 3.1 for invoices under $1 million even where the contract allows for a longer term.

Agencies should take reasonable steps to take advantage of supplier discounts. Where payment in advance is required as a condition of purchase, payment of the residual amount (if any) is to be made in accordance with TI 5 – Requirement 3.

6.2 Payment Terms

For the purposes of TI 5 – Requirement 3, the payment term begins on the next calendar day (other than a Saturday, a Sunday or a public holiday) after the receipt of the invoice or the goods or services, whichever is later. If the payment term ends on a day that is not a business day, payment must be paid by the next business day. Transactional processing and posting times should be considered to ensure compliance with TI 5 – Requirement 3.

A 'correctly rendered invoice' is one that is compliant with the Australian Taxation Office requirements and includes amounts that are correctly calculated and due for payment and payable under the terms of the contract. The respective payment terms will not begin until a correctly rendered invoice is received.

Agencies are encouraged to use purchasing cards for low value, high volume procurement transactions in accordance with TI 5 *Expenditure and Payments* – Requirement 2 *Credit Cards*.

Agencies should have appropriate processes in place to facilitate payment of accounts in accordance with TI 5 – Requirement 3. This may include assurance that agency internal control (policies/practices and systems) are adequate and robust in accordance with TI 5 *Expenditure and Payments* – Requirement 1 *Authorisation of Payments*.

6.3 Payment for goods or services

Goods and services are those defined in the *Procurement Act 2020*.

Where the receipt date of goods or services is unknown, for example in the case of utility bills generated from meter readings, the receipt date of the invoice will be the basis for calculating the payment term.

6.4 Payment for works or construction

The definition of 'work' and 'construction work' are as specified in the *Public Works Act 1902* and *Construction Contracts Act 2004* respectively, or any other relevant legislation if these Acts are repealed.

Schedule 1 Division 4 to the *Construction Contracts Act 2004* which deals with 'making claims for payment' and Division 5 'responding to claims for payment' are useful references for agencies applying TI 5 *Expenditure and Payments* – Requirement 3.1(iii) Timely Payment of Accounts.

FAQs

Is there a penalty interest amount or rate for late payments? And if yes, can you please advise how this is calculated?

Whether there is penalty interest for late payments or not will depend on individual suppliers. The penalty is not determined by government.

Version Control

Version	Date	Section	Amendments
v5.0	30 September 2024	All	Initial publication
v5.1	13 December 2024	All	Minor editorial amendments to enhance readability
v5.2	17 June 2025	4 Act of Grace and Ex Gratia Payments	Guidance added to Act of Grace and Ex Gratia payments, clarity added to payment term days, and some minor editorial amendments to enhance readability.
		All	Minor editorial amendments
v5.3	2 January 2026	All	Minor editorial amendments

TG 6 Income and Receipts

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Collection Agents 2. Supplementation of Appropriation 3. Refunds of Revenue 4. Tariffs, Fees and Charges 5. Banking of Money 6. Accounting for Revenue and Income
Relevant Treasurer's instruction(s) (TI)	• TI 1 *Foundation* • TI 6 *Income and Receipts*
Other Related instrument(s)	• AASB 1058 *Income of Not-for-Profit Entities* • AASB 15 *Revenue from Contracts with Customers* • *Interpretation Act 1984* • Section 13 of the *Financial Management Act 2006* (Bank accounts for agencies, restrictions on) • Section 23 of the *Financial Management Act 2006* (Treasurer's instructions issue of etc) • Section 27 of the *Financial Management Act 2006* (Expenditure not provided for in, or in excess of amount appropriated by, Appropriation Acts) • Section 28 of the *Financial Management Act 2006* (Advances, Treasurer may authorise etc.) • Section 64 of the *Constitution Act 1889 (*All duties and revenues to form Consolidated Account) • Section 72 of the *Constitution Act 1889* (Consolidated Account to be appropriated by Act of the Legislature: certain charges not affected) • Section 13 of the *Financial Management Act 2006* (Bank accounts for agencies, restrictions on)
Last Updated	06 November 2026
Current Version	v6.5

1. Collection Agents

1.1 Introduction

The use of collection agents (in addition to online payment options) can provide greater convenience to the general public and can be of particular benefit to the agency and the general public where the collection agent has a large branch network.

The extent to which such an arrangement can be put in place will depend upon legislative requirements, if any, applying to the money being collected.

Subject to requirements in any other Act in relation to relevant money, TI 6 *Income and Receipts* – Requirement 1 *Collection Agents* provides that the accountable authority may appoint a person as a collection agent by written agreement to collect money on behalf of the agency.

The agency will incur fees and costs in utilising the services of a collection agent. It may be efficient for the collection agent to offset their fees and costs against money collected, and bank or remit the net amount to the agency. The accountable authority should specify in the agreement that the collection agent may deduct agreed fees and costs from money collected prior to banking or remitting moneys to the agency.

1.2 Considerations

Prior to the appointment of a collection agent, consideration should be given to the following:

- whether a State government organisation is available to provide collection services;
- the costs associated with such an arrangement, not only for commissions and fees that would be paid but also for the necessary control procedures that must be established;
- the perceived advantages associated with the appointment of a collection agent and whether these outweigh the costs mentioned above; and
- all reasonable measures will be taken to minimise the State's financial exposure.

Under Requirement 1.2(i) of TI 6, the Under Treasurer's approval is required prior to entering into an arrangement with a collection agent.

1.3 Netting off fees and costs

Departments may net off the collection agent's fees and costs from prescribed receipts (as defined in section 23 of the Act) that are to be retained under a section 23(2) determination.

Departments may also net off the collection agent's fees and costs from non-prescribed receipts specified in section 23(1) of the Act such as State taxes.

Where money is required to be credited to the Consolidated Account, section 64[16] of the *Constitution Act 1889* (Constitution Act) requires the full amount of revenues to be paid into that Account. Therefore, even though agencies have arrangements for netting off the collection agent's fees and costs, agencies must deposit the equivalent amount collected by the collection agent into the Government of WA Main Account. The requirement for the agency to obtain the Under Treasurer's written approval under TI 6 *Income and Receipts* –

[16] Section 64 of the Constitution Act - All duties and revenues to form Consolidated Account

Requirement 1.2(i*) Collection Agents* is to ensure funding will be available to the agency by way of appropriation to cover these fees and costs.

Whether or not a statutory authority can enter into an arrangement for netting off the collection agent's fees and costs will depend on the specific legislation governing the operation of that statutory authority and the fees. A statutory authority contemplating such an arrangement should seek legal counsel if uncertain as to its legal authority to do so.

2. Supplementation of Appropriation

2.1 Introduction

The Act provides three methods by which an agency may be able to obtain supplementary funding during a financial year.

First, if the agency requires supplementary funding for a service or purpose that is not included in the estimates for the financial year, the Governor may (on the recommendation of the Treasurer) authorise the expenditure under section 27(1) of the Act. In this chapter, this form of supplementary funding is referred to as new funding.

Second, if the agency requires supplementary funding for a service or purpose because the amount provided in the estimates for the financial year in respect of the service or purpose is insufficient, the Treasurer may authorise the expenditure under section 27(2) of the Act. In this chapter, this form of supplementary funding is referred to as additional funding.

Third, supplementary funding may take the form of an advance authorised by the Treasurer under section 28(1) of the Act. In this chapter, this form of supplementary funding is referred to as an advance. Under section 28(6) of the Act, an advance must be: (a) recovered before the end of the financial year in which it is authorised; or (b) subject to a further authorisation under section 28(1).

Supplementary funding is not guaranteed. Consequently, agencies should avoid entering contractual arrangements in relation to the supply of goods, services or capital expenditure until supplementary funding has been approved.

2.2 Template and Form Requirements

If an agency requires new funding during a financial year, the accountable authority of the agency must seek the Governor's authorisation for the expenditure under section 27(1) of the Act by using Treasury Form 12 (new item).

If an agency requires additional funding during a financial year, the accountable authority of the agency must seek the Treasurer's authorisation for the expenditure under section 27(2) of the Act using Treasury Form 11 (existing item).

If an agency requires an advance under section 28[17] of the Act, the accountable authority of the agency must seek the Treasurer's authorisation for the advance using Treasury Form 8.

If an agency cannot repay an advance before the end of the financial year in which the advance was authorised, the accountable authority of the agency must seek the Treasurer's further authorisation for the advance for the next financial year using Treasury Form 8.

[17] Section 28 of the Act - Advances, Treasurer may authorise etc.

2.3 General guidelines about supplementary funding

Officers should monitor expenditure against appropriation items and the agency's expense limit before entering into financial obligations to ensure that appropriated amounts are not exceeded.

Supplementary funding has the potential to impact on the government's financial targets (including net debt). Therefore, prior to the submission of any application for supplementary funding, every effort is to be made within the agency to absorb the additional expenditure within existing resources (i.e. through reprioritising current spending or through improving cost recovery on existing user charges to generate additional revenue).

An explanation of the extent to which the additional expenditure has been absorbed within internal funds should be included in support of every request for supplementary funding.

2.4 Guidelines about advances

Section 28(1) of the Act allows the Treasurer to authorise an advance to be made on the terms and conditions determined by the Treasurer. The advance is charged to the Treasurer's Advance Account in the financial year in which it is made (the financial year). Under section 28(6) of the Act, the advance must be repaid before 30 June of the financial year or, if it is necessary to extend the advance beyond the financial year, further authorisation under section 28 must be obtained from the Treasurer prior to the start of the next financial year. A Treasury Form 8 must be completed each time authority for an advance is required from the Treasurer, including when the advance is to be rolled-over to the next financial year.

3. Refunds of Revenue

3.1 Introduction

Section 64[18] of the Constitution Act requires all duties and revenues of the State to be credited to the Consolidated Account.

These revenues include:

- taxes and fines under written law;
- royalties in respect of forest produce, minerals, petroleum, water or other natural resources of the State;
- general purpose grants from the Commonwealth; and
- income tax equivalents, local government rate equivalents, dividends and returns of surplus.

In addition, section 72[19] of the Constitution Act provides that all payments from the Consolidated Account must be appropriated.

Accordingly, where revenue is credited to the Consolidated Account and is required to be refunded, the refund needs to be appropriated.

3.2 Refund Requirements

Where a refund is made from the Consolidated Account within the same financial year as the revenue is collected and credited to the Consolidated Account, the refund may be netted off against the revenue collected.

Refunds of past years revenue collections should be appropriated from the Consolidated Account for that purpose.

[18] Section 64 of the Constitution Act - All duties and revenues to form Consolidated Account

[19] Section 72 of the Constitution Act - Consolidated Account to be appropriated by Act of the Legislature: certain charges not affected

4. Tariffs, Fees and Charges

4.1 Introduction

Treasury generally requests details of a review of tariffs, fees and charges (TF&Cs) as part of the budget process. This is to ensure that the level at which TF&Cs are set is consistent with the cost recovery policy and does not exceed the full cost of providing the services. Exceeding cost recovery would only be possible where it is authorised by statute and approved by Government.

4.2 Requirements - Register

A register of TF&Cs should, as a minimum, contain the following information presented in TG 12 *Registers*.

When requested by the Under Treasurer, the accountable authority should provide information as requested in respect of TF&Cs.

4.3 Costing and Pricing Guidelines

The Costing and Pricing Government Services guidelines have been developed to assist agencies in having a better understanding of their costs of providing services and factors to consider when setting TF&Cs. It is available at the following website address:

Costing and Pricing Government Services Guidelines (www.wa.gov.au)

Regular reviews of TF&Cs will ensure that the prices:

- reflect movements in the input costs;
- achieve, or make adequate progress towards achieving, full cost recovery where appropriate;
- are not over recovering costs;
- are fair and equitable, and recognise household capacity to pay;
- are competitive, in comparison with service providers locally and in other jurisdictions; and
- are comprehensive in that new TF&Cs are designed and introduced in a timely manner.

5. Banking of Money

5.1 Introduction

All money received by an agency must be paid into a bank account that forms part of the Public Bank Account, is established under section 13[20] of the Act or is specified by other legislation.

Banking should be performed daily whenever practicable, to mitigate the risks associated with fraud and theft and maintain accurate, up-to-date visibility of the agency's cash position.

Daily banking does not necessarily mean that money must be banked the day it is received. Money that has been received after the daily banking has been conducted may be carried over to the next day's banking. Nor does daily banking preclude more than one banking on a given day. Agencies may consider it appropriate to bank more frequently, particularly if they have received an unusually high collection of cash that would otherwise remain on the premises overnight.

The accountable authority may exercise discretion and vary the frequency of banking where it is not practicable to bank daily because of special circumstances. The accountable authority may also set dollar thresholds beyond which moneys must be banked regardless. In remote areas, for example, it may not be practicable or cost beneficial to bank each day on account of distance, cost of travel and impacting services to the public. Where daily banking is not practicable, the agency must ensure that there is adequate security to protect money from theft or fraud.

5.2 Agency Banking Guidance

Consideration Factors for Discretionary Banking	When exercising discretion regarding banking frequency, the accountable authority should assess risks, costs, and benefits including the following factors: • Agency's location. • Staff availability and potential impact on public services or workflow. • Security arrangements for retained cash and cheques. • Feasibility of banking small amounts due to distance from banking facilities. • Insurance coverage for on-premises and transit cash. • Anticipated consequences of banking delays.
Banking Timing	To mitigate risks of unlawful interception, it is advisable to vary the timing of daily banking.
Procedural Implementation	• Stamp all received cheques as "not negotiable" promptly. • Convert accumulated cash collections to money orders when their value becomes significant, especially if banking facilities are intermittent but post office services are accessible. The money order to be in the name of the agency and mailed to the chief finance officer, and the chief finance officer advised accordingly. • Conduct daily reconciliations between held cash/cheques and issued

[20] Section 13 of the Act - Bank accounts for agencies, restrictions on

	receipts. • Record cheque details progressively for control and reference purposes daily, using an abstract or bank deposit slip.
Discretionary Banking	When exercising discretion regarding banking frequency, accountable authorities should assess risks, costs, and benefits. This involves considering the agency's location, staff availability, and potential impact on service delivery.
Remittance Advice Content	Remittance advice provided to Treasury for deposits into the Government of Western Australia Bank Account – Main Account should include: • Deposit date. • Description of deposit. • Payor(s) information. • Deposit amount. • Contact details of a knowledgeable officer for follow-up inquiries.

6. Accounting for Revenue and Income

6.1 Introduction

This Guidance is intended to provide a better understanding of the requirements of the Australian Accounting Standards AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. Under these Standards, entities need to ensure that revenue and income are recognised at appropriate amounts and in the appropriate reporting periods.

Adoption of these Standards requires an assessment of each funding agreement to determine whether it is 'enforceable' and includes promises that are 'sufficiently specific' to qualify as performance obligations. This assessment must be applied to each transaction based on its substance rather than its legal form, or any description given to it. A key issue is to determine whether each transaction, or part of that transaction, falls within the scope of AASB 15. Only if AASB 15 does not apply, AASB 1058 is considered.

Fees and charges that are common sources of revenue for public sector entities outside the Consolidated Account generally relate to the provision of goods or services. Therefore, they are expected to be accounted for in accordance with AASB 15.

Other transactions would be accounted for in accordance with other relevant standards, including AASB 1058 and AASB 1004 *Contributions*.

AASB 1058 is to establish principles for recognising income:

- for the receipt of taxes and appropriations;
- on transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the entity to further its objectives; and
- for the receipt of volunteer services.

AASB 1004 remains in force, but its scope is reduced. AASB 1004 continues to apply and remains unchanged with respect to accounting for:

- restructure of administrative arrangements;
- liabilities of government departments assumed by other entities; and
- contributions by owners in the public sector.

This Guideline should be read in conjunction with the following documents:

- AASB 15 *Revenue from Contracts with Customers*;
- AASB 1058 *Income of Not-For-Profit Entities*;
- AASB 1004 *Contributions*;
- AASB 16 *Leases*;
- AASB 9 *Financial Instruments*;
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- TI 8 Financial Accounting and Reporting – Requirement 8 Contributions by Owners Made to Wholly Owned Public Sector Entities; and
- TI 9 Financial Statements – Requirement 4 *Application of Australian Accounting Standards and Other Pronouncements*.

6.2 Key Requirement

6.2.1 AASB 15 Revenue from Contracts with Customers

Scope

AASB 15 shall be applied to all contracts with customers, except the following:

(a) lease contracts within the scope of AASB 16 *Leases*;

(b) insurance contracts within the scope of AASB 17 *Insurance Contracts*;

(c) financial instruments and other contractual rights or obligations within the scope of AASB 9 *Financial Instruments*, AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*; and

(d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two energy companies that agree to an exchange of electricity to fulfil demand from their customers in different specified locations on a timely basis.

Entities shall apply this Standard to a contract (other than those explicitly scoped out above) if the contract is with a customer. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. A contract would not be with a customer if, for example, the counterparty has contracted with the entity to participate in an activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's ordinary activities. Refer to **Appendix 1** for an example of collaboration arrangements.

Contracts not with customers fall outside the scope of AASB 15. However, it is common in the public sector for customers to direct goods or services to be provided to third-party beneficiaries on the customer's behalf. In these contracts:

(a) the customer remains the party that has contracted with the entity for those goods or services; and

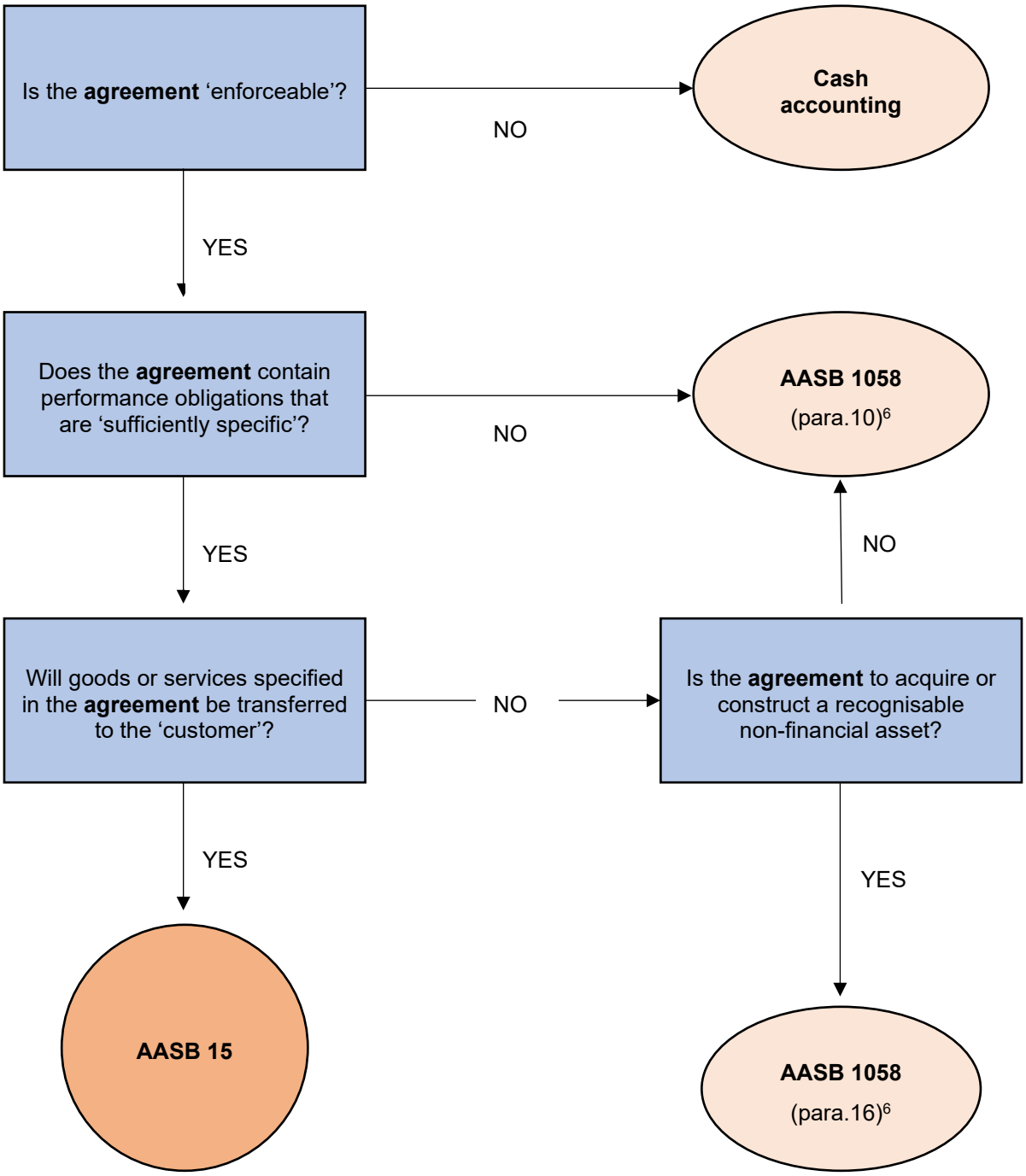
(b) the provision of those goods or services to third-party beneficiaries is a characteristic of the promised transfer of goods or services to the customer.

For example, an entity may receive consideration from an organisation for the specified purpose of providing training free of charge to members of the community. The organisation is the customer because it has contracted with the entity to provide the training services. This conclusion is not affected by the fact that the organisation specifies that those services are to be provided to members of the community.

To be captured within the scope of AASB 15, an agreement must:

- be 'enforceable';
- contain performance obligations to transfer goods or services to another party that are 'sufficiently specific'; and
- not result in the goods or services specified being retained by the entity (the goods or services will be transferred to the customer or to other parties on behalf of the customer).

Chart 1 – Scope of AASB 15



[21] Where the agreement is considered 'enforceable' and 'sufficiently specific' (but there is no transfer of goods or services), a contractual receivable would be recognised in respect of income recognition.

Identifying a contract

The first step in applying AASB 15 is to determine if a contract exists and whether that contract is with a customer. This assessment is made on a contract-by-contract basis.

Entities also need to consider whether the contract is explicitly scoped out of AASB 15 (see AASB 15.5). Contracts that are entirely in the scope of another standard shall be accounted for in accordance with that standard. If the standard only applies to a portion of the contract, entities will need to separate the contract.

An entity can only recognise revenue in accordance with AASB 15 when it is 'probable' that it will collect the consideration it is entitled to in exchange for goods or services provided to a customer. The assessment of this probability must reflect both the customer's ability and intent to pay as amounts become due.

In the private sector, most entities will not enter into a contract with a customer if there is significant credit risk and the entity has no protection to ensure it can collect the consideration to which it is entitled. However, this is not the case for public sector entities who may be required to provide services to customers even if there is an expectation that payments will not be received. This is particularly relevant for entities providing services, such as water and electricity, to low socio-economic customers. In these situations, revenue will not be recognised under AASB 15.

AASB 15 defines a contract as an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). Entities shall consider those practices and processes in determining whether and when an agreement with a customer creates enforceable rights and obligations.

Furthermore, an agreement might be enforced through 'equivalent means' such as administrative arrangements. Examples of terms that result in enforceable agreements include the following:

(a) a refund in cash or kind is required when the agreed specific performance has not occurred;

(b) the customer, or another party acting on its behalf, has a right to enforce specific performance or claim damages;

(c) the customer has the right to take a financial interest in assets purchased or constructed by the entity with resources provided under the agreement;

(d) the parties to the agreement are required to agree on alternative uses of the resources provided under the agreement; and

(e) an administrative process exists to enforce agreements between sovereign States or between a State and another party.

Agreements that explicitly state they are not intended to be legally binding may nonetheless become enforceable agreements if the parties act in a manner that is consistent with the stated intention. Agreements that lack elements of a contract may nonetheless become legally enforceable if there is conduct by one party that causes the other party to act in reliance on such conduct. The enforceability of agreements does not depend on their form. For example, documents such as Memoranda of Understanding, Heads of Agreement and Letters of Intent can constitute legally enforceable agreements.

In the public sector, administrative arrangements may include a directive given by a Minister to his/her responsible entity. The ministerial authority to require a transfer of goods or services would be sufficient for an agreement to be enforceable.

Identification of an agreement as being enforceable through legal or equivalent means does not require a history of enforcement of similar agreements by the customer or even an intention of the customer to enforce its rights. A customer might choose not to enforce its rights. However, that decision is at the customer's discretion, and does not affect the enforceability of the customer's rights. Enforceability depends solely on the customer's capacity to enforce its rights.

However, the following circumstances would not, of themselves, cause an agreement to be enforceable:

(a) a transferor has the capacity to withhold future funding to which the entity is not presently entitled; and

(b) an entity publishes annual estimates to spend money or consume assets in particular ways. The annual estimates are generally in the nature of a budget document and do not identify parties who could enforce the document. Such annual estimates would not, of themselves, be sufficient to create an enforceable agreement, even if the estimates are subject to budget-to-actual reporting and other oversight mechanisms. This is in contrast to a letter of intent which is typically an agreement between specifically identified parties.

Refer to **Appendix 2** for the accounting for contract modifications.

Identifying performance obligations

Having identified the contract in Step 1, entities are now required to identify performance obligations contained in that contract. A performance obligation is a promise to transfer:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The importance of appropriately identifying performance obligations in a contract cannot be underestimated as they each form a separate 'unit of account' for the purposes of determining how much revenue shall be recognised and when revenue shall be recognised. The conclusion reached in this Step could bring substantial changes to the amount and timing of revenue recognition in comparison with the previous treatment.

Promises in a contract can be explicit or implicit if the promises create a valid expectation that the entity will provide a good or service based on customary business practices, published policies or specific statements. It is important to consider representations made during contract negotiations, marketing materials and business strategies when identifying the promises in a contract. If an entity has historically provided maintenance services for no additional consideration, this would lead to an implicit promise of service that should be separately identified.

Promised goods or services include, but are not limited to:

- selling produced goods or reselling purchased goods;
- performing contractually agreed-upon tasks;
- standing ready to provide goods or services in the future;
- arranging for another party to provide goods or services[22];
- designing, building or creating an asset on behalf of a customer;
- granting rights to use or access to tangible assets, such as the right of access to a private property or attraction;
- granting rights to use or access to intangible assets, such as intellectual property; and
- granting options to purchase additional goods or services that provide a material right to a customer.

A good or service is distinct if:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Each distinct good or service that an entity promises to transfer is a performance obligation. Goods or services that are not distinct are bundled with other goods or services in the contract until a bundle of goods or services that is distinct is created. In some cases, that would result in the entity accounting for all goods or services as a single performance obligation.

Refer to **Appendix 4** for the accounting for a series of performance obligations.

22 Refer to **Appendix 3** for principal versus agent guidance.

In addition, in the public sector, a necessary condition for identifying a performance obligation is that the promise is sufficiently specific to be able to determine when the obligation is satisfied. Judgement is necessary to assess whether a promise is sufficiently specific. Such judgement takes into account any conditions specified in the agreement, whether explicit or implicit, regarding the promised goods or services, including conditions regarding the following aspects:

(a) the nature or type of the goods or services;

(b) the cost or value of the goods or services;

(c) the quantity of the goods or services; and

(d) the period over which the goods or services must be transferred.

Some entities have a charter, such as to provide training services. However, it is unlikely that an entity's charter or stated objectives would be specific enough to require the recognition of contract liabilities under an agreement that provided the entity with a grant for a specified period but did not identify the goods or services to be provided to other parties. Where entities receive a grant to be used over a particular period for specified services, such a grant could meet the sufficiently specific criterion.

An agreement can also include specific activities that an entity undertakes on behalf of a customer. They may include service delivery, research or asset management, among others. However, performance obligations do not include activities that an entity must undertake to fulfil an agreement unless those activities transfer a good or service to the customer. For example, research activities undertaken to develop intellectual property (i.e. a non-financial asset controlled by the entity) that the entity will license to the customer are not themselves a transfer of goods or services to the customer. Such an agreement is not within the scope of AASB 15.

Determining the transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, GST). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

In most instances, determining the transaction price is relatively straightforward. It is the price paid by a customer for the relevant good or service provided.

Complexities arise when a contract includes any of the following:

(a) variable consideration;

(b) the reversal constraint;

(c) a significant financing element;

(d) non-cash consideration; and

(e) consideration payable to a customer.

Variable consideration is common and includes discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items.

Consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if a fixed amount is promised as a performance bonus on achievement of a specified milestone.

Entities shall estimate an amount of variable consideration by using either of the following methods:

(a) The expected value – the sum of probability-weighted amounts in a range of possible consideration amounts. The expected value may be appropriate if an entity has a large number of contracts with similar characteristics.

(b) The most likely outcome – the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract). The most likely amount may be appropriate if the contract only has two possible outcomes (for example, an entity either achieves a performance benchmark or does not).

The method used is not a policy choice, but rather the method that best predicts the amount of consideration to which the entity will be entitled to receive based on the terms of the contract. Entity shall apply the method consistently throughout the contract.

Entities shall recognise a 'refund liability' if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled. The refund liability (and corresponding change in the transaction price, and therefore the 'contract liability') shall be reviewed at the end of each reporting period for changes in circumstances. The refund liability is considered a financial liability.

Entities shall only include in the transaction price some or all of an amount of variable consideration that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

For example, Legal Aid WA charges a small fee for providing legal advice on appointment. However, the fee is means tested and may be waived in cases of financial hardship. In determining the amount of revenue earned from providing such legal services, the entity needs to consider whether the fee to be charged is eligible for being recognised as revenue. This is only the case if it is highly probable that a significant reversal will not arise, which is when it is established that the fee charged will not be waived.

Refer to **Appendix 5** for other issues in determining the transaction price, including prompt payment discounts and breakage.

Entities shall revise estimates of variable consideration at each reporting date throughout the contract period. Any changes in transaction prices are allocated to all performance obligations in the contract, unless the variable consideration relates only to one or more, but not all, of the performance obligations.

Allocating the transaction price to performance obligations

The transaction price shall be allocated to each performance obligation identified in Step 2 on a relative stand-alone selling price basis.

Entities shall determine the stand-alone selling price, at contract inception, of the distinct good or service underlying each performance obligation and allocate the transaction price in proportion to those stand-alone selling prices.

The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service that the entity sells separately to similar customers in similar circumstances. A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone selling price of that good or service.

If a stand-alone selling price is not directly observable, entities shall estimate the stand-alone selling price.

Suitable methods for estimating the stand-alone selling price of a good or service include, but are not limited to, the following:

(a) Adjusted market assessment approach – entities could evaluate the market in which they sell goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services.

(b) Expected cost plus a margin approach – entities could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.

(c) Residual approach – entities may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract.

A combination of methods may need to be used to estimate the stand-alone selling prices of the goods or services promised in the contract if two or more of those goods or services have highly variable or uncertain stand-alone selling prices.

Recognising revenue

Revenue shall be recognised when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Previous requirements for revenue recognition were based around an assessment of whether the risks and rewards of ownership of a good or service had been transferred to a customer. The new application of the control criterion to all types of transactions for providing goods or services is one of the main changes in AASB 15. Under this control model, an analysis of risks and rewards is only one of a number of factors to be considered and this may lead to a change in the timing of revenue recognition in certain situations.

Control in the context of AASB 15 is the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset. It includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. Indicators that control has passed include that the customer has:

(a) a present obligation to pay;

(b) legal title;

(c) physical possession;

(d) the significant risks and rewards of ownership; and

(e) accepted the asset.

The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly, such as by:

(a) using the asset to produce goods or provide services (including public services);

(b) using the asset to enhance the value of other assets;

(c) using the asset to settle liabilities or reduce expenses;

(d) selling or exchanging the asset;

(e) pledging the asset to secure a debt liability; and

(f) holding the asset.

For each performance obligation identified in Step 2, entities shall determine at contract inception whether it will satisfy the performance obligation over time or at a point in time.

Entities will satisfy a performance obligation and recognise revenue over time if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; or

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the entity does not satisfy the performance obligation over time, the performance obligation will be satisfied at a point in time. To determine the point in time at which a customer obtains control and the entity satisfies the performance obligation, the entity will consider the indicators of when control has passed.

6.2.2 AASB 1058 Income of Not-for-Profit Entities

Scope

AASB 1058 shall be applied to transactions where the consideration to acquire an asset is significantly less than its fair value principally to enable the entity to further its objectives (i.e. concessional transactions), and the receipt of volunteer services. Examples include:

(a) cash and other assets received from grants, bequests or donations;

(b) receipts of appropriations by government departments and other public sector entities;

(c) receipts of taxes, rates or fines; and

(d) assets acquired for nominal or low amounts (e.g. concessionary leases).

This means that AASB 1058 does not deal with situations where either the consideration is not significantly less than fair value, or it is significantly less than fair value but the difference is not principally to enable the entity to further its objectives.

When assessing whether the consideration for an asset is significantly less than its fair value principally to enable the entity to further its objectives, the entity may consider whether another entity could obtain the asset under the same terms and conditions. If those terms and conditions are generally not available to other entities of the same class/nature, it is more likely that the difference between the consideration for acquiring the asset and the fair value of the asset is principally for the entity to further its objectives. For example, trade discounts available to all not-for-profit entities, but not to for-profit entities, are not considered principally to further the specific entity's objectives.

Volunteer services are services transferred by individuals or other entities without charge or for consideration significantly less than fair value of those services. Such services should be recognised as an asset (or an expense) where their fair value can be measured reliably.

Entities may be recipients of volunteer services under voluntary or compulsory schemes operated in the public interest, for example:

(a) technical assistance from other governments or international organisations;

(b) persons convicted of offences who are required to perform community services for the entity;

(c) hospitals receiving the services of volunteers;

(d) schools receiving voluntary services from parents as teachers' aides or as board members; and

(e) local governments receiving the services of volunteer firefighters.

Entities may also be recipients of volunteer professional services that support their broader activities. For example, government departments may receive free professional accounting and/or legal services from other agencies.

Parliamentary appropriations, which establish the authority to spend money for particular purposes, are a form of a transfer made voluntarily as the Government is not compelled to make payments of amounts appropriated.

Taxes, rates and fines are forms of transfers made compulsorily.

Recognition and measurement

Current grants and subsidies

An asset acquired under AASB 1058 shall be recognised in accordance with other standards (as relevant). Examples includes:

(a) AASB 9 *Financial Instruments* (e.g. cash);

(b) AASB 16 *Leases* (i.e. right-of-use assets);

(c) AASB 116 *Property, Plant and Equipment*; and

(d) AASB 138 *Intangible Assets*.

Financial assets under AASB 9 include contractual rights to receive cash or other financial assets from other entities. Therefore, under AASB 1058, a contractual receivable (and income) would be recognised when the entity meets conditions specified in a contract that is enforceable (refer to the discussion of enforceability under 'Identifying a contract').

On initial recognition of an asset, the entity shall recognise any related contributions by owners, increases in liabilities, decreases in assets, and revenue ('related amounts') in accordance with other standards. For example, related amounts may take the form of:

(a) contributions by owners, in accordance with AASB 1004;

(b) revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15;

(c) a lease liability, in accordance with AASB 16;

(d) a financial instrument, in accordance with AASB 9 (e.g. cash paid for the asset); or

(e) a provision, in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

The entity shall recognise income immediately in profit or loss for the excess of the initial carrying amount of the asset over the related amounts (including the consideration for acquiring the asset). Where the asset is acquired for nil consideration, income will be recognised for the fair value of the asset after deducting any other related amounts.

Capital appropriations are designated as 'contributions by owners' by TI 8 – Requirement 8 and therefore are accounted for in accordance with AASB 1004.

Contract liabilities are recognised in accordance with AASB 15 where transactions include the transfer of goods or services to other parties. For example, a fundraising event may include a donation (under AASB 1058) and a purchase of goods or services (under AASB 15). Income in relation to the donation would be recognised at the time of purchase whereas revenue from selling goods or services would be recognised when the entity transfers control of the goods or services to customers. The transfer of control would be at the time of purchase when the good (e.g. flower, book or pen) is handed over to customers or at a later date when the service (e.g. lunch or dinner) will be provided.

Right-of-use assets acquired under concessionary leases are measured at cost in accordance with TG 8 – Chapter 2 Leases. Therefore, no income would be recognised in relation to the recognition of concessionary leases.

Financial liabilities are recognised in accordance with AASB 9 for taxes received in advance for which the taxable event has yet to occur (refer to the 'Taxes' section below).

Capital grants

Where a transaction is to enable an entity to acquire or construct a recognisable non-financial asset (e.g. property, plant or equipment) that is controlled by the entity (i.e. that will not be transferred to other parties), the entity shall recognise a liability for the excess of the initial carrying amount of the financial asset over the related amounts. The entity shall recognise income in profit or loss when (or as) the entity satisfies its obligations under the transaction.

With capital grants, AASB 1058 requires the entity to initially recognise a liability representing the entity's obligation to acquire or construct the non-financial asset and, if applicable, other performance obligations under AASB 15 which involve the transfer of goods or services to other parties. The liability in relation to acquiring or constructing the non-financial asset is initially measured at the carrying amount of the financial asset received from the transferor that is not attributable to the related amounts for performance obligations under AASB 15, contributions by owners, etc. The liability is recognised until such time when (or as) the entity satisfies its obligations under the transaction.

If the non-financial asset being acquired or constructed is not permitted to be recognised by a standard (e.g. knowledge or intellectual property developed through research, which cannot be recognised as an asset under AASB 138), the recognition of a liability is no longer required. Income will be recognised immediately in profit or loss.

The obligation to acquire or construct the non-financial asset is accounted for similarly to a performance obligation under AASB 15. For each obligation, the entity shall determine whether the obligation will be satisfied over time or at a point in time. If the entity does not satisfy the obligation over time, the obligation will be satisfied at a point in time.

For example, Main Roads WA receives Commonwealth grant of $1 million on 30 June 2020 to construct a new road. By 30 June 2021, it had spent $800,000 on constructing this new road and a survey indicated that the road was 80% complete. Construction was completed three months later on 30 September 2021.

On 30 June 2020, applying AASB 1058, the journal entry would be:

Dr Cash	$1 million	
Cr Grant liability		$1 million

The liability represents the entity's obligation to acquire or construct the non-financial asset.

On 30 June 2021, the journal entry would be:

Dr Grant liability	$800,000	
Cr Income		$800,000
Dr PPE in progress	$800,000	
Cr Cash[23]		$800,000

On 30 September 2021, the journal entry would be:

Dr Grant liability	$200,000	
Cr Income		$200,000
Dr PPE in progress	$200,000	
Cr Cash		$200,000

[23] Four quarterly payments ($200,000 each) had been made in 2020-21.

If the grant was spent on an item that does not result in a recognisable non-financial asset (e.g. feasibility study), the 'credit entry' of $1 million would be recognised as income, instead of a liability, on 30 June 2020.

Volunteer services

Volunteer services shall be recognised as an asset (or an expense) if:

(a) the fair value of those services can be measured reliably; and

(b) the services would have been purchased if they had not been donated.

This requirement has been moved from AASB 1004 to AASB 1058 virtually unchanged.

Entities may, as an accounting policy choice, elect to recognise volunteer services, or a class of volunteer services, if the fair value of those services can be measured reliably, whether or not the services would have been purchased if they had not been donated.

Some volunteer services, such as professional services, might readily have observable market prices. In such circumstances, obtaining a reliable measure of fair value would be relatively straightforward. Entities are not required to perform an exhaustive search for volunteer services that might meet the recognition criteria in this Standard. Volunteer services that would have been purchased if they were not donated should be readily identifiable from the entity's operational requirements. Volunteer services shall be measured at fair value.

Entities shall recognise the excess of the fair value of volunteer services over any related amounts as income immediately in profit or loss.

Tax versus licence

AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors* provides guidance on distinguishing a licence from a tax. A licence is subject to AASB 15 while a tax will be accounted for in accordance with AASB 1058 (and AASB 9).

The following features are relevant in determining whether a transaction is a licence or a tax:

Feature	Licence	Tax
(a) Is the transaction compulsory rather than discretionary for the payer?	Discretionary (e.g. payer – the licensee – has discretion over whether to perform an activity that requires permission (*ex ante*), and it is not compulsory if payment is not made to retrospectively obtain the right, but subject to fines and/or other penalties)	Compulsory (e.g. non-discretionary payments for activities that the entity has performed, for example, earning revenue (*ex post*), and it is compulsory to pay the base amount in addition to any penalty fees and interest)

Feature	Licence	Tax
(b) What is the primary purpose?	Non-financial purpose (e.g. equitable allocation of a public resource)	Generating income for the public sector entity (e.g. very high proceeds in relation to the costs incurred might be indicative of tax component)
(c) Does the transaction create direct rights to use or access an asset for a payer, or perform an activity, and, depending on the type of transaction, direct obligations of the payee?	Creates direct rights for the payer (licensee), and could create direct obligations for the payee (licensor)	No specific rights for the payer nor obligations for the payee
(d) Does the transaction give the payer specific permission that must be obtained prior to performing an activity or using or accessing a resource of the payee that would otherwise be unlawful?	Yes	No
(e) Does the transaction transfer control of the payee's underlying asset?	No	Not relevant

In most instances, it is straightforward to determine whether a charge constitutes a licence or a tax. For example, liquor licences are classified as licences rather than taxes because a retailer is not obliged to sell alcohol, and the primary purpose of the licence is to regulate liquor consumption.

However, certain licences appear to resemble a tax but exhibit the characteristics of a licence. For example, the Perth Parking Levy has been assessed as being a licence within the scope of AASB 15 for the following reasons:

- the payment of the levy is discretionary. The owners of properties can decide whether they want to use their car bays or not. Parking bays are only required to be licensed if they are used for providing non-residential parking bays.
- the primary purpose is to allow the owners of a property to have non-residential parking on their property. This provides them with a direct right to perform the activity.

Entities may enter into a transaction with a dual purpose of issuing a licence and imposing a tax. In such circumstances, the entity should disaggregate the transaction price and account for the component that relates to the licence in accordance with AASB 15. The remainder of the transaction price determined to be a tax should be accounted for in accordance with AASB 1058.

Licences

Entities shall apply the Application Guidance in paragraphs B52-B63B of AASB 15 to account for revenue from licences of intellectual property (IP).

IP may include any of the following:

(a) software and technology;

(b) motion pictures, music and other forms of media and entertainment;

(c) franchises; and

(d) patents, trademarks and copyrights.

If the promise to grant an IP licence is distinct from other goods or services in the contract, the granting of the licence is a separate performance obligation. Revenue will be recognised at a point in time if the granting of the licence is a right to use the IP as it exists when the licence is granted. However, if the granting of the licence is a right to access the IP as it exists throughout the licence period, revenue will be earned over the licence period.

In the public sector, licences may be issued to include licensing transactions in which the licences do not relate to IP (i.e. non-IP licences). Driver licences, vehicle licences and casino licences are examples of these licences.

Entities shall consider whether a non-IP licence is for:

(a) right over the licensor's identified asset, in which case the transaction might be a lease (or contain a lease), and fall within the scope of AASB 16; for example, burial grounds offered by the cemeteries may contain a lease;

(b) right over the licensor's non-identified asset, in which case the licence might:

(i) not be distinct from other promised goods or services in the transaction, and shall therefore be combined with the other goods or services and accounted for as a bundle of goods or services; or

(ii) be distinct from other promised goods or services in the transaction and shall therefore be accounted for as a separate performance obligation in accordance with the principles of AASB 15.

(c) right to perform an activity, which would not involve an asset of the licensor, and if distinct from other goods or services, shall be accounted for as a separate performance obligation in accordance with the principles of AASB 15.

The performance obligation in a non-IP licence would most commonly be issuing rights to the licensee to perform an activity (i.e. issuing the licence itself is the sole performance obligation). Therefore, revenue from non-IP licences would generally be recognised at the granting of the licence. However, entities should assess the transaction to identify any other performance obligations.

It should be noted that performance obligations do not include activities that a licensor must undertake to fulfil a transaction unless those activities transfer a good or service additional to the licence issued to the licensee. For example:

(a) a promise to the licensee that the right is restricted to the licensee is not a performance obligation. A promise in the licence terms that the licensor will not issue a similar right to another party (i.e. exclusivity to the licensee) is considered an attribute of the transaction and does not transfer a good or service additional to the licence. Although the exclusivity maintains the value of the licence and has a greater value than a non-exclusive licence, it does not transfer an additional good or service to the licensee. The licensor refraining from issuing another licence to a new licensee only confirms the licence meets the attributes promised at inception of the licence.

Similarly, if the licensor carries out activities to ensure that no other party engages in the activities that the licensee has an exclusive right to, this does not provide an additional service to the licensee, but instead is an activity that confirms the licence meets the attributes promised at inception of the licence;

(b) activities that the licensor is required to undertake in relation to a non-IP licence to benefit the general public or to confirm the terms of the licence are being met (for example, 'policing' activities to ensure the licensee is not carrying out illegal activities or customers of the licensee are of a legally allowable age) are not performance obligations. Such activities do not transfer additional goods or services to the licensee (even though the licensee could benefit from those activities); and

(c) activities that the licensor performs to check that the licensee continues to meet the eligibility requirements of the transaction are not performance obligations. The licensee controls whether they meet the eligibility requirements of the transaction. Activities performed by the licensor to uphold the integrity of the licensee merely confirm that the transaction is not breached, and do not transfer additional goods or services to the licensee.

Entities may elect not to apply the principles of AASB 15 to low value and short-term licences. If the recognition exemption is adopted, the entity may recognise those licences either at the point in time the licence is issued or on a straight-line basis over the licence term.

AASB 15 does not specifically state what the dollar value of a low value licence is. The Standard does give the following guidance:

- Entities shall assess the transaction price of a licence on an absolute basis when the licence is issued.
- The recognition exemption is not available to licences that include variable consideration.
- Low value licences qualify for the exemption regardless of whether those licences are material in aggregate to the entity.
- The assessment of what is 'low value' is not affected by the size, nature or circumstance of the entity. Different entities are expected to reach the same conclusions about whether a particular licence has a low value transaction price.
- A licence does not qualify as a low value licence if the nature of the licence is such that the licence is not typically of low value. For example, casino licences would not qualify as low value licences because casino licences would typically not be of low value.
- Examples of low value licences include driver licences, vehicle licences and working with children permits.

Public sector entities are expected to use the dollar threshold of $1,000 for assessing low value licences.

A short-term licence is one with a period of 12 months or less. In determining the licence term, entities are required to disregard any option to extend the licence, regardless of whether the licensee is reasonably certain to exercise that option (e.g. Perth Parking Levy is renewed every 12 months).

Taxes

Statutory receivables (and income) arising from taxes are accounted for initially as if they were financial instruments under AASB 9.

Accordingly, entities shall recognise and measure a statutory receivable (and income) when it is established that the entity has a right to receive cash or other financial assets. Such a right arises on the occurrence of a past event.

A past event relating to taxes occurs as specified for each tax in the relevant law. Examples of taxable events include:

(a) income tax – the end of the taxation period in respect of which taxable income of a taxpayer is determined;

(b) goods and services tax – the purchase or sale of taxable goods and services during the taxation period;

(c) customs duty – the movement of dutiable goods or services across the customs boundary; and

(d) property tax – the passing of the date on which the tax is levied, or, if the tax is levied on a periodic basis, the period for which the tax is levied.

In some instances, assets arising from taxable events cannot be measured reliably until after the taxing entity lodges a return (e.g. payroll tax). This may occur, for example, if a tax base is volatile and reliable estimation is not possible. Consequently, in these cases, the assets (and income) would be recognised in a period subsequent to the occurrence of the taxable event (for example, payroll tax will be recognised in the month after the taxable event).

Taxes are generally required to be paid into the Consolidated Account. Therefore, entities should report taxes as administered income (also refer to the guidance in TG 9 – Chapter 3).

6.3 Transition

Public sector entities shall adopt the modified retrospective approach on transition to AASB 15 and AASB 1058.

Under this approach, entities are not required to restate comparative information. Instead, entities shall recognise the cumulative effect of initially applying these Standards as an adjustment to the opening balance of accumulated surplus/(deficit) (or retained earnings) at the date of initial application.

Entities shall apply these Standards retrospectively only to contracts and transactions that are not completed contracts at the date of initial application.

A completed contract is defined in AASB 15 as a contract for which the entity has transferred all of the goods or services identified in accordance with AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations. However, in respect of not-for-profit entities, a completed contract also includes contracts for which the entity has recognised all of the revenue in accordance with AASB 1004, or revenue in combination with a provision in accordance with AASB 137. This is consistent with the definition of a completed contract in AASB 1058.

Taxes and grants (including Commonwealth capital grants) were 'contributions' (i.e. non-reciprocal transfers) within the scope of AASB 1004. Therefore, most of them would be completed contracts. No adjustment would be required for these transactions on transition to AASB 15 and AASB 1058.

6.4 Application

6.4.1 Service appropriations

Service appropriations are for the delivery of outputs. They are paid partly in the form of cash and partly as an asset (holding account) that agencies may draw, subject to government approval, at some future date.

Service appropriations are a form of transfer that is made voluntarily by the government. As such, payments of amounts appropriated are not enforceable. Therefore, service appropriations will be recognised as income when the funds are deposited into an agency's bank account or credited to a holding account held at Treasury.

6.4.2 Capital appropriations

Capital appropriations are to expand the asset base of agencies. Capital appropriations are designated as 'contributions by owners' by TI 8 *Financial Accounting and Reporting* – Requirement 8.1 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Therefore, under AASB 1004, capital appropriations will be accounted for as a direct adjustment to equity when the funds are deposited into an agency's bank account.

6.4.3 Liabilities assumed by other parties

Liabilities assumed by the Treasurer or other public sector entities are still within the scope of AASB 1004. Accordingly, income will be recognised for an amount equivalent to the liability assumed when the liability is assumed.

6.4.4 Assets transferred from other parties

Where an asset is received free of charge or for nominal cost, income will be recognised for the fair value of the asset net of the consideration for acquiring that asset (if any). In accordance with AASB 1058, the amount of income recognised will also be reduced by any amount of the transferred asset that has been designated as a contribution by owners. Furthermore, agencies need to assess whether they will have any performance obligations (that are sufficiently specific) on receiving the asset. The amount of income would be reduced further by a liability recognised for the cost of meeting the performance obligations. Agencies would recognise revenue as they satisfy these performance obligations in accordance with AASB 15.

Assets transferred from other parties will be generally recognised as income when the assets are transferred.

Note that transfers of assets and liabilities in relation to a restructure of administrative arrangements will be recognised as distributions to owners by the transferor and contributions by owners by the transferee in accordance with AASB 1004.

6.4.5 Services received free of charge

In accordance with paragraphs 18-22 of AASB 1058, services received free of charge (i.e. volunteer services) will be recognised as income for the fair value of those services where it can be measured reliably, and the services would have been purchased if not donated. Agencies will recognise services received free of charge when they receive the services.

Agencies may recognise services received free of charge where the fair value of those services can be measured reliably, irrespective of whether the services would have been purchased if not donated. Agencies are encouraged to recognise all services received free of charge from other public sector entities.

6.4.6 Royalties for Regions Fund

The Royalties for Regions Fund, a Treasurer's special purpose account administered by Treasury, has been set up to promote and facilitate economic, business and social development in regional Western Australia.

Money credited to the Royalties for Regions Fund is appropriated from the Consolidated Account (displayed as Administered Transactions in Treasury's budget statements) up to 25% of the forecast royalty income for a financial year.

The Minister, with the Treasurer's concurrence, may authorise the expenditure of money standing to the credit of the Royalties for Regions Fund for the following purposes –

(a) to provide infrastructure and services in regional Western Australia;

(b) to develop and broaden the economic base of regional Western Australia;

(c) to maximise job creation and improve career opportunities in regional Western Australia.

The Department of Primary Industries and Regional Development (DPIRD) administers the Royalties for Regions program on behalf of the Minister.

Treasury makes payment directly to a recipient. However, it is DPIRD who would enter into a Memorandum of Understanding with the recipient. Therefore, agencies should assess whether the Memorandum of Understanding contains any performance obligations that are sufficiently specific. The performance obligations will be recognised as contract liabilities under AASB 15 when the money is received. Revenue will then be recognised when (or as) the performance obligations are satisfied. If the performance obligations are not sufficiently specific, agencies will recognise Royalties for Regions funding as income under AASB 1058 when they receive the money.

Note that amounts appropriated as capital must flow to agencies as capital. Therefore, Royalties for Regions funding for capital purposes is designated as a contribution by owners by TI 8 – Requirement 8 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and therefore represents an equity contribution from Government to the recipient.

6.4.7 Fees and charges

Where fees and charges are set at a level that is equal or less than the full cost of providing the services, agencies should recognise the fees and charges as revenue in accordance with AASB 15.

Under AASB 15, revenue will be recognised when (or as) an agency satisfies performance obligations by transferring promised goods or services to customers. A performance obligation is a promise to transfer (to a customer) a good or service that is distinct. A good or service is distinct if the customer can readily benefit from the good or service and the agency's promise to transfer the good or service is separately identifiable. For example, the registration of a birth is a distinct service as the customer will benefit from having a birth certificate and the birth certificate is a separate promise.

For each performance obligation, an agency shall determine whether it will satisfy the performance obligation over time or at a point in time.

Most public sector fees and charges will be recognised at a point in time (or over a relatively short period of time, e.g. a trip of public transport) when the services have been provided and payments are received. For example, the motor vehicle record fee will be recognised on the grant, renewal or variation of a vehicle licence and that is generally when a motorist makes the payment. If payments are not received, agencies will recognise a receivable. Note that trade receivables are subject to 'expected credit losses' under AASB 9.

Also note that performance obligations do not include activities that an agency must undertake to fulfil a contract unless those activities transfer goods or services to customers. For example, costs incurred by the Department of Transport and Major Infrastructure to maintain the database of vehicle licences, though recovered through the motor vehicle record fee, do not transfer additional services to motorists. Therefore, the maintenance of the database is not a performance obligation.

Where fees and charges are recognised over time (e.g. water and electricity charges), agencies may recognise revenue at the end of a period when they have provided the services to customers. This may coincide with their billing cycle. Revenue and receivables would be recognised on the issuance of the bills. If the periods of providing the services fall within a reporting period (e.g. school fees), and subject to materiality, agencies may recognise all revenue at the end of the reporting period. That is, contract liabilities will be recognised on payments received during a reporting period and revenue would be recognised at the end of the reporting period for the amount of the contract liabilities that is outstanding.

Where a fee or charge is greater than 100% cost recovery, agencies should determine whether it is a licence or a tax. Licences will be recognised as revenue under AASB 15 while taxes will be subject to AASB 1058 (and AASB 9). For example, vehicle licence charge (i.e. registration fee) is a tax under the *Road Traffic (Vehicles) (Taxing) Act 2008* but is considered a licence under AASB 15.

A key feature that makes a licence distinct from a tax is that a licence must be obtained prior to the activity being performed. The activity could be unlawful without the licence. For example, a casino licence is required for conducting gaming activities. This is in contrast to the casino tax which is calculated on the gross gaming revenue (total bets placed less winnings paid out) at the end of a month. Taxes are generally assessed at the end of a period over which taxable activities were conducted.

Agencies shall apply the Application Guidance in paragraphs B52-B63B of AASB 15 to account for revenue from IP licences.

However, the Application Guidance does not apply to non-IP licences. In other words, agencies cannot recognise revenue for a sales-based or usage-based royalty promised in exchange for a non-IP licence at the end of a period when the amount of consideration is known. If the consideration includes a variable amount, agencies must estimate it. Nevertheless, agencies may apply the recognition exemptions for low-value and/or short-term licences.

Where a fee or charge is considered a tax, it shall be recognised in accordance with AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*. Agencies will recognise income (and a statutory receivable) on the occurrence of a taxable event.

Note that AASB 2016-8 allows agencies to recognise income in a period subsequent to the occurrence of the taxable event where the receivable cannot be measured reliably. For example, the taxable event in relation to land tax occurs at midnight on 30 June in the previous financial year. However, land tax could not be recognised until assessment notices are finalised.

6.4.8 Sale of goods

A sale of goods will result in the goods being transferred to customers or to other parties on behalf of the customers (i.e. reciprocal). Therefore, revenue from sale of goods will be recognised in accordance with AASB 15.

Sale of goods in the public sector (e.g. TAFE textbooks) will generally be recognised at a point in time when the goods have been transferred to customers and payments are received.

6.4.9 Commonwealth grants

National Specific Purpose Payments

National Specific Purpose Payments (SPPs) are the funding mechanism through which the Commonwealth supports the State's efforts in delivering services in key sectors.

There are currently two National SPPs through which the Commonwealth makes payments: the National Skills and Workforce Development SPP and the National Disability Services SPP.

The State of Western Australia (WA) is required to spend each National SPP in the service sector that is relevant to the payment – for example, the National Skills and Workforce Development SPP must be expended in the training sector, but WA has full budget flexibility to allocate funds within that sector as it sees fit to achieve any mutually agreed objectives for that sector.

As a result, the National SPPs are not within the scope of AASB 15 as they do not meet the 'sufficiently specific' criterion, even though the Intergovernmental Agreement on Federal Financial Relations between the Commonwealth and WA is considered enforceable. The National SPPs will be recognised as income under AASB 1058 when payments are received.

Nevertheless, for the National Disability Services SPP, income would not be recognised for an amount that is redirected to the National Disability Insurance Agency. WA will pay the amount to the Agency on behalf of the Commonwealth in accordance with the Bilateral Agreement between the Commonwealth and WA on Transition to a National Disability Insurance Scheme in Western Australia, and therefore have no control of that amount.

National Housing and Homelessness Agreement

A new National Housing and Homelessness Agreement (NHHA) was signed in 2018, replacing the National Affordable Housing SPP and the Homelessness NPP from 2018-19. The new NHHA maintains previous funding and provides ongoing homelessness funding.

It is noted that the outcomes of this Agreement are a shared responsibility of the Commonwealth and the State. They are included for the purpose of monitoring sector-wide performance supported by Commonwealth funding under this Agreement and other funding including Commonwealth Rent Assistance and the State's own source funding contributions. For the avoidance of doubt, the Commonwealth's estimated financial contribution to the State will not be reduced because the outcomes are not achieved.

As a result, the NHHA is not within the scope of AASB 15 as it does not meet the 'sufficiently specific' criterion. The NHHA will be recognised as income under AASB 1058 when payments are received.

National School Reform Agreement

A new six-year National School Reform Agreement was signed in 2018. Under the Agreement, Commonwealth funding to the State will transition from around 14% of the School Resource Standard (SRS) in 2017 to 20% of the SRS over the six years to 2023.

It is noted that the Commonwealth and the State are responsible for working together to achieve the objectives and outcomes of this Agreement. While the parties are collectively committed to the achievement of the objectives, outcomes and targets, the Commonwealth school funding to the State is not conditional on the achievement of these objectives, outcomes and targets.

As a result, this Agreement is not within the scope of AASB 15 as it does not meet the 'sufficiently specific' criterion. This Agreement will be recognised as income under AASB 1058 when payments are received.

National Health Reform Agreement

Public hospitals in the State receive Commonwealth funding on an activity basis through the National Health Reform Agreement (NHRA), under which growth in Commonwealth funding reflects a proportion of the growth in the cost of hospital services at the national efficient price. An addendum to the NHRA, which applies from 2017-18 to 2019-20, specifies that the Commonwealth's proportion of the growth in the cost of hospital services is 45% and caps the national growth in its funding at 6.5% per annum.

It is noted that the State has implemented public hospital governance and financing arrangements as required by this Agreement. As such, the State is entitled to the Commonwealth funding. That is, the Commonwealth funding under the NHRA is unconditional.

As a result, the NHRA is not within the scope of AASB 15 as the State has no further obligation to the Commonwealth. The NHRA will be recognised as income under AASB 1058 when payments are received.

National Partnership Payments

Under the Intergovernmental Agreement on Federal Financial Relations, National Partnership Payments (NPPs) to the State are facilitated by the following types of agreements:

- National Partnerships, which support the delivery of specified projects, facilitate reforms or reward the State for delivering on nationally significant reforms;
- Implementation Plans, may be required where there are jurisdictional differences in context or approach to implementation under National Partnerships, or where information additional to the National Partnerships is required to increase accountability and transparency; and
- Project Agreements, which are a simpler form of National Partnerships, for low value and/or low risk projects.

National Partnerships and Project Agreements are typically time limited.

Although the Intergovernmental Agreement on Federal Financial Relations is considered enforceable, most NPPs do not meet the 'sufficiently specific' criterion as they do not specify the goods or services to be provided to the public. Therefore, NPPs are typically not within the scope of AASB 15.

NPPs will generally be accounted for in accordance with AASB 1058. However, this would not necessarily result in cash accounting. For example, in relation to the Disaster Recovery Funding Arrangements where the Commonwealth will provide financial assistance to the State in certain circumstances (usually in the form of partial reimbursement of the State's expenditure and estimated reconstruction costs), the State would recognise income under AASB 1058 when it incurs eligible expenses (prior to receiving the Commonwealth payments).

Note that NPPs for capital purposes shall be accounted for in accordance with paragraphs 15-16 of AASB 1058. For example, in relation to the NPP on Land Transport Infrastructure Projects where the Commonwealth provides funding for land transport infrastructure projects administered under the *National Land Transport Act 2014*, a liability will be recognised for any Commonwealth payments received in advance. The State (through its agencies) will then recognise income based on the stage of completion of the asset being constructed.

Appendix 1 – Collaboration arrangements

The relationship between a supplier and customers varies from industry to industry, and therefore entities need to consider their own facts and circumstances to determine who is a customer in a contract. Distinguishing between a supplier – customer relationship and collaboration arrangements will depend on the specific contractual terms and conditions. Care may be needed in assessing contracts with related parties[24], as their relationship with the entity may be more complex than those with third parties.

Example

Agency A and Entity B enter into a contract whereby:

- A newly formed special purpose vehicle, Company X, is owned 50:50 by Agency A and Entity B which operates in the real estate sector;
- Agency A and Entity B have joint control over Company X;
- Agency A contributes land to Company X;
- Entity B constructs an office block on the land; and
- The office block will be leased to tenants by Company X.

In this fact pattern, Agency A and Entity B might not treat Company X as their customer and consequently would not recognise revenue from Company X for their respective land contribution and construction work undertaken. Instead, depending on the precise facts and circumstances, appropriate accounting treatments might include the following:

- If the contract gives Agency A and Entity B rights over Company X's net assets, the contract would be classified as a joint venture. Revenue would not be recognised, with Agency A and Entity B accounting for their interests in Company X using the equity method; and
- If the contract gives Agency A and Entity B rights to the assets and obligations for the liabilities of Company X, the contract would be classified as a joint operation. Agency A and Entity B would recognise revenue as Company X earns rental income based on their respective contractual share.

[24] Refer to TG 8 Financial Accounting and Reporting – Chapter 3.4 Related Party Disclosures.

Appendix 2 – Accounting for Contract Modifications

Changes to contracts

A change to an existing contract is a modification. Typical contract modifications arise when there is a change to:

- the scope of the contract;
- the price of the contract; or
- a change in both scope and price of the contract.

Note that changes to the transaction price that result from changes in the estimate of variable consideration is not a contract modification.

Accounting for contract modifications

Contract modifications are accounted for as either a separate contract or as part of the existing contract, depending on the nature of the modification. A contract modification exists when it is approved to create or change the enforceable rights and obligations of the parties to the contract.

When assessing the accounting for a contract modification, entities are required to consider whether any additional goods or services are distinct within the context of the modified contract. Although a contract modification may add a new good or service that would be distinct in a standalone transaction, that new good or service may not be distinct when considered in the context of the modified contract. This assessment should be made by reference to the promises made to the customer and not from the perspective of the entity.

A contract modification is accounted for as a separate (and additional) contract only if:

- the scope of the contract increases due to the addition of promised goods or services that are distinct; and
- the price of the contract increases by an amount of consideration that reflects the entity's standalone selling price of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

When a contract modification is not accounted for as a separate (and additional) contract, entities shall identify the goods or services that have not yet been transferred. This will be comprised of the remaining goods or services from the original contract and any new goods or services arising from the contract modification. One of the following approaches should be then followed:

- if the remaining goods or services are distinct from the goods or services that have been transferred under the original contract, the original contract is considered to be replaced by a new contract;
- if the remaining goods or services are not distinct, and therefore form part of a single performance obligation that has been partially satisfied under the original contract, the contract modification is considered to be part of the original contract; or
- it is a mixture of the two above.

Example – Modification gives rise to a catch-up adjustment

A Department enters into a contract with a customer to build a bridge for $10 million with a cost of $9 million to be ready in two years' time. The construction of the bridge is a single performance obligation. The Department and Customer agree to modify the original plan at the end of the first year which will increase the transaction price by $2 million and cost by $2 million.

Does the modification add distinct goods or services? No – there is still only one performance obligation which is the construction of the bridge. The modification does not create a new performance obligation because the remaining goods or services are not distinct.

The Department should account for the modification as if it was part of the original contract which will give rise to a cumulative catch-up adjustment to revenue and cost of sales.

Assume, at the end of Year 1, the contract is 50% complete and revenue of $5 million and cost of $4.5 million have been recognised. The profit recognised on the construction of the bridge at the end of the first year is $500,000.

With the contract modification, the project is now just 40% complete:

Old treatment Accounting under AASB 111	New treatment Accounting under AASB 15
No adjustment is made on the modification of the contract. The revised contract margin is applied on a go forward basis. Future revenue after modification: $5m + $2m (modification) = $7m Future cost after modification: $4.5m + $2m (modification) = $6.5m	Revision is made to account for the modification as if it was part of the original contract. Total revenue of the project after modification: $12m Total cost of the project after modification: $11m Project is 40% complete. Revenue to be recognised under the contract: $12m × 40% = $4.8m (whereas $5m being recognised) – reduced by $0.2m Cost to be recognised under the contract: $11m × 40% = $4.4m (whereas $4.5m being recognised) – reduced by $0.1m Adjustments to be made on the contract modification to reduce revenue and cost of sales so that the transaction is accounted for as if the modification was known at the inception of the contract.

Example – Modification replaces the original contract

An Agency enters into a contract with a customer to sell 200 units of a product for $16,000 ($80 per unit). These are to be supplied evenly to the customer over a 10 month period commencing on 1 July 2019 (20 units per month) and control over each unit passes to the customer on delivery. On 1 March 2020, after 160 units have been delivered, the contract is modified to require the delivery of an additional 80 units (20 units per month). This is in addition to the remaining 40 units that have not been delivered under the terms of the original contract. At the point in which the contract is modified, the standalone selling price of the product has declined to $75. In accordance with AASB 15, the additional units to be delivered are distinct. The agreed selling price of the additional 80 units is $65.

Does the modification add distinct goods or services? Yes – the goods provided to the customer are distinct.

The contract modification is accounted for prospectively with no adjustment made to prior monthly sales. The remaining units to be sold under the original contract and additional units to be sold are treated as a new contract. Accordingly,

- first 160 units sold prior to the contract modification are recognised at a sale price of $80 per unit (as per the original contract); and
- post modification 120 units sold are recognised at a sale price of $70 (weighted average of 40 units at $80 and 80 units at $65).

Old treatment Accounting under AASB 118	New treatment Accounting under AASB 15
The Agency recognises revenue of $80 per unit for the first 200 units evenly over the 10 month period. The additional units are accounted for as being sold under a new and separate contract from the units to be delivered under the original contract. Revenue is recognised at an amount of $65 per unit for the 80 units that are added as a result of the contract modification.	In this case, the selling price of the additional units is not the standalone price at the contract modification. Consequently, for accounting purposes, the original contract is considered to be terminated at the contract modification. The remaining units to be sold under the original contract together with the additional units from the contract modification are combined and accounted for as being sold under a new contract. The amount of revenue recognised for each of the units is the weighted average price of $70.

Appendix 3 – Principal versus Agent Guidance

Many public sector entities provide services in conjunction with other agencies or unrelated parties that contribute to providing a specified good or service to a customer.

Entities need to determine whether in these arrangements the entity has promised to provide the good or service itself (as a Principal) or to arrange for the specified good or service to be provided by another party (as an Agent).

In the private sector, an Agent often receives a commission or fee for these activities. In the public sector, often there is no commission paid if the entity is acting as an Agent and the relationship may be more difficult to identify.

A Principal will recognise revenue at the gross amount it is entitled from customers, whereas an Agent presents revenue at the net amount retained. Therefore, the distinction between acting as a Principal or an Agent will significantly affect the amount of revenue recognised.

Example

The State Government receives funding from the Commonwealth Government for forwarding to non-government schools. The amounts provided are determined based upon enrolments in non-government schools and the rate per student as determined by the Commonwealth Government.

As the service, providing education to students, is performed by non-government schools, the funding received from the Commonwealth is not income to the State, but rather the State is acting as an Agent.

Identifying the goods or services

The first step in the evaluation of whether an entity is acting as a Principal or an Agent when other parties are involved in providing goods or services to customers is to identify the goods or services that will be transferred to the customers.

The Principal-versus-Agent analysis is performed for each specified distinct good or service that is transferred to the customer. This is relevant if more than one good or service is provided to the customer. An entity could be a Principal for certain aspects of a contract with a customer and an Agent for others. For example, a university might be a Principal for providing tuition to overseas students but an Agent for providing them accommodation (to be provided by a university college that is not owned or controlled by the university).

AASB 15's core principle focuses on the transfer of control of goods or services to customers. An entity would be a Principal if it controlled those goods or services before they were transferred to the customers.

Control of a good or service arises where an entity has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. Directing the use of an asset refers to an entity's right to deploy the asset, allow another entity to deploy it or restrict another entity from using it. An asset's benefits are the potential cash inflows (or reduced cash outflows) that can be obtained in various ways.

Control under AASB 15

Although the indicators of a Principal or Agent relationship in AASB 15 and AASB 118 are reasonably similar, the purpose of the indicators under AASB 15 is to determine if an entity has control of a good or service before transferring it to a customer.

The focus has shifted from risks and rewards to control and accordingly there could be a difference between existing practices and the application of AASB 15.

AASB 15 Guidance	AASB 118 Guidance
An entity is a Principal in an arrangement if it obtains or has control of a good or service before transferring it to a customer. Obtaining title momentarily before transferring a good or service does not necessarily constitute control. An entity is an Agent if its obligation is to arrange for another party to provide the good or service. Factors that may indicate that an entity is an Agent, and therefore does not control a good or service before transferring it to a customer, include: • another entity is responsible for fulfilling the contract; • the entity does not have inventory risk; and • the entity does not have pricing latitude.	An entity is a principal when it is exposed to risks and rewards in selling goods or providing services. Indicators that an entity is acting as a Principal in an arrangement are: • the entity is the primary obligor; • the entity has inventory risk; • the entity has pricing latitude; and • the entity has credit risk. An indicator that an entity is an Agent is the entity earns a predetermined fee.

Determining whether an entity is a Principal or an Agent is not a policy choice. It is based on an assessment of whether the entity has control of the specified goods or services before transferring them to customers in each arrangement.

Appendix 4 - Accounting for a series of performance obligations

Determining if the series provision is applicable

The series provision is a concept that has been introduced by AASB 15 to simplify the application of the new revenue model and to promote consistency in identifying performance obligations. The series provision requires goods or services to be accounted for as a single performance obligation, in certain instances, even though the underlying goods or services are distinct.

A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

(a) each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria for being a performance obligation satisfied over time; and

(b) the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

Entities will apply the principles in the revenue standard to the single performance obligation when the series criteria are met, rather than the individual goods or services that make up the single performance obligation. The series guidance is intended to simplify the application of the new revenue model. However, application is not optional. The assessment of whether a contract includes a series could impact both the allocation of revenue and timing of recognition.

Determining if goods or services are substantially the same

In order to be a series, there must be two or more goods or services that are distinct and each distinct good or service must be considered substantially the same.

The first step is to determine the nature of the entity's promise in providing the services to the customer. In some cases, entities would need to determine if the nature of the promise is the actual delivery of a specified quantity of good or service or the act of standing ready to perform (because there is an unspecified quantity to be delivered).

A series could consist of distinct time increments (per hour of providing security services by Police in relation to a football match at a stadium) or distinct goods or services delivered (per unit of electricity provided), depending on the nature of the promise.

There is little guidance on how to consider whether more than one good or service is considered substantially the same. Questions have been raised as to whether all the tasks in each increment of service need to be substantially the same.

Example

Consider an IT outsourcing arrangement where a Department is performing an IT outsourcing service for a customer.

The Department considers the nature of its promise to the customer. That is, whether the promise is to provide an integrated outsourcing service or to provide defined items or activities that are distinct from each other. Each day of service could also be distinct because the customer can benefit from each day of service on its own and each day of service is separately identifiable.

The Department can conclude that the nature of its promise is one overall service. Even if the individual activities that comprise the performance obligation vary from day to day, the nature of the overall promise is the same from day to day.

Must the goods or services be delivered consecutively?

Supply contracts where the goods or services are delivered consecutively (e.g. daily cleaning services, weekly rubbish collection) are readily identifiable as within the scope of the series provision. While the term 'consecutively' is not used in AASB 15, the term is included in the Basis for Conclusions in various paragraphs. This has led to questions as to whether the goods or services must be delivered or performed consecutively in order to be within the scope of the series provision.

The view of the FASB/IASB Joint Transition Resource Group for revenue recognition was: "if the consecutively notion were determinative then stakeholders might reach different judgements about what constitutes a consecutively delivered series of goods or services… the staff do not think a series of distinct goods or services that meets the requirement in IFRS 15.23 must be transferred consecutively for the series provision to apply".

The following examples illustrate how the series provision will apply when a contract with a customer requires goods to be delivered and how the determination is not based upon whether the goods are delivered consecutively.

Scenario 1

Water Corporation has contracted with a customer to provide 24,000 units of water over a 2 year period. The service will be performed evenly over the 2 year period with 1,000 units of water supplied each month with no breaks in production.

The contract is within the scope of the series provision:

Each distinct service can be recognised over time as delivery of the good is provided?
Yes – each unit of water supplied to the customer meets the recognition criteria.

Same method is used to determine the satisfaction of the performance obligation?
Yes – it is determined by the quantity of water supplied.

Scenario 2

Water Corporation has contracted with a customer to provide 24,000 units of water over a 2 year period. In some months, 3,000 units of water will be provided, and in other months, no unit will be provided.

The contract is still within the scope of the series provision (even though the supply is not the same in each month):

Each distinct service can be recognised over time as delivery of the good is provided?

Yes – each unit of water supplied to the customer meets the recognition criteria.

Same method is used to determine the satisfaction of the performance obligation?

Yes – it is determined by the quantity of water supplied.

Appendix 5 - Issues in determining the transaction price

Prompt payment discounts

Prompt payment discounts are a form of variable consideration and need to be considered when determining the transaction price in relation to revenue earned from customers.

Example

University A offers a 5% discount if an invoice is paid within 14 days of receipt.

5% of the university fee charged to a student is variable as there is uncertainty as to whether the student will pay the invoice within the discounted period.

Management will need to make an estimate of the consideration that is highly probable of being received as a result of offering this incentive. Experience with similar student groups (such as overseas students from a particular country or a relevant course) should be considered in determining the number of students that are expected to receive the discount.

In estimating the transaction price, University A will adopt a conservative approach on offers not taken because revenue recognised must be highly probable of not giving rise to a significant reversal.

Breakage

Breakage is any type of services that is unused by a customer that has already been paid for in full. Breakage revenue arises when entities recognise into revenue a portion of a contract liability that will not be redeemed by customers.

On application of AASB 15, the accounting for breakage revenue will change compared with the previous practice.

Breakage revenue has historically been recognised under one of the three methods:

- Released Obligation Method: Breakage revenue will not be recognised until the entity is legally released from its obligations (for example, a prepaid card expires).
- Remote Method: Breakage revenue will be recognised once the probability of the redemption becomes remote.
- Redemption Pattern Method: Breakage revenue will be recognised on a pro-rata basis determined by the redemption pattern of the prepaid services.

Entities will apply the redemption pattern method on adoption of AASB 15. It is to eliminate diversity in practice related to the recognition of breakage revenue.

AASB 15 does still allow the remote method, but the Standard states that this method should only be utilised when an entity expects there will be no breakage at all. An entity that is unable to conclude whether there will be any breakage (or the pattern of such breakage) should consider the constraint on variable consideration.

The breakage rate is an estimated rate at which an entity expects its prepaid services will not be redeemed. For example, if an entity estimates a breakage rate of 5%, then it is saying that of all the prepaid services sold it expects 5% of those will never be redeemed. Breakage rates can vary based on the industry and the nature of the operation.

Once an entity has determined its breakage rate, it can start to recognise the appropriate amount of breakage revenue. AASB 15 requires entities to recognise estimated breakage as revenue in proportion to the pattern of exercised rights (the redemption pattern). In other words, the entity will pick up a portion of breakage revenue as prepaid services are delivered.

Example

Perth Zoo sells 100 Adult Admission tickets with a value of $30 per ticket to a social club for providing to its members. At the time of the sale, Perth Zoo debits cash for $3,000 and establishes a contract liability of $3,000 for future admissions to the zoo. Perth Zoo has assessed breakage and determined that it is highly probable of a breakage rate of 5% or $1.50 per ticket.

Customer A comes to the zoo with a party of 10, redeeming $300 of the prepaid tickets. What should Perth Zoo recognise in revenue?

Perth Zoo will recognise $300 of revenue for the actual services provided and reduce its contract liability by $300. In addition, Perth Zoo will need to recognise $15 of breakage revenue and reduce the liability by $15. This is calculated as $1.50 × 10 = $15 (being the expected breakage rate of 5% by the value of the tickets redeemed).

A significant financing element

The amount of revenue recognised when there is a significant financing element differs from the amount of cash received from a customer. Revenue will be less than cash received for payments that are received well in arrears of performance as a portion of the consideration will be recognised as interest income. Revenue will exceed cash received for payments that are received in advance of performance as interest expense will be recognised and accordingly increase the amount of revenue earned from contracts with customers.

Identifying a significant financing component in contracts entered into by entities often requires judgement. Not all contracts entered into with customers where a customer has prepaid for the services will necessarily contain a financing element.

Example

Customers of a cemetery may prepay fees for a particular burial site; the fee being received years in advance of the use of the burial site. However, the contract would not provide a significant financing element if any of the following factors exist:

- the customer paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the customer;
- a substantial amount of the consideration promised by the customer is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the entity (for example, if the consideration is a sales-based royalty); and
- the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract.

In relation to the prepayment of sites in cemeteries, it is unlikely that there will be a significant financing element. This is because the timing of delivery of the service is at the discretion of the customer (not the cemetery) and the reason that customers prepay for burial sites is to reserve a particular position in the cemetery and not the provision of finance.

Non-cash consideration

Consideration received from customers may be in the form of goods, services or other non-cash consideration (e.g. property, plant and equipment, or financial instrument). When entities receive or expect to receive non-cash consideration, the fair value of the non-cash consideration is included in the transaction price.

Where entities receive non-cash consideration, they will need to consider the following:

- the date that should be used when measuring the fair value of non-cash consideration; and
- variability in value of non-cash consideration from its form (such as shares) or other reasons which may affect the amount of consideration to which the entity is entitled to receive.

As AASB 15 does not specify the measurement date entities shall determine the fair value of non-cash consideration, the entity that receive non-cash consideration will need to use judgement to determine the most appropriate measurement date – whether it is the contract inception date, when the non-cash consideration is received or when the related performance obligation is satisfied.

Note that AASB 15 requires the constraint on variable consideration to be applied to non-cash consideration only if the variability relates to whether or not the non-cash consideration will be received (and not variability related to the form of the consideration to be received – such as valuation issues relating to unlisted shares received from a customer).

Consideration payable to a customer

To determine the appropriate accounting treatment for consideration payable to a customer, entities will determine whether the consideration paid or payable to the customer is:

- a payment for a distinct good or service provided by the customer;
- a reduction of the transaction price; or
- a combination of both.

If consideration payable to a customer is a payment for a distinct good or service from the customer, the entity is required to account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers.

If consideration payable to a customer exceeds the fair value of the distinct good or service that the entity receives from the customer, the entity is required to account for the excess as a reduction of the transaction price and accordingly reduce the revenue recognised.

Version Control

Version	Date	Section	Amendments
v6.0	30 September 2024	All	Initial publication.
v6.1	13 December 2024	All	Minor editorial amendments to enhance readability.
v6.2	17 June 2025	All	Minor editorial amendments to enhance readability.
v6.3	2 January 2026	All	Minor editorial amendments to enhance readability.
v6.4	25 May 2026	1	Improves guidance on collection agents by clarifying expectations for the establishment of arrangements, including approval requirements, and the handling and reporting of collected monies, thereby supporting stronger financial control and accountability.
		5	Amendments are made to align with changes to TIs.
v6.5	06 November 2026	6.2.1	Update reference to newly implemented AASB.
		6.4.9	Minor editorial amendments to enhance readability.

TG 7 Special Purpose Accounts

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Special Purpose statements and Trust Statements 2. Operating Accounts for Departments and Sub Departments 3. Specific Purpose and Other Money (Money Held in Trust)
Relevant Treasurer's instruction(s) (TI)	• TI 7 *Special Purpose Account* • TI 9 *Financial Statements*
Other Related Instrument(s)	• Section 10 of the *Financial Management Act 2006* (Treasurer's special purpose accounts) • Section 13 of the *Financial Management Act 2006* (Bank accounts for agencies, restrictions on) • Section 16 of the *Financial Management Act 2006* (Agency special purpose accounts) • Section 17 of the *Financial Management Act 2006* (Special purpose statements and trust statements for accounts, preparation of etc.) • Section 27 of the *Financial Management Act 2006* (Expenditure not provided for in, or in excess of amount appropriated by, Appropriation Acts) • Section 7 of the Agricultural Produce Commission Act 1988 • Section 21 of the *Financial Management Act 2006* (Closing accounts and consequences of) • Section 23 the *Financial Management Act 2006* (Money received by agency, agency may retain in certain cases)
Last Updated	25 May 2026
Current Version	v7.4

1. Special Purpose Statements and Trust Statements

1.1 Introduction

*Under **section 17(1)** of the Act, the accountable authority of an agency is to prepare:*

(a) a special purpose statement for a special purpose account operated by the agency that is referred to in section 10(a) or 16(1)(d); and

(b) a trust statement for a special purpose account operated by the agency that is referred to in section 10(f) or 16(1)(c).

Agencies are required to prepare and seek the Treasurer's approval to a special purpose statement for a special purpose account (SPA) for special purpose money, and a trust statement for a SPA for other money under section 17(1) of the Act. The special purpose statement or trust statement details the accountability and stewardship arrangement which the accountable authority is required to comply with in order to protect the interests of all relevant parties. It prescribes the purpose of the account, the money which is to be credited to the account and how that money is to be spent. This chapter serves as a resource to help agencies in comprehending the statement's purpose, navigating the submission and approval process, conducting annual reviews and updates, and ensuring proper disclosure.

1.2 Purpose of special purpose statements or trust statements

The special purpose statement or trust statement is to reflect any agreement between the contributor and the agency, if applicable, and should therefore succinctly express the intent of that agreement (i.e. what money can or must be credited to the account and how money is to be applied). Any changes to the special purpose statement or trust statement should only mirror changes to the underlying agreement or legal instrument.

The special purpose statement or trust statement also complements any legislative, contractual or common law obligations which might apply to the money in the account. It is therefore essential that the provisions of the special purpose statement or trust statement are consistent with the statute and common law obligations.

1.3 Approval process

*Under **section 17(4)** of the Act, when the Treasurer approves the special purpose statement or trust statement, the accountable authority is to send a copy of it to the Auditor General.*

The agency should ensure that the specific purpose statement or trust statement is signed and dated by the accountable authority:

- submit the signed and dated statement to the Under Treasurer for the Treasurer's approval; and
- once approved, provide a copy of the statement to the Auditor General (which may be done by means of electronic communication) under section 17(4) of the Act.

1.4 'Payments' clause in Templates 6 and 7

Of particular importance is the 'Payments' clause outlined in TG 13 Treasury Forms and Templates – Template 6 and Template 7. Payments should be clearly drafted so as to protect the agency, outline the agency's accountability, and ensure that money is being spent in accordance with the intent of the SPA. This is to ensure that the potential misuse of funds is avoided. Agencies should also be aware that they are under an obligation to disburse funds only in accordance with the purposes for which the SPA is established.

Agencies are to liaise with Treasury if there is a requirement to pay interest on the money. This will be subject to the Treasurer's determination under section 38[25] of the Act.

Where the terms and conditions under which the money is held require that interest be applied to a specific purpose, that purpose should be clearly reflected in the 'Payments' clause of the special purpose statement or trust statement e.g. the terms and conditions of a bequest may require that scholarship money be paid out of interest only.

1.5 Annual review and updates

> ***Section 17(3)*** *of the Act states that the accountable authority is to send the special purpose statement or trust statement to the Treasurer.*

For special purpose statements or trust statements, that are in existence before the effective date of TI 7 *Special Purpose Accounts*, the annual review outlined in TI 7 *Special Purpose Accounts* – Requirement 1.2 *Special Purpose Statements and Trust Statements* should identify any changes and necessary updates to comply with TI 7 *Special Purpose Accounts* – Requirement 1.1 *Special Purpose Statements and Trust Statements.*

Special purpose statements and trust statements should be reviewed annually to ensure their currency and accuracy and that they are being transacted in accordance with the underlying intention of the special purpose statement or trust statement. This will also assist with the note disclosure of SPAs under TI 9 *Financial Statements*.

Where the nature of a SPA has changed, an agency is required to update the special purpose statement or trust statement to reflect the underlying nature of the transactions and intent of the SPA and seek the Treasurer's approval under section 17[26] of the Act.

Agencies should also undertake an annual review of their SPA register as required in TI 7 *Special Purpose Accounts* – Requirement 2.1. This includes:

- ensuring that the information contained for each SPA in the register is accurate and consistent with the respective special purpose statement, trust statement or the legislation that establishes the SPA; and
- assessing whether a SPA has served its intended purpose and if closure is appropriate.

[25] Section 38 of the Act – Investment under s.37, application of proceeds of

[26] Section 17 of the Act – Special purpose statements and trust statements for accounts, preparation of etc.

1.6 Disclosure

Entities must ensure specific purpose monies are accurately and completely reported in the annual report, as inaccurate reporting does not provide full transparency to Parliament about funds held in SPAs.

TI 7 *Special Purpose Accounts* – Requirement 1.3 *Special Purpose Statements and Trust Statements* requires a copy of the statement to be included in the entity's annual report for the financial year it is approved or amended.

Accurate public reporting provides transparency about the number of SPAs being created across government and any changes to how special purpose funds are administered.

TI 9 *Financial Statements* – Requirement 6.2(ii) *Statements of Financial Position* sets out the disclosure requirements for the associated SPAs.

Agencies should ensure all SPAs are disclosed in the notes to financial statements. This includes SPAs with nil balances and SPAs which may no longer be in use but are maintained due to legislation establishments.

Where SPAs established under section 16(1)(b) of the Act are administered by statutory authorities for the purposes of the operations of the agency, the agency is not required to separately disclose the SPA operating account as this would have been disclosed as the Statement of Cash Flows.

1.7 Closure of special purpose accounts

> ***Section 21(1)*** *of the Act states that the Treasurer may, after consulting with the Minister, direct that a SPA operated by an agency, other than a special purpose account established by an Act, be closed.*

TI 7 *Special Purpose Accounts* requires agencies to conduct annual reviews of their special purpose statements and trust statements (Requirement 1.2) to determine their continued relevance, and to review their SPA register (Requirement 2.1) to determine whether any accounts have fulfilled their intended purposes. Where a SPA is no longer required, agencies should seek directions from the Treasurer to close these SPAs under section 21(1) of the Act. To support a streamlined process, the Financial Policy Team at Treasury will facilitate all agency requests for such directions to the Treasurer.

Accordingly, a request to close a SPA should be submitted by the agency's CFO or an authorised officer to the Financial Policy Team (Financial.Policy@dtf.wa.gov.au). The closure request will be reviewed for appropriateness and should include the following details in its submission:

- name and purpose of the SPA;
- reason for closure; and
- residual balance in the SPA (if any) and how it will be disbursed upon closure.

To ensure SPA closures are finalised before the end of the financial year, agencies should submit their requests by 30 April for June and July year-end agencies.

Pursuant to section 21(1) of the Act, the Treasurer will:

- consult with the relevant Ministers by seeking their endorsements for the SPAs closure; and
- subject to the Minister's endorsement, direct the SPA to be closed.

Following the Treasurer's direction, the Financial Policy Team will confirm the closure of the SPAs with the relevant agencies. Any residual amounts can be dealt with post Treasurer's direction under section 21(2) of the FMA.

2. Operating Accounts for Departments and Sub Departments

2.1 Introduction

> **Section 16(1)(a)** of the Act states that the agency special purpose accounts of an agency consist of any account established for the purposes of the operations of the agency.

An agency must establish for each department or sub-department a SPA for operations in respect of its activities, in accordance with section 16(1)(a) of the Act. Section 16(2) requires the accountable authority to maintain appropriate and adequate records for accountability and stewardship purposes.

All moneys lawfully received by a department or sub-department should be accounted for in a department or sub-department's operating account. This may include:

- general purpose money including appropriations, moneys retained under a net appropriation determination under section 23(2), transfers of funds between SPAs when a function is transferred from another department or sub-department (under section 21(3) of the Act), unconditional donations and grants, or similar, to enable the department or sub-department to perform its functions;
- specific purpose money, which includes donations and grants that the accountable authority is obliged to spend in accordance with conditions or restrictions specified or imposed by the donor or grantor and for which there is no legal requirement to maintain a separate SPA (e.g. discretionary scholarships). Although the accountable authority may have some discretion in how the money is used in the delivery of services, the accountable authority has an obligation to maintain stewardship and accountability for this money and therefore appropriate controls and processes should be implemented. Specific purpose money is retained under a net appropriation determination;
- suspense money pending identification of the purposes for which such money was received, or identification of where money is to be credited or paid; and
- administered receipts.

Where an agreement with a donor or contributor imposes a legal requirement that the funds be held in a separate account, or a parliamentary appropriation is made to a SPA for a specific purpose, such specific purpose moneys may be credited to a separate agency SPA as explained in this Guidance.

2.2 Terms and definitions

Term	Definition
The Operating Account	The special purpose account established by the agency for the operations of the department or sub-department.

2.3 Accounting treatment

Money lawfully received for the department or sub-department's operations should be credited to the operating account, in accordance with this Guidance and relevant laws.

Money credited to the operating account should be applied only for the services and purposes detailed in the 'Agency Information in Support of the Estimates' for the department or sub-department' (Budget Statements), or expenditure authorised under section 27[27] of the Act.

2.4 Specific purpose money held in the operating account

The accountable authority may authorise the chief finance officer to establish and administer the operating account. The operating account is a general ledger account in the department and sub department's financial management system.

Operating accounts can hold both general purpose and specific purpose money. Specific purpose money is money that the accountable authority has an obligation to use in accordance with the conditions or restrictions imposed by the donor or contributor. Specific purpose money is not 'other money' as defined in the Act.

Where the agency transacts specific purpose money through the operating account, there is an obligation to utilise such money for its stated purposes. This may be achieved by separating specific purpose money from general operating money in the general ledger, outlining the procedures and processes for receiving/expending such money in the financial management manual, and ensuring that the controls are adequate etc.

The agency can ensure that the specific purpose money is utilised for its stated purposes and protect the interests of the relevant parties by developing appropriate documentation to be signed by the relevant parties. This could be similar to the special purpose statement required for section 16(1)(d) accounts and explained in TI 7 *Special Purpose Accounts* and this Guidance.

Departments and sub-departments can expend money only in accordance with legislation, for services and purposes identified in the budget statements or for new items authorised by the Treasurer.

[27] Section 27 of the Act - Expenditure not provided for in, or in excess of amount appropriated by, Appropriation Acts

2.5 Internal controls

Where specific purpose money is retained under a net appropriation determination and held in the operating account, the agency should implement appropriate controls to ensure compliance with the terms and conditions applying to such money.

Agency SPAs operate on a cash basis. A SPA is a record of transactions against a specific bank account (or component thereof). The balance of a SPA can be applied only for purposes for which the account was established.

3. Specific Purpose and Other Money (Money Held in Trust)

3.1 Introduction

Specific purpose money

> ***Section 16(1)(d)*** *of the Act requires that the agency SPAs of an agency consist of any account established by the agency for the purposes approved by the Treasurer and determined by the Treasurer to be an agency SPA.*

Agencies will generally account for specific purpose money in their operating account under sections 16(1)(a) or 16(1)(b) of the Act, or as part of a SPA under 16(1)(d) of the Act.

However, where a donor or contributor requires transparency and distinct accountability for the moneys under an agreement then such moneys may be credited to an agency SPA for specific purposes under section 16(1)(d) of the Act. Similarly, a parliamentary appropriation for a specific purpose may be accounted for in a separate Treasurer's special purpose account (TSPA) under sections 10(a) of the Act.

The stewardship, governance and accountability regarding such moneys are outlined in a special purpose statement as required under section 17 of the Act.

Other Money (money held in trust)

As these are not moneys of the agency, other money must be credited to a separate agency SPA established for that purpose under section 16(1)(c) of the Act. Other moneys may also be credited to a TSPA under section 10(f) of the Act.

The stewardship, governance and accountability regarding such moneys are outlined in a trust statement as required under section 17 of the Act.

TI 7 *Special Purpose Accounts* – Requirement 1 *Special Purpose Statements and Trust Statements* specifies the content for special purpose statements and trust statements.

3.2 Terms and definitions

Term	Definition
Specific purpose money	Money that the accountable authority is obliged to spend for a specific purpose and in accordance with the conditions or restrictions specified by the donor or contributor.
Other money	Money collected, received or held by the State or a statutory authority for or on behalf of a person other than the State or a statutory authority.

3.3 Specific purpose money

Specific purpose money should be credited to an agency's operating account.

Where the donor or contributor imposes a legal and/or specific requirement that money be held in a separate account or where an appropriation is made to a SPA for a specific purpose, the money should be credited to an agency SPA or a TSPA in accordance with section 16(1)(d) or 10(a) of the Act respectively.

Agencies are legally obliged to comply with any accepted terms and conditions applying to specific purpose money. Adequate records must be maintained to ensure that money is spent for the purposes specified and is in accordance with the terms and conditions of the donation, grant etc, as well as complies with reporting obligations.

Accountability and stewardship do not diminish where specific purpose money is credited to an agency operating account.

3.4 Other money

Other money should be credited to a TSPA or an agency SPA in accordance with section 10(f) or 16(1)(c) of the Act respectively.

Donations, bequests or grants that do not have specific conditions attached and where discretion can be exercised on how the money will be spent should be treated as general operating revenues and credited to the operating account.

Subject to written law, statutory authorities may only credit statutory authority money as defined in section 3[28] of the Act to their operating account (this may be an agency SPA which for the purpose of the Act is a section 16(1)(b) account or an account held at a bank) established under written law.

> ***Section 16(1)(b)*** *of the Act states that the agency SPAs of an agency consist of any account established for the agency under a written law to be, or determined by the Treasurer to be, an agency SPA.*

Therefore, when a statutory authority receives other money in the course of conducting its operations the following should be considered:

- If the operating account is a section 16(1)(b) SPA to which other money may be credited (see section 7[29] of the *Agricultural Produce Commission Act 1988)*, the agency should prepare a trust statement and seek the Treasurer's approval under section 36[30] of the Act; or
- If the operating account is a section 16(1)(b) SPA for the purpose of the statutory authority's operations, the agency should seek separate approval to SPA under section 16(1)(c) of the Act, the associated trust statement under section 17[31] and a bank account under section 13[32]; or

> ***Section 16(1)(c)*** *of the Act states that the agency SPAs of an agency consist of any account established to hold other money and determined by the Treasurer to be an agency SPA.*

[28] Section 3 of the Act – Terms used
[29] Section 7 of the *Agricultural Produce Commission Act 1988* - Funds of Commission
[30] Section 36 of the Act – Other money, how to be dealt with
[31] Section 17 of the Act – Special purpose statements and trust statements for accounts, preparation of etc.
[32] Section 13 of the Act – Bank accounts for agencies, restrictions on

- If the operating account is at a bank and the statutory authority does not have a SPA designated by the Treasurer for the purpose of other moneys, the agency must prepare a trust statement under TI 7 *Special Purpose Accounts* and request the Treasurer's approval to the SPA and the associated trust statement under sections 16(1)(c) and 17 of the Act, and a bank account under section 13 of the Act. The Treasurer's approval would be required for the bank account to be operated outside the Public Bank Account.

It may be difficult to determine whether money constitutes other money (money held in trust) in a purely legal sense without examining the underlying agreement or the legal instrument between the donor and recipient/receiving agency (or trustee). For example, donations or bequests for the granting of scholarships (trust property) to third parties (beneficiaries) may be regarded as other money (money held in trust) as the State (trustee) gets no benefit but has all of the obligations of the trustee. Agencies should examine the supporting documentation to understand the nature of the donation or bequest, and the extent of their own discretion in applying the money.

If an agency cannot distinguish between specific purpose and other money (money held in trust), it should treat the money as specific purpose money or seek legal advice as to the nature of the money.

Agencies have a fiduciary responsibility for other money credited to SPAs and held for and on behalf of a person other than the State or a statutory authority.

An agency may establish one account with a single special purpose statement or trust statement to hold money provided from a range of donors or contributors that are to be expended on a range of purposes (or a single purpose) if it were practicable.

3.5 Preparing a special purpose statement or a trust statement

Where an agency receives special purpose money or other money, and the Treasurer has not made a determination under section 10(a) or (f) or 16(1)(c) or (1)(d) of the Act in respect of such money, the agency should prepare a special purpose statement or a trust statement (refer TI 7 *Special Purpose Accounts*), as applicable, and seek the Treasurer's approval to the SPA and associated special purpose statement or trust statement under sections 16 and 17 of the Act as outlined in Chapter 1 Special Purpose Statements and Trust Statements of this Guidance.

The agency should ensure compliance with the governance, accountability and stewardship of specific purpose money and other money as set out in the special purpose statement or trust statement and underlying agreements.

3.6 Internal controls

Agencies should ensure that their controls for approving fund releases and financial reporting are effective.

It is also important for agencies to implement procedures that ensure the rights and obligations of donors and recipients are adequately documented.

Agencies financial management manuals should look to establish appropriate policies and procedures to guide staff on how to administer the agencies' SPAs, including:

- Authorisation of Payments (TI 5 *Expenditure and Payments* – Requirement 1 *Authorisation of Payments*),
- Annual reviews of trust and SPA to accurately describe the conditions and restrictions the entities must adhere to when administering the SPA to minimise the risk of fraud and misuse,
- Correct procedures to monitor SPAs to ensure the funds in the accounts are monitored to prevent the risk of the account being overdrawn in line with policies, procedures and record keeping requirements of section 19 of the Act. If it is expected the SPA may be overdrawn, ensure prompt and correct communication is undertaken with Treasury to safeguard appropriate approvals are in place prior to the account becoming overdrawn.
- Approvals required and records which need to be retained on spent funds (TI 3 *Financial Sustainability* – Requirement 1.2 *Financial Sustainability*).

Furthermore, agencies should maintain a register of their SPAs, specifying in their annual report the legislative section under which each account was established. TG 12 Registers provides guidance on what should be included in such a register.

In addition to the register, agencies should also ensure they maintain complete and accurate records to show what restrictions apply to funds in each account. This includes information such as:

- correct name of the account
- information about how the account was created
- statement of the account's purpose
- clear classification of account as SPA or non-SPA account.

Accurate reporting is vital as it is necessary to be able to provide full transparency to Parliament about the funds held in SPAs.

Agencies need to ensure their records include sufficient and appropriate evidence to support all payroll costs charged to accounts and maintain appropriate records to confirm the completeness of funds paid into accounts to show money is only used for the approved purpose (TI 3 *Financial Sustainability* – Requirement 2.2 *Resource Agreements*).

Agencies are required to have financial and administrative procedures that take into account legislation and other mandatory requirements. Ensuring an effective internal control system is to be established and maintained, and management to actively oversee internal controls (TI 4 *Risk Management and Internal Control* – Requirement 1 *Financial Management Manuals*).

In line with TI 7, agencies need to ensure the following:

- an annual review of trust and/or special purpose statements is conducted,
- the agency publishes statements, and
- a register of SPAs is established, maintained and reviewed regularly for currency and accuracy.

FAQs

What controls should entities have to administer their SPAs?

In accordance with the Act and the TIs, entities must:

- Disclose SPAs in the notes to their annual financial statements;
- Conduct an annual review of their special purpose statements, trust statements and SPA register;
- Ensure SPAs are not overdrawn without prior approval from the Treasurer.

Additionally, each agency is required to maintain a financial management manual. This manual must outline the policies and procedures to be followed by staff involved in the entity's financial operations.

Should all SPAs be disclosed in the financial statements and why?

TI 9 *Financial Statements* – Requirement 6.2(ii) *Statements of Financial Position* requires the disclosure of all SPAs in the entity's annual financial statements. This includes SPAs with nil balances and SPAs which may be deemed 'defunct'. Accurate and comprehensive reporting is imperative to ensure that Parliament is provided with reliable and factual information regarding the current status of all SPAs.

Why do we need a financial management manual containing the policies and procedures?

Without sufficient guidance, staff may not be able to effectively administer SPAs. Providing clear and comprehensive guidance helps entities reduce disruptions to receipt, payment and proper accounting of SPA funds, particularly during periods of staff transition.

How to avoid a SPA being overdrawn?

It is essential that entities maintain up-to-date records of the transactions within SPAs, as the Treasurer's approval must be obtained prior to incurring any expenditure that would result in an overdrawn balance. This approval must be sought and obtained prior to a SPA becoming overdrawn at any time during the financial year to reduce the risk of overspending public money. This requirement also applies to timing issues on payment transfers between operating and specific purpose SPAs.

What is the impact of incorrect SPA disclosures?

Entities are required to maintain accurate records detailing the purpose of each SPA purpose and the associated approvals required for the expenditure of funds. Incomplete or inaccurate reporting undermines public scrutiny of funds allocated by the Government for specific purposes. It also increases risks of entities becoming unaware of information or of missing essential information on a SPA.

Why do entities need to have annual reviews on their SPA?

Under TI 7 *Special Purpose Accounts* – Requirement 1.2 *Special Purpose Statements and Trust Statements*, annual reviews are required to ensure statements accurately describe the conditions and restrictions entities must adhere to when administering SPAs.

TI 7 *Special Purpose Accounts* – Requirement 2.1 *Register of Special Purpose Accounts* also requires SPA registers to be annually reviewed to ensure proper documentation of agency SPAs and identify any accounts that have served their intended purposes and can be closed.

Is there any urgency in closing a SPA?

Where possible, entities should look to close the SPAs if they have served their intended purpose. Entities expose themselves to increased risk of fraud and misuse by not closing unused SPAs and may also incur unnecessary costs in having to continue to administer the SPAs.

Version Control

Version	Date	Section	Amendments
v7.0	30 September 2024	All	Initial publication
v7.1	13 December 2024	All	Minor editorial amendments to enhance readability
v7.2	17 June 2025	3 Specific Purpose and Other Money (Money Held in Trust)	Corrected the table of definitions and made minor editorial amendments.
		All	Minor editorial amendments
v7.3	2 January 2026	1.5 Annual review and updates	Guidance added on review of agency SPA register under TI 7 – Requirement 2.1.
		FAQs	- Expanded on 'Why do entities need to have annual reviews on their SPA?' to include reviews of their SPA register. - Added 'Is there any urgency in closing a SPA?'
		All	Minor editorial amendments
V7.4	25 May 2026	1.7	Tightening of the process around closure of SPAs.

TG 8 Financial Accounting and Reporting

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Agency Annual Reports 2. Leases 3. Related Party Disclosures 4. Related and Affiliated Bodies 5. Revaluation of Non-current Physical Assets 6. Contributions By Owners Made to Wholly-Owned Public Sector Entities 7. Accounting for Contaminated Sites 8. Accounting for Provisions – Discount Rates and Other Factors 9. Accounting for Intangible Assets
Relevant Treasurer's instruction(s) (TI)	• TI 1 *Foundation* • TI 3 *Financial Sustainability* • TI 8 *Financial Accounting and Reporting* • TI 9 *Financial Statements*
Other Related Instrument(s)	• AASB 3 *Business Combinations* • AASB 101 *Presentation of Financial Statements (paragraph 106(c))* • AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* • AASB 110 *Events after the Reporting Period* • AASB 116 *Property, Plant and Equipment* • AASB 138 *Intangible Assets* • AASB 1004 *Contributions* • Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*
Last Updated	25 May 2026
Current Version	v8.4

1. Agency Annual Reports

1.1 Introduction

Information presented in agency annual reports should be clear and succinct, with the focus being on outcomes rather than processes or procedures.

As part of the annual reporting requirements, an agency is required to report actual performance that the agency has achieved for the reporting period against its targets both financial and non-financial. Where an agency is covered by a resource agreement to which section 42 of the Act applies, the agency shall adopt the format shown in TI 3 *Financial Sustainability* – Requirement 2 *Resource Agreements*.

A standard layout, as outlined in the Schedule, will enable readers of annual reports to easily find information.

Additional disclosures may also be required by the responsible Minister under section 61(1)(f) of the Act or by any other written laws.

1.2 Terms and Definitions

Term	Definition
Report on the operations	A report on the operations that is required to form part of an agency annual report in accordance with section 61(1)(c) of the Act and forms part of the Agency Performance section.

1.3 Agency Annual Report

An annual report should adopt the following layout:

- Overview;
- Agency Performance;
- Significant Issues impacting the Agency; and
- Disclosures and Legal Compliance.

Information that is necessary to present fairly the operations of an agency and its subsidiary and related bodies should be disclosed, either within the structure outlined above or in an appendix to an annual report. This could include any matter or circumstance that has arisen between the end of the reporting period and a date which should be stated and which is not more than two weeks prior to the date that an annual report is submitted to the Minister in terms of section 63[33] of the Act, which matter or circumstance has significantly affected or may significantly affect:

- the operations of the agency and its subsidiary and related bodies;
- the results of those operations; and
- the state of affairs of the agency and its subsidiary and related bodies.

[33] Section 63 of the Act – Financial reports etc. to be submitted to Audit General and Minister

1.4 Overview

1.4.1 Executive Summary

An 'Executive Summary' should include a statement from the accountable authority that includes performance highlights and/or other significant events impacting the agency.

1.4.2 Operational Structure

An 'Operational Structure' should disclose:

- the name of the agency;
- the authority by which the agency is established;
- the Minister(s) to which the agency is responsible and any introductory message the Minister wishes to contribute;
- an organisational chart which incorporates the names of senior officers and a summary of the activities and responsibilities of each division or its equivalent;
- the short title of the legislations administered by the agency and by the Ministers with the assistance of the agency, for both the agency and each subsidiary, related and affiliated body of the agency; and
- the name of and authority for establishment of each subsidiary, related and affiliated body (as defined in TI 8 *Financial Accounting and Reporting* – Requirement 6 *Related and Affiliated Bodies)* of the agency.

1.4.3 Performance Management Framework

A 'Performance Management Framework' should include, for the agency and any subsidiary and related bodies:

- a description of the links between the relevant government goals and agency level government desired outcomes and services;
- a discussion of any changes to agency level government desired outcomes and services and its key performance indicators from the previous reporting period; and
- a statement of which services are being delivered jointly with other agencies and how the agency is contributing to other agencies' desired outcomes.

1.5 Agency Performance

'Agency Performance' should comprise, for the agency and any subsidiary and related bodies, a 'report on the operations' and includes a comparison of actual results against budget targets for the key performance indicators of effectiveness and efficiency and agreed financial targets. The key performance indicators approved under TI 3 *Financial Sustainability* – Requirement 5 *Key Performance Indicators* are to be used in this reporting process. At a minimum, a report on the operations should include a summary assessment of actual performance relative to target performance. A report on the operations should include any narrative necessary to explain the results and describe the agency's performance, including any material variations and the impact of any external factors.

The targets referred to in this paragraph are those set for the agency and any subsidiary and related bodies in any of the following documents:

- the Budget Statements;
- a resource agreement under section 43[34] of the Act;
- statement of corporate intent; or
- other publicly issued strategic plan or equivalent document.

1.5.1 Key Performance Indicators

Key performance indicators should be 'relevant and useful' to stakeholders and readers of annual reports particularly when they are accompanied by other supporting information on agency operations. An annual report should clearly identify those key performance indicators that are audited by the Auditor General.

Agencies that do not publish targets in the budget statements are encouraged to disclose targets in their statements of corporate intent, or other publicly issued strategic plans or documents.

As part of the discussion of actual results against budget targets and any material variations, agencies should adopt the table format shown in TG 13 Treasury Forms and Templates – Chapter 2 Resource Agreement.

Agencies are required to report results against all targets that have been set, enabling stakeholders to assess agency performance in achieving desired outcomes and delivering services. Consistent with good governance protocols, it is important that any material changes within a reporting period are disclosed.

Where desired outcomes, services and key performance indicators have materially changed from the previous reporting period, the reasons for the change should be disclosed. Where responsibility for a service or achievement of a desired outcome is transferred, in the absence of any approved changes, the existing service, desired outcome and related key performance indicators should be reported by the transferee agency. However, where a restructure occurs, agencies should review their performance management framework.

Transferee agency

The transferee agency, i.e. the agency assuming responsibility for the service or desired outcome, is required to report all related key performance indicators (KPIs) for the full reporting period, together with sufficient information to inform interested parties that responsibility for the transferred service or desired outcome resided with the identified transferor agency prior to the date of transfer. Sufficient disclosures should also be made to allow interested parties to assess the performance of the transferee agency since assuming responsibility for the transferred service or desired outcome. This would generally require reporting separately each KPI for the two relevant periods within the reporting period (i.e. the respective periods that the transferor and transferee agencies had responsibility for the service). The notes to KPIs should state the reason(s) why comparative information has not been provided for preceding reporting periods, together with details as to where the comparative KPIs are located and reported.

[34] Section 43 of the Act – Agreeing on resource agreements

Transferor agency

The transferor agency in its annual report is required to disclose the transfer date, the identity of the transferee agency and details of the transferred service or desired outcome. KPIs for the reporting period up to the date that the service or desired outcome was transferred should be disclosed. The transferor agency should also disclose comparative/trend information for the reporting periods prior to the transfer, together with any relevant explanatory notes.

These requirements should be used as a guide. Professional judgment will be required to assess the specific circumstances to ensure that meaningful performance information is provided to users.

1.6 Significant Issues impacting the Agency

'Significant Issues impacting the Agency' should include a brief description of current and emerging issues and trends impacting the agency's operations. This may include:

- strategic information about significant achievements, initiatives, issues or trends impacting the agency in relation to both financial and non-financial performance;
- the operations of any subsidiary and related bodies, and how the agency, subsidiary and related bodies intend to address them;
- economic and social trends, and changes in any written law or significant judicial decisions; and
- disclosure of any likely developments in the operations of the agency and the forecast results of those developments, unless the disclosure is likely to be prejudicial to the agency.

1.7 Disclosures and Legal Compliance

The Disclosures and Legal Compliance section of the annual report includes the financial statements and key performance indicators required under section 61(1)(a) of the Act.

In addition to the above, 'Disclosures and Legal Compliance' should also include the following:

- Additional key performance indicator information such as details of long-term trends and supporting footnotes, which the accountable authority considers relevant and useful to explain the agency's financial and non-financial performance.
- 'Other Financial Disclosures' that should include, for the agency and any subsidiary and related bodies, the following:
  - pricing policies of services provided and, where applicable, reference to the Gazette or other public document which contains pricing or rating information;
  - details of major capital projects undertaken including:
    - for each project that remains uncompleted at the end of the reporting period: the expected period of completion of the project; the estimated cost to complete and the estimated total cost of the project; and where the estimated total cost of the project varies significantly from the estimated total cost reported in the immediately preceding reporting period, an explanation of that variation; and
    - for projects that have been completed during the course of the reporting period: the total cost of the project; and where the total cost of the project varies significantly from the estimated total cost reported in the immediately preceding reporting period, an explanation of that variation;
  - a summary of the number of employees by category, as exemplified in the Model Annual Report, in comparison with the immediately preceding reporting period, together with information on:
    - staffing policies, including recruitment and staff development;
    - industrial relations; and
    - workers' compensation claims, the prevention of occupational injuries and illnesses and the rehabilitation of injured and sick employees.
- 'Government Policy Requirements' that should disclose, for the agency and any subsidiary and related bodies, the agency's performance against government policy requirements not addressed elsewhere in TI 8 *Financial Accounting and Reporting* – Requirement 3 *Agency Annual Reports*.

1.8 Senior Officers

'Senior officers', as defined in TI 8 *Financial Accounting and Reporting*, is a generalised term, which is necessary to cover many different circumstances in differing types of agencies. A senior officer could be:

- any officer who has responsibility and accountability for the functioning of a section or division which is significant in the operation of the reporting entity or who has equivalent responsibility; and
- in larger agencies, officers down to the third level of management would be included. The first level of management is the Chief Executive Officer (CEO), the second level comprises persons who report directly to the CEO (e.g. Deputy), and the third level comprises persons who report directly to the second level (e.g. Executive Directors).

The classification of a senior officer would depend on the size of an agency. The definition specifies that a senior officer is one who is concerned with or takes part in the management of an agency. A staff member at a high classification level but not concerned with or taking part in the management of an agency, would not fall within the definition.

The definition of a senior officer in TI 8 excludes any person acting in such a position for a limited period. For the purposes of this chapter, a 'limited period' is considered to be for a period of three months or less.

1.9 Additional Performance Information

Although this chapter suggests reporting against key performance indicators and financial targets disclosed in the relevant resource agreement, statement of corporate intent or equivalent public document, it does not preclude disclosure of other performance information, which the accountable authority considers relevant and useful to explain the agency's performance and financial results.

1.10 Ministerial directions

The disclosure requirement in TI 8 *Financial Accounting and Reporting* – Requirement 3.1 *Agency Annual Reports* only applies to formal (i.e. written) directions rather than verbal. In the case of departments, CEOs are appointed by the Governor under section 45[35] of the *Public Sector Management Act 1994 (PSM Act)* and, under section 32(1) of the PSM Act, the CEO of a department is subject to directions of Ministers. Therefore, departments are an extension of Ministers. In the case of statutory authorities and corporatised entities, ministerial directions are provided in their enabling legislation.

When a Minister and a CEO discuss operational matters and the Minister requires the CEO to do certain things, then this is not necessarily a ministerial direction, but quite simply the result of a discussion/consultation process. The requirement in TI 8 Requirement 3.1 that ministerial directions be disclosed in an annual report is intended to catch those directions that are relevant to the setting of an agency's desired outcomes, rather than those that impact day to day operations. An example of a ministerial direction is when a Minister issues a written direction to an agency to implement an efficiency dividend.

[35] Section 45 of the PSM Act – CEOs, appointment of

1.11 Other Information

Information that an agency wishes to or must report that does not fit into the structure outlined in this Guidance chapter should be reported in an appendix or appendices to an annual report.

The 'Other Legal Requirements' section referred to in TI 8 *Financial Accounting and Reporting* – Requirement 3.2 *Agency Annual Reports* and the 'Government Policy Requirements' section outlined in this chapter are listed in the Public Sector Commission's publication titled 'Annual Report Guidelines'.

Schedule

A suggested outline of an annual report that is consistent with TI 8 – Requirement 3 is as follows:

Annual Report Structure

- Overview
  - Executive Summary
  - Operational Structure
  - Performance Management Framework
    - Outcome Based Management framework
    - Changes to Outcome Based Management framework
    - Shared responsibilities with other agencies
- Agency Performance
- Significant Issues impacting the Agency
- Disclosures and Legal Compliance
  - Financial Statements
  - Additional key performance indicator information
  - Ministerial directions
  - Other Financial Disclosures
    - Pricing policies of services provided
    - Capital works
    - Employment and industrial relations
  - Governance Disclosures
  - Other Legal Requirements
  - Government Policy Requirements

2. Leases

2.1 Introduction

The purpose of this chapter is to outline the key policy positions relating to accounting for lease transactions and to assist the Chief Finance Officer (CFO) and finance staff of a public sector entity to better understand the commonly applied requirements of the Australian Accounting Standard AASB 16 *Leases*. Sale and leaseback transactions, foreign currency implications and leasing for joint operations are excluded from this chapter due to their infrequent occurrence in the WA public sector.

Many agencies within the public sector become lessees by acquiring rights to use another entity's assets. While less common, a number of agencies become lessors through subleasing assets or leasing their own property, plant and equipment to other entities.

For all leases other than short-term and low-value leases, lessees shall recognise:

- a right-of-use (ROU) asset i.e. the right to use the underlying leased asset;
- a lease liability i.e. the present obligation to make lease payments;
- the depreciation expense for the ROU asset; and
- the finance costs incurred (i.e. interest expense) in settling the lease liability.

A lessor will continue to apply a dual lease model approach:

- leases will continue to be reported based on their classification as either operating or finance leases; and
- the classification of leases by sub-lessors is determined by reference to the lease terms and conditions of the head lease, not the useful life of the underlying asset.

This Guideline should be read in conjunction with the following documents:

- AASB 7 *Financial Instruments: Disclosures*;
- AASB 9 *Financial Instruments*;
- AASB 16 *Leases*;
- AASB 101 *Presentation of Financial Statements*;
- AASB 116 *Property, Plant and Equipment*;
- AASB 119 *Employee Benefits*;
- AASB 136 *Impairment of Assets*;
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- AASB 1058 *Revenue from Contracts with Customers*;
- TI 9 *Financial Statements* – Requirement 5 *Statements of Comprehensive Income*;
- TI 9 *Financial Statements* – Requirement 6 *Statements of Financial Position*;
- TG 8 Financial Accounting and Reporting – Chapter 7 Accounting for contaminated sites (provisions).

2.2 Lessees

Agencies should apply discount rates to measure liabilities as follows:

- lease liabilities are to be calculated by reference to the Western Australian Treasury Corporation (WATC) incremental borrowing rates[36] where the interest rate implicit in the lease is not readily determined; and
- restoration provisions are to be calculated by reference to the Australian Government Bond Rate applicable to the lease term.

Agencies should account for lease and non-lease component(s) as follows:

- material non-lease component(s) are to be accounted for separately from the lease amount, where practicable; and
- immaterial non-lease component(s) may be included in the lease amount, and accounted for as a single lease, by class of the underlying asset.

2.3 Discount rates

2.3.1 Western Australian Treasury Corporation

WATC rates are updated monthly, and agencies should use the rate for the month in which the lease commenced for the contracted term rounded to the nearest half year interval. The interest rates provided by WATC are effective annual rates.

WATC also provide forecast rates for budgeting purposes. These rates are updated annually to coincide with the budgeting timelines.

2.3.2 State Fleet

For the purposes of this chapter, the interest rate implicit in State Fleet leases is provided by the State Fleet business units of the Department of Housing and Works and is therefore readily determined.

2.4 Non-lease component(s)

Non-lease component(s) accounted for separately from a lease are accounted for in accordance with other applicable standards.

For example, embedded derivatives within a lease contract meeting the criteria in paragraph 4.3.3 of AASB *9 Financial Instruments* are required to be accounted for in accordance with AASB 9, not AASB 16.

2.5 Presentation and disclosure requirements

Agencies are referred to AASB 16 paragraphs 47 to 60 for presentation and disclosure requirements and TI 9 – Requirement 6.

[36] WATC rates are to be accessed from the attached link: Lease Valuations AASB 16 (watc.wa.gov.au)

2.6 Employee Benefits

TG 9 *Financial Statements* specifies the requirements for disclosing employee benefits. As there is no connection between AASB 16 and AASB 119 *Employee Benefits*, the starting point is to determine what defines the 'cost' of these employee benefits to an agency.

Treasury has mandated that this 'cost' is the interest and depreciation amount for the leases, where the lease is included on the balance sheet under AASB 16.

Agencies are required to report these amounts in accordance with the provisions of AASB 16, presenting them separately on the face of the financial statements, specifically within the statement of comprehensive income. Agencies must then prepare a notional reclassification journal to ensure accurate leasing disclosures are presented in the notes to the financial statements. This notional amount is for disclosure purposes only and must not affect the general ledger balances.

2.7 Wholly-owned public sector lessor entities

Wholly-owned public sector lessor entities generally include Government Office Accommodation (GOA) and State Fleet business units of the Department of Housing and Works and the Government Regional Officer Housing (GROH) of the Housing Authority.

GOA and GROH periodic lease arrangements are outside the scope of AASB 16 and are expensed as incurred.

2.8 Accounting for Leases

2.8.1 Key Requirements

AASB 16 mandates the accounting treatment for lease transactions, particularly from the lessee perspective. Most lease arrangements are recorded on the Statement of financial position as ROU assets and associated lease liabilities (financial liabilities).

Scope

AASB 16 applies to all leases, including leases of ROU assets in a sublease[37]. The following are excluded from the scope of AASB 16[38]:

- exploration leases for minerals, oil, natural gas and similar non-generative resources;
- leases of biological assets within scope of AASB 141 *Agriculture* held by a lessee;
- service concession arrangements within the scope of Interpretation 12 *Service Concession Arrangements* and AASB 1059 *Service Concession Arrangements: Grantors*;
- licences of intellectual property within scope of AASB 15 *Revenue from Contracts with Customers*, and
- rights held by a lessee under licensing arrangements within the scope of AASB 138 *Intangible Assets* for items such as motion picture films, manuscripts, patents and copyrights.

[37] Refer to AASB 16 paragraph 3
[38] Refer to AASB 16 paragraph 3

AASB 16[39] provides optional relief, as modified by TI 8 *Financial Accounting and Reporting* – Requirement 4 *Leases* for leases external to the public sector when the lease is either:

- a short-term lease (a lease term of 12 months or less); or
- a low value asset (the value of the new underlying asset is up to $5,000).

Identification of a lease

In considering whether a lease exists, agencies are required to consider the terms and conditions of a contract and all the relevant facts and circumstances. Memorandums of Understanding, Heads of Agreement and Letters of Intent (even though they may not be contracts) can constitute leases. Agencies should assess these and other arrangements in accordance with AASB 16.

A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The determination of whether a contract is a lease or contains a lease occurs at the inception of the lease contract[40]. Lease components within a contract shall be accounted for separately from non-lease components, unless the practical expedient is applied[41]. The lease is only reassessed if the contract terms and conditions are altered.

A contract may still contain a lease even where the terms 'lease' or 'rental' are not included as part of the agreement. The substance of the transaction, rather than the legal form, takes precedence when accounting for transactions. Lessees and lessors[42] are required to distinguish the values for the lease and non-lease components of a contract, based on the substance of the transaction where practicable.

Lease transactions can vary in their application. For example, a contract may principally be a lease contract with an immaterial service component. However, a different contract may principally be a service contract with an embedded lease included.

Embedded leases are components within a contract that grants the right to control and use a particular asset as part of a contract.

Determining control over assets explicitly or implicitly identifiable within a contract is key to distinguishing the lease and non-lease components of a contract.

A contract can be (or contain) a lease only if the underlying asset is 'identified'. Having the right to control the use of the asset for a period of time requires having the right to:

- obtain substantially all of the economic benefits from use of the identified asset; and
- direct the use of the identified asset;

throughout the period of use.

The steps for identifying a lease are summarised in the below diagram and the decision chart in Appendix A – *Identification of embedded leases*.

[39] Refer to AASB 16 paragraph 5

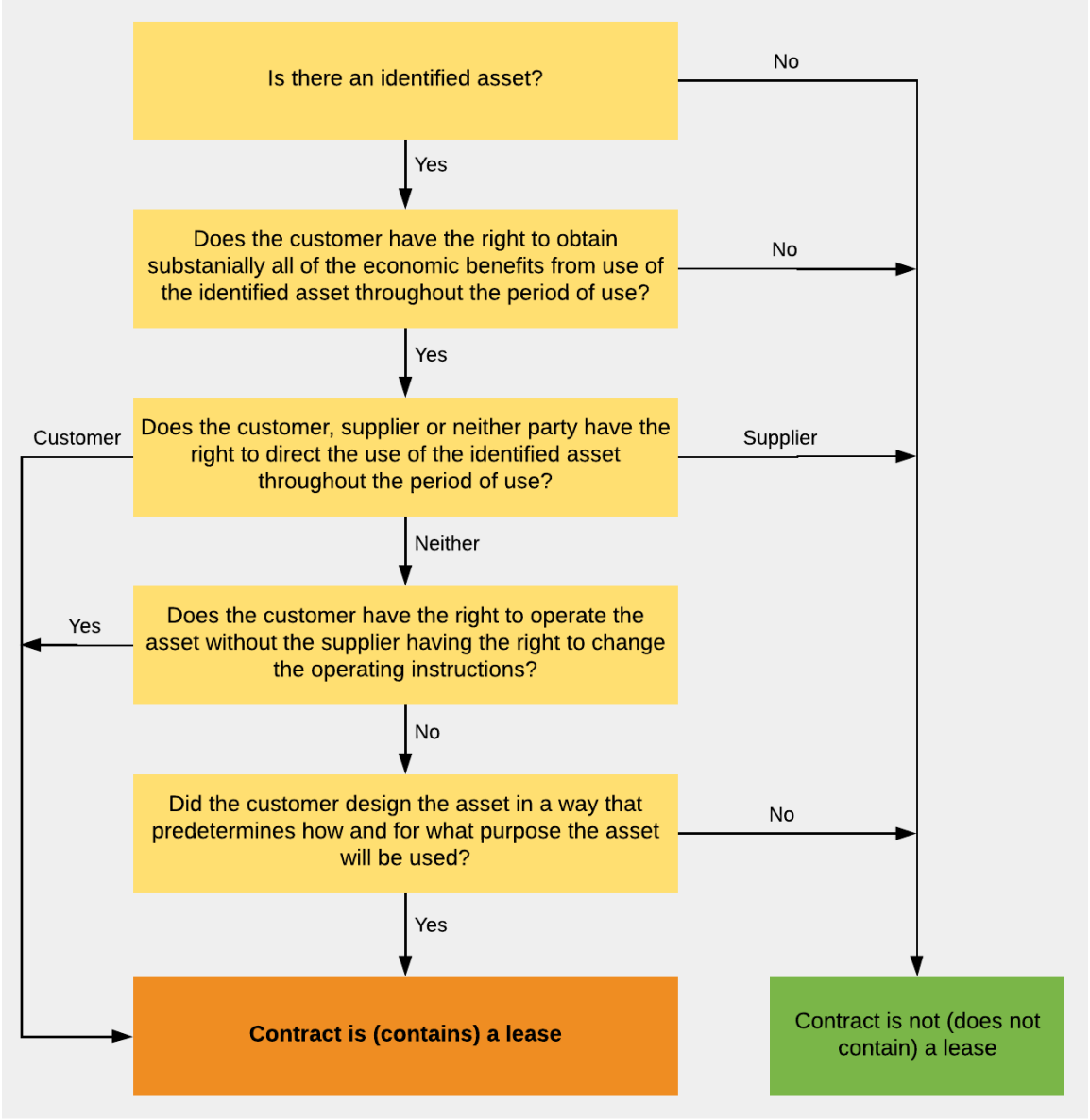
[40] Refer to AASB 16 paragraph 9

[41] Refer to AASB 16 paragraph 12, 15

[42] Refer to AASB 16 paragraph 17. Lessors are to allocate lease or non-lease component consideration by applying paragraphs 73-90 of AASB 15.

Diagram 1: Steps for identifying a Lease

The diagram below illustrates the key evaluations in determining whether a contract is or contains a lease.



Step 1: Is there an identified asset?

An asset is often identified by being explicitly specified in a contract. However, it can also be identified by being specified at the time that the asset is made available for use by the customer or may be implicitly implied[43].

[43] Refer to AASB 16 paragraph B13

Step 2: Is there a right to obtain economic benefits?

Control is dependent on the customer obtaining substantially all of the economic benefits, throughout the period the asset is used. This includes benefits obtained indirectly such as through sub-leases[44].

Step 3: Is there a right to direct the use of the identified asset?

The right to direct the use of the identified asset arises when either:

- the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
- relevant decisions about how and for what purpose the asset is used are predetermined in the contract; and either:
  - the customer has the right to operate the asset (or to direct others to operate the asset in a manner it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or
  - the customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use[45].

The scope of relevant decisions that can determine a customer's right to direct the use of an identified asset are quite broad. Within the standard's guidance there are several examples of relevant decision-making rights[46].

Substantive substitution rights[47]

A supplier's right to substitute an asset is substantive only if both of the following conditions are met:

- the supplier has ability to substitute the asset throughout the period of use; and
- the supplier would benefit economically from exercising its right to substitute the asset.

This is because the supplier and not the customer controls the asset, and therefore the contract does not contain a lease.

Lease term

AASB 16[48] defines the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

[44] Refer to AASB 16 paragraph B21
[45] Refer to AASB 16 paragraph B24
[46] Refer to AASB 16 paragraph B26
[47] Refer to AASB 16 paragraphs B14-B19
[48] Refer to AASB 16 paragraph 18

The ability of the lessee to exercise discretion over the term of the right-to-use is key to determining the lease term. Where the lessor has the ability to exercise or enforce this discretion, the term is no longer non-cancellable and this period is excluded from the lease term. Consequently, the determination of the lease term is an estimate subject to professional judgement derived from various relevant factors believed to be reasonable under the circumstances.

The lease term begins on the 'commencement date' of the lease (the date that the lessor makes the underlying asset available for use by the lessee) and includes any rent-free periods provided to the lessee by the lessor[49].

The entity should revise the lease term if there is a change to the non-cancellable lease.

Recognition of a lease

At the commencement date of a lease, a lessee is required to recognise both:

- a right-of-use asset; and
- a lease liability.

Except for fixed term leases with a central government lessor agency (e.g. State Fleet), lessees may elect not to apply the requirements in AASB 16 paragraphs 22-49 to:

- a short-term lease (leases of 12 months or less); or
- a low value lease (the value of the new underlying asset value is up to $5,000).

Lease payments

The lease payments are the payments made by the lessee to a lessor relating for the right to use the underlying asset during the lease term and is comprised of the following[50]:

- fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments for penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Entities should separate lease and non-lease components of a lease unless the lessee applies the practical expedient detailed in AASB 16 paragraph 15. Distinguishing material non-lease components is desirable as it minimises the impact of leases on Net Debt metrics. Agencies are to elect the lease/non-lease component practical expedient according to Chapter 2.2 Lessees of this Guidance, based on materiality.

Measurement of the ROU asset

Initial measurement

At commencement date, a lessee shall measure the ROU asset at cost.

[49] Refer to AASB 16 paragraph B36
[50] Refer to AASB 16 paragraph 27

The cost of the ROU asset comprises the following:

- the amount of the initial measurement of the lease liability (as per below);
- any lease payments made at or before commencement date (i.e. prepayments), less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- restoration costs (make-good provisions).

This includes all assets other than investment property ROU assets.

Leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives are referred to as 'concessionary leases'.

ROU assets resulting from concessionary leases are also to be measured at cost, at inception. The option to measure these assets at fair value is not permitted. They shall continue to be measured at cost subsequent to initial recognition.

Subsequent measurement

After the lease commencement date, a lessee is to measure all ROU assets applying the cost model.

the ROU asset is measured at cost:

- less any accumulated depreciation (under AASB 116) and any accumulated impairment losses (under AASB 136); and
- adjusted for any re-measurement of the lease liability outlined below.

Please note that the above position may change dependent on the AASB's Fair Value Measurement project.

Measurement of the lease liability

Initial measurement

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date[51]. The lease payments shall be discounted. Please refer to the section 'discounting lease liabilities' for further guidance.

[51] Refer to AASB 16 paragraph 26

The lease payments included in the measurement of the lease liability comprise of the following[52]:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent measurement

After the commencement date, a lessee shall measure the lease liability by[53]:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.
- A lessee shall recognise in the Statement of comprehensive income:
- interest on the lease liability; and
- variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that trigger occurs.

Lease liability reassessments and modifications

A lessee is required to remeasure a lease liability where there has been a change in lease payments, change in the lease term or a change in the assessment of an option to purchase the underlying asset. These re-measurements are referred to as lease reassessments and the revised lease payments are discounted using either the same or a revised discount rate[54].

A lessee may also encounter lease modifications. Lease modifications will either be accounted for as a separate lease or as part of the existing lease. A separate lease is distinguished where the scope of the lease is increased by adding the right to use one or more underlying assets, and the consideration for a lease increase by an amount commensurate with the stand-alone price of the increase in scope[55].

More information on discount rates can be found in the 'Application of Discount Rates'.

[52] Refer to AASB 16 paragraph 27
[53] Refer to AASB 16 paragraph 36
[54] Refer to AASB 16 paragraphs 40, 43
[55] Refer to AASB 16 paragraph 44

2.8.2 AASB 16 Guidance

Capitalisation and lease term thresholds

Lessees

Agencies will recognise leases excluded from the scope of AASB 16 by practical expedients or capitalisation thresholds on a straight-line expense basis, continuing the existing accounting treatment. TI 8 – Requirement 4 defines both the lease asset capitalisation threshold and the low value threshold, whilst AASB 16 defines the short-term thresholds for agencies.

Agencies are not required to recognise lease assets and liabilities where the low value and/or short-term lease practical expedients are exercised.

- The low-value lease exemption applies where the ROU value (cost) is up to $5,000 at the commencement date of the lease (asset recognition threshold); and
- the short-term lease exemption applies where the lease term is 12 months or less.

TI 8 *Financial Accounting and Reporting* – Requirement 4.1 *Leases (Lessees)* narrows these exemptions when public sector agencies transact with the State Fleet business units of the Department of Housing and Works and the GROH program of the Housing Authority (except for 'cancellable' agreements).

The above practical expedients allow agencies to treat the applicable leases as expenses.

Presentation requirements

Lessees

ROU assets and the corresponding lease liabilities are to be presented separately from other asset and liability classes on the face of the financial statements.

Lessees will have discretion in presenting ROU asset classes in the notes that best reflects the agency's own circumstances.

Employee contributions

TI 9 Requirement 6 *Statements of Financial Position* discusses the requirements for measuring and disclosing employee benefits. At the time of writing, there is minimal guidance in relation to the interplay between AASB 16 and AASB 119 *Employee Benefits*. Until standard setters provide further guidance, Treasury has determined that where there are employee expenses that fall under both AASB 16 and AASB 119, the 'cost' is the interest and depreciation amount for the impacted leases.

Employee contributions represent income to the agency.

Agencies are required to report these amounts consistent with the requirements per AASB 16 on the face of the financial statements (i.e. separately in the Statement of comprehensive income). A notional reclassification disclosure adjustment will then be required in order to present the correct employee benefits disclosures in the notes to the financial statements. This notional reclassification amount will not have any impact on the general ledger amounts; it is merely for disclosure purposes within the financial statements.

Agencies that provide employees with non-monetary benefits (e.g. housing), are required to disclose the cost of providing these benefits on a gross basis. Employee benefits will need to be disclosed under the requirements of AASB 119 *Employee Benefits*. Agencies will still need to record the impact of AASB 16 on the underlying lease (on a gross basis), reflecting the ROU assets and associated lease liabilities on the balance sheet, and interest/depreciation on the Statement of comprehensive income.

Agencies will now also need to recognise the tenant rental contributions they receive from employees as a separate income item on the Statement of comprehensive income.

The employee benefit disclosure requirements are in TI 9 – Requirement 6 and a simple illustrative example for disclosure of employee contributions is provided at Appendix B.

Discounting Lease Liabilities

Lease liabilities are measured by reference to the present value of lease payments not paid at the commencement of the lease. The rate used to discount the lease payments is determined by cascading options, for example:

Apply the interest rate implicit in the lease contract; or

If (1) is not readily available, apply the agency's incremental borrowing rate (IBR).

WATC may be able to aid in modelling the interest rate implicit in the lease, where necessary.

Generally, government sector agencies do not have legal authority to borrow and will not have an agency specific IBR. Therefore, government borrowing rates are to be utilised as a proxy (unless an agency has capacity to borrow under legislation), where the interest rate implicit in the lease cannot be determined by other means.

WATC will provide actual and estimated IBR information, via their website, for leases other than arrangements with State Fleet. For lease terms greater than 20 years, the WATC IBR 20-year rate is suitable.

Actual IBR

The WATC IBR actual table is updated monthly, within the first week of each month. The movements in IBR within the month are marginal and the single monthly rate is to be applied to all leases commencing in the relevant month.

Budget/Forecast IBR

The WATC IBR 'Forecast incremental borrowing rates for expected future lease commitments' should be used to measure the estimated future lease liability for budgeting and forecasting purposes unless an agency has capacity to borrow under legislation. These rates will be available on the link provided below but are only available from October to May. These rates are updated annually for budget and forward estimate purposes only.

When a lease actually commences that was previously budgeted for, the actual IBR rate (not the forecast rate) is to be used to measure the actual lease liability recognised on the balance sheet.

If there are any issues with the WATC database, please email csoperations@watc.gov.au. Agencies will need to select the discount rate appropriate to their lease term for the purpose of measuring lease liabilities.

Application of Discount Rates

When performing a lease reassessment or determining whether a lease modification has occurred, there are several situations where revised discount rates are used to re-measure the lease liability. For lessees, revised discount rates are used in the following circumstances:

- when there is a change in the lease term;
- when there is a change in the agency assessment of a lease option to purchase the underlying asset;
- there has been a lease modification that is not accounted for as a separate lease; or
- the change in the lease payments results from a change in floating interest rates.

Agencies need to be aware that some government contracts have specific clauses that may make it difficult to determine whether a lease reassessment or modification has occurred. For example, State Fleet contracts specify an initial minimum lease term that can be changed based on kilometres and/or time periods. When a State Fleet contract is restructured, the impact on discount rates is as follows:

- an increase/decrease in the lease term (in months) or an increase/decrease to both months and kilometres will result in a lease reassessment and therefore require a revised discount rate;
- an increase/decrease in the agreed kilometres will result in a lease modification and therefore require the same discount rate.

The WATC IBRs can be accessed via:

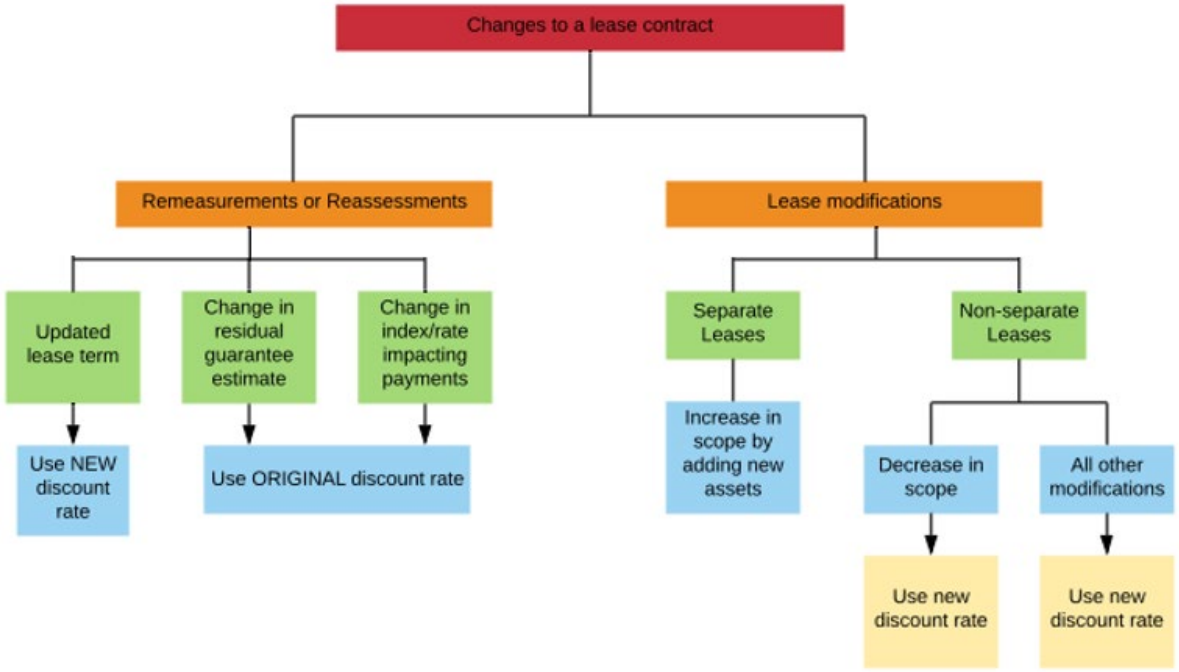
Western Australian Treasury Corporation (watc.wa.gov.au)

Agencies may elect to apply or not apply the practical expedient of applying a single discount rate to a portfolio of leases with reasonably similar characteristics. The justification for the election resides with the agency and shall address the similarity of broad characteristics exhibited with the portfolio.

The table and diagram below summarise the circumstances where the use of a revised rate or original rates are required by AASB 16.

Discount Rate	Scenarios
Use a revised discount rate	• Change in lease term (extension option/termination option) • Change in assessment of a purchase option • Change in lease payments due to a change in floating interest rates • Increase/decrease in scope of lease (i.e. a lease modification that is not accounted for as a separate lease).
Use the original discount rate	• Change in amounts of residual value guarantee • Change in lease payments due to change in an index/rate

Diagram 2: Changes to discount rates



Lease/non-lease components

Lessees

A lease arrangement may contain lease and non-lease components. Consideration ought to be allocated to each element accordingly, though AASB 16 permits practical expedients which have been modified by TI 8 – Requirement 4 to promote consistent application throughout the public sector.

Agencies are required to separate a material non-lease component from a lease contract that contains both lease and non-lease components (e.g. maintenance costs of the leased asset are included in the lease contract) where practicable.

For immaterial non-lease components, agencies may apply the practical expedient and recognise the lease and non-lease (maintenance cost) components as a single lease except in the following circumstances:

- to account for several lease components of a contract as a single lease component; and
- for embedded derivatives that meet the criteria of AASB 9 *Financial Instruments* paragraph 4.3.3.

The non-lease component shall be accounted for by applying other applicable accounting standards. If a lease contract contains one or more additional lease components, the lessee shall allocate the lease consideration to each lease component based on the relative stand-alone price of each lease component.

Lessors

Where a lessor has a contract with a lease component and one or more additional lease or non-lease components, the lessor does not have the option to account for these components as a single lease.

AASB 16 requires the lessor to allocate the stand-alone components of the lease contract pursuant to AASB 15 *Revenue from Contracts with Customers*.

Variable lease payments

Lessees

At the commencement date, variable lease payments, e.g. linked to an index Consumer Price Index (CPI) or a rate (a benchmark interest rate - LIBOR), are included in the 'lease payments' to calculate the value of the lease liability and ROU asset using the index or rate on the commencement date.

Where a lease contract varies lease payments by CPI over the lease term, agencies are to rely upon the officially published index for the region that the ROU's underlying asset is located. For most ROU assets relating to the WA public sector, that index will be the CPI index maintained by the Australian Bureau of Statistics for Perth.

In subsequent periods if there is a change to the index or rate, the lease payments will change, and the lessee re-measures the lease liability and ROU asset using the revised lease payments. The discount rate is unchanged unless the change in the lease payments results from a change in floating interest rates, in which case the lessee uses a revised discount rate to reflect changes to the interest rate.

Also, if lease payments are linked to market rental rates, at the commencement date, the lease payments included in the measurement of the lease liability and ROU asset will be the payments agreed at inception, without considering future rent reviews.

In future periods if there is a change in market rental rates, the lease payments will change, and the lessee re-measures the lease liability and ROU asset to reflect the change in the market rental rates. The re-measurement is recognised when the lease payment takes effect, i.e. when it impacts cash flows. Note that the discount rate in this situation remains the same as it is a change to an index/rate.

Variable lease payments that are not linked to an index or rate are not to be included as part of the measurement of the initial lease liability. These payments are to be expensed in the period in which they occur or are triggered[56].

Initial direct costs

Initial direct costs are tightly defined as the incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained (e.g. costs incurred in negotiating and securing the lease), except for such costs incurred by a manufacturer or dealer lessor in connection with a finance lease.

[56] Refer to AASB 16 paragraph 27(b)

Lessees

Lessees must include initial direct costs in the measurement of the ROU asset.

Lessors

The recognition of initial direct costs for lessors, depends on the classification of the lease as follows:

- for operating leases[57], initial direct costs are applied to the carrying amount of the underlying asset leased. These costs are expensed over the life of the lease term.
- In contrast, accounting for finance leases (other than manufacturer or dealer lessors) requires inclusion of initial direct costs in the measurement of the net investment in the lease[58] and reduce the amount of income recognised over the lease term. The definition of the interest rate implicit in the lease includes initial direct costs in calculating the net investment in the lease, therefore there is no need to add this cost separately.

Directly attributable costs 'other than' initial direct costs

Where a lessee incurs costs relating to the construction or design of an underlying asset[59], these payments are not made for the ROU underlying asset. Instead, these costs are recognised in accordance with other applicable standards and are excluded from the measurement of the ROU asset.

For example, if an agency has made structural changes to a leased property, the standard provides an example of leasehold improvements recognised and measured in accordance with AASB 116 *Property, Plant and Equipment*. AASB 116[60] defines directly attributable costs for the purposes of recognising leasehold improvements.

Central agency models

State Fleet and GROH provide centralised models for the leases that fall under their scope for budgeting and financial reporting purposes. For agencies that utilise dedicated leasing software, these models can be used as a checking mechanism. Where an agency does not have their own internal leasing software, the models provide the information required to recognise the leasing amounts and also for forward estimates. It is a requirement that agencies check and review the numbers are correct in these models (i.e. agree lease terms, interest rates, lease payments).

Periodic lease terms

Leases that an agency has with GROH that are open ended (i.e. the lease agreement states the expiry date as 'periodic', 'overholding' or similar) will be recognised as an expense.

The nature of the periodic leases is such that either party may exit the agreement with limited penalty. As the agreements work on a month-to-month 'extension' basis, the lessee and/or lessor can elect not to extend the arrangement. This effectively means that under AASB 16 there is no non-cancellable period that gives rise to specific rights and obligations.

[57] Refer to AASB 16 paragraph 83
[58] Refer to AASB 16 paragraph 69
[59] Refer to AASB 16 paragraphs B43-B44
[60] Refer to AASB 16 paragraph 17

Where agencies have periodic lease agreements as part of their GROH take up, the associated monthly rental costs are to be included as expenses as part of the Statement of comprehensive income. The GROH budget models provide information to allow agencies to determine which leases are to be expensed.

Make Good Provisions (Restoration Costs)

Some lease contracts require the asset to be returned to the lessor in the same condition as when originally leased. These conditions can range from demolishing leasehold improvements (e.g. office fit-outs) to leaving the premises in a clean and tidy condition.

Restoration provisions are intended to capture major make good efforts, which are expensed over the life of the lease after professional judgement determines that a provision is appropriate. A provision for specific damage done to the leased asset merits recognition after the event giving rise to a contractual obligation under the lease has certainly occurred. Typically, a make good provision will be required where a lessee has performed major fit-out work on a leased property. Generally, clean-up costs required at the end of a lease do not fall into the make good category and as such are expensed as and when incurred. However, if a lease agreement contains a specific clause that specifically requires an action that needs to be undertaken, there may be a reasonable argument to include this as a make good provision at the inception of the lease. For example, if a lease agreement states that painting must be re-performed before vacating the property, a lessee would have sufficient certainty that this will need to be performed upon completion of the lease.

Further information in relation to accounting for make good provisions can be found in Chapter 7 Accounting for Contaminated Sites of this Guidance.

Further assistance for accounting for restoration costs is available in:

- Chapter 7 Accounting for Contaminated Sites; and
- RMG 114 Accounting for decommissioning, restoration and similar provisions

https://www.finance.gov.au/publications/resource-management-guides-rmgs/accounting-decommissioning-restoration-similar-provisions-make-good-rmg-114

Onerous contracts

An onerous contract[61] is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits to be received under it.

In determining whether a contract is onerous, a lessee shall rely on its assessment of whether the lease is onerous under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application.

Impairment of right of use assets

Subsequent Measurement

After the commencement date, according to AASB 16, agencies are required to apply AASB 136 *Impairment of Assets* to determine whether ROU assets are impaired and to account for any impairment loss identified.

[61] Refer to AASB 137 paragraph 10

It should be noted that subsequent to the implementation of AASB 16 (i.e. from the end of financial year 1 and beyond), agencies will be required to assess their ROU assets for impairment using the predetermined indicators from AASB 136. If there are no indicators of impairment (i.e. no triggering events), no further action should be taken in relation to impairment testing.

Concessionary leases (below market-value leases)

Leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives are referred to as 'concessionary leases' (also referred to as peppercorn leases).

ROU assets resulting from concessionary leases are to be measured at cost in accordance with AASB 16. The option to measure these assets at fair value is not permitted.

After initial recognition, ROU assets resulting from concessionary leases shall continue to be measured at cost. Note that this position is pending guidance from the AASB on their final decision in relation to the impact of their Fair Value Measurement for Public Sector project.

Cloud-based software and GovNext

Cloud-based software solutions and GovNext contracts are principally contracts for service and are mostly recognised as expenditures. This was confirmed by the IFRS® Interpretations Committee (IFRIC®) decisions of March 2019 and April 2021 which considered the impact of control attributes pertinent to recognising an asset within a cloud computing arrangement.

The accounting treatment mostly results in the recognition of a service contract expense. In the unusual case that control is established over a component of an arrangement, the agency assesses whether a lease asset or intangible asset exists.

The steps detailed at Identification of a lease should be applied to justify recognition of a lease asset.

Where the payment is for an identifiably distinct component[62], the agency should assess whether an intangible asset exists. This assessment is based on the recognition criteria in AASB 138 *Intangible Assets*.

Disclosures

Agencies should refer to TI 8 – Requirement 4, TI 9 – Requirement 6, AASB 16 and the Model Annual Reports for illustrative disclosures and guidance on presenting lessee aggregates flowing from application of the new accounting standard.

Central Agency Lease Models

Government Regional Officer Housing Models

GROH provides modelling for Budget and Mid-Year Review. For actual financial reporting, GROH provides quarterly lease model data.

[62] Refer to AASB 15 paragraph 27 for guidance on "distinct"

Residential accommodation is acquired by GROH on behalf of the public sector on both periodic and fixed term arrangements. The models are designed to cater to the difference in accounting treatments under AASB 16 for these periodic and fixed term agreements.

Make good clauses	Make good clauses giving rise to material expenditures are considered unlikely for residential rental accommodation. Rental agreements typically require hand-over of a property in a clean and tidy condition, with allowances for ordinary wear and tear.
Market rent reviews/CPI adjustments	**Actuals** Market rent reviews or CPI adjustments are incorporated to the quarterly actuals models as and when the triggering events occur (i.e. if a market rent review occurs in August, the September quarter model will reflect the appropriate adjustment). These rent reviews are based on the contract clauses and GROH policy and will often be the higher of CPI vs. market rent review. **Budget** GROH external leased properties are on relatively short lease terms and as a result at the end of the life of these leases, the rents will be renegotiated – but this is an unknown. The majority of GROH external properties are fixed term leases. There is no escalation applied to these leases given that they are on short terms, and it is an expectation that rents will be renegotiated. Sub-lease agreements between GROH and an agency, for GROH-owned properties, are generally for periodic terms. CPI escalation rates will be applied for the purposes of budget modelling to these leases year-on-year.

Extension options/terminating leases	**Actuals** For actual purposes, determining whether an extension option stipulated in a lease agreement is to be entered into, is a management estimate established in collaboration with GROH. **Budget** For budget purposes, where a lease is due to expire in the budget outyear periods, it is assumed that a similar lease for the same terms will be required to replace the existing lease agreement. However, where an expiring lease had a term of 5 years or less, an agency is to repeat the lease for a new term of 5 years. **Variable outgoings** Variable outgoings will not be included as part of lease payments in the lease models. These are non-lease components of rental agreements and should be treated as expenses separate from the lease. Agencies are to appropriately code these expense items to an appropriate expense code when settling GROH invoices.

State Fleet Models

State Fleet provides budget models for Budget and Mid-Year Review. For actuals, monthly lease data is provided.

Make good provisions	Agencies are required to hand-over vehicles in a specified clean and tidy condition, with allowances for ordinary wear and tear. Where the vehicle fails the stipulated standards, the agency is expected to undertake appropriate repairs and seek insurance recoupment where relevant. A make good provision is not raised for these costs
Lease Payment escalation	There is no escalation applied to the State Fleet modelling given that the payments stay static across the life of the lease per the agreement. Service component expenses or Variable Outgoings may be escalated, as appropriate, by applying the CPI forecasts from annually published Budget Statements.
Variable outgoings	Variable outgoings will not be included as part of lease payments in the lease models. These are non-lease components of rental agreements and should be treated as costs separate from the lease.

Government Office Accommodation

Government Office Accommodation (GOA) inter-agency memorandum of understanding agreements are out of scope for the purposes of AASB 16 and as such are expensed as incurred. This includes the Minister for Works owned properties.

2.8.3 Resources and further information

Resources for accounting for leases are available from:

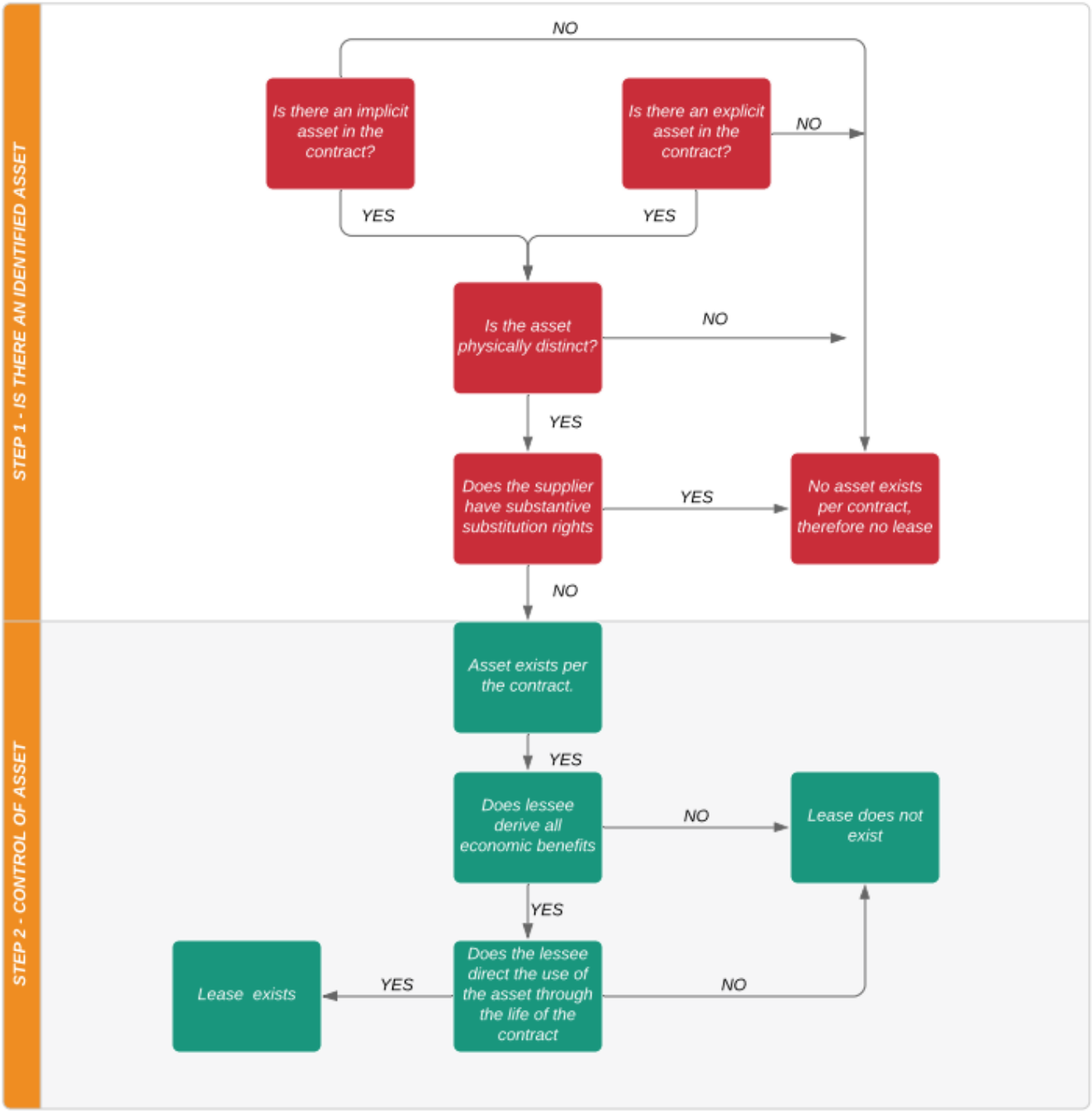
- Australian Accounting Standard AASB 16 *Leases*;
- TI 8 – Requirement 4;
- Western Australia Treasury Corporation's Incremental Borrowing Rates (IBRs); and/or
- Please contact Lease.StandardEnquiries@dtf.wa.gov.au for:
  - Excel model for agencies with a limited number of straight forward leases; or
  - Specific lease application queries.

APPENDIX A: Identification of embedded leases

Decision tree for determining the lease component of a contract.

The following decision tree illustrates the process for determining whether an embedded lease exists within a contract. The various attribute testing draws from the requirements and illustrations found within AASB 16 and other accounting standards.

The ability to identify and control an asset are critical for the recognition of embedded leases.



APPENDIX B: Employee contributions (Illustrative Example)

The following simple example illustrates the disclosure of employee benefits expense and employee contribution revenues (noting that 'cost' is the interest and depreciation expense associated with the lease):

Lease payment		$200
Depreciation expense	$150	
Interest expense		$80
Employee contribution payments	$160	

Initial postings

Dr Depreciation expense	$150	
Cr ROU asset – accumulated depreciation		$150

(Account for ROU asset depreciation)

Dr Interest expense	$80	
Cr Lease liability		$80

(Account for increase in interest expense and associated lease liability)

Dr Lease liability	$200	
Cr Cash		$200

(Account for decrease lease liability on payment of lease)

Dr Cash	$160	
Cr Employee Contribution (income)*		$160

(Account for employee contribution received from employee)

Notional reclassification journal (for disclosure purposes only)

Whilst there is no impact on the face of the financial statements, a notional journal will be required to be prepared to enable the disclosure in the notes to the financial statements for employee benefits.

Dr Employee benefits (expenses)	$230	
Cr Depreciation expense		$150
Cr Interest expense		$80

(Notionally redistributes the Profit & Loss impact of employee benefits for note disclosure purposes only)

Disclosure requirements

Agencies will be required to disclose GROH and State Fleet leasing aggregates in accordance with AASB 16. For transparency purposes, agencies will then provide additional notional disclosures detailing the impact of lease agreements on employee benefits expenses. These disclosures will show both the gross transaction value and the net benefit provided to employees.

Employee benefits reported elsewhere (under AASB 16)	$230
Less: Employee contributions	$160
Net benefit provided to employee	$ 70

Note that the above disclosures are in relation to non-monetary benefits which arise due to the implications of AASB 16.

Disclosures in relation to normal short-term employee benefits expenses (that fall outside of the scope of AASB 16) are provided as part of the Tier 1 and Tier 2 model annual reports.

3. Related Party Disclosures

3.1 Introduction

AASB 124 *Related Party Disclosures* requires that an entity's financial statements contain disclosures to the extent that its financial position and financial performance have been affected by related party transactions. Broadly, the Standard requires disclosures around compensation of 'key management personnel' and transactions with 'related parties'.

A Data Collection Form will be completed by Ministers and senior officers[63] to provide the information necessary for public sector entities to comply with the requirements of the Standard. This includes details of related parties, and certain transactions between related parties and a public sector entity.

This Guidance is intended to assist the CFO of a public sector entity to better understand the requirements of AASB 124.

This Guideline should be read in conjunction with the following documents:

- AASB 124 *Related Party Disclosures*;
- AASB 119 *Employee Benefits*;
- AASB 10 *Consolidated Financial Statements*;
- AASB 11 *Joint Arrangements*;
- TI 8 *Financial Accounting and Reporting* – Requirement 5 *Related Party Disclosures*;
- TI 8 *Financial Accounting and Reporting* – Requirement 3 *Agency Annual Reports*;
- TI 9 *Financial Statements* – Requirement 2 *Certification of Financial Statements*;
- TI 9 *Financial Statements* – Requirement 1 *General Information in Financial Statements*; and
- Budget Paper No. 3 Economic and Fiscal Outlook.

Key requirements of AASB 124 *Related Party Disclosures* are summarised in Appendix 1 and discussed in detail in the following sections.

[63] 'Senior officers' is defined in TI 8 *Financial Accounting and Reporting*

3.2 Terms and Definitions

Term	Definition
Key Management Personnel (KMP)	KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. Cabinet Ministers are considered KMP of whole of government and all controlled public sector entities while senior officers are likely to be KMP of their responsible agency.
Related Parties[64]	Persons or entities that are related to the reporting entity. Related parties of a public sector entity include: • Ministers and senior officers; • their close family members which include: – spouse or domestic partner (including married, de-facto, civil union partnership, but excluding separated or divorced spouse or partner); – children over the age of 16, including children of the spouse/partner (including step, adopted, dependant/non-dependant, adult children living/not living at home); and – dependants over the age of 16, including dependants of the spouse/partner (i.e. family members financially supported by Minister/senior officer or the spouse/partner and may include siblings, elderly parents/grandparents or disabled family members); • entities (including sole proprietors, partnerships, companies and trusts) in which Ministers/senior officers (including their close family members) have control or joint control (e.g. hold 50% or more of the shares in the entity or 50% or more voting power); and • other entities (including associates and joint ventures) within the WA public sector[65].
Related Party Transaction[66]	A transfer of resources, services or obligations between a public sector entity and a related party, regardless of whether a price is charged.

[64] Refer to paragraph 9 of AASB 124

[65] Refer to Note 8 'Composition of Sectors' in Appendix 1 'Detailed Financial Projections' of the Budget Paper No. 3 'Economic and Fiscal Outlook'

[66] Refer to paragraph 9 of AASB 124.

3.3 Data Collection Form

Cabinet has agreed that Ministers will complete the Data Collection Form outlined in TG 13 Treasury Forms and Templates. Treasury will assess if any related party transaction is material for disclosure and will communicate that transaction to the relevant chief finance officer.

In addition, the CFO of an agency is to assess if senior officers of that agency have any material related party transaction for disclosure. Note that not all information collected will be disclosed in the financial statements. Information that is considered not material for disclosure is not required to be disclosed. Judgements on materiality of information will vary on a case-by-case basis.

3.4 Related Party Disclosures

3.4.1 KMP Compensation

Paragraph 17 of AASB 124 requires an entity to disclose KMP compensation in total

and for each of the following categories:

(a) short-term employee benefits	e.g. fees, salaries and non-monetary benefits
(b) post-employment benefits	e.g. superannuation
(c) other long-term benefits	e.g. annual and long service leaves
(d) termination benefits	e.g. redundancy payments
(e) share-based payment	N/A

However, under paragraph 17A of AASB 124, a public sector entity need not disclose KMP compensation in relation to Ministers as they are compensated through a central government agency (Parliamentary Services). The entity is only required to make disclosures for its senior officers' compensation. The Ministers' compensation will be disclosed in the Annual Report on State Finances (ARSF).

In addition to AASB 124, TI 9 *Financial Statements* – Requirement 1.1 *General Information in Financial Statements* also requires agencies to disclose:

- the number of senior officers of departments and statutory authorities (other than senior officers reported as members of the accountable authority of statutory authorities) whose total compensation for the financial year, falls within each band of income of $50,000; and
- the number of members of the accountable authority (if applicable) of statutory authorities, whose total compensation for the financial year, falls within each band of income of $10,000[67].

Refer to Note 9.4 'Key Management Personnel' in the Model Annual Report.

[67] Where a member (of an accountable authority of a statutory authority) compensation is zero, the member shall be included in a band labelled '$0 - $10,000'.

Compensation

Compensation[68] includes all employee benefits as defined in AASB 119 *Employee Benefits*. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes fees, salaries, superannuation, non-monetary benefits (including motor vehicle benefits, housing and parking) and other benefits (including leave entitlements and redundancy payments). Total KMP compensation is disclosed on an accrual accounting basis, which may not necessarily represent the cash paid to a senior officer in a reporting period.

The value of non-monetary benefits (fringe benefits) is determined by reference to the cost of providing those benefits to an employee, including the related fringe benefits tax component. The concept of materiality should always be considered in making such determinations.

Fringe benefits tax is assessed in relation to the value of non-monetary benefits from April to March each year, which differs from the annual reporting period. Unless there is a material change in the level of benefits provided between the end of March and the end of the financial year (generally June), the value of benefits for the year to 31 March can be used for the purposes of AASB 124. If there is a material difference in the level of benefits provided, an estimate of this change would need to be made, and a revised figure reported.

Compensation also includes a superannuation component. This component of compensation is based on the cost to the entity of employer contributions to superannuation funds. As no employer contributions are made for the Pension Scheme or pre-transfer benefits under the Gold State Superannuation Scheme, the cost to the employer is the increase in the liability where a liability is recognised in the Statement of Financial Position of the entity in respect of the employee. Where applicable, this cost is to be included in reporting compensation.

In relation to the salary sacrificing for non-monetary benefits, such as superannuation contributions and novated leases for motor vehicles, the amount of compensation to be included represents the gross salary before deductions are made.

Senior officers taking part in the management of more than one agency

Where a senior officer takes part in the management of more than one agency within the same financial year, information in respect of that officer should be included in the note disclosures for the compensation of senior officers in each agency that the officer took part in managing. Agencies should disclose only those costs attributable to the particular senior officer's management activities conducted during the financial year in the relevant agencies.

[68] Refer to paragraph 9 of AASB 124

3.4.2 Related parties

Related entities

Other public sector entities:

- include all entities consolidated into the ARSF[69]; and
- exclude local governments and universities.

Associates or joint ventures of a public sector entity:

- While an associate or joint venture of a public sector entity is a related party to all public sector entities, Ministers and senior officers (of that public sector entity) are not considered KMP and therefore not related parties of the associate or joint venture.
- Any transactions between a Minister or senior officer of an agency and a joint venture are not related party transactions. However, where the joint venture is controlled by an agency (a subsidiary), the transactions between a Minister or senior officer of an agency and the joint venture would be related party transactions.
- Superannuation providers such as the Government Employees Superannuation Board; and
- Entities controlled or jointly controlled by KMP and/or their close family members:
  - An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee[70].
  - Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control[71].
  - Generally speaking, an entity is considered to be controlled or joint controlled by KMP and/or their close family members when they hold 50% or more of the shares or 50% or more of the voting rights of the entity (whether individually or combined). Types of entities include companies, partnerships, sole traders and not-for-profit entities (Refer to the examples below for entities controlled or jointly controlled).

[69] Refer to Note 8 'Composition of Sectors' in Appendix 1 'Detailed Financial Projections' of the Budget Paper No. 3 'Economic and Fiscal Outlook' for a list of entities included in the consolidated financial statements.

[70] Refer to paragraph 6 of AASB 10 *Consolidated Financial Statements.*

[71] Refer to paragraph 7 of AASB 11 *Joint Arrangements*.

Examples of Entities Controlled or Jointly Controlled

Examples of entities controlled or jointly controlled by KMP and/or their close family members include:

- A business operated by KMP's child as a sole proprietor;
- A partnership of two people where KMP's spouse is one of the partners;
- A company where KMP have 30% voting shares, and the spouse has 30% voting shares resulting in the combined shareholding greater than 50%; and
- A trust where KMP and the spouse are two of three trustees.

Examples of entities not controlled or jointly controlled by KMP and/or their close family members include:

- A large accounting firm with multiple partners where KMP's child is one of the partners;
- A partnership of three people where KMP's spouse is one of the partners;
- A company where KMP have 25% voting shares, and the spouse has 20% voting shares resulting in the combined shareholding less than 50%;
- A trust where KMP and the spouse are two of five trustees; and
- A not-for-profit charity where KMP's child is the chief executive and has insignificant voting rights on the board of directors.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form:

- Two entities are not related parties simply because they have a member of KMP in common or because a member of KMP of one entity has significant influence over the other entity;
- Two joint venturers are not related parties simply because they share joint control of a joint venture; and
- A customer, supplier, distributor or general agent with whom a public sector entity transacts a significant volume of business is *not* a related party simply by virtue of the resulting economic dependence.

3.4.3 Related Party Transactions

In the public sector, many entities engage frequently with their related parties in the course of delivering the entity's public service objectives, including the raising of revenue (e.g. taxes and rates) to meet those objectives. These transactions often occur on terms and conditions no different to those applying to the general public (e.g. electricity and water bills, public transport fares and vehicle licence charge).

Judgement may be required as to when the transactions are material for collection and disclosure, especially when qualitative assessments are made about the nature of the transactions.

It is considered that:

- Citizen transactions are unlikely to be material for disclosure and therefore excluded from collection. These transactions are where Ministers/senior officers or their close family members interact with a public sector entity under the same terms and conditions as a public citizen, such as paying taxes, levies or other statutory fees/charges and using public services such as hospitals, schools or public transport.
- Business transactions, by which there is the exchange of goods or services through a market (i.e. arm's length), between related parties and a public sector entity could be quantitatively material and therefore required to be declared when they are above $50,000. For example, if a contract to provide accountancy services to a department was awarded to an entity owned by a child of that Department's senior officer for an amount above $50,000, then this will need to be declared.
- Other sensitive transactions between related parties and a public sector entity are to be declared, with Ministers/senior officers exercising judgement on the sensitivity and materiality of the transaction to the intent of the standard. Examples of this may include the receipt of a scholarship from a public school for a child of the Department's senior officer, the receipt of a grant from a Statutory Authority by a not-for-profit charity controlled by the spouse of the Authority's senior officer, and gifts from a public sector entity to a dependant of that entity's senior officer.

Examples of Related Party Transactions

Business transactions are to be declared when they are above $50,000. They may include:

Business transactions to or from a public sector entity	Example
Purchases or sales of goods (finished or unfinished)	The child of a Minister/senior officer runs an IT business and sells computers to the Department.
Purchases or sales of property and other assets	A block of commercial land is sold by a Statutory Authority to a company controlled by the spouse of a Minister/senior officer.
Rendering or receiving of services	The child of a Minister/senior officer owns an accounting firm and provides accountancy services to the Department.
Leases	An office building owned by a Minister/senior officer's family trust is leased by the Department.
Transfers of research and development	
Transfers under licence agreements	
Transfers under finance arrangements (including loans and equity contributions in cash or kind) from a public sector entity	The Statutory Authority lends to a start-up company owned by the child of a Minister/senior officer at the market rate. However, an interest-free (or below market rate) loan would be considered a sensitive transaction.
Provision of guarantees or collateral from a public sector entity	The Statutory Authority guarantees a loan for a not-for-profit organisation controlled by the spouse of a Minister/senior officer for a fee. However, if a fee is not charged, the transaction would be considered sensitive.
Commitments to do something if a particular event occurs or does not occur in the future with a public sector entity	The Statutory Authority promises to step-in to complete the construction of a public school if the builder controlled by the child of a Minister/senior officer defaults. This would be considered a sensitive transaction unless the commitment is of a type common in the building industry.
Settlement of liabilities on behalf of a public sector entity or by a public sector entity on behalf of the related party	

It is considered that a debt forgiveness or waiver by a public sector entity in relation to the related party would be a sensitive transaction.

Other sensitive transactions are to be declared, with KMP exercising judgement on the sensitivity and materiality of the transaction. Examples include:

- free accommodation provided by the Statutory Authority to a Minister/senior officer in regional areas;
- a grant made by the Department to a not-for-profit charity controlled by the spouse of a Minister/senior officer;
- financial assistance (e.g. interest free loan) provided by the Statutory Authority to a company owned by the child of a Minister/senior officer;
- a scholarship granted by the TAFE institution to the child of a Minister/senior officer; and
- an ex-gratia payment made by the Department to a Minister/senior officer's dependant.

3.4.4 Exercising judgement

Notwithstanding the definition of related parties and related party transactions detailed above, KMP should exercise judgement when assessing if there are persons in their lives, or transactions not covered by the guidance, that should be declared. KMP are encouraged to assess the inclusion of people or transactions in their declaration to the intent of the standard. That is to ensure that any transactions with an individual with the ability to influence the decisions of a public sector entity are identified.

3.4.5 Collecting information on related party transactions

The State Solicitor's Office has advised that the accountable authority of a public sector entity has power to lawfully order an employee with the entity to provide information on related party transactions. The accountable authority would not be able to meet his/her statutory obligation of preparing an annual report in accordance with the Australian Accounting Standards (including AASB 124) without getting access to the related party transactions relevant to the entity. However, such an order would not be made that requires senior officers to provide information that was not within their knowledge or possession.

Therefore, senior officers are required to complete the Data Collection Form (the Form) (outlined in TG 13 Treasury Forms and Templates), at year-end, to provide:

- details of their close family members and any controlled (or jointly controlled) entities;
- details of any transactions, to the best of their knowledge, between themselves or related parties and a public sector entity.

Senior officers must also complete the Form on resignation, retirement or dismissal.

The CFO of a public sector entity should understand the requirements of AASB 124 and assist his/her senior officers to complete the Form. It is noted that the CFO may be considered KMP in a number of public sector entities.

In addition, Cabinet has agreed that Ministers will provide the information necessary for public sector entities to comply with the requirements of AASB 124 through a data collection process that leverages off the existing Ministerial Code of Conduct process.

The Department of the Premier and Cabinet on behalf of Treasury will coordinate the Ministerial data collection process. Treasury will assess if any related party transaction is material for disclosure and will communicate that transaction to the relevant CFO.

The information collected will inform judgements concerning an entity's disclosures for related party transactions in its financial statements and will be subject to review by the Auditor General. Not all information collected will be disclosed in the financial statements. Information that is considered not material for disclosure in an entity's financial statements is not required to be disclosed. Judgements on materiality of information will vary on a case-by-case basis. It is the responsibility of the CFO to ensure that there is no circumstance that would render the particulars included in the financial statements as misleading or inaccurate.

Information collected from Ministers and senior officers is subject to the *Freedom of Information Act 1992*. This does not mean that the information must be disclosed in all instances, but rather that the application of the exemptions to the particular information must be considered in the individual circumstance of the case.

3.4.6 Disclosure

If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements[72]. At a minimum, disclosures shall include:

- the amount of the transactions;
- the amount of outstanding balances, including commitments, and:
  - their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
  - details of any guarantees given or received;
- provisions for doubtful debts related to outstanding balances; and
- expense recognised in the period in respect of bad/doubtful debts due by related parties.

Nevertheless, paragraph 25 of AASB 124 exempts a reporting entity from such disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with other entities (including associates and joint ventures) that are related parties because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entities.

[72] Refer to paragraph 18 of AASB 124.

If a public sector entity applies the exemption in paragraph 25, it shall disclose the following information in sufficient detail[73]:

- the nature and amount of each individually significant transaction; and
- for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Significance

A public sector entity should consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transactions[74] such as whether it is:

- significant in terms of size;
- carried out on non-market terms;
- outside normal day-to-day business operations, such as entering into a business arrangement;
- disclosed to regulatory or supervisory authorities;
- reported to senior management, and/or central agencies;
- subject to Minister and/or Cabinet approval.

[73] Refer to paragraph 26 of AASB 124
[74] Refer to paragraph 27 of AASB 124

Appendix 1

Summary of Key Requirements of AASB 124 *Related Party Disclosures*

Who it impacts	What must be disclosed	Data collection	Form of disclosures
Key Management Personnel (KMP): • All Ministers (KMP of whole of Government) • Senior officers (KMP of specific agency)	• compensation	• Ministers' compensation is available from the Legislative Council, Legislative Assembly and Department of the Premier and Cabinet (DPC). • Senior officers' compensation has been collected as required by TIs.	• Ministers' compensation to be disclosed in the ARSF. • Senior officers' compensation to be disclosed in the agency annual report.
Related Parties of a public sector entity: • KMP • KMP's close family members: – Spouse/partner – Children/dependants over the age of 16 – Others who may be expected to influence (or be influenced by) • Businesses controlled or jointly controlled by KMP and/or their close family members	Related Party Transactions with a public sector entity: • Exclude general citizen transactions • Business transactions above $50,000 • Other sensitive transactions (with KMP exercising judgement)	• Ministers to complete the Data Collection Form. • Senior officers to complete a similar Form.	• Ministers' related party transactions to be disclosed in the ARSF and the relevant agency annual report. • Senior officers' related party transactions to be disclosed in the agency annual report.

Who it impacts	What must be disclosed	Data collection	Form of disclosures
Government-related entities: • Agencies (including associates and joint ventures) within the public sector	• Inter-agency transactions that are individually, or collectively, significant	• Transactions are expected to be available in the agency financial system.	• The ARSF to disclose significant transactions with associates or joint ventures of a public sector entity (other transactions are eliminated on consolidation). • The agency annual report to disclose only significant transactions.

FAQs

Who are KMPs?

Cabinet Ministers and senior officers. While Ministers are considered KMP of whole of government and all controlled public sector entities, senior officers are KMP of their responsible agency.

Whether members of the Board of a statutory authority are KMP?

Yes, they are KMP of a statutory authority. The definition of 'senior officer' includes members of the accountable authority of a statutory authority.

Whether members of an advisory board are KMP?

It depends. If a public sector entity is controlled by an advisory board (Refer to AASB 10), members of the advisory board are KMP of that public sector entity.

Whether two entities are related if a senior officer of one entity is a member of the Board of the other entity?

No. Refer to paragraph 11 of the standard.

Is a public sector entity required to disclose transactions with other public sector entities?

Yes, but only required for significant (individually or collectively) transactions. Refer to paragraph 26 of the standard.

Is a public sector entity required to disclose transactions with local governments and/or universities?

No, local governments and universities are not related parties of a public sector entity as they are not controlled by the State government.

Is a senior officer required to complete the Data Collection Form if there is no related party transaction with the public sector entity?

Yes, especially sections 1 and 2. The Data Collection Forms will be subject to review by the Auditor General.

Whether the $50,000 threshold applies to transactions on an individually or collectively basis?

Individual transactions below $50,000 are not required to be declared. However, KMP are required to exercise judgement on whether these transactions should be declared based on their nature and/or sensitivity.

Is a public sector entity required to disclose employment contracts with KMP's close family members?

No, unless it is considered to be a sensitive transaction. Refer to the objective of the standard.

Whether information in the Data Collection Forms is subject to the *Freedom of Information Act 1992*?

Yes.

4. Related and Affiliated Bodies

4.1 Introduction

Providing financial support to other government and non-government organisations is a common practice for agencies. This support may involve the agency paying accounts relating to an organisation, providing accommodation, staff or other support services, or providing direct grants to an organisation.

The recipient organisation may be a related body or an affiliated body of the agency[75]. While these bodies are financially dependent on an agency, a related body is also subject to operational control of the agency. A body is considered to be 'financially dependent' where it receives more than half of its funding and resources from an agency.

Related and affiliated bodies vary widely in the methods of creation, form and function. The bodies may be created either in or under legislation by Government or in some instances by private individuals, or they may be created by administrative action, for example, by the Cabinet or individual Minister. By nature, related and affiliated bodies are not directly subject to the Act.

Related bodies

Related bodies are typically in the nature of advisory bodies to a Minister or an agency, while others may have statutory responsibilities. However, internal committees and working groups established through an agency's own administrative actions would not, by definition, constitute related bodies.

The combination of financial dependence and operational control effectively integrates a related body into an agency. Consequently, the accountability of an agency encompasses the related body, and any funds it controls, and the annual reports of the agency need to include both financial and operational information of its related bodies.

In the case of a related body, TI 8 *Financial Accounting and Reporting* – Requirement 6 *Related and Affiliated Bodies* also requires that:

- where practicable, notes to the financial statements disclose any financial support provided by any other agencies or other bodies; and
- any funds separately controlled by the related body be incorporated into the agency's financial statements.

Affiliated bodies

Affiliated bodies may be either:

- government organisations, such as independent quasi-judicial or regulatory bodies; or
- non-government organisations, such as charitable, welfare and community interest groups which receive financial support from Government.

As an agency has no capacity to exercise control over its affiliated bodies, the scope of accountability and the associated annual reporting obligation extends only to the support provided by the agency.

[75] 'Related body' and 'affiliated body' are defined in section 60 of the Act.

Although the funds and resources applied by an agency in support of its related and affiliated bodies will be included in the agency's financial statements, the fact and extent of that support may not be readily apparent. This guidance chapter assists agencies to clearly identify the level of support provided to their related and affiliated bodies in financial statements, particularly regarding the financial assistance provided by an agency to a non-government affiliated body, by note disclosure.

4.2 Scope

TI 8 – Requirement 6 applies to all agencies.

4.3 Disclosure

Financial assistance provided by an agency to a non-government affiliated body should be disclosed:

- in accordance with the disclosure requirements of any other written law which relate to the provision of that financial assistance; or
- where no disclosure requirement is prescribed in any other written law, in such manner as the agency considers appropriate.

Where no other written law applies, agencies will need to provide information on non-government affiliated bodies which will enable users to make decisions as to:

- whether an agency is achieving the government desired outcomes for which resources were provided to it; and
- the extent to which those resources have been properly targeted and efficiently and effectively applied.

Where an agency provides funding and resources to a significant number of non-government bodies, it may be more relevant and practicable to disclose information for each non-government body or class of non-government bodies, rather than identifying which bodies or classes of bodies are non-government affiliated bodies.

5. Revaluation of Non-Current Physical Assets

5.1 Introduction

AASB 116 *Property, Plant and Equipment* prescribes the accounting treatment for property, plant and equipment (PPE). The Standard requires assets to be initially recognised at cost. Where a not-for-profit entity[76] acquires an asset at a cost that is significantly less than fair value principally to enable the entity to further its objectives, the fair value at the date of acquisition is recognised as its cost. Subsequent to initial recognition, a class of assets can be measured using the cost model or, where fair value can be measured reliably, the revaluation model. All assets in a class must be measured on the same basis.

Under the cost model, assets are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Under the revaluation model, assets are carried at fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Where a class of assets is measured at fair value, revaluations of that class of assets must be made with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at the end of each reporting period.

Under the AASB 116 requirements, agencies are able to continue reporting all assets on the cost basis or to report some classes of assets at cost and other classes at fair value.

The reporting of assets on the cost basis provides information in respect of both the value and consumption of those assets that generally becomes less relevant over the life of an asset, especially for assets with long useful lives. In terms of value, a major proportion of non-current assets in the public sector have very long useful lives (for example, land, buildings and infrastructure). Consequently, the continued reporting of significant assets at cost may materially understate the total value of assets and depreciation expense reported in the Statement of Financial Position and Statement of Comprehensive Income respectively. This would result in a reduction in the relevance of the financial statements to the user and limit the effectiveness of accrual appropriations.

In addition to the understatement of asset values and depreciation expense, the options available under AASB 116 have the potential to result in inconsistent reporting across the public sector. These outcomes flow through to whole-of-government reporting. Excluding infrastructure, land and buildings account for a significant portion of the value of non-current assets in the general government sector.

To address these issues, TI 8 *Financial Accounting and Reporting* – Requirement 7 Revalua*tion of Non-Current Physical Assets* mandates that subsequent to initial recognition, land and buildings are to be measured at fair value (the revaluation model under AASB 116). In addition, Requirement 7 also applies to land and buildings measured under AASB 140 *Investment Property* and AASB 1059 *Service Concession Arrangements: Grantors*. For land and buildings classified as service concession assets, fair value has been modified by AASB 1059 to only refer to current replacement cost.

[76] Refer to TI 9 Financial Statements – Requirement 4 Application of Australian Accounting Standards and Other Pronouncements

By contrast, land and buildings measured under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 102 *Inventories* and AASB 141 *Agriculture* are not subject to TI 8 – Requirement 7. Note that leases of land and buildings under AASB 16 *Leases* (i.e. right-of-use assets – land and buildings) are also not subject to TI 8 – Requirement 7.

The adoption of the fair value basis for other classes of PPE is at the agency's discretion. Further advice on this matter is provided in this Guidance.

TI 8 – Requirement 7 applies to both for-profit and not-for-profit agencies. The differences in revaluation accounting requirements between for-profit and not-for-profit agencies are discussed in this chapter.

5.2 Terms and Definitions

Term	Definition
Highest and best use	The use of the non-financial asset that is physically possible, legally permissible, financially feasible, and which results in the highest value.
Property, plant and equipment	AASB 116 defines PPE as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.
Fair value	Defined in AASB 13 *Fair Value Measurement* as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

5.3 Valuations of land and buildings

Valuations of land and buildings are deemed to be categorised within Level 3 of the three-level fair value hierarchy under AASB 13, where the valuation utilises significant unobservable inputs on a recurring basis.

5.4 All assets within a class of assets to be measured on the same basis

Where an agency measures a class of non-current assets at fair value, all assets in that class of assets must be measured on the fair value basis. The cost of acquisition for assets acquired during the reporting period is generally consistent with this requirement. Depending on the circumstances, the initial cost may be consistent with fair value for a number of reporting periods, for example plant and equipment. Where a class of non-current assets is measured on the cost basis, all assets in that class of assets must be measured on that basis.

5.5 Changing from cost to fair value

Changing the measurement basis for a class of assets is a change in accounting policy and is addressed in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Apart from where a change in accounting policy is required by an Australian Accounting Standard, AASB 108 permits a change in accounting policy only where the change results in the provision of reliable and more relevant information about the effects of transactions, other events or conditions on the agency's financial position, financial performance or cash flows. Although a change from cost to fair value is assessed under paragraphs 14 to 16 of AASB 108, the change is not accounted for as a change in accounting policy under paragraph 19 of AASB 108 but is treated as a revaluation under AASB 116 (refer to paragraph 17 of AASB 108). This means that any change from cost to fair value for a class of assets is not to be applied retrospectively (i.e. no restatement of comparatives is required).

Refer to the Chapter 5.9 Accounting for revaluation increments and decrements for further advice on accounting for revaluations.

5.5.1 Land and buildings

A change in accounting policy to comply with TI 8 – Requirement 7 is considered to be compliant with paragraph 14(b) of AASB 108.

5.5.2 Other classes of non-current assets

Agencies should only consider changing the measurement basis for a class of non-current assets from the cost basis to fair value where the move will have a material impact on the Statement of Financial Position or Statement of Comprehensive Income.

In making this decision, agencies need to consider the overall impact on their financial statements, the relevance of the measurement basis and the ongoing costs involved. For example, the revaluation of a class of non-current assets that has relatively short useful lives and has an immaterial impact on depreciation expense would not be justified.

5.6 Changing from fair value to cost

Subject to meeting the specific requirements set out in paragraphs 14 and 15, and 19 to 27, AASB 108 allows a change from fair value to cost. However, it is unlikely that a change from fair value to cost would provide more relevant information about the effects of transactions. Any change from fair value to cost would be accounted for as a change in accounting policy under AASB 108 (i.e. applied retrospectively). Note that TI 8 *Financial Accounting and Reporting* – Requirement 7 *Revaluation of Non-Current Physical Assets* does not permit agencies to change from fair value to cost for land and buildings.

The application of all requirements in Australian Accounting Standards is subject to materiality. Consequently, where a change from fair value to cost or a discontinuance of revaluation for a class of assets other than land and buildings has no material impact on the financial statements, an agency may revert to cost or discontinue revaluation for that class of assets. In making an assessment of the materiality of such a change, in addition to the effect on the financial statements for the reporting period in which the change is proposed, agencies need to consider the effect of the change in future reporting periods. Assets with short useful lives and relatively low values, such as computers and minor office equipment, are the likely type of asset where the valuation policy applied may have no material impact.

5.7 Measuring the fair value of an asset

Professionally qualified valuers would normally undertake land and buildings valuations.

The fair value of an asset is generally measured at:

- the asset's quoted price (unadjusted) in an active market for an identical asset where such a price exists at the measurement date; or
- where a quoted price in an active market does not exist for the asset at the measurement date, fair value is estimated by reference to the best available market evidence of the price at which the asset could be sold in an orderly transaction in the principal, or most advantageous, market (refer to the guidance under 'Highest and best use'). This evidence includes current market prices for assets that are similar in use, type and condition and recent transactions for the same or similar assets. Current market prices and the prices of the most recent transactions for the same or similar assets can usually be observed for non-specialised assets such as vacant residential land, houses and office use in commercial precincts, used motor vehicles and some forms of plant and equipment; or
- if there is no market-based evidence of fair value because of the specialised nature of the asset, fair value is estimated having regard to current or existing use:
  - For specialised buildings, the valuation is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence (i.e. current replacement cost). Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence.
  - For low restricted use land, the valuation is based on the potential highest and best alternative use as represented by surrounding land uses and market analysis, adjusted for costs associated with rehabilitating the site to a vacant marketable condition (i.e. explicit adjustment method). Rehabilitation costs may include building demolition, clearing, planning approvals and time allowances associated with realising the potential use. For high restricted use land, the valuation is determined based on comparison to market corroborated evidence of land with low level utility (i.e. implicit adjustment method). Land of low-level utility is considered to be grazing land on the urban fringe of the metropolitan area with no economic farming potential or foreseeable development or redevelopment potential at the measurement date. Examples of these assets are Kings Park, cemeteries and public recreation reserves.

Valuation techniques used to measure fair value should maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Note that the fair value hierarchy in AASB 13 is consistent with the derivations of fair value above. The fair value hierarchy follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities [Level 1] (e.g. traded commodities valued by the market approach);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly [Level 2] (e.g. non-specialised assets valued based on observed sales of similar items); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) [Level 3] (e.g. specialised assets valued on utilising the current replacement cost; land with public use restrictions valued by comparing with other land of low-level utility).

The three-level fair value hierarchy does not create sub-classes within each class of non-current physical assets. However, AASB 13 requires a reconciliation of these 'sub-classes' by hierarchy level, which reconciles to the fair value of PPE contained within the PPE reconciliation required by paragraph 73 of AASB 116. Deeming categorisation within Level 3 of the three-level fair value hierarchy, where the valuation utilises significant unobservable inputs on a recurring basis for valuations of land and buildings, reduces the potential for additional disclosures required where asset valuations fluctuate between Level 2 and Level 3 classification. For example, an asset may move from the cost basis on practical completion to a Level 2 classification and then over time to a Level 3 classification. Chapter 5.3 Valuations of Land and Buildings of this Guidance suggests the categorisation of those assets at a Level 3 classification on application of fair value.

Although AASB 13 allows the option of using an income approach for valuing specialised assets, the income approach is not considered relevant for valuing specialised assets in the public sector. Current replacement cost should be used for valuing specialised assets. Non-cash-generating specialised assets in the public sector valued on the current replacement cost are not subject to impairment as required by AASB 136 *Impairment of Assets*. In the limited circumstances where specialised assets in the public sector are held primarily to generate net cash inflows, fair value is still determined by the current replacement cost. However, the recoverable amount under AASB 136 of such assets (or a cash generating unit) is subject to an upper limit based on the income approach – the present value of future cash flows expected to be derived from the assets (or a cash generating unit).

It is likely that specialised assets (e.g. schools, dams and transmission lines) subject to current use valuations derived by reference to the current replacement cost will be classified at Level 3 of the hierarchy. This is due to adjustments for obsolescence representing a significant unobservable input that is required to derive the service capacity of the asset.

Land with public use restrictions will be categorised at Level 3 due to significant adjustments by unobservable inputs to valuation such as the inclusion of rehabilitation costs under the explicit adjustment method and the availability of land with low level utility under the implicit adjustment method.

Land and buildings classified as service concession assets should be valued using the current replacement cost. However, for non-specialised land and buildings, the current replacement cost is not considered materially different from fair value under the market approach on the basis that a market participant buyer would replace the asset by acquiring a comparable asset from the market.

5.7.1 Highest and best use

Fair value for a non-financial asset is measured by having regard to the highest and best use of an asset in accordance with AASB 13. Highest and best use is determined from the perspective of market participants, even if the agency intends a different use. However, in the public sector, it must take into account the mandated legal and other socio-political restrictions imposed on the use or disposal of assets.

Highest and best use may not always be the existing use of an asset. In assessing any feasible alternative highest and best use of an asset, both current and future restrictions on the use of the asset must be considered. There must be evidence that the alternative use is feasible.

5.7.2 Existing use

Assets that are non-specialised and have no legal, natural or socio-political restrictions on their potential use are commonly referred to as market type assets and are valued by utilising the market approach.

However, in the public sector, many assets have restrictions or limitations placed on their use and disposal. Parks, gardens, other reserves and heritage buildings fall into this category. Refer to the information outlined in Chapter 5.7.4 Heritage or cultural assets of this Guidance. Assets held to deliver a specific community service, such as schools, police stations, hospitals, prisons and other specialised assets also fall into this category (where they are not surplus to requirements). Such assets are held by agencies for their value in use and accordingly fair value is measured having regard to the current or existing use of the asset. Such assets do not normally have a feasible alternative use (i.e. existing use is their highest and best use) and are commonly referred to as non-market type or current use assets.

Refer to the determination of fair value with regard to current or existing use of assets outlined in Chapter 5.7 Measuring the fair value of an asset of this Guidance.

5.7.3 Surplus assets

Assets determined to be surplus to requirements are no longer valued on an existing use basis. They should be valued utilising either the market approach or the income approach (i.e. the present value of estimated future cash flows).

5.7.4 Heritage or cultural assets

AASB 116 requires the cost of an item of PPE to be recognised as an asset if, and only if, "it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably". Whilst heritage or cultural assets are not specifically defined in AASB 116, they are commonly considered as PPE with unique cultural, historical, geographical, scientific and/or environmental attributes. Heritage or cultural assets are held by agencies to meet objectives such as exhibition, education, research, curatorial and preservation.

The treatment of heritage or cultural assets is no different to other PPE and they should be recognised where they meet the recognition criteria. When heritage or cultural assets are recognised, the provisions of AASB 116 apply. Land and buildings recognised as heritage or cultural assets must be valued at fair value in accordance with TI 8 – Requirement 7. For most heritage or cultural assets, highest and best use is existing use, and they are valued on that basis. Where no reliable measurement basis is available, heritage or cultural assets are not recognised.

Certain heritage or cultural assets, by virtue of their nature, may not have limited useful lives and therefore would not be depreciated (see Australian Implementation Guidance accompanying AASB 116 for further guidance).

5.7.5 Valuations provided by Valuation Services (Landgate) and the timing of take-up of valuations

Where valuations are provided by Valuation Services, a business unit of the Western Australian Land Information Authority (Landgate), these are considered to be consistent with the fair value requirements under AASB 13. Although valuations are as at 1 July of each financial year, the valuations are performed over the course of the year and are provided to agencies at the end of that financial year. Valuation Services, Office of the Auditor General and Treasury assess the valuations annually at a global level to ensure that the valuations provided are consistent with fair value at the end of the reporting period (i.e. 30 June). Therefore, it is unnecessary to take up the valuations at an earlier date and depreciate the assets to 30 June. If an agency does this, in certain circumstances, there may be a risk of not being compliant with fair value at the end of the reporting period. It is recommended that revaluations are taken up at 30 June and with no retrospective adjustments to depreciation expense for that financial year.

In order to ensure the valuations are comprehensive, agencies would need to update Valuation Services on any addition, alteration or deletion of land and buildings on their asset register. In addition, even though agencies are not required to take up the valuations annually, agencies would need to conduct an annual reconciliation of the valuations back to their asset register for comprehensiveness.

5.7.6 Subsequent expenditure

Subsequent expenditure on an asset must be capitalised where it meets the asset recognition criteria. Where an asset is reported at fair value, agencies must comply with the requirements under the AASB 116 to ensure that the carrying amount of the asset does not vary materially from its fair value at the end of each reporting period. Expenditure capitalised in a reporting period, after a valuation is undertaken for an asset, should be added to the carrying amount (fair value) of the asset. In most circumstances, the new carrying amount should not vary materially from fair value. However, major expenditure on a building valued by utilising the market approach may not increase its fair value by the level of expenditure. In such circumstances, Valuation Services should be consulted.

5.7.7 Once-only costs

AASB 13 has been amended by AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* to provide guidance on how the cost approach is to be applied to measure the asset's fair value.

If both the market selling price of a comparable asset and some market participant data required to measure the fair value of the asset are not observable, the entity shall use its own assumptions as a starting point in developing unobservable inputs. Those assumptions could be adjusted to the extent that reasonably available information indicates that other market participants (including, but not limited to, other non-for-profit public sector entities) would use different data.

The entity shall include the following costs (among other costs) in the reference asset's replacement cost if they are judged to be necessarily incurred in the hypothetical acquisition or construction of the reference asset at the measurement date:

- costs required to restore another entity's asset, if the asset that would need restoration existed at the measurement date and would be disturbed in a hypothetical acquisition or construction of the reference asset. However, such costs are excluded if they relate to restoration of an asset of another entity included in the consolidated group (if any) to which the entity belongs;
- other disruption cost that would hypothetically be incurred when acquiring or constructing the reference asset at the measurement date (e.g. costs of redirecting traffic when replacement of the reference asset, such as a drainage pipe, disrupts the operation of a road); and
- if the subject asset is fixed to a parcel of land, site preparation costs for the reference parcel of land on which the reference asset would hypothetically be constructed, unless those site preparation costs are reflected (explicitly or implicitly) in the fair value measurement of the subject parcel of land.

It is considered that valuations provided by Valuation Services under the current use approach are consistent with the above requirements except for professional and project management fees (PPF). These costs are once-only costs that will not require replacement in the future. For example, Valuation Services have estimated the current replacement cost of schools without PPF because they are sunk costs and therefore should be written off.

However, the Standard concluded that it would be inappropriate to exclude PPF from an estimate of an asset's current replacement cost. The estimate should include all necessary costs intrinsically linked to hypothetically acquiring or constructing a reference asset at the measurement date, reflecting that the hypothetical acquisition or construction costs are incurred by a market participant buyer that does not possess the subject asset at the measurement date. As the Standard assumes the subject asset be re-constructed at the measurement date, PPF would be incurred as part of the reconstruction. Accordingly, PPF would be added to the valuation provided by Valuation Services for financial reporting purposes.

Applying Professional and Project Management Fees (PPF) to Valuations

One of the following three methods could be used to apply PPF to Valuations:

(1) Estimating PPF as a Percentage of Construction Cost

Professional Fees

Professional fees may be estimated as a percentage of total construction cost using the following indicative ranges:

Construction Value	Standard-Build Fee %	Complex-Build Fee %
Up to and including $50M	12.0%	15.0%
Over $50M to $200M	10.0%	12.5%
Over $200M to $500M	9.0%	12.0%
Over $500M to $1B	8.0%	10.0%
Over $1B	7.5%	8.0%

Note that the percentages shown are indicative percentages derived during 2025-26 within the construction industry, with the banding range demonstrating the generic economies of scale.

The above percentages exclude:

- Delivery fees and agency-specific costs;
- Fees charged by other government agencies;
- Legal expenses; and
- Goods and Services Tax (GST).

Determining standard or complex classification

The factors that should be considered when determining whether the construction design requirements fall under a standard or complex category, include but are not limited to the following:

- functionality of the building;
- size and scope of the building;
- complexity of design;
- location of the building;
- unique projects;
- nature of construction works;
- highly complex services i.e. mechanical, electrical and plumbing services;
- proximity to other buildings or location on a wider precinct;

- requirement for specialist consultants;
- quality of construction;
- temporary works while main construction is being executed;
- availability of supporting infrastructure;
- procurement requirements;
- time schedule to deliver construction e.g. premium for expedited projects;
- requirement for specialist subcontractors or suppliers;
- site conditions and foundation design;
- structural and loading requirements;
- environmental considerations;
- site contamination investigations and remediation;
- traffic study requirements;
- heritage issues;
- integration with other buildings;
- planning requirements; and
- complexity of brief.

Note that in instances where the subject building being valued was constructed in various stages, valuation of the building should assume the complete construction in one single phase.

Application Methodology

Single stand-alone Building

To estimate the professional fees required to plan, design, manage and deliver the subject project from inception to completion:

- establish the level of complexity involved with the design and delivery of the building.
- apply the relevant percentage from the table above to the valuation provided by Valuation Services to establish the amount of Professional Fees.

Multiple Buildings within a Precinct or Campus

Consider each building separately as a single stand-alone building and apply the methodology above.

Example Of Buildings within a Precinct or Campus

On a large tertiary hospital site there is likely to be multiple buildings on a precinct or campus providing a variety of functions and services e.g. administration building, specialised clinical facilities, central energy plant, emergency department, wards etc., therefore containing a wide range of complexity in the levels of design and construction.

To capture the differences in cost and produce a more accurate result, each individual building on the precinct should be considered separately with regards to the buildings replacement cost. The complexity and level of professional fees can then be calculated specific to each building as noted above.

Project management fees

To account for government agency costs (project management fees), an additional **4%** should be considered in addition to the above professional fees as a direct project cost likely to be incurred when delivering the majority of government projects.

(2) Using Historical Data

PPF may also be estimated using historical information derived from the agencies portfolio by selecting one or more assets from the category (i.e. standard build or complex build):

- select comparable assets that were constructed in the last 5 years where information about the fees is available e.g. from the practical completion report. Judgement is required on whether information from assets that were constructed beyond 5 years could be used as still being relevant to current day.
- data can also be considered from recent valuation reports of comparable assets that were valued in the last 5 years.
- where this information is unavailable, agencies should apply the average industry rates provided in the table above, and PPF assessed as a percentage of the construction cost.
- the percentage PPF derived using data from those reports is then applied to the valuations provided by Valuation Services for inclusion in the agency's accounts.

(3) Use of External Consultants

The other alternative method would be to engage a qualified professional (e.g. Chartered Quantity Surveyor) appropriate to the asset complexity, and:

- obtain a PPF estimate specifically for the project (adjusted for obsolescence if required).
- the estimated PPF is then applied to the valuations provided by Valuation Services for inclusion in the agency's accounts.

Key Considerations

Construction Cost

PPF are calculated as a percentage of the construction cost. The construction cost must reflect current market conditions.

Limitations on applying PPF estimates for current use assets

For assets that have construction completed in the reporting period, it is recommended that the construction cost (under AASB 116) is used as a proxy for fair value (i.e. no need to take up valuations from Valuation Services for these assets). Depending on the circumstances, the construction cost may be consistent with fair value for a number of reporting periods. As PPF are generally included in the construction cost, they are not required to be estimated and included separately.

In relation to heritage and cultural assets such as Government House and Parliament House, it is considered that information about such PPF is not reasonably available and thus can be ignored.

5.8 Frequency of revaluation

AASB 116 requires that revaluations must be carried out with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from its fair value at the end of the reporting period.

What this implies in terms of frequency of revaluation depends on the movement in asset values within an asset class. Some types of assets may experience frequent and material movements in fair value that would necessitate revaluation each reporting period. Other assets experience only immaterial movements and revaluation every three to five years may be sufficient.

Assets within a class should be valued as at substantially the same date to avoid selective revaluation of assets. However, assets within a class may be valued progressively within a reporting period provided this gives compliance with the Standard, i.e. no material variance from fair value at the end of the reporting period.

To ensure compliance with the Standard, agencies will need to develop a strategy for each class of assets to be measured on the fair value basis. This will require an assessment of the assets within each class to determine if they are susceptible to material movements in fair value between reporting periods. Agencies should assess if there is any indication that an asset's carrying amount may differ materially from fair value at the end of each reporting period. If any such indication exists, the agency will need to determine the asset's fair value and revalue the asset to that amount. Agencies with significant land and buildings may need to take up revaluations annually where relevant price increases have been material.

In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the end of the reporting period, an agency should consider, as a minimum, the following indications:

External sources of information include:

- significant changes affecting the agency have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the agency operates or in the market to which an asset is dedicated; and
- during the period, a price index (e.g. a residential property price index, and not the value of residential dwellings) relevant to the asset has undergone a material change.

Internal sources of information include:

- evidence is available of obsolescence or physical damage of an asset;
- significant changes affecting the agency have taken place during the period or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle or plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite. Favourable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse/better than expected.

The list above is not exhaustive. An agency may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the end of the reporting period and these would also require the agency to determine the asset's fair value.

In determining the frequency of revaluations for a class of assets, agencies should consider the cost and availability of valuations. Generally, classes of assets measured on the fair value basis should be revalued at least every three years.

5.9 Accounting for revaluation increments and decrements

5.9.1 Not-for-profit entities

Revaluation increments and decrements within a class of assets must be offset. A net revaluation increment must be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus except to the extent that the increment reverses a previous decrement (in respect of that same class of assets), which was recognised as an expense in a prior period's profit or loss. In this case, the increment must be recognised as a gain in profit or loss. A net revaluation decrement must be recognised as an expense in profit or loss, except that to the extent that a credit balance exists in the revaluation surplus (in respect of that same class of assets) where the decrement must be recognised in other comprehensive income and reduces the amount accumulated in the revaluation surplus. These requirements are detailed in paragraphs Aus39.1 and Aus40.1-2 of AASB 116.

5.9.2 For-profit entities

Revaluation increments and decrements are accounted for on an individual asset basis without offsetting within classes of PPE. These requirements are detailed in paragraphs 39 and 40 of AASB 116.

5.9.3 Investment property

Gains or losses arising from changes in fair value of investment property are recognised in profit or loss. This requirement is detailed in paragraph 35 of AASB 140.

5.10 Treatment of accumulated depreciation on revaluation

AASB 116 allows two alternative treatments of accumulated depreciation on revaluation of an asset:

- the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset (i.e. current replacement cost), and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset (gross basis); or
- the accumulated depreciation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset (net basis).

Although the gross basis provides a better outcome by retaining useful information, it is not always practical to apply where the carrying amount of the asset is determined by the market approach. Where the carrying amount is determined on the basis of current replacement cost, the gross basis should be applied where practicable. The treatment adopted should be disclosed.

5.11 Treatment of revaluation surplus on derecognition of assets

AASB 116 provides two options for the treatment of revaluation surplus on derecognition of assets:

- retain the revaluation surplus in reserve; or
- transfer the revaluation surplus relating to disposed assets to retained earnings.

Note that in order to transfer the revaluation surplus on disposal, an agency would have to record increments and decrements by individual asset. The Standard provides that not-for-profit agencies are only required to record revaluation increments and decrements by class. This option should be used with caution.

5.12 Disclosure requirements

5.12.1 AASB 116

The disclosure requirements in respect of PPE are set out in paragraphs 73 to 79 of AASB 116. The key disclosures relating to revaluation are outlined below.

For each class of PPE, a reconciliation is required of the carrying amount at the beginning and end of the reporting period showing:

- additions;
- assets classified as held for sale and other disposals;
- acquisitions through business combinations;
- increases or decreases resulting from revaluations under AASB 116, and impairment losses recognised or reversed in other comprehensive income under AASB 136;
- impairment losses recognised in profit or loss in accordance with AASB 136;
- impairment losses reversed in profit or loss in accordance with AASB 136; and
- depreciation expense.

Where the fair value basis is applied to measure a class of PPE, other ongoing disclosure requirements in addition to those required by AASB 13 include:

- the effective date of the revaluation;
- whether an independent valuer was involved;
- the revaluation surplus and the change for the period.

For-profit entities must also disclose, for each revalued class of PPE, the carrying amount that would have been recognised had the cost model been applied.

5.12.2 AASB 13

The fair value disclosure requirements are set out in paragraphs 91 to 99 of AASB 13.

Tier 1 agencies (as listed in Schedule 1 of TI 9 *Financial Statements*) are required to apply all of the disclosure requirements of AASB 13.

Tier 2 agencies only need to apply the disclosure requirements set out in paragraphs 132 and 136 of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.*

The key disclosures relating to PPE and the reporting entity that they relate to are outlined below.

For each class of assets measured at fair value, the following information is disclosed:

- the fair value at the reporting date – Tier 1 and Tier 2 agencies;
- the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3) – Tier 1 agencies only;
- a description of the valuation technique(s) (and, if applicable, any change in valuation technique and the reason(s) for the change) and the inputs used in the fair value measurement – Tier 1 and Tier 2 agencies; and
- the fact why the asset is being used in a manner that differs from its highest and best use – Tier 1 agencies only.

Additional disclosures for Tier 1 agencies are required for assets measured at fair value categorised within Level 3 of the fair value hierarchy:

- a reconciliation from the opening balances to the closing balances disclosing separately changes attributable to:
  - total gains or losses in profit or loss and the line item(s);
  - total gains or losses in other comprehensive income and the line item(s);
  - purchases, sales, issues and settlements;
  - the amounts of any transfers into or out of Level 3 of the fair value hierarchy, and the reasons for those transfers; and
- a description of the valuation processes used by the agency.

5.13 Contributed assets

Under TI 8 *Financial Accounting and Reporting* – Requirement 8.3 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* contributions by owners must be accounted for on the fair value basis. Where assets are initially recognised at fair value under this requirement, it does not initiate an ongoing revaluation requirement for those assets or, where the transferred assets are included in a class of assets measured on the cost basis, require the other assets in that class to be revalued to fair value. That is, for the purposes of paragraph 30 of AASB 116, the fair value of assets transferred may be considered as measurement under the cost model.

5.14 Initial recognition of assets

The initial recognition of a pre-existing but previously unidentified asset for the first time is considered to be a prior period error under AASB 108. Accordingly, comparatives should be restated with a corresponding adjustment to the opening balance of each affected component of equity (e.g. Accumulated Surplus). Where assets are valued for the purposes of initial recognition, because the original cost of the assets is unknown, this initial valuation (not a revaluation) may be considered as being at cost.

5.15 Recognition of assets previously derecognised

There may be circumstances when an asset has been fully depreciated as the useful life of the asset to the agency has expired, but the agency's circumstances change, and the asset again becomes useful. Where assets previously derecognised are subsequently recognised, this should be accounted for in accordance with paragraph 37 of AASB 108 (i.e. changes in accounting estimate). Appropriate disclosures should be made in accordance with paragraph 39 of AASB 108 where material.

6. Contributions by Owners Made to Wholly-owned Public Sector Entities

6.1 Introduction

The transfer of assets (or the assumption of liabilities) between agencies (departments and statutory authorities) can occur for a number of reasons. Such transfers are either non-reciprocal transfers or form part of the purchase consideration for the provision of goods or services. TI 8 Financial Accounting and Reporting – Requirement 8 *Contributions by Owners Made to Wholly-owned Public Sector Entities* only addresses the accounting treatment surrounding non-reciprocal transfers within the public sector.

Non-reciprocal transfers

Non-reciprocal transfers generally represent income to the transferee (recipient) unless the transfer is in the nature of contributions by owners. To the transferor, a non-reciprocal transfer represents an expense, investment or distribution to owners.

Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*

A transfer to a wholly-owned public sector entity should be recognised by the transferee as a contribution by owners when and only when it satisfies the definition of a contribution by owners in AASB 1004. Interpretation 1038 establishes the criteria for determining when transfers of assets, or assets and liabilities, to wholly-owned public sector entities, satisfies the definition of contributions by owners in AASB 1004. For not-for-profit agencies, the Interpretation scopes out those transfers that arise as a result of a restructure of administrative arrangements. These transfers are to be accounted for in accordance with AASB 1004, paragraphs 54 to 59. Interpretations are applied through AASB 1048 *Interpretation of Standards*.

To meet the criteria under Interpretation 1038, the equity nature of a transfer should be evidenced by either:

- the issuance of equity instruments which can be sold, transferred or redeemed; or
- a formal agreement establishing a financial interest in the net assets of the transferee which can be sold, transferred or redeemed; or
- a formal designation of the transfer (or of a class of such transfers) by the transferor or a parent entity of the transferor as forming part of the transferee's contributed equity, either before the transfer occurs or at the time of the transfer.

The discussion in the Interpretation provides examples of how designation of transfers may occur.

In most circumstances, there will be no equity instrument or formal agreement to evidence that transfers are in the nature of contributions by owners. Consequently, a designation of a transfer as a contribution by owners will be required before a transfer can be accounted for as a contribution by owners. Government policy on transfers is to designate as contributions by owners where a transfer is a direct contribution of capital from the government (non-repayable capital appropriations and assumptions of liability) or a withdrawal of capital from one agency and a contribution of capital to another agency. Transfers of this nature will meet part (b) of the definition of contribution by owners in AASB 1004, i.e. the government has a right to sell, transfer or redeem the financial interest in the net assets of the transferee. Such transfers of assets and liabilities between wholly-owned government agencies are in substance transfers to/from the government.

TI 8 – Requirement 8 designates those classes of non-reciprocal transfers to be recognised as contributions by owners.

Non-reciprocal transfers made at the discretion of an agency are not contributions by owners. Such transfers should generally be accounted for as expenses by the transferor and income by the transferee.

Restructure of administrative arrangements

AASB 3, paragraphs B7-B12D provide guidance on the determination of a business. Basically, a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

Examples of restructures of administrative arrangements are as follows:

- Abolition of an agency where the net assets are transferred to another government controlled agency;
- Creation of a new agency where the assets and liabilities are transferred from one or more government controlled agencies;
- Amalgamations of agencies;
- Splitting of an agency into two or more new agencies; and
- Transfer of function.

For government controlled not-for-profit entities, the transfer of assets, or assets and liabilities, as a result of a restructure of administrative arrangements is to be accounted for in accordance with AASB 1004, paragraphs 54 to 59, and thus not subject to TI 8 – Requirement 8.

Measurement

TI 8 *Financial Accounting and Reporting* – Requirement 8.3 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires all contributions by owners and distributions to owners, other than as a result of a restructure of administrative arrangements, to be recognised at fair value. This ensures that the current values of capital contributions and withdrawals are reflected in the financial statements. This is required for the government to make the necessary judgement on the adequacy of the capital structure of the transferor and transferee agencies. It also ensures that previously unrecognised gains and losses are recognised prior to transfer. This is necessary to ensure accountability of the transferor and transferee in terms of financial performance.

It is in the interest of an agency from which the government makes a capital withdrawal that the full extent of such a withdrawal is reported. Similarly, it is in the interest of the transferee to ensure that a capital contribution is reported accurately. Note that TI 8 *Financial Accounting and Reporting* – Requirement 7 *Revaluation of Non-Current Physical Assets* requires all land and buildings to be measured on the fair value basis.

The requirement to recognise contributions by owners and distributions to owners at fair value is subject to materiality and compliance with valuation requirements in Australian Accounting Standards. For example, under AASB 138 *Intangible Assets*, fair value must be determined by reference to an active market. Consequently, most intangibles in the public sector cannot be measured on the fair value basis.

As asset transfers under a restructure of administrative arrangements are not subject to TI 8 – Requirement 8, they could be recognised at fair value or book value. However, to ensure consistency for whole-of-government reporting, both the transferee and transferor should recognise the asset transfer at book value.

Land Sales and Transfers

Consistent with the measurement policy for contributions by owners, it is recommended that all sales and transfers of land be at fair value. Sales or transfers at other values could materially misstate the impact of such transactions in the financial statements.

Application

The transfer of assets, or assets and liabilities, other than as a result of a restructure of administrative arrangements, to wholly-owned public sector entities from other entities within the same group of entities is to be accounted for in accordance with Interpretation 1038 (i.e. formal designations required) and TI 8 – Requirement 8.

Government departments also need to comply with AASB 1004, paragraphs 48 to 53 in respect to all contributions by owners and distributions to owners.

6.2 Terms and Definitions

Term	Definition
Agencies	Departments and all statutory authorities listed in Schedule 1 of the Act that are consolidated in the Annual Report on State Finances.
Wholly-owned public sector entities	All entities consolidated in the Annual Report on State Finances.
Non-reciprocal transfers	AASB 1004 defines a non-reciprocal transfer as a transfer where the entity receives assets or services or has liabilities extinguished without giving approximately equal value in exchange to the other party or parties to the transfer. Contributions and asset transfers as a consequence of restructuring are examples.
Contributions by owners	In accordance with AASB 1004, contributions by owners are defined as "future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which: (a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) can be sold, transferred or redeemed." It is not necessary that both (a) and (b) be satisfied.
Restructure of administrative arrangements	AASB 1004 defines a restructure of administrative arrangements as "the reallocation or reorganisation of assets, liabilities, activities and responsibilities amongst the entities that the government controls that occurs as a consequence of a rearrangement in the way in which activities and responsibilities as prescribed under legislation or other authority are allocated between the government's controlled entities. The scope of the requirements relating to restructures of administrative arrangements is limited to the transfer of a business (as defined in AASB 3 *Business Combinations*). The requirements do not apply to, for example, a transfer of an individual asset or a group of assets that is not a business."

Term	Definition
Business	According to AASB 3, a 'business' is defined as "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities."
Non-discretionary transfers	For the purpose of this Guidance, a transfer is classed as a non-discretionary transfer where the decision to transfer assets and/or liabilities is not made by the transferor agency, i.e. the decision is made by or on behalf of the government.

6.3 Non-discretionary transfers

Transfers of assets from one agency to another that have been made without the discretion of either agency are considered to be non-discretionary transfers for the purposes of TI 8 – Requirement 8. Discretionary transfers are transfers made at the agency's discretion and generally represent an expense to the transferor and income to the transferee.

6.4 Accounting for contributions by owners and distributions to owners

Where a transfer is classified as a contribution by owners by the transferee agency, under Interpretation 1038, the transferor agency is required to classify the transfer as a distribution to owners unless the transfer is to an investee in which case the transferor classifies the transfer as an acquisition of ownership interest. Transfers from an agency either directly to the government or to another agency (which is in substance a transfer to the government) must be classified as distributions to owners by the transferor. Transfers from the government to agencies represent an acquisition of ownership interest in the transferee.

Example

Department A transfers net assets to Statutory Authority B. The transfer is a decision of the government and is not for fair value consideration in the provision of goods or services. That is, the transfer is non-discretionary and non-reciprocal. Such transfers are designated as contributions by owners under TI 8 *Financial Accounting and Reporting* – Requirement 8.1(ii) *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Under Interpretation 1038, as the transferor and transferee are wholly-owned public sector entities controlled by the same government, the transfer must be accounted for as a transfer to/from that government. Consequently, the transfer is accounted for as two transfers. Transfer 1 is from Department A to the government and Transfer 2 is from the government to Statutory Authority B.

Transfer 1:

Department A classifies the transfer as a distribution to owners.

The government classifies the transfer as a redemption of ownership interest or income.

Transfer 2:

The government classifies the transfer as an acquisition of ownership interest.

Statutory Authority B classifies the transfer as a contribution by owners.

Note that the government entries are eliminated in the government's consolidated financial statements as they represent transfers within the same economic entity.

Contributions by owners should be credited directly to Contributed equity in the Statement of Financial Position. Distributions to owners should also be debited directly to Contributed equity in the Statement of Financial Position.

Where an agency does not have a sufficient credit balance in Contributed equity with respect to net assets transferred, the whole amount of distributions to owners should still be debited directly to Contributed equity. If at the end of an agency's reporting period there is a net debit balance in Contributed equity after distributions to owners and contributions by owners during the year, this balance should then be transferred to Accumulated surplus/(deficit) in the Statement of Financial Position.

Where it is expected that the assets or liabilities are to be transferred within 12 months or before the end of the agency's current operating cycle, non-current assets and non-current liabilities should be reclassified as current.

Any subsequent discovery of assets and/or liabilities relating to the original transfer, after accounting for a transfer of net assets as a contribution by owners and distribution to owners, is to be recognised and adjusted directly against the respective agencies' Contributed equity at their fair value in the Statement of Financial Position. If this occurs in a subsequent reporting period, compliance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* is required where the transaction is a material error under that Standard.

6.5 Designation of non-repayable capital appropriations as contributions by owners

Most capital appropriations are non-repayable and consequently are designated as contributions by owners under TI 8 *Financial Accounting and Reporting* – Requirement 8.1(i) *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Where in the rare circumstances that a capital appropriation is repayable, the appropriation is recognised as a liability by the entity. Also refer to the guidance below under 'Repayable administered capital appropriations and administered borrowings'.

Note that a designation of capital appropriations as contributions by owners was made in Treasury correspondence to agencies dated 4 July 2001. This advice stated that from 1 July 2001 capital appropriations are to be treated as contributions by owners.

6.5.1 Controlled capital appropriations

Capital appropriations, which are displayed as Capital Contributions or Capital Appropriations in the Budget Statements, represent equity contributions from the government and accordingly are designated as contributions by owners. Capital appropriations are recognised in the financial statements of the transferee (recipient) as contributions by owners. If capital appropriations are subsequently transferred to other wholly-owned government agencies, the transferor (original recipient of the appropriation) classifies the transfer as a distribution to owners (the government) and the transferee (final recipient of the appropriation) classifies the transfer as a contribution by owners (the government). Note that such transfers of capital appropriations need to be distinguished from contributions that are made at the agency's discretion. These contributions generally represent an expense to the transferor and income to the transferee.

6.5.2 Administered capital appropriations

In some circumstances an agency may receive an administered capital appropriation. Such appropriations will be displayed as either Administered Capital Contributions or Administered Capital Appropriations in the Budget Statements.

Where the intention is to transfer the administered capital appropriation to a transferee agency (i.e. controlled agency), these administered capital appropriations are not equity contributions to the administering agency. In such cases, the agency administering the capital appropriations should disclose the appropriation amount received for transfer as administered revenue and the appropriation amount transferred out as administered expense, along with other administered items, in the notes to their financial statements. The transfer of an administered capital appropriation from the administering agency represents an equity contribution from the government to the transferee agency (i.e. controlled agency) and has been designated as a contribution by owners under TI 8 – Requirement 8.1(i).

In certain limited circumstances the administering agency may retain the capital appropriation and administer the funds on behalf of government. That is, the appropriation is not transferred to an agency (i.e. controlled agency). In such circumstances, the agency administering the capital appropriation should disclose this administered item in the notes to their financial statements as administered revenue called 'non-repayable capital appropriation'. However, for whole-of-government accounting purposes (i.e. the financial data submitted to Treasury), the administering agency should treat the administered capital appropriation as an equity contribution to facilitate the whole of government consolidation.

6.5.3 Treasurer's special purpose account funding for capital

Amounts may be appropriated from the Consolidated Account (displayed as Government Equity Contributions or Other in Treasury's Budget Statements) to a Treasurer's special purpose account (TSPA) for administration by Treasury. For example, the Royalties for Regions Fund was created to provide infrastructure and services in regional Western Australia. The Digital Capability Fund has also been created to invest in digital transformation.

All amounts appropriated as capital must flow to agencies as capital. Therefore, the transfer of the administered funds from the TSPA for capital purposes has been designated as a contribution by owners under TI 8 – Requirement 8.1(i) and represents an equity contribution from the government to the transferee agency (being the controlled agency).

6.6 Repayable administered capital appropriations and administered borrowings

In the rare circumstances that an administering agency receives a repayable administered capital appropriation or an administered borrowing (e.g. an administered Treasurer's Advance), these administered items should be classified as administered borrowings in the notes to the financial statements and treated as financing activities for whole-of-government cash flow statement reporting purposes (i.e. the financial data submitted to Treasury).

6.7 Designation of non-reciprocal transfers between agencies as contributions by owners

Where assets and liabilities are transferred between agencies as a consequence of government policy, e.g. where functions are transferred, the transfer of net assets represents an equity withdrawal from the transferor and an equity contribution to the transferee. TI 8 – Requirement 8.1(ii) designates such transfers as contributions by owners. Consequently, the transferor accounts for the transfer as a distribution to owners and the transferee accounts for the transfer as a contribution by owners.

Where assets and liabilities are transferred between not-for-profit agencies as a consequence of a restructure of administrative arrangements, such transfers shall be accounted for in accordance with AASB 1004.

The transfer of net liabilities represents an equity withdrawal from the transferee and an equity contribution to the transferor. TI 8 *Financial Accounting and Reporting* – Requirement 8.1(iii) *Contributions by Owners Made to Wholly-Owned Public Sector Entities* designates such transfers as contributions by owners. In these circumstances, the transferee accounts for the transfer as a distribution to owners and the transferor accounts for the transfer as a contribution by owners.

6.7.1 Transfer of employees involved in a restructure

Where a restructure involves the transfer of employees, the matching asset and liability transferred between agencies are not captured by the designation requirements of TI 8 as they are not considered to be non-reciprocal transfers. Further guidance on the transfer of employees involved in a restructure is provided in TG 11 Payroll.

However, there are circumstances where the leave entitlement liabilities associated with those employees transferring may fall under TI 8. In practice, these liabilities would form part of the overall transfer of net assets (or net liabilities) between the transferor and transferee as per Chapter 6.7 on 'Designation of non-reciprocal transfers between agencies as contributions by owners' above.

Where those employee leave entitlement liabilities associated with those employees transferring as a consequence of a restructure of administrative arrangements, such transfers shall be accounted for in accordance with AASB 1004 (where the transfer takes place between not-for-profit agencies).

6.7.2 Transfer of assets between agencies with different capitalisation policies

As discussed in TG 9 Financial Statements – Chapter 3 Application of Accounting Standards and Other Pronouncements, the varying size and nature of operations of agencies means that materiality between agencies can differ significantly. Accordingly, agencies can have differing capitalisation thresholds.

Where an agency with a lower capitalisation threshold is abolished or otherwise transfers assets to another agency with a higher threshold, differences in the amounts of net assets recognised could occur. For example, if assets were transferred from an agency with a capitalisation policy of $5,000 to an agency with a capitalisation policy of $10,000, though the amount of assets distributed by the transferor agency would correspond with the contribution by owners recognised by the transferee or recipient agency, the amount of assets recognised by the transferee agency could be lower than the amount distributed by the former agency (i.e. assets with a carrying value of between $5,000 and $9,999 previously recognised by the transferor agency would not be recognised as assets by the transferee agency). These would be expensed because of the higher asset capitalisation threshold of the transferee agency (i.e. $10,000 in this instance).

To illustrate, assume that the total value of assets being transferred from the transferor agency was $10M, of which $9.7M worth of these assets meet the transferee agency's capitalisation threshold of $10,000. The following accounting entries would apply:

Transfer 1: Transfer of assets from the transferor agency

Dr Distribution to owners	$10M	
Cr Assets		$10M

Transfer 2: Contribution of assets received by the transferee agency

Dr Expense	$0.3M	
Dr Assets	$9.7M	
Cr Contribution by owners		$10M

The expensed amount is the total value of assets below the transferee agency's $10,000 asset capitalisation threshold.

Note that the reverse could also occur. Therefore, in addition to considering materiality, the new agency should take into account the practicality and cost of identifying and valuing assets that were not previously recognised by the abolished agencies.

Where assets are transferred under a restructure, there may be situations that arise where the transferor agency originally capitalised a depreciable asset, but at the time of transfer the fair value of the asset is now below the capitalisation threshold of the transferee agency. In this case, even though each agency may have the same capitalisation threshold, the treatment as detailed above would apply.

6.8 Designation of non-reciprocal transfers of net liabilities from agencies to the government and transfers of net assets from the government to agencies as contributions by owners

Both the assumption of net liabilities from an agency by the government and the transfer of net assets from the government to an agency are equity contributions from the government to the agency. TI 8 *Financial Accounting and Reporting* – Requirement 8.1(iv) *Contributions by Owners Made to Wholly-Owned Public Sector Entities* designates such transfers as contributions by owners. These transfers are between controlled and administered (on behalf of the government) and should be accounted for as contributions by owners in the transferee agency's controlled financial statements and as an administered expense to be disclosed in the transferor agency's administered items note to the financial statements. Liaison between agencies may be required, as the transfer will be at fair value and would not necessarily be between the same agency's controlled and administered functions.

An assumption of a superannuation liability by the government without fair value consideration from an agency is an example of a contribution by owner.

Note that transfers from an agency's administered to another agency's administered are not disclosed as contributions by owners/distributions to owners or as revenue/expense in administered financial statements (i.e. there is no transfer between reporting entities). Administered assets and liabilities are simply reported by the agency administering the assets and liabilities at the end of the reporting period in the notes to the financial statements.

6.9 Capital expenditure in advance of appropriation

> ***Section 27(1)*** *of the Act states that the Governor may, on the recommendation of the Treasurer, authorise expenditure in a financial year that is not provided for by an appropriation by an Appropriation Act for that year.*

Drawdowns charged to the Consolidated Account under the authority of section 27(1) of the Act (Treasurer's Advance) in relation to new items that have been approved by the Governor for capital purposes are to be treated as contributions by owners for the purposes of TI 8 – Requirement 8.1(v). These new items are usually designated as capital in the requisition for additional funds (Treasury Form 12).

Drawdowns from the Consolidated Account and charged against the Treasurer's Advance in relation to supplementary funding of existing items (Treasury Form 11) that are displayed as capital appropriations in the Budget Statements are designated as contributions by owners by TI 8 – Requirement 8.1(i).

6.10 Non-reciprocal transfers of assets or net assets from agencies to the government to be accounted for as distributions to owners

Where assets or net assets are transferred to the government without fair value consideration (at the government's discretion), the transferor agency should account for the transfer as a distribution to owners.

Where assets are sold and the proceeds must be paid into the Consolidated Account, the payment represents a distribution to owners. To ensure appropriate accounting treatment, the sale of the asset (e.g. a building) and the payment of the proceeds to the Consolidated Account are treated as separate transactions. The agency should initially recognise the proceeds and report a gain or loss on sale and then report the payment of the proceeds to the Consolidated Account as a distribution to owners in their controlled financial statements. Where the agency is a government department, the proceeds would also be disclosed as administered revenue in the financial statements (i.e. the administered notes) of the department making the payment into the Consolidated Account.

Amounts transferred to the Consolidated Account in accordance with section 20[77] of the Act are treated as a distribution to owner for the purposes of TI 8 – Requirement 8.2.

The sale of Crown land and the sale of freehold land by departments both result in distributions to owners (refer below).

6.10.1 Transfers of Crown land

An example of a transfer of assets to the government is the transfer of Crown land to the Department of Planning, Lands and Heritage (DPLH) for sale. DPLH is the only agency with the power to sell Crown land. Accordingly, the land must be transferred to DPLH for sale (refer to TG 9 Financial Statements – Chapter 3.12.1 Sale of Crown land). The transfer and sale are accounted for by DPLH as administered transactions, i.e. the transactions are administered by DPLH on behalf of the government. DPLH should disclose the transfer as administered revenue and the payment of the proceeds to the Consolidated Account as administered expense. However, such transactions represent a withdrawal of capital from the transferor agency. Although the decision to sell the land may be considered discretionary (e.g. the agency determines that the land is surplus to its requirements), the transfer of Crown land to DPLH is non-discretionary as only DPLH can sell Crown land. Where the proceeds or part proceeds are appropriated back to the transferor agency, the appropriation would generally be an injection of capital to the agency, i.e. a contribution by owners.

[77] Section 20 of the Act – Unrequired money in accounts, transfer of from

6.10.2 Sale of freehold land by departments

Where a department has the power to hold and sell freehold land, under the current net appropriations determination, the department cannot retain the proceeds of the sale unless specifically approved by the Treasurer. The payment of the proceeds to the Consolidated Account is a distribution to owners. To ensure appropriate accounting treatment, the sale of the land and the payment of the proceeds to the Consolidated Account should be treated as separate transactions. The department should initially recognise the proceeds and report a gain or loss on sale and then report the payment of the proceeds to the Consolidated Account as a distribution to owners in their controlled financial statements. The department should also disclose the proceeds as revenue and the payment to the Consolidated Account as expense in their administered transactions. Again, where the proceeds or part proceeds are appropriated back to the department, the appropriation would generally be an injection of capital to the agency, i.e. a contribution by owners.

6.10.3 Transfer of assets to entities other than wholly-owned public sector entities

In this chapter, wholly-owned public sector entities are defined as all entities consolidated in the Annual Report on State Finances. This includes all agencies as defined in this chapter and other entities (such as the corporatised entities) that are not subject to the Act and TIs, but by definition excludes the universities.

Where assets are transferred to entities that are not wholly-owned public sector entities (i.e. entities not consolidated in the Annual Report on State Finances) and the transfer is not at the agency's discretion and is not consistent with agency objectives, the transfer represents a distribution to owners under TI 8 – Requirement 8.2. The transfer to the external entity represents an expense to the government. The transaction is to be disclosed in the financial statements as a debit to the agency's contributed equity and an administered revenue and expense in the relevant administering agency's notes to the financial statements. Agencies should advise State Finances of the details of such transfers. Further advice as to which entities are consolidated in the Annual Report on State Finances may also be obtained from this Division.

Where transfers to entities that are not wholly-owned public sector entities are at the agency's discretion or are consistent with agency objectives, the transfer represents an expense to the agency.

6.11 Measurement of contributions by owners and distributions to owners

TI 8 – Requirement 8.3 requires both the transferor and transferee to recognise the net assets transferred at fair value. Therefore, the transferor agency needs to ensure that the assets and liabilities to be transferred are measured at fair value prior to the transfer.

However, this requirement is subject to materiality and where assets and liabilities must be measured in accordance with the relevant Australian Accounting Standards. This addresses situations where an accounting standard does not permit fair value as a basis of measurement for specific assets and/or liabilities. For example, AASB 138 does not permit intangible assets to be revalued unless there is an active market. This means that there may be limited circumstances where TI 8 – Requirement 8 allows contributions by owners and distributions to owners to be measured on a basis other than fair value.

As a consequence of the fair value requirement under TI 8 *Financial Accounting and Reporting* – Requirement 7 *Revaluation of Non-Current Physical Assets*, the majority of land and buildings have already been measured at fair value. Where an agency revalued land and buildings in the financial reporting period immediately prior to a transfer, no further revaluation would normally be required at the transfer date. If, however, the last revaluation was in an earlier reporting period, the transferor would need to assess the need for a revaluation prior to the transfer.

In many circumstances, because of their relatively short useful life, the book value of plants and equipment measured on the cost basis will be consistent with fair value for compliance with TI 8 – Requirement 8.

It is recognised that in some circumstances due to timing and cost issues it may be necessary to estimate fair value where the book value is not consistent with fair value. In all circumstances, adequate liaison and negotiation between the transferor and transferee is required to ensure a transfer is recognised at a value consistent with the fair value basis.

The revaluation of non-current physical assets should be accounted for in accordance with AASB 116, except that assets to be transferred may be treated as a separate class (or classes) of assets. This avoids the necessity of having to revalue similar assets that are not being transferred. Revaluation increments and decrements within a class of assets must be offset. A net revaluation increment must be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus, except to the extent that the increment reverses a previous decrement (in respect of that class of assets) which was recognised as an expense in profit or loss. In this case, the increment must be recognised as a gain in profit or loss. A net revaluation decrement must be recognised as an expense in profit or loss, except to the extent that credit balance exists in the revaluation surplus (in respect of that class of assets). In this case, the decrement must be recognised in other comprehensive income and reduces the amount accumulated in the revaluation surplus. These requirements apply to not-for-profit agencies. Refer to AASB 116 for the requirements in respect of for-profit agencies.

Where assets are initially recognised at fair value by the transferee agency to comply with TI 8 – Requirement 8.3, it does not initiate an ongoing revaluation requirement for those assets or, where the transferred assets are included in a class of assets measured on the cost basis, require the other assets in that class to be revalued to fair value. That is, for the purposes of paragraph 30 of AASB 116, the fair value of assets transferred may constitute the cost basis.

6.11.1 Where the transferor agency is not abolished in a restructure

Where the transferor agency is not abolished in a restructure, the transfer is not recognised in their financial statements where the restructure is to occur after the end of the reporting period. However, this event would be disclosed in the notes to the financial statements as an event occurring after the reporting period (refer AASB 110 *Events after the Reporting Period*).

6.11.2 Where the transferor agency is abolished in a restructure

Where an agency ceases to exist on 30 June and the net assets are transferred to another agency on 1 July, the assets and liabilities as at 30 June must be recognised by the transferor in their final report (i.e. before the net assets are transferred to the transferee agency). Note disclosure is also required for the event occurring after the reporting period. Where practicable, and subject to materiality, the transferor should ensure that all assets and liabilities are reported at fair value (accountability for past performance). Note that to comply with AASB 116 and TI 8 – Requirement 7, land and buildings must be at fair value at the end of each reporting period.

However, where the transferor is abolished, the onus is on the transferee to ensure that the net assets transferred are recognised at fair value.

6.12 Non-reciprocal transfers that are not contributions by owners

Contributions by owners are transfers to other wholly-owned public sector entities made at the government's discretion. Transfers to other agencies that are made at the discretion of an agency and transfers by an agency to external entities (entities other than wholly-owned public sector entities) do not represent contributions by owners to the transferee. Examples are contributions and donations to either other wholly-owned public sector entities or other entities. Another example is where an agency, at its discretion, constructs an asset for another agency. Most resources provided free of charge would normally be classified as expense/income. However, there may be circumstances where resources provided free of charge by other wholly-owned public sector entities qualify as contributions by owners. This would occur where control of material assets is transferred at the government's direction (designated as a contribution by owners in TI 8 – Requirement 8.1(ii)).

Note that although a non-discretionary transfer by an agency to an external agency or other entity is not a contribution by owners to the transferee the transfer may represent a distribution to owners by the transferor. Refer to the previous discussion under 'Non-reciprocal transfers of net assets from agencies to the government to be accounted for as distributions to owners'.

6.13 Transactions with other wholly-owned public sector entities not subject to the Financial Management Act

Corporatised entities (the port authorities, Water Corporation, Western Power, Synergy and Horizon Power) are not subject to the Act and TIs. Consequently, the designation of certain classes of transfers as contributions by owners in TI 8 – Requirement 8 does not apply to these entities. For corporatised entities to recognise a transfer of net assets to them from any other wholly-owned public sector entity as a contribution by owners, a designation is to be made prior to or at the time of the transfer. A template (Template 10) is outlined in TG 13 Treasury Forms and Templates. An exception to this is the designation made previously via a Treasury letter sent to agencies dated 4 July 2001, that as from 1 July 2001 all capital appropriations are contributions by owners. This is applicable to all Western Australian public sector entities. Under Interpretation 1038, corporatised entities are required to recognise a transfer as a distribution to owners where the transferee recognises the transfer as a contribution by owners.

Another exception to the requirement for a specific designation for corporatised entities is where assets and/or liabilities are transferred as a consequence of a restructure of administrative arrangements. Accounting for a restructure of administrative arrangements for all government controlled not-for-profit entities (irrespective of whether or not they are subject to the Act) is to be in accordance with paragraphs 54 to 59 of AASB 1004. Under these requirements, such transfers are accounted for as contributions by owners or distributions by owners as applicable.

Agencies subject to the Act should account for transfers from wholly-owned public sector entities that are not subject to the Act in accordance with TI 8 – Requirement 8. That is, where a transfer of net assets from, or an assumption of net liabilities by, such an entity falls into the classes of transfers designated as contributions by owners in TI 8 – Requirement 8.1(ii) or (iii), the designation is effective and the agency should recognise the transfer as a contribution by owners.

6.14 Disclosure of contributions by owners and distributions to owners

Under AASB 101 *Presentation of Financial Statements* (paragraph 106(c)), the amount of any increase or decrease in contributed equity during a reporting period must be disclosed.

6.15 Further guidance

AASB 1004 includes general accounting requirements applicable to local governments, government departments and whole of governments regarding contributions by owners and distributions to owners (paragraphs 48 to 53).

In addition, AASB 1004 provides specific requirements in relation to the restructure of administrative arrangements of government controlled not-for-profit entities and for-profit government departments (paragraphs 54 to 59). These include disclosures for each material transfer of assets and liabilities in relation to a restructure of administrative arrangements, together with the name of the counterparty transferor/transferee agency. In respect of transfers that are individually immaterial, the assets and liabilities transferred are to be disclosed on an aggregate basis (paragraph 58). Where activities are transferred from one agency to another agency as a result of a restructure of administrative arrangements, AASB 1004 also requires the transferee agency to disclose expenses and income attributable to the transferred activities for a reporting period, showing separately those expenses and income recognised by the transferor agency during that reporting period (paragraph 57).

It should be noted that Interpretation 1038 does not apply to transfers of assets, or assets and liabilities, as a result of a restructure of administrative arrangements.

An agency may be party to a transfer of net assets or liabilities that is considered to be in the nature of a contribution by owners but does not fall into the classes of transfers designated as contributions by owners by TI 8 – Requirement 8. There may also be circumstances where judgement is required in determining whether or not a transfer is non-discretionary. The Financial Policy team at Treasury should be contacted for advice regarding these and for other matters of interpretation of the requirements of Interpretation 1038 and TI 8 – Requirement 8 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Where relevant, advice should be sought prior to transfers taking place, as designations must be made prior to or at the time of transfer.

7. Accounting for Contaminated Sites

7.1 Introduction

The *Contaminated Sites Act 2003* (Contaminated Sites Act) was introduced to identify, record, manage and clean up contamination. Under the Contaminated Sites Act, agencies are required to report known and suspected contaminated sites to the Department of Water and Environmental Regulation (DWER), investigate and, if necessary, clean up (remediate).

The identification of known and suspected contaminated sites on land controlled or administered by an agency would have financial reporting implications, irrespective of whether or not actions of the agency caused contamination. This chapter has been developed to assist agencies in identifying the relevant requirements under Australian Accounting Standards and applying those requirements in accounting for contaminated sites.

This chapter should be read in conjunction with the following documents:

- Contaminated Sites Act;
- Fact sheets and technical advice (see Appendix 1);
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- AASB 116 *Property, Plant and Equipment*;
- AASB 1058 *Income of Not-for-Profit Entities*;
- AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; and
- TI 8 *Financial Accounting and Reporting* – Requirement 7 *Revaluation of Non-Current Physical Assets*.

7.2 Key Requirements

The Contaminated Sites Act provides for the identification, recording, management and remediation of contaminated sites.

Under the Contaminated Sites Act, agencies must report to the DWER known contaminated sites within 21 days of identification and suspected contaminated sites as soon as is reasonably practicable (section 11). DWER may approve a program for the identification and reporting of sites.

DWER is to classify a site (in consultation with the Department of Health) as:

- Report not substantiated: no ground to indicate possible contamination of the site;
- Possibly contaminated – investigation required: grounds to indicate possible contamination of the site;
- Not contaminated – unrestricted use: after investigation, the site found not contaminated;
- Contaminated – restricted use: site contaminated but suitable for restricted use;
- Remediated for restricted use: site contaminated but has been remediated so that it is suitable for restricted use;
- Contaminated – remediation required: site is contaminated, and remediation is required;
- Decontaminated: The site has been remediated and is suitable for all uses.

DWER is to classify a site within 45 days after receiving a report, unless there are particular circumstances which make it difficult to classify the site within that time. For further information, see Fact sheets and technical advice listed in Appendix 1.

DWER will update the database and records to reflect the classification of a site and make the information available to the public.

Sites classified as *contaminated – remediation required* are required to be remediated (section 23).

Where sites reported are classified as *possibly contaminated – investigation required* or *contaminated – remediation required*, agencies need to determine whether they are responsible under the Contaminated Sites Act in respect of those sites. It is not DWER's responsibility to determine responsibility.

Broadly, the hierarchy of responsibility under the Contaminated Sites Act is:

- person has caused, or contributed to, the contamination of the site (polluter);
- owner or occupier of the site who has changed, or proposes to change, the use of the site (only to the extent that remediation is required because of the change, or proposed change, of use);
- owner of the site (if polluter cannot be found or is insolvent);
- State (last resort).

If there is uncertainty as to responsibility, agencies can request the Contaminated Sites Committee to make a determination of responsibility (section 36).

DWER may issue an investigation notice (in respect of sites classified as *possibly contaminated – investigation required*) and/or a clean-up notice or hazard abatement notice (in respect of sites classified as *contaminated – remediation required*) where appropriate action is not being, or has not been, taken by the responsible agency (section 42).

DWER will lodge a memorial with the Registrar of Titles if land is classified as:

- contaminated – remediation required;
- contaminated – restricted use;
- remediated for restricted use; or
- possibly contaminated – investigation required.

DWER is to establish an agency SPA called the Contaminated Sites Management Account (CSMA).

Agencies may apply for funding from the CSMA to undertake investigation and/or remediation works (section 60(3)). Agencies may apply for funding even where actions of the agency caused contamination. All applications will be considered on a priority basis. However, funding to commercial entities will not be granted or given lower priority, unless specific circumstances warrant otherwise.

Funding will not be automatically granted once a notice is issued. Funding is a separate issue. Where a notice has been issued and funding is not available, agencies will need to meet the costs themselves or seek supplementary funding from Government. It is noted that payments from the CSMA will not be made to reimburse investigation and/or remediation costs already incurred.

7.3 Terms and Definitions

Term	Definition
Provision	A provision is a liability of uncertain timing or amount.
Liability	A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
Legal obligation	A legal obligation is an obligation that derives from: (a) a contract (through its explicit or implicit terms); (b) legislation (e.g. Contaminated Sites Act); or (c) other operation of law.
Contingent Liability	A contingent liability is: (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

7.4 Application of Australian Accounting Standards

7.4.1 AASB 137 Provisions, Contingent Liabilities and Contingent Assets

Recognition

A *provision* shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

For the purpose of AASB 137, an outflow of resources is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not. It is probable that agencies will need to undertake investigation works in respect of sites classified as *possibly contaminated - investigation required* and/or clean up works in respect of sites classified as *contaminated - remediation required*.

Therefore, agencies shall recognise a provision in respect of a site where:

- the site has been classified as possibly contaminated - investigation required or contaminated - remediation required under the Contaminated Sites Act;
- the agency is responsible for the site under the Contaminated Sites Act; and
- a reliable estimate can be made of the costs of investigation/remediation of the site.

When a provision for future investigation/remediation costs is recognised in the Statement of Financial Position, an equivalent expense is generally recognised in the Statement of Comprehensive Income. In some instances, the provision for future remediation costs can be recognised as a cost of an asset in accordance with AASB 116 *Property, Plant and Equipment*.

Agencies should be able to determine a range of possible outcomes and therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision. It would be extremely rare for an agency not to recognise a provision because a reliable estimate cannot be made (AASB 137.25).

Nevertheless, in relation to Crown land, certain outcomes for investigation/remediation may be unknown so that a reliable estimate could not be made. For example, complete remediation for Wittenoom (which is affected by asbestos contamination derived from historical mining activities at Wittenoom Mine, Colonial Mine and Yampire Mine) is not practical as it would involve the elimination of asbestos tailings across 46,840 hectares of land. On the other hand, the cost for raising awareness, demolishing the townsite and managing the area is insignificant. Under such an instance, agencies should not recognise a provision until Government approves a preferred option (and generally provides funding) for the remediation.

If no reliable estimate could be made, agencies shall disclose the obligation as a contingent liability (AASB 137.26).

In respect of sites classified as *possibly contaminated - investigation required*, agencies would disclose a contingent liability for possible remediation costs in addition to future investigation costs where the agency is responsible for the sites under the Contaminated Sites Act.

Agencies would also have a contingent liability in respect of a site where:

- the site has been reported but yet classified by DWER (DWER is required to classify the site within 45 days); and
- the agency is responsible for the site under the Contaminated Sites Act.

Agencies need to assess whether the possibility of the site being classified as *possibly contaminated - investigation required* or *contaminated - remediation required* is not remote. If it is remote, no disclosure is required (AASB 137.28).

For each class of contingent liability at the end of the reporting period, agencies shall disclose a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect;

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement.

For example:

> Under the Contaminated Sites Act, the Agency is required to report known and suspected contaminated sites to the DWER. In accordance with the Contaminated Sites Act, DWER classifies these sites on the basis of the risk of harm to human health, the environment and environmental values. Where sites are classified as *possibly contaminated – investigation required* or *contaminated – remediation required*, the Agency will have an obligation in respect of investigation and/or remediation costs.
>
> During the year, the Agency reported three suspected contaminated sites to DWER. These have yet to be classified. The Agency is unable to assess the likely outcome of the classification process, and accordingly it is not practicable to estimate the potential financial effect or identify the uncertainties relating to the amount or timing of any outflow. While there is no possibility of reimbursement of any future expenses that may be incurred in respect of these sites, the Agency may apply for funding from the Contaminated Sites Management Account to undertake investigation and/or remediation works that may be required.

Measurement

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period (AASB 137.36).

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Unless agencies can reliably estimate the timing of future cash outflows, the amount of a provision is based on the current cost which is to be reviewed periodically.

Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed (AASB 137.59).

Changes in provisions are recognised as income and expenses in the Statement of Comprehensive Income, unless the amount of a provision has been recognised as a cost of an asset on the Statement of Financial Position. Where the provision has been capitalised, changes in the provision are accounted for in accordance with AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities.*

Disclosure

Disclosures for each class of provision include:

(a) opening and closing balances;

(b) additional provisions made in the period;

(c) amount used during the period;

(d) unused amounts reversed during the period; and

(e) the increase during the period arising from the passage of time and the effect of any change in the discount rate.

Refer to paragraphs 84 and 85 of AASB 137 for full details of disclosures. Tier 2 disclosure exemptions are characterised by shading of the relevant text within the paragraphs.

7.4.2 AASB 116 Property, Plant and Equipment

Recognition

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

Measurement at recognition

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost (AASB 116.15).

The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or because of having used the item during a particular period for purposes other than to produce inventories during that period.

A provision for future remediation costs can be recognised as 'the costs of dismantling and removing the item and restoring the site on which it is located' of an item of property, plant and equipment that qualifies for recognition as an asset. The provision can be capitalised on initial recognition of the asset or as a subsequent expenditure that increases future economic benefits associated with the asset. However, it is noted that only the initial estimate of the costs can be capitalised under AASB 116. Subsequent changes to the estimate are accounted for in accordance with AASB Interpretation 1.

Measurement after recognition

An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Under the cost model, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Under the revaluation model, an item of property, plant and equipment is carried at a revalued amount, being its fair value (in accordance with AASB 13 *Fair Value Measurement*) at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

TI 8 – Requirement 7 requires the revaluation model to be applied to land and buildings. The guidance in TG 8 Financial Accounting and Reporting state that, where expenditure is capitalised in a reporting period after a valuation is undertaken, the amount should be added to the revalued amount of the asset. This also applies to the initial estimate of future remediation costs that can be capitalised.

AASB Interpretation 1 applies to subsequent changes to the initial estimate of future remediation costs as follows:

If the related asset is measured using the cost model:

(a) subject to (b), changes in the provision shall be added to, or deducted from, the cost of the related asset in the current period;

(b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss;

(c) if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with AASB 136 *Impairment of Assets*.

If the related asset is measured using the revaluation model:

(a) changes in the provision alter the revaluation surplus or deficit previously recognised on that asset, so that:

(i) a decrease in the provision shall (subject to (b)) be recognised in other comprehensive income and increase the revaluation surplus within equity, except that it shall be recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss;

(ii) an increase in the provision shall be recognised in profit or loss, except that it shall be recognised in other comprehensive income and reduce the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

(b) in the event that a decrease in the provision exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess shall be recognised immediately in profit or loss;

(c) a change in the provision is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Subsequent changes to the provision that has been capitalised as part of an asset under the cost model will be added to, or deducted from, the carrying amount of the asset, and depreciated over the remaining useful life of the asset.

Subsequent changes to the provision that has been capitalised as part of an asset under the revaluation model will be recognised as revaluation increments or decrements. Where a change is material, the asset would need to be revalued at the end of the next reporting period. Although the change does not directly impact the fair value of the asset, events that affect the estimate of the provision may also affect the valuation of the asset.

Land is valued annually by the Landgate. Under the Contaminated Sites Act, it is the responsibility of DWER to report land classified as *contaminated - remediation required*, *contaminated - restricted use*, *remediated for restricted use* or *possibly contaminated - investigation required* to the Registrar of Titles (also at Landgate). However, agencies should advise Landgate where land controlled and/or administered by the agency receives any of these classifications. This is to ensure that the classification would be considered when land is valued. Note that land is not 'discounted' for contamination as the remediation costs are generally unknown to Landgate.

Depreciation

If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it (AASB 116.59).

The objective of capitalising and depreciating future remediation costs is to allocate the costs over the period of deriving economic benefits rather than recognising the full amount as an expense when the obligation arises.

Consequently, future remediation costs should be capitalised on depreciable assets such as buildings, infrastructure and plant. However, the costs could also be capitalised on land where the land embodies an asset with a limited useful life (e.g. a waste dump).

7.4.3 AASB 1058 Income of Not-for-Profit Entities

Scope

An entity shall apply this Standard to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the entity to further its objectives, and the receipt of volunteer services.

Payments from the CSMA are not within the scope of AASB 15 *Revenue from Contracts with Customers* as there is no customer to which goods or services will be transferred to. Agencies use payments from the CSMA to undertake investigation and/or remediation works.

Payments from the CSMA are considered to be under AASB 1058 as agencies will receive an asset (i.e. cash) without providing the consideration, and this is to enable agencies to further the objective of reducing the risk of harm to human health, the environment and environmental values.

Recognition and measurement

On initial recognition of an asset (i.e. cash), an entity shall recognise any related contributions by owners, increases in liabilities, decreases in assets, and revenue (related amounts) in accordance with other Australian Accounting Standards.

An entity shall recognise income immediately in profit or loss for the excess of the initial carrying amount of an asset (e.g. cash) over the related amounts.

As agencies are not required to use payments from the CSMA to undertake any specific activities, other than paying for investigation and/or remediation works, no related amount will be recognised. As a result, the payments will be recognised as income on receipt.

Appendix 1: Fact sheets and technical advice

Fact sheets and technical advice are available on:

https://www.der.wa.gov.au/your-environment/contaminated-sites/60-fact-sheets-and-technical-advice

1. Identifying and reporting contaminated sites

   https://www.der.wa.gov.au/images/documents/your-environment/contaminated-sites/Fact_sheets_tech_advice/Fact_sheet_1.pdf

2. How to access information on contaminated sites

   https://www.der.wa.gov.au/images/documents/your-environment/contaminated-sites/Fact_sheets_tech_advice/Fact_sheet_2.pdf

3. Seeking help from contaminated sites experts

   https://www.der.wa.gov.au/images/documents/your-environment/contaminated-sites/Fact_sheets_tech_advice/Fact_sheet_3.pdf

4. Site classifications and appeals

   https://www.der.wa.gov.au/images/documents/your-environment/contaminated-sites/Fact_sheets_tech_advice/Fact_sheet_4.pdf

5. Buyer beware – buying and selling contaminated land

   https://www.der.wa.gov.au/images/documents/your-environment/contaminated-sites/Fact_sheets_tech_advice/Fact_sheet_5.pdf

6. Contaminated groundwater – could my garden bore be affected?

   https://www.der.wa.gov.au/images/your-environment/contaminated-sites/cs-fs-6.pdf

7. How to interpret information on contaminated sites

   https://www.der.wa.gov.au/images/documents/your-environment/contaminated-sites/Fact_sheets_tech_advice/How_to_interpret_information_on_contaminated_sites.pdf

8. Accounting for Provisions – Discount Rates and Other Factors

8.1 Introduction

The objective of these guidelines is to assist public sector entities to measure provisions (liabilities of uncertain timing or amount) at present value in accordance with AASB 119 *Employee Benefits* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* in a consistent manner and to facilitate whole of government reporting.

AASB 119 and AASB 137 apply to certain provisions including annual leave, long service leave and employment on-costs. Provisions that are not expected to be settled wholly before 12 months after the end of the reporting period are to be measured at the present value of amounts expected to be paid when the liabilities are settled.

8.2 Accounting Standards

8.2.1 AASB 119 Employee Benefits

Measurement of employee benefit obligations

The amount recognised as a long-term employee benefit liability is the present value of the defined benefit obligation at the end of the reporting period.

Financial assumptions

Financial assumptions such as the discount rate, and future salary and benefit levels, and inflation (CPI) are to be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled (refer to paragraphs 75 to 95 of the Standard).

Discount rates

The discount rate to be used to measure long-term employee obligations, in respect of not-for-profit entities, shall be determined by market yields on government bonds at the end of the reporting period with terms to maturity that match, as closely as possible, the estimated future cash outflows (refer to paragraphs Aus83.1 to 86 of the Standard).

In respect of for-profit entities, such as Gold Corporation, the discount rate shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds (refer to paragraph 83 of the Standard).

8.2.2 AASB 137 Provisions, Contingent Liabilities and Contingent Assets

Measurement of provisions

The amount recognised as a provision is the best estimate of the expenditure (future cash outflows) required to settle the liability at the end of the reporting period. Where the effect of the time value of money is material, the estimated future cash outflows should be discounted to their present value (refer to paragraphs 36 to 52 of the Standard).

Discount rates

The discount rate to be applied shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability (refer to paragraphs 45 to 47 of the Standard).

8.2.3 Accounting for Climate-related Commitments

The International Financial Reporting Standards (IFRS) Interpretations Committee (the Committee) published an agenda decision on 29 April 2024 to clarify whether an entity's commitment to reduce or offset its greenhouse gas emissions meets the criteria in AASB 137 for recognising a provision.

IFRS - Climate-related Commitments (IAS 37)

The Committee observed that the publication of a policy or statement is not sufficient to give an entity a present constructive obligation – an entity will have a present constructive obligation when the event to which the policy/statement applies has occurred. As such, a provision would not be required until future events.

8.3 Guidelines

When agencies are measuring provisions in accordance with AASB 119 and AASB 137 for annual reporting purposes, the following rates and indices are provided to assist in calculating the present value of the liabilities:

	2025-26 Estimated Actual	2026-27 Budget Year	2027-28 Outyear	2028-29 Outyear	2029-30 Outyear
	%	%	%	%	%
Wage Price Index[78]	3.75	3.25	3.25	3.25	3.0
Consumer Price Index[78]	5.5	3.75	2.75	2.5	2.5

The percentage increases for Public Sector Wages are agreement specific and will be determined through bargaining. The final wage outcome will be advised by the agency's industrial bargaining team once the agreement is agreed in principle.

[78] Sourced from WA 2026-27 Budget Paper No.3 – Economic and Fiscal Outlook. These indices are forecasts for the State as a whole.

	Maturity (years)	Treasury Bonds Yield (% pa)	A-rated Corporate Bonds Yield (% pa)
Discount rates: 30 April 2026[79]	0	4.10	
	1	4.63	
	2	4.69	
	3	4.69	5.52
	4	4.71	
	5	4.75	5.64
	6	4.80	
	7	4.86	5.74
	8	4.92	
	9	4.98	
	10	5.04	5.71

Agencies should reassess these discount rates at the end of the reporting period to ensure that there is no material impact on the measurement of the provisions.

Agencies using the shorthand method to measure the long service leave provisions must ensure that the valuation is not materially different from the liability using the present value of the expected future payments (i.e. the longhand method).

[79] Sourced from RBA Zero-coupon Interest Rates – Analytical Series at https://www.rba.gov.au/statistics/tables/xls/f17hist.xlsx?v=2025-06-04-12-14-53; and Aggregate Measures of Australian Corporate Bond Spreads and Yields at https://www.rba.gov.au/statistics/tables/xls/f03hist.xlsx?v=2025-06-04-12-14-53.

9. Accounting for Intangible Assets

9.1 Introduction

AASB 138 *Intangible Assets* prescribes the accounting treatment for intangible assets that are not dealt with in other accounting Standards. If another Accounting Standard prescribes the accounting treatment for an intangible asset, an agency is required to comply with that Standard instead of AASB 138.

9.2 What is an intangible asset?

AASB 138 defines an intangible asset as an identifiable non-monetary asset without physical substance.

Examples include computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

Intangible assets can be acquired in the following ways:

- separate acquisition;
- business combination;
- government grant;
- exchange of assets; or
- internally generated intangible assets.

For an asset to be intangible, it must satisfy the following criteria:

9.2.1 Identifiability

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

9.2.2 Control

An agency has the power to obtain the future economic benefits from the asset and to restrict the access of others to those benefits.

9.2.3 Future economic benefits

The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the agency.

9.3 Recognition and Measurement

9.3.1 The Capitalisation Threshold

TI 9 *Financial Statements* provides that intangible assets costing less than $5,000 must be expensed.

It does not automatically follow, however, that all intangible assets costing more than the capitalisation threshold are to be capitalised. Agencies must apply judgement after considering the requirements of AASB 138.

9.3.2 Recognition and Measurement

AASB 138 requires an intangible asset to be recognised if, and only if:

- it is probable that expected future economic benefits will flow to the agency; and
- the cost of the asset can be measured reliably.

An intangible asset shall be measured initially at cost; however, not-for-profit entities shall initially measure the cost of the asset at fair value where the consideration for the asset is significantly less than fair value principally to enable the agency to further its objectives.

9.3.3 Separate Acquisition

When an agency acquires an intangible asset (e.g. computer software), the cost can be measured reliably, especially when the purchase consideration is in the form of cash or other monetary assets.

The cost of a separately acquired intangible asset includes the purchase price, import duties and directly attributable costs incurred in preparing the asset for use.

AASB 138 provides examples of directly attributable costs (paragraph 28) and of expenditure that is not part of the cost of an intangible asset (paragraph 29).

The table below provides a summary of some of the costs incurred in relation to a separately acquired intangible assets that are capitalised or expensed.

Separately acquired intangible asset	Capitalise/Expense AASB 138 paragraph
The cost of a separately acquired intangible asset comprises	
• Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates	Capitalise 27(a)
• Any directly attributable cost of preparing the asset for its intended use	Capitalise 27(b)
Examples of directly attributable costs are	
• Costs of employee benefits (as defined in AASB 119) arising directly from bringing the asset to its working condition	Capitalise 28(a)
• Professional fees arising directly from bringing the asset to its working condition	Capitalise 28(b)
• Costs of testing whether the asset is functioning properly	Capitalise 28(c)
Examples of expenditures that are not part of the cost of an intangible asset are	
• Costs of introducing a new product or service (including costs of advertising and promotional activities)	Expense 29(a)
• Costs of conducting business in a new location or with a new class of customer (including costs of staff training)	Expense 29(b)
• Administration and other general overhead costs	Expense 29(c)

9.3.4 Internally Generated

To assist in determining whether an internally generated intangible asset satisfies the recognition criteria, the agency classifies the asset into a:

- research phase; and
- development phase.

9.3.5 Research phase

AASB 138 defines research as activities relating to the original and planned investigation with the prospect of gaining new scientific or technical knowledge and understanding.

The table below provides a summary of some of the costs incurred in the research phase of intangible assets that can be capitalised or expensed.

Internally generated intangible asset Research phase costs	Capitalise/Expense AASB 138 paragraph
Costs incurred during the research stage are expensed	Expense 53–55
Examples of research phase activities are	
• Activities aimed at obtaining new knowledge	Expense 56(a)
• The search for, evaluation and final selection of, applications of research findings or other knowledge	Expense 56(b)
• The search for alternatives for materials devices, products, processes, systems or services	Expense 56(c)
• The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services	Expense 56(d)

9.3.6 Development phase

Development is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

An intangible asset resulting from the development phase can only be recognised if all the criteria in paragraph 57 are satisfied.

If an agency cannot distinguish the research phase from the development phase of an internal project, to create an intangible asset, then the costs of the project should be treated as if they were incurred in the research phase and expensed (paragraph 53).

Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets and are expensed (paragraphs 63-64).

9.3.7 Cost of an internally generated intangible asset

The cost of an internally generated intangible asset includes all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

AASB 138 provides examples of directly attributable costs (paragraph 66) and of expenditure that is not part of the cost (paragraph 67) of an internally generated intangible asset.

The table below provides a summary of some of the costs incurred in the development phase of intangible assets that can be capitalised or expensed.

Internally generated intangible asset Development phase costs	Capitalise/Expense AASB 138 paragraph
Recognition criteria for the "Development phase"	
An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following	Capitalise 57
• The technical feasibility of completing the intangible asset so that it will be available for use or sale	Capitalise 57(a)
• Its intention to complete the intangible asset and use or sell it	Capitalise 57(b)
• Its ability to use or sell the intangible asset	Capitalise 57(c)
• How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset	Capitalise 57(d)
• The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset	Capitalise 57(e)
• Its ability to measure reliably the expenditure attributable to the intangible asset during its development	Capitalise 57(f)
Examples of development activities are	
• Design, construction and testing of pre-production or pre-use prototypes and models	Capitalise 59(a)
• Design of tools, jigs, moulds and dies involving new technology	Capitalise 59(b)
• Design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production	Capitalise 59(c)
• Design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services	Capitalise 59(d)

Internally generated intangible asset Development phase costs	Capitalise/Expense AASB 138 paragraph
The cost of an internally generated intangible asset comprises • All directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management	Capitalise 66
Examples of directly attributable costs are • Costs of materials and services used or consumed in generating the intangible asset • Costs of employee benefits (as defined in AASB 119) arising from the generation of the intangible asset • Fees to register a legal right • Amortisation of patents and licences that are used to generate the intangible asset	 Capitalise 66(a) Capitalise 66(b) Capitalise 66(c) Capitalise 66(d)
Examples of expenditure that are not components of the cost of an internally generated intangible asset • Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use • Identified inefficiencies and initial operating losses incurred before the asset achieves planned performance • Expenditure on training staff to operate the asset	 Expense 67(a) Expense 67(b) Expense 67(c)

9.4 Subsequent measurement

9.4.1 Measurement after Recognition

Subsequent to initial recognition at cost, the agency may elect to measure a class of intangible assets using the cost or revaluation model.

The cost model requires an intangible asset's carrying amount to be its cost less accumulated amortisation and accumulated impairment losses.

The revaluation model can only be selected if fair value can be determined by reference to an active market. As it is unlikely that there would be an active market for intangible assets held by public sector agencies, the cost model would generally be adopted.

9.4.2 Useful Life

AASB 138 defines useful life as the:

- period over which an asset is expected to be available for use by an agency; or
- number of production or similar units expected to be obtained from the asset by an agency.

An agency must assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the agency as having an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the agency.

Accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised, an intangible asset with an indefinite useful life is not.

The various factors that can be used in determining the useful life of an intangible asset are considered in AASB 138.90.

The Illustrative Examples accompanying AASB 138 provides guidance in determining the useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations.

9.4.3 Amortisation

Intangible assets with finite lives are to be amortised. The method used to amortise (straight-line method, diminishing balance method or the unit of production method), must reflect the pattern in which the asset's future economic benefits are expected to be consumed by the agency. If that pattern cannot be determined reliably, the straight- line method shall be used.

Where the useful life of an intangible asset is assessed to be indefinite, the asset must not be amortised.

Amortisation commences when the intangible asset is available for use and ceases when the asset is classified as held for sale or when the asset is derecognised.

9.5 Expense or capitalise?

9.5.1 Recognition of an Expense

Expenditure on an intangible item is recognised as an expense unless it satisfies the recognition criteria in AASB 138, if this is the case, it is recognised as an intangible asset (paragraph 68).

If the item is acquired in a business combination and cannot be recognised as an intangible asset, the amount is recognised in goodwill in accordance with AASB 3 *Business Combinations*.

9.5.2 Past expenses not to be recognised as an asset

The cost of an intangible asset that was initially expensed, cannot be subsequently capitalised (paragraph 71).

The table below provides a summary of some of the costs incurred on intangible items that are expensed.

Recognition of an expense	Capitalise/Expense AASB 138 paragraph
In some cases, expenditure is incurred to provide future economic benefits to an agency, but no intangible asset or other asset is acquired or created that can be recognised, for example	Expense 69
• expenditure on start-up activities (i.e. start-up costs), such as – legal and secretarial costs incurred in establishing a legal entity – expenditure to open a new facility or business (i.e. pre-opening costs) – expenditures for starting new operations or launching new products or processes (i.e. pre-operating costs)	Expense 69(a)
Other examples of expenditure that is recognised as an expense when it is incurred include	
• expenditure on training activities	Expense 69(b)
• expenditure on advertising and promotional activities (including mail order catalogues)	Expense 69(c)
• expenditure on relocating or reorganizing part or all of an agency	Expense 69(d)

9.6 Impairment

In determining whether an intangible asset is impaired, an agency applies AASB 136 *Impairment of Assets.*

Under AASB 136.8, an intangible asset is impaired when its carrying amount exceeds its recoverable amount, in this situation, the carrying amount of an asset is reduced to its recoverable amount and that reduction is an impairment loss (AASB 136.59). AASB 136 prescribes the accounting treatment for impairment losses.

AASB 136 explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

9.7 Retirements and Disposals

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from derecognition shall be recognised in profit or loss.

9.8 Cloud Computing Arrangements

In a cloud computing arrangement, an agency (the customer) does not possess the underlying software or hardware asset. Instead, the agency accesses the software, provided by another entity (the supplier), on an as-needed basis.

Cloud computing arrangements are also referred to as software as a service (SaaS), infrastructure as a service (IaaS) or platform as a service (PaaS).

In SaaS arrangements:

- the agency incurs a cost for the right to access the supplier's software over the contract term; the access could be via the internet or a dedicated line;
- the agency may also incur costs associated with the configuration or customisation of the software, either by the supplier or a third party; and
- the software is run on the information technology infrastructure of the supplier or a third party.

9.8.1 Accounting for SaaS Arrangements

The International Financial Reporting Standards (IFRS) Interpretations Committee (Committee) issued two Agenda Decisions, in March 2019 and April 2021 that provide guidance on accounting for SaaS arrangements.

March 2019 Decision: Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud

9.8.2 Expense

In the Committee's March 2019 Decision, it considered that SaaS contracts are not:

- intangible assets, under AASB 138 *Intangible Assets*, if the customer does not control the software;
- leases, under AASB 16 *Leases*, if the customer does not have any decision-making rights about how and for what purpose the software is used.

SaaS arrangements are generally considered to be service contracts as they usually only provide customers with a right to receive access to the supplier's software. Therefore, the costs of SaaS arrangements should be expensed. If the customer pays the supplier of the SaaS service contract prior to receiving the contracted service, a prepayment should be recognised.

SaaS costs that are not part of a lease or an intangible asset are generally service-related costs and are expensed as the service is received.

Where changes are made to the underlying software code in the SaaS arrangement, which is not controlled by the entity, those costs should be expensed.

For configuration and customisation expenses, the service is normally received and therefore expensed when the software changes are made.

9.8.3 Capital

In considering AASB 138 and AASB 16, some SaaS costs can be capitalised if both of the following criteria are met:

- there is a contractual right to take possession of the software at any time during the hosting period without significant penalty; and
- the customer has the right to and can feasibly either run the software on their own hardware or contract another party, unrelated to the supplier, to host the software.

April 2021 Decision: Configuration or Customisation Costs in a Cloud Computing Arrangement

In SaaS arrangements, configuration and customisation costs of the software are recognised as an intangible asset only if the costs satisfy both the definition and recognition criteria in AASB 138.

Some costs may be incurred to configure or customise the supplier's cloud-based software for agency's specific use. These costs may be capable of capitalisation where they constitute an intangible asset in their own right i.e. have future economic benefits controlled by the agency.

For details on the cloud computing arrangements mentioned above, agencies should refer to the IFRS Interpretations Committee's decisions in the above links.

9.9 Disclosures

Detailed disclosures are required for each class of intangible asset, distinguishing between internally generated intangible assets and other intangible assets AASB 138.118 – 128.

Under AASB 138, intangible assets should be disclosed in the financial statements as follows:

- The financial statements must disclose information (including useful life, amortisation rate and method) for each distinct class of intangible asset.
- The disclosure should distinguish between intangible assets generated internally and other intangible assets.

An example of intangible assets disclosures is provided in the Model Annual Reports.

FAQs

Should an intangible asset be capitalised if it was procured through capital funding?

Intangible assets are capitalised if they cost more than the capitalisation threshold and are required to be capitalised under AASB 138.

Version Control

Version	Date	Section	Amendments
v8.0	30 September 2024	All	Initial publication
v8.1	13 December 2024	All	Minor editorial amendments to enhance readability
v8.2	17 June 2025	5.7.7 Once-only costs	Included additional guidance on "once-only costs" for clarification.
		All	Minor editorial amendments
v8.3	2 January 2026	5.7.7 Once-only costs	Clarification on when the average industry rates should be used.
		All	Minor editorial amendments
V8.4	25 May 2026	5.1	Replaces the specific 90% with general terms and added advice on service concessions to align with changes in the TIs.
		5.7	• Strengthen asset valuation guidance. • Addes guidance on Professional and Project Management Fees.
		8.2	Adds Accounting for climate-related commitments.
		8.3	Updates the CPI and discount rates.

TG 9 Financial Statements

Guidance Summary

Treasurer's Guidance (TG) Chapters	1. General Information in Financial Statements 2. Annual Estimates 3. Application of Australian Accounting Standards and Other Pronouncements 4. Statements of Comprehensive Income 5. Statements of Financial Position 6. Consolidated Financial Statements 7. Application of Tiered Reporting – Simplified Disclosures
Relevant Treasurer's instruction(s) (TI)	TI 9 *Financial Statements*
Other Related Instrument(s)	• *Financial Management Act 2006* • Australian Accounting Standards
Last Updated	06 November 2026
Current Version	v9.5

Financial Management Summary

Summary

TIs detail the minimum reporting requirements and mandated accounting policy choices that agencies should apply to their financial statements. The choices are found in accounting standards and other pronouncements issued by the Australian Accounting Standards Board.

TIs promote consistent reporting across the public sector, and at time modify or clarify how accounting pronouncements are applied where it is considered necessary.

The accountable authorities may present extra information to enable Parliament and other users to better understand the operations of their agency.

1. General Information in Financial Statements

1.1 Introduction

Several matters need to be recognised in the financial statements or disclosed in the notes to the financial statements due to requirements of legislation or to provide more information to users for accountability and transparency.

1.2 Terms and Definitions

Term	Definition
Senior Officer	Senior officers are as defined in the Terms and Definitions section of TI 8 *Financial Accounting and Reporting*.

1.3 Circumstances in which additional information is required

If circumstances arise where the accountable authority is of the opinion that in complying with the requirements of TIs, the financial statements would not otherwise present fairly the matters they are required to address, the accountable authority is to:

(i) comply with the TIs; and

(ii) include within the notes to the financial statements such information and explanations as necessary to ensure that the financial statements present fairly those matters.

Paragraphs 23 and 24 of Australian Accounting Standard AASB 101 *Presentation of Financial Statements* should be referred to as guidance to the extent to which such information and explanations are disclosed in the notes to the financial statements.

1.4 Notes to the Financial Statements

Appropriation

In any year where an appropriation to an agency is expressed as a 'net appropriation', per section 23 of the *Financial Management Act 2006* (the Act), that agency must disclosed in the notes to the financial statements:

(i) the broad terms of the determination entered into between the Treasurer and the accountable authority pursuant to section 23[80] of the Act; and

(ii) in respect of the purposes specified in the determination, the amount of receipts retained by that agency in accordance with the determination.

Write-offs

Write-offs authorised under section 48[81] of the Act or under other written laws are required to be disclosed in the notes to the financial statements. Refer to TG 4 Risk Management and Internal Control – Chapter 9 Write-offs for guidance on the process.

[80] Section 23 of the Act – Money received by agency, agency may retain in certain cases

[81] Section 48 of the Act – Write-offs

Forgiveness of debts

Any forgiveness (or waiver) of debts must also be disclosed in the notes to the financial statements. While write-offs are generally authorised under section 48[1] of the Act, forgiveness (or waiver) of debts are authorised under other written laws (e.g. *Public Health Act 2016*).

Restructuring

Where an agency undergoes a restructure that results in significant changes to the activities or services it carries out, no comparative amounts for the preceding reporting period should be disclosed in the financial statements for the reporting period in which the changes occurred. However, agencies must disclose by way of note the reason for the non-disclosure of comparative amounts in the financial statements.

Significant changes should be interpreted in the context of the financial statements and the meaningfulness of the comparatives. Whether a restructure is a significant change is a judgement for consideration by the agency in consultation with its auditor.

1.5 Certification of Financial Statements

Section 61(1) of the Act requires that financial statements for a financial year be prepared and included in an agency annual report. Furthermore, section 62(2) requires that the financial statements be certified in the manner prescribed by the TIs. Therefore, the financial statements must be certified in accordance with TI 9 *Financial Statements* – Requirement 2 *Certification of Financial Statements* and as set out in the Model Annual Report.

Where an agency has been abolished, section 69(1) of the Act requires that financial statements be prepared and included in the final report and certified in accordance with TI 9 – Requirement 2.

2. Annual Estimates

2.1 Introduction

Section 40[82] of the Act requires the accountable authority of an agency to prepare draft annual estimates of the financial operations of the agency for the next financial year unless otherwise directed in writing by the Treasurer. Requirement 3 of TI 9 specifies the form in which accountable authorities must prepare them.

The requirement for agencies to prepare and publish separately identifiable annual estimates enhances accountability for financial resources and enables variance analysis to be undertaken as specified in TI 3 *Financial Sustainability* – Requirement 7 *Explanatory Statement.*

Agencies described in the Treasurer's direction are however exempt from preparing draft annual estimates. The exemption applies to agencies whose separately identifiable estimates are available in the budget papers or a statement of corporate intent.

Any agencies who are not consolidated for whole-of-government reporting purposes, whose audit has been dispensed with by the Auditor General, or whose total cost of services is less than $10m in the two most recent comparative periods are also exempt.

In each financial year, the Treasurer designates the date by which the accountable authority must submit draft annual estimates to the Minister.

Under section 41[83], the Minister must (within one month of receipt of the draft estimates) either approve the draft annual estimates or present the agency with new annual estimates and direct that they are to be the agency's annual estimates. Once the annual estimates are approved (or given by the Minister), agencies are required to make them available to the public.

2.2 Agencies not separately identifiable in a single Division of the Consolidated Account Expenditure Estimates

The annual estimates for some agencies are combined within a single Division of the Consolidated Account Expenditure Estimates under portfolio funding arrangements. As their individual budgets are not identifiable, these agencies are required to prepare annual estimates under section 40[84] of the Act. Their individual annual estimates should add up to the estimates for the portfolio in the budget papers. This requirement is to enhance accountability, stewardship and financial transparency for financial resources allocated to agencies in achieving government goals and outcomes.

[82] Section 40 of the Act – Preparation of draft annual estimates
[83] Section 41 of the Act – Approval of annual estimates
[84] Section 40 of the Act - Preparation of draft annual estimates

As stated in TG 9 Financial Statements – Chapter 4 Statements of Comprehensive Income, where a department and statutory authorities are combined within a single Division of the Consolidated Account Expenditure Estimates, the department is considered to receive all appropriations listed in the Appropriations, Expenses and Cash Assets table of the budget statements (including the funding for the statutory authorities) unless there is an arrangement at Treasury for appropriations to be paid directly into the statutory authority's bank account. As such, the department should show all appropriations in its annual estimates prepared in accordance with the instruction.

2.3 Submission date

Agencies are required by section 40(1)(b) of the Act to submit the draft annual estimates to the Minister on or before the date designated by the Treasurer. The submission date will be communicated to agencies in a budget circular. For more information on the budget process, contact the Treasury analyst.

2.4 Publication

Where practicable, agencies are encouraged to publish the approved annual estimates on their website as well as in their annual report of the preceding financial year.

The approved annual estimates should be published with the date of approval for auditing purposes.

3. Application of Australian Accounting Standards and Other Pronouncements

3.1 Introduction

This Guidance explains how the Australian Accounting Standards (including Australian Accounting Interpretations) and the Framework for the Preparation and Presentation of Financial Statements (Framework) apply to agencies.

3.2 Australian Accounting Standards

The term 'Australian Accounting Standards' refers to Standards and Interpretations issued by the Australian Accounting Standards Board (AASB). Australian Accounting Standards are applied (where relevant and appropriate) to all agencies. In a number of instances, TI 9 *Financial Statements* applies Australian Accounting Standards subject to modifications which are intended to extend or vary the application of the Standards to agencies where relevant. The significant modifications are explained in the following paragraphs. In addition, the application of the following Australian Accounting Standards is modified by other TIs as follows:

- AASB 16 *Leases* – application is modified by TI 8 *Financial Accounting and Reporting* – Requirement 4 *Leases*;
- AASB 101 *Presentation of Financial Statements* – application is modified by TI 9 – Requirement 5 *Statements of Comprehensive Income* and Requirement 6 *Statement of Financial Position*;
- AASB 116 *Property, Plant and Equipment* – application is modified by TI 8 – Requirement 7 *Revaluation of Non-Current Physical Assets*; and
- AASB 1055 *Budgetary Reporting* – application is modified by TI 9 – Requirement 3 *Annual Estimates*.

3.2.1 Classification of agencies as not-for-profit or for-profit entities

Whether an agency is classified as for-profit (FP) or not-for-profit (NFP) has a direct bearing on how the accounting standards apply to its financial statements.

The International Accounting Standards are 'designed and intended' for the FP sector, whereas the AASB's accounting standards are sector neutral with specific provisions included to accommodate the NFP sector. For example, AASB 136 *Impairment of Assets*, AASB 116 *Property, Plant and Equipment* and AASB 102 *Inventories* include specific NFP requirements, and the AASB has limited the application of AASB 8 *Operating Segments* and AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* to FP entities.

A NFP entity was defined under superseded standards as an entity whose financial objectives do not include the generation of profit. The AASB added material in AASB 136 (paragraph Aus6.2) defining a NFP entity as an entity whose principal objective is not the generation of profit.

The requirements for an agency to operate in a commercial manner (such as, paying taxation equivalents or returning a dividend to Government) do not by themselves mean that an agency is in substance a FP entity under the definition in AASB 136. To ensure consistency, TI 9 – Requirement 4 *Application of Australian Accounting Standards and Other Pronouncements* mandates that all agencies are NFP for purposes of compliance with Australian Accounting Standards unless specifically designated as FP.

3.2.2 Classification of agencies as Tier 1 or Tier 2

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes two tiers of reporting requirements. Tier 1 comprises the full range of recognition, measurement and disclosure requirements of all Australian Accounting Standards and Interpretations. Tier 2 comprises the same recognition and measurement requirements as Tier 1, but with fewer disclosures.

Tier 1 agencies can be found in Schedule 1 of TI 9 *Financial Statements*. Tier 2 agencies are those agencies other than those listed in Schedule 1.

3.2.3 Materiality

Materiality does not provide an authority for non-compliance with legal requirements. Consequently, TI 9 – Requirement 4.3.10 *Application of Australian Accounting Standards and Other Pronouncements* precludes recourse to the concept of materiality on any matter relating to legal compliance unless specified. Requirements for the assessment and application of materiality are found in AASB 101 *Presentation of Financial Statements*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB Practice Statement 2 *Making Materiality Judgements*.

3.2.4 AASB 8 Operating Segments

AASB 8 requires the disclosure of information on operating segments to enable users of financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

The Standard defines operating segment as a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The Standard, however, only applies to an FP entity whose debt or equity instruments are traded in a public market, or an FP entity that files (or is in the process of filing) its financial statements with a security commission or other regulatory organisation for the purposes of issuing any class of instruments in a public market. As such the Standard does not apply to public sector entities, whether FP or NFP.

However, where an agency discloses information about segments that does not comply with this Standard, it should not describe this information as segment information.

Where a FP statutory authority chooses to apply the Standard, TI 9 – Requirement 4.3.1 *Application of Australian Accounting Standards and Other Pronouncements* provides that a for-profit statutory authority's services, or a collection of related services, may be substituted for operating segments for the purposes of compliance with the Standard.

TI 9 – Requirement 4.4 *Application of Australian Accounting Standards and Other Pronouncements* requires Tier 1 NFP statutory authorities to disclose income and expenses by services. Disclosures must be consistent with the Statement of Comprehensive Income.
TI 9 – Requirement 4.5 *Application of Australian Accounting Standards and Other Pronouncements* requires specific disclosures by the Commissioner of Main Roads due to the capital nature of their services.

Under AASB 1052 *Disaggregated Disclosures* (paragraphs 15 and 16) Tier 1 departments must disclose income and expenses by service, and assets deployed and liabilities incurred by service. Tier 2 departments are not required to make those disclosures.

3.2.5 AASB 107 Statement of Cash Flows

AASB 107 requires that cash flows be appropriately classified within the statement of cash flows to provide users with relevant information about the operating and other activities of the entity.

Whilst AASB 107 permits alternate methods of reporting cash flows from operating activities, TI 9 – Requirement 4.3.5 *Application of Australian Accounting Standards and Other Pronouncements* mandates that the direct method option be used.

In order to ensure a consistent classification structure within statements of cash flows prepared by agencies, the instruction requires that cash flows be classified as:

(i) cash flows from operating activities;

(ii) cash flows from investing activities;

(iii) cash flows from financing activities; and

(iv) cash flows from/to State Government.

The category of cash flows from/to State Government in terms of TI 9 – Requirement 4.3.5(ii) is intended to include only those from or to the State Government. This includes appropriations and funds from other public sector entities. Non-repayable grants and contributions received from the Commonwealth (not re-appropriated through the Consolidated Account) are cash flows from operating activities. Treasurer's Advances should be classified as cash flows from financing activities as they are repayable to the Treasurer.

3.2.6 AASB 112 Income Taxes

AASB 112 paragraph 81(c) permits two alternative numerical reconciliations to explain the relationship between tax expense (income) and accounting profit. TI 9 – Requirement 4.3.6 *Application of Australian Accounting Standards and Other Pronouncements* mandates the application of paragraph 81(c)(i) of AASB 112.

3.3 Australian Accounting Interpretations

The AASB is responsible for considering the adoption of the Interpretations issued by the International Financial Reporting Interpretations Committee in Australia and in developing and approving domestic Interpretations.

Australian Accounting Interpretations listed in AASB 1048 *Interpretation of Standards* must be applied by agencies unless modified by the TIs.

3.4 Early adoption of Australian Accounting Standards and Australian Accounting Interpretations

TI 9 – Requirement 4.2 *Application of Australian Accounting Standards and Other Pronouncements* specifies that Australian Accounting Standards must not be early adopted unless specified in the instruction. This is to provide agencies with certainty and to ensure consistency and appropriate reporting across the public sector. Note however that Tier 1 agencies would still need to meet the disclosure requirements of paragraph 30 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* where the agency had not applied a new Australian Accounting Standard that has been issued but is not yet effective.

3.5 Framework and Statement of Accounting Concepts

The conceptual framework, which provides the foundation for the development of accounting standards in Australia is issued by the Australian Accounting Standards Board. The Framework is not mandatory in the preparation, presentation or audit of general purpose financial statements; however, agencies should have regard to it when preparing financial statements in circumstances where there is no Australian Accounting Standard or Australian Accounting Interpretation dealing with an accounting treatment or disclosure issue.

AASB 108 paragraphs 10 to 12 also have application where there is no Australian Accounting Standard specifically applying to a transaction, other event or condition.

3.6 Compliance with the *Financial Management Act 2006*, *Financial Management Regulations 2024* and Treasurer's instructions

Agencies are charged with reporting in accordance with the provisions of the Act, *Financial Management Regulations 2024* and TIs. Where there is any inconsistency between Australian Accounting Standards, Australian Accounting Interpretations, the Framework and Statement of Accounting Concepts, and the requirements of the Act, *Financial Management Regulations 2024* and TIs, the latter prevails.

3.7 Modification of Australian Accounting Standards and Australian Accounting Interpretations by Treasurer's instructions

Where Australian Accounting Standards or Australian Accounting Interpretations have been modified by TIs, it is necessary to inform financial statement users of the nature and financial effect (where material and significant) of the modifications. The obligation to ensure that any departure from Australian Accounting Standards (including Australian Accounting Interpretations), the reasons for such departure, and its financial effects are properly disclosed and explained in the summary of significant accounting policies or notes to the financial statements is imposed by paragraph 20 of AASB 101 *Presentation of Financial Statements* and APES 205 *Conformity with Accounting Standards*. Further to the requirements of AASB 101, members of the domestic professional accounting bodies listed under the 'Suitably Qualified' definition in TI 2 *Accountability* are obliged to comply with APES 205, as issued by the Accounting Professional and Ethical Standards Board. APES 205 requires that if legislation, ministerial directive, or other government authority requires a departure from Australian Accounting Standards, that fact is to be disclosed in the report as a reason for the departure. To detail the effects of each modification would require a substantial addition to the summary of significant accounting policies or other note to the financial statements.

Chapter 3.11 of this Guidance gives effect to this APES 205 requirement. A general note is required covering all modifications which do not have a financial effect on the results reported in the financial statements. Where material or significant financial effects occur, specific explanatory notes are required where practicable.

3.8 Notes to the financial statements

Where it is not practicable to include in the financial statements information which is an integral part of or pertinent to the interpretation of those statements, that information is to be disclosed by way of note. Notes should be designated numerically and cross-referenced to the relevant items in the financial statements.

The types of information that are generally required to be disclosed in notes to the financial statements include the following:

(i) qualitative information being:

  (a) information relating to the financial statements as a whole which materially assists in understanding their content; and

  (b) information about particular items within the financial statements which relates to the understandability and comparability of the information;

(ii) quantitative information, being detailed information which is of value in interpreting significant aspects of the financial statements; and

(iii) information about items not recognised in the financial statements.

AASB 101 *Presentation of Financial Statements* has a general requirement that notes in the financial statements must disclose information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

3.9 Statement of Compliance (financial statements)

Not to be confused with the annual reporting disclosure signed by the accountable authority in the non-financial statements section of the annual report, agencies must include in the notes to the financial statements a general statement of compliance that confirms that the financial statements have been prepared in accordance with the relevant legislation and accounting frameworks and explains what that framework comprises.

The purpose of this statement is to enhance the credibility and reliability of the financial information presented by assuring users of the financial statements that they have been prepared to the required standard.

Provided below are appropriate examples of the statement of compliance for agencies:

Tier 1 agencies

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, the Conceptual Framework and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) as modified by TIs. Some of these pronouncements are modified to vary their application and disclosure.

The Act and TIs, which are legislative provisions governing the preparation of financial statements for agencies, take precedence over AASB pronouncements. Where an AASB pronouncement is modified and has had a significant financial effect on the reported results, details of the modification and the resulting financial effect are disclosed in the notes to the financial statements.

Tier 2 agencies

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards – Simplified Disclosures, the Conceptual Framework and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) as modified by TIs. Some of these pronouncements are modified to vary their application and disclosure.

The Act and TIs, which are legislative provisions governing the preparation of financial statements for agencies, take precedence over AASB pronouncements. Where an AASB pronouncement is modified and has had a significant financial effect on the reported results, details of the modification and the resulting financial effect are disclosed in the notes to the financial statements.

3.10 Disclosure of material modifications to accounting standards and interpretations by the Treasurer's instructions

Where modification to the Australian Accounting Standards and Interpretations has a material or significant financial effect upon the results reported in the financial statements, the statement of accounting policies or other notes to the financial statements must include:

(i) the fact that the Australian Accounting Standard or Australian Accounting Interpretation has been modified by a TI, the nature of the modification and identification of the relevant TI; and

(ii) the financial effects of the modification where practicable.

Tier 2 agencies' financial statements must include in the statement of accounting policies or other notes to the financial statements, the following general statement:

'These general purpose financial statements comply with Australian Accounting Standards – Simplified Disclosures. The general purpose financial statements have been prepared in accordance with Australian Accounting Standards, the Framework, Statement of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by TIs. Several of these are modified by TIs to vary application, disclosure, format and wording. The Act and TIs are legislative provisions governing the preparation of financial statements and take precedence over Australian Accounting Standards, the Framework, Statement of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board. Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.'

3.11 AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*

AASB 5 requires agencies to present non-current assets held for sale as a separate item in the Statement of Financial Position. Assets can only be classified as 'held for sale' when the following criteria are met:

- the carrying amount will principally be recovered through sale rather than from continuing use;
- the asset is available for immediate sale; and
- the sale is highly probable.

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

AASB 5 requires non-current assets to be classified as held for distribution to owners when the agency is committed to distribute the asset to the owners. A transfer of assets from controlled to administered is a distribution to owners. Non-current assets classified as held for distribution to owners are measured at the lower of carrying amount and fair value less costs to distribute.

3.11.1 Sale of Crown land

The Department of Planning, Lands and Heritage (DPLH) is the only agency with the power to sell Crown land. Accordingly, the land must be transferred to DPLH for sale. However, this does not necessarily transfer control of the asset.

Under Australian Accounting Standards, the land must be reported by the agency controlling the land. The agency which controls the land between the date of the land becoming available for sale and the date of sale by DPLH may vary according to the particular circumstances.

To ensure that all Crown land in the process of being prepared for sale is reported either by the agency or DPLH, the land should generally continue to be reported by the agency to which the land was vested (initially as land and then as assets classified as held for distribution to owners when the land becomes available for immediate sale) until the date of sale by DPLH.

Transfers to DPLH prior to this date may be undertaken where it is clear that control of the land has transferred to DPLH and DPLH has been consulted and agrees with the transfer. Agencies must advise DPLH of the carrying amount of the land and any buildings thereon which should equate to fair value.

Where control of crown land has passed to DPLH, agencies account for the transfer to DPLH as a distribution to owner and the sale is recognised in DPLH Administered (refer to the TG 8 Financial Accounting and Reporting – Chapter 6 Contributions by Owners Made to Wholly-owned Public Sector Entities).

Land transferred to DPLH prior to sale will be reported by DPLH Administered as non-current assets classified as held for sale. The specific measurement, presentation and disclosure requirements for assets classified as held for sale or as held for distribution to owners under AASB 5 now relate to the timing of the transfer to DPHL. Currently, most transfers are completed at the time of sale.

3.12 AASB 9 *Financial Instruments*

AASB 9 applies to annual reporting periods beginning on or after 1 January 2018. Essentially, AASB 9 introduces a new concept of 'expected credit losses' to account for doubtful debts and other impairments of a financial asset.

Agencies must recognise a loss allowance for expected credit losses on a financial asset that is measured at amortised cost. Note that no loss allowance would be recognised in relation to financial assets measured at fair value through profit or loss.

Expected credit losses of a financial asset are measured in a way that reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In comparison to the measurement of impairments under the superseded AASB 139 *Financial Instruments: Recognition and Measurement*, the amount of expected credit losses under AASB 9 is expected to be higher due to the inclusion of future credit losses (that have not been incurred).Typical financial assets held by agencies are cash and cash equivalents, amounts receivable for services (i.e. holding account receivables), trade receivables, and loans and advances. No credit loss is expected for cash and cash equivalents. It is considered that amounts receivable for services (which are accessible on the emergence of the cash funding requirement to cover leave entitlements or asset replacement) would not be impaired.

Expected credit losses are required to be recognised for trade receivables, loans and advances. Note that TI 9 – Requirement 4.3.2 *Application of Australian Accounting Standards and Other Pronouncements* mandates loss allowance for trade receivables, contract assets (regardless of whether they contain a significant financing component or not) and lease receivables be measured at the lifetime expected credit losses (see AASB 9, paragraph 5.5.15). Nevertheless, it is considered that no expected credit loss would be incurred in relation to a debtor that is a wholly-owned public sector entity.

Hedge accounting under AASB 9 is more principle-based and less strict, which allows more hedging instruments and hedged items to qualify for hedge accounting. As a result, TI 9 – Requirement 4.3.3 *Application of Australian Accounting Standards and Other Pronouncements* disallows the election under paragraph 7.2.21 of AASB 9 for continuing to apply the hedge accounting requirements under AASB 139.

3.13 AASB 119 *Employee Benefits*

AASB 119 covers the recognition and measurement of employee benefits including salaries and wages, sick leave, annual leave and long service leave. Note that the application of TG 11 Payroll – Chapter 3 Transfer of Employees does not affect the calculation of employee benefits under AASB 119.

3.13.1 Short-term employee benefits

AASB 119 defines short-term employee benefits as employee benefits (other than termination benefits) that are expected to be settled wholly within 12 months after the end of the reporting period in which the employees render the related service. Short-term employee benefits include wages, salaries, paid annual leave and paid sick leave, and non-monetary benefits (e.g. fringe benefits such as medical care, housing, cars and free or subsidised goods or services) for current employees. Liabilities for all short-term employee benefits are measured at undiscounted amounts based on all factors that are expected to affect the ultimate amount to be paid in settlement of the obligation.

Sick leave is generally an accumulating non-vesting entitlement in the public sector. Where an employee leaves the public sector, they are not entitled to a cash payment for unused entitlement. In measuring the liability for accumulated non-vesting sick leave, agencies should recognise the additional amount that is expected to be paid as a result of the unused entitlement that has accumulated at the end of the reporting period.

Note that not all accumulated non-vesting sick leave entitlements will result in payments being made to employees. Where experience indicates that sick leave taken each reporting period is less than or equal to the benefit accruing in that period, no liability or expense is recognised until the time of absence. Unused accumulating non-vesting sick leave entitlement at the end of the reporting period will give rise to a liability when it is probable that sick leave taken in the future will be greater than the entitlement that will accrue in the future.

Flexi leave that is banked, but does not vest to the employee, and is not paid on termination, resignation or transfer to another agency, is a form of short-term employee benefit that has an accumulating component and a non-accumulating component (i.e. excess hours over the set ceiling are lost). Subject to materiality, agencies with this type of employee benefit would be required to recognise and measure the liability under AASB 119.

3.13.2 Other long-term employee benefits

AASB 119 defines other long-term employee benefits as all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Other long-term employee benefits include deferred salary schemes, long service leave, and employee benefits such as annual leave, sick leave and non-monetary benefits (e.g. fringe benefits) that are not expected to be settled wholly within 12 months after the end of the reporting period in which the employees render the related service. Liabilities for these other long-term employee benefits are measured on a discounted basis by calculating the present value of the estimated future cash outflows.

The use of the phrase 'expected to be settled wholly' in the definition of short-term employee benefits implies that annual leave will generally be considered to be other long-term employee benefit as at least a portion is expected to be settled beyond 12 months. As such, liability for annual leave will need to be discounted where material.

Deferred salary schemes allow Public Service employees to enter an agreement to self-fund an additional 12 months leave in the fifth year of the agreement, by reducing their salary by 20% throughout the period of the agreement. Deferred leave is reported as a current provision as employees can leave the scheme at their discretion at any time.

Long service leave is leave where a legal entitlement to payment arises after a qualifying period of service has passed which is usually 7, 10 or 15 years.

Note that casual employees may be entitled to long service leave under the *Long Service Leave Act 1958* (LSLA), even if the applicable award or industrial agreement provides a casual loading in lieu of long service leave. Public sector industrial agreements are being renegotiated so that casual employees will accrue long service leave under the agreement applicable to them, and not under the LSLA. For each occupational group, accrual will continue under the LSLA until it is replaced by the new agreement.

Therefore, agencies should take casual employees into account when measuring long service leave liabilities. In addition, agencies would need to consider how best to transition entitlements of existing casual employees under the LSLA to the new agreement. Public Sector Labour Relations should be consulted on the transition arrangement.

Measuring the long service leave liability on a discounted basis involves estimates of items such as future employee turnover and future salary increases on a group basis, including the use of appropriate discount rate/s. AASB 119 allows 'short-hand' measurement techniques in estimating the present value of the future cash outflows associated with the long service leave liabilities where this is not materially different from the detailed computations illustrated in the Standard (see paragraph 60).

The discount rate used to calculate the present value of other long-term employee benefits is to be determined by reference to market yields (based on interest rates at the end of the reporting period on government bonds (see AASB 119, paragraph Aus83.1).

3.13.3 Employment on-costs

Employment on-costs such as payroll tax and workers' compensation insurance are not considered to be employee benefits as per AASB 119 and should not be classified as such. Superannuation contributions are regarded as employee benefits and are not considered to be on-costs. To the extent that it is expected that settlement of leave will give rise to the payment of superannuation contributions, these contributions should be accrued as part of the provision for leave.

As employment on-costs are not employee benefits, they should not be included as part of the agency's 'employee benefits expense'. Agencies should separately disclose these on-costs to assist users in calculating the total employee expense. By implication the liability for these on-costs should not be included as part of the agency's employee benefit liabilities.

3.13.4 Presentation of unconditional leave entitlements in the Statement of Financial Position

AASB 119 uses the terms 'short-term' and 'long-term' in the context of recognition and measurement of employee benefits and does not necessarily align with the distinction between 'current' and 'non-current' for presentation purposes under AASB 101. AASB 101 requires assets and liabilities to be classified as current and non-current subject to defined criteria. As a consequence, the terms 'short-term' and 'long-term' used in AASB 119 will not always be consistent with the terms 'current' and 'non-current' used in AASB 101. This means that under AASB 101, all unconditional leave entitlements (such as annual leave, deferred salary scheme and unconditional long service leave) would be classified as current liabilities in the Statement of Financial Position as the agency does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period (see AASB 101, paragraph 69(d)).

Deferred salary scheme is unconditional as employees can leave the scheme at any time through the agreement. Subject to materiality, this would also include pre-conditional and conditional long service leave expected to become unconditional within12 months of the end of the reporting period. However, under AASB 119, annual leave, deferred salary scheme and unconditional long service leave are measured in terms of 'short-term' or 'long-term' benefits as appropriate, even though they would be classified as current liabilities in the Statement of Financial Position under AASB 101.

3.14 Superannuation under AASB 119 *Employee Benefits*

Post-employment benefits (particularly the recognition, measurement and disclosures concerning superannuation plans) are specifically covered under the scope of AASB 119. AASB 119 distinguishes between two broad types of superannuation plan, which are required to be classified as either defined contribution plans or defined benefit plans. The classification of a superannuation plan determines whether defined benefit accounting or defined contribution accounting is to be used.

3.14.1 Defined contribution plans

Under AASB 119, defined contribution plans are defined as 'post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods'. An accumulation type superannuation scheme, such as the West State Superannuation Scheme and the Government Employees Superannuation Board (GESB) Superannuation Scheme, is classified as a defined contribution plan as there is no further obligation to the agency once the contribution has been paid to the fund.

The Gold State Superannuation Scheme (GSS) is classified as a defined benefit plan at the overall plan and whole of government levels. However, at an agency level, the GSS possesses aspects of both defined contribution and defined benefit plans under the terms of the scheme. This 'hybrid' plan (from an agency perspective where applicable) can be divided into two components: the defined contribution component (i.e. concurrent contributions) and the defined benefit component (i.e. pre-transfer benefit). Apart from any pre-transfer obligation, agencies that concurrently fund the GSS have no further obligation to those employees (past and present) because any actuarial risk or investment risk is borne by the State Government

centrally. Under this circumstance, agencies would classify that component of the GSS as a defined contribution plan.

3.14.2 Defined benefit plans

Under AASB 119, defined benefit plans are defined as 'post-employment benefit plans other than defined contribution plans'. An example of a defined benefit plan is the Pension Scheme where there is an obligation on an agency and at whole of government level to fund any shortfall in meeting the employee benefits when they are due and payable.

The GSS is a defined benefit plan at the overall plan and whole of government levels. At an agency level, the GSS can be separated into two components (as discussed above). Agencies that carry GSS unfunded superannuation liabilities relating to the 'pre-transfer benefit' would classify that component of the GSS as a defined benefit plan.

The accounting treatment for defined benefit plans under AASB 119 requires the use of actuarial assumptions to measure the defined benefit obligation and the expense in addition to the possibility of actuarial gains and losses arising. These obligations are measured on a discounted basis because they may be settled many years after the employees render the related services.

The accounting treatment under AASB 119 for defined benefit plans ultimately depends on whether it is the agency's obligations to provide the agreed benefits to current and former employees and whether the associated actuarial risk is borne by the agency.

As required by TI 9 – Requirement 4.3.7 *Application of Australian Accounting Standards and Other Pronouncements*, agencies that have more than one defined benefit plan are required to make separate disclosures for each plan.

Apart from limited exceptions, all obligations (liabilities) under the Pension Scheme and the pre-transfer component with the GSS are unfunded.

Where the Treasurer meets unfunded obligations under the Pension Scheme and the pre-transfer component of the GSS, those agencies (departments and budget-funded statutory authorities) do not recognise liabilities or expenses in respect of those unfunded obligations.

Other agencies (statutory authorities that are not budget-funded) are required to recognise the unfunded superannuation liabilities for the Pension Scheme and the pre-transfer component of the GSS. There are no corresponding plan assets that are required to be valued with respect to these liabilities.

The GESB will provide those agencies affected with the necessary information relating to the defined benefit plans to comply with the defined benefit superannuation requirements of AASB 119.

Agencies should consult their actuary, the GESB or other relevant superannuation organisation to ensure that the required information is received to comply with the superannuation requirements under AASB 119.

3.15 AASB 128 *Investments in Associates and Joint Ventures*

AASB 128 deals with circumstances where an investor has either *joint control* over a joint venture or significant *influence* over an investee (the investee is known as a joint venturer or an associate respectively).

An investor that is required to prepare consolidated financial statements must recognise an investment in an associate or joint venture by applying the equity method in its consolidated financial statements.

3.16 Capitalisation policy

Capitalisation is the recognition of costs (expenditure) as an asset in the Statement of Financial Position as opposed to recognising costs as an expense in the Statement of Comprehensive Income. AASB 116 *Property, Plant and Equipment* requires assets with physical substance that are expected to be used over more than one reporting period to be recognised when the asset recognition criteria are met. Similarly, AASB 138 *Intangible Assets* requires identifiable non-monetary assets without physical substance to be recognised when the asset recognition criteria are met.

Asset recognition imposes ongoing costs to meet the recording, valuation, depreciation, and reporting requirements. Where an agency controls a large amount of relatively low cost items, the cost of managing these items may exceed the benefits. In order to reduce these costs, expenditure on items of property, plant and equipment and intangible assets below the standard capitalisation threshold of $5,000 is to be expensed in the period in which the expenditure occurs. Where the total cost of an item of property, plant and equipment is $5,000 or more, an asset must be recognised. For intangible assets, agencies may set an asset capitalisation threshold of more than $5,000 subject to materiality.

Given the nature of internally generated intangible assets, it is considered that the capitalisation of costs for relatively small projects would result in an administrative burden in ensuring that all the criteria are met under AASB 138 (particularly paragraphs 52 to 67) whenever there is an outlay of expenditure relating to a particular project. Therefore, it may be appropriate for agencies to establish a capitalisation threshold for internally generated intangible assets at a higher level than for separately acquired intangible assets.

Note that the recognition of right-of-use assets under AASB 16 *Leases* is not subject to TI 9 – Requirement 4.6 *Application of Australian Accounting Standards and Other Pronouncements*. The capitalisation threshold for right-of-use assets is set at $5,000 by TI 8 – Requirement 4 *Leases*. However, agencies (lessees) must recognise all right-of-use assets in relation to leases that are held with another wholly-owned public sector entity (refer to TI 8 – Requirement 8) regardless of the amount. This is to facilitate the consolidation process on preparation of the Annual Report on State Finances. See TI 8 – Requirement 4 *Leases* for further advice on the accounting for leases.

The varying size and nature of operations of agencies means that materiality between agencies can differ significantly. Agencies should consider their own individual circumstances in selecting an asset capitalisation threshold that may vary from the one mandated by the instruction. If this is the case, agencies should consult with the Financial Policy team at Treasury in the first instance and subsequently consult with their auditor. If necessary, an agency will apply to the Treasurer for an exemption from the requirements of TI 9 – Requirement 4.6. Applications should be forwarded to the Under Treasurer providing reasons why an exemption should be granted.

There may be circumstances where agencies should apply the standard asset capitalisation threshold of $5,000 to the aggregate value of a group or network of assets (a group is a collection of similar assets and a network is a chain of interconnected but dissimilar assets for the provision of one simultaneous service, e.g. computer system or office furniture). That is, the cost of individual items (assets) may be below the threshold but collectively the cost of items in the group or network exceeds the threshold.

Generally, aggregations of assets should only be considered where they have long useful lives and high aggregate values.

It is also relevant to compare patterns of asset consumption (i.e. consumption of future economic benefits embodied in the asset or consumption of service potential) with patterns of asset replacement expenditure to identify whether there is a material periodic difference between depreciation expense and the on-going expensing of acquisitions.

Where asset replacement expenditure is both lumpy and significant and depreciation expense is determined using the straight-line method, there may be a case for capitalising the assets. To aggregate assets, the impact must be material in the overall context of an agency's financial statement. The cost benefit of capitalising expenditures in such circumstances must be considered.

For example, a general fit-out may involve a material outlay and yield future economic benefits over a long period of time and consequently would generally be capitalised. Although the individual items may be below the capitalisation threshold, the fit-out can be considered a network for capitalisation purposes.

An example of a group of items (assets) is a library. Individual books would be below the capitalisation threshold, but the collection will generally have a long useful life and may have a material value. AASB 116 does not prescribe the unit of measure for recognition of property, plant and equipment. The Standard states that judgement is required in applying recognition criteria to an agency's specific circumstances (paragraph 9).

Agencies changing their asset capitalisation threshold to comply with TI 9 – Requirement 4.6 or electing to change their asset capitalisation threshold must account for this as a voluntary change in accounting policy for the purposes of applying AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Guidance on accounting for voluntary changes in accounting policy is provided under the next heading below.

The asset capitalisation policy should be disclosed in the notes to the financial statements.

Agencies planning new asset capitalisation thresholds are encouraged to disclose in the notes to their financial statements the following:

(i) the fact that there will be a change in the agency's asset capitalisation policy in the following financial year; and

(ii) where practicable, the impact on the financial statements of the change in the agency's asset capitalisation policy in the period of initial application.

3.17 Accounting for voluntary changes in accounting policy

Where an agency decides to make a voluntary change in accounting policy (e.g. an increase in capitalisation threshold), the changes are treated according to AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and applied retrospectively.

The change in accounting policy is applied retrospectively by adjusting the opening balance of accumulated surplus/(deficit) or retained earnings for the earliest prior period presented in the financial statements and by adjusting the relevant comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

For example, if an agency decides to increase its asset capitalisation threshold in the 20X1-X2 financial year, the assets to be written-off retrospectively will not be expensed in the Statement of Comprehensive Income for 20X1-X2 (except for those assets acquired in 20X1-X2 that were below the new threshold). In applying AASB 108, the agency would need to expense the assets acquired between 1 July 20X0 and 30 June 20X1 that were below the new threshold in the Statement of Comprehensive Income comparatives for 20X0-X1. In addition, the 20X0-X1 comparatives for depreciation expense in the Statement of Comprehensive Income and accumulated depreciation in the Statement of Financial Position will also be adjusted by writing back the depreciation expense that was applied in 20X0-X1 to those assets that are now below the threshold. Also, the 20X0-X1 comparatives for any relevant note disclosures such as the reconciliation of property, plant and equipment will need to be adjusted. Where it is practicable for the agency to determine the cumulative effect of the change for the financial years preceding 20X0-X1, it will need to reflect this cumulative adjustment in the opening balance of accumulated surplus/(deficit) or retained earnings as at 1 July 20X0.

AASB 108 also requires a one-off disclosure in the financial statements explaining the nature, reasons and adjustment amounts, both for the current year and the comparative period reported, pertaining to a voluntary change in accounting policy.

3.18 AASB 1050 *Administered Items* – Departments only

In classifying transactions or items as either 'controlled' or 'administered', departments should apply the fundamental concept of 'control' as detailed for assets in the Framework and in AASB 1050. The principles embodied in the concept of control are able to be used in determining whether assets, liabilities, income, and expenses are controlled or administered.

Controlled items – controlled transactions and balances relate to activities that assist a department to achieve its outcomes through the delivery of services. A department controls an asset where it has the capacity to benefit from the asset in the pursuit of the department's objectives and can deny or regulate the access of others to that benefit. Controlled transactions and balances must be reported in the financial statements.

Administered items – administered transactions and balances relate to activities and functions that a department manages on behalf of Government and do not contribute to the department's services or objectives. Examples are the collection of taxes and the payment of benefits.

AASB 1050 provides for the separate disclosure of administered income, expenses, assets, and liabilities which may be in the financial statements in a manner that differentiates them from controlled elements. However, this can be confusing to users, and it is considered more appropriate that the schedules of administered items be presented as notes to the financial statements as illustrated in the model financial statements.

Disclosures required by other Australian Accounting Standards (e.g. AASB 7 *Financial Instruments: Disclosures*) are not required for administered income, expenses, assets, and liabilities.

3.18.1 Controlled and administered transactions

Where a department has discretion over how it utilises its financial resources (i.e. assets, liabilities, income, and expenses) in pursuing its own objectives, these transactions would *prima facie* be classified as controlled transactions. Departments need to exercise professional judgement as to whether a transaction is controlled or administered.

Departments should also be mindful in assessing the economic substance over legal form in determining whether a transaction or item is controlled or administered.

Other factors that may be of assistance include:

(i) whether the department has the discretion to negotiate, deal or enter into agreements with external parties in providing or receiving goods and services relating to the achievement of departmental objectives;

(ii) whether the department is able to set parameters or conditions on the use and the amount of financial resources for both internal and external recipients; and

(iii) whether the department has discretion over the dollar amount and timing in the utilisation of its financial resources.

In those instances where an item or transaction is borderline, the department should classify the item as controlled. Treasury should be consulted in those circumstances where the distinction is less clear.

3.18.2 Controlled and administered income

Where a department is required to apply resources in order to generate income for its own purposes, the income should be recognised as controlled income. Examples of such controlled income are plant inspection fees, marine examination and conservancy fees, motor vehicle inspection fees and mine inspection fees where the department applies resources, and the fee is set with reference to partial or full cost recovery.

Income retained by a department pursuant to the Financial Management (Net Appropriations) Determination 2024 should be classified as controlled income.

Where income is required to be paid into the Consolidated Account, although resources are applied in that collection process, the income should be reported as administered income. However, funds received on behalf of other entities (including local governments and non-government schools) under pass-through arrangements should not be recognised as administered income.

In instances where the proceeds from the sale of controlled assets are required to be paid to the Consolidated Account, agencies should follow the guidance provided in TI 8 – Requirement 8 *Contributions by Owners Made to Wholly Owned Public Sector Entities*.

Examples of income that would normally be considered as controlled and administered are provided overleaf.

Controlled

(i) Commonwealth specific purpose grants

(ii) Sale of controlled assets

(iii) Inspection fees

(iv) Registration fees[85]

(v) Licence fees[85]

(vi) Saleable publications

(vii) Recording fees[86]

(viii) Industry contributions

(ix) Trading activities

Administered

(i) Taxes

(ii) Royalties

(iii) Commonwealth general purpose grants

(iv) Sale of administered assets

(v) Registration fees[87]

(vi) Licence fees[87]

(vii) Recording fees[88]

3.18.3 Controlled and administered expenses

Where a department incurs costs (i.e. direct and indirect) in producing and delivering services as part of achieving its objectives, these expenses should be recognised as controlled expenses. These costs include expenses such as employee expenses, supplies and services expenses, depreciation expenses relating to controlled assets, other operating expenses and overhead used in delivering services.

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[85] Registration and licence fees

Where a department applies resources that are additional to the collection process, the fee collected would be classified as 'controlled'. If this is not the case then the classification would be 'administered'.

[86] Recording fees

If the fee is calculated on the basis of full or partial recovery of the cost of the resources applied in carrying out the function, this type of income would be recognised as 'controlled'. If the fee set is substantially greater than the cost of carrying out the function and generate significant income to the Government, it would be recognised as 'administered'.

[87] Registration and licence fees

Where a department applies resources that are additional to the collection process, the fee collected would be classified as 'controlled'. If this is not the case then the classification would be 'administered'.

[88] Recording fees

If the fee is calculated on the basis of full or partial recovery of the cost of the resources applied in carrying out the function, this type of income would be recognised as 'controlled'. If the fee set is substantially greater than the cost of carrying out the function and generate significant income to the Government, it would be recognised as 'administered'.

Expenses incurred in managing administered activities, items or transactions are to be recognised as controlled expenses.

Where a department acts as a conduit for and on behalf of the State Government (i.e. administered appropriations) and makes payments that do not contribute to the operations and pursuit of its objectives, it classifies the payments as administered expenses.

This would be the case where a department has no discretion as to how funds are to be transferred or disbursed and to whom. For example, expenses relating to State Government grants, subsidies, and other assistance for the benefit of eligible recipients (including other public sector entities) where the department is acting as an agent and does not have the capacity to regulate or deny the payment would be classified as administered expenses.

However, payments made to eligible recipients by the State Government on behalf of another entity (e.g. the Commonwealth Government) under a pass-through arrangement should not be recognised as administered expenses.

3.18.4 Controlled and administered assets

Assets that can be deployed, redeployed, or disposed of at a department's discretion in order to achieve its objectives would be treated as controlled assets. This includes those assets that are used by the department in managing and undertaking administered activities for and on behalf of the State Government (e.g. assets used in collecting taxes).

The assets of a department would be classified as administered where it is probable that the future economic benefits embodied in the asset will not flow to the department (i.e. control of the asset and the benefits from it will flow directly to the State Government). This means that the department does not have the discretion in utilising the assets in furthering its objectives.

3.18.5 Controlled and administered liabilities

Liabilities that are directly incurred by a department in order to maintain and run its operations in pursuing its objectives would be treated as controlled liabilities.

Liabilities incurred on behalf of the State Government that are not directly involved in the department's activities would be classified as administered liabilities. Administered contingent liabilities (and assets) should be disclosed separately.

3.18.6 Disclosure of administered income and expenses by service

AASB 1050 paragraph 7 requires the disclosure of administered income and expenses for amounts reliably attributable to each of the Tier 1 department's activities and amounts not attributable to the Tier 1 department's activities. AASB 1050 paragraph 8 requires that the principles in AASB 1052 be used in disclosing administered income and expenses reliably attributable to a department's activities.

AASB 1052 requires the major activities of a department to be identified for the purposes of the disclosures under AASB 1050. In this context, a major activity equates to a service as defined in TI 3 *Financial Sustainability* – Requirement 5 *Key Performance Indicators*. Disclosure of administered income and expenses by service is not required for Tier 2 departments.

3.19 AASB 1052 *Disaggregated Disclosures* – Tier 1 Departments only

This Standard requires the disclosure of income, expenses, assets deployed, and liabilities incurred that are reliably attributable to each major activity undertaken by a department. In this context, a major activity equates to a service as defined in TI 3 – Requirement 5. The disclosure of disaggregated information as per the requirements of AASB 1052 are not required for Tier 2 departments.

4. Statements of Comprehensive Income

4.1 Introduction

TI 9 *Financial Statements* – Requirement 5 *Statement of Comprehensive Income* applies to both departments and statutory authorities (except where otherwise specified). To maintain consistency in application of requirements to both departments and statutory authorities, certain requirements specified in the instruction effectively duplicate requirements in accounting standards that apply specifically to government departments.

The Framework for the Preparation and Presentation of Financial Statements (the Framework) describes the concepts that underlie the preparation and presentation of the elements of a Statement of Comprehensive Income while AASB 101 *Presentation of Financial Statements* provides overall requirements and guidelines for the presentation, structure and content of those elements. TI 9 prescribes additional and/or complementary information and disclosures.

AASB 101 distinguishes between profit and loss items and other comprehensive income. Other comprehensive income is comprised of items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Australian Accounting Standards.

Other comprehensive income includes changes in revaluation surplus, gains and losses arising from translating the financial statements of a foreign operation, gains and losses on remeasuring financial assets and the effective portion of gains and losses on hedging instruments in a cash flow hedge.

4.2 Reporting formats

4.2.1 General

AASB 101 paragraph 10A allows for the presentation of all items of income and expense recognised in a period in either a single statement of comprehensive income or in two statements, one displaying components of profit and loss and the second statement displaying components of other comprehensive income. However, TI 9 – Requirement 5.1 *Statements of Comprehensive Income* requires the single statement format to be used for presenting a Statement of Comprehensive Income. There are two alternative formats for presenting a Statement of Comprehensive Income – the cost of service format and the commercial format.

Where an accountable authority prepares either the cost of service or commercial format Statement of Comprehensive Income, the same format should be used consistently.

The cost of service format Statement of Comprehensive Income focuses on the gross and net cost of services and funding provided by the State. This facilitates the assessment of performance by showing the full cost of resources consumed and the extent to which those costs were recovered through user charges and from other independent sources, and the net cost of services.

It also enables an assessment of the extent to which State parliamentary appropriation is covering these costs. Value for money assessments can be made by relating services and outcomes to the cost of resources consumed in their achievement.

The commercial format Statement of Comprehensive Income is used where an agency conducts mainly commercial activities.

Public sector accountability requires that Statements of Comprehensive Income provide more comprehensive disclosures than is required of entities operating in the private sector. In the public sector, entities are not only accountable in terms of the operating result they achieve but also for the manner in which they conduct their affairs. Consistent with this broader accountability, the Statements of Comprehensive Income are required to detail their income and expenses for the reporting period.

4.2.2 Departments

Departments are segments of the Crown, rather than separate legal entities. Under the FMA, departments are reporting entities, and this requirement is extended to designated sub-departments and deemed departments. This treatment is consistent with the principles in SAC 1 *Definition of the Reporting Entity* and Appendix A of AASB 3 *Business Combinations*.

Departments normally exist to implement Government policy through providing services or performing functions rather than operating on a commercial basis. Departments should use the cost of service format Statement of Comprehensive Income. However, the commercial format Statement of Comprehensive Income may be more appropriate if a department is wholly or largely engaged in business or trading or providing goods or services with the intention of recovering all or a substantial proportion of its operating costs independent of State parliamentary appropriation.

While TI 9 – Requirement 5.1 mandates the cost of service format Statement of Comprehensive Income, if a department considers that the commercial format Statement of Comprehensive Income is more appropriate an exemption from this instruction will be required.

4.2.3 Statutory authorities

In the Western Australian public sector, statutory authorities' Statements of Comprehensive Income are to be presented either in the commercial or the cost of service format in order to appropriately reflect the operations and funding of a statutory authority, according to the following:

(i) statutory authorities wholly or largely engaged in business or trading, or which provide goods or services and recover all or a significant proportion of their operating costs independent of State parliamentary appropriation, are to prepare the commercial format Statement of Comprehensive Income.

This principally covers authorities that are classified as Public Non-Financial Corporations by the Australian Bureau of Statistics. It also covers those classified as Public Financial Corporations that do not report in terms of industry specific Australian Accounting Standards (such as the insurance and superannuation Standards); and

(ii) statutory authorities not wholly or largely engaged in business or trading, and predominantly funded by State parliamentary appropriation, are to prepare the cost of service format Statement of Comprehensive Income. This principally covers statutory authorities mainly engaged in the provision of goods or services outside the normal market mechanism for consumption by the government and general public, whose costs of production are mainly financed from the Consolidated Account, thus being classified as General Government by the Australian Bureau of Statistics.

In view of statutory authorities' mandate being established through legislation, and in the absence of change to that mandate or a fundamental and enduring change in the essential nature of their services, operations, or activities, it would generally be expected that the Statement of Comprehensive Income format selected as appropriate should not require change in subsequent reporting periods.

4.3 AASB 101 *Presentation of Financial Statements*

AASB 101 provides guidance on the determination of the total comprehensive income for the period and the disclosures to be made in a Statement of Comprehensive Income. AASB 101 is applied to the preparation of both commercial and cost of service format Statements of Comprehensive Income by TI 9 – Requirement 4 *Application of Australian Accounting Standards and Other Pronouncement*.

AASB 101 allows for the presentation of the categories of income, expense and other comprehensive income in arriving at the total comprehensive income either in total or disaggregated in a Statement of Comprehensive Income. However, consistent with the broader accountability obligations of public sector agencies, agencies may modify the application of AASB 101 requiring Statements of Comprehensive Income to detail the elements of income and expenses in arriving at the total comprehensive income for the reporting period.

AASB 101 paragraph 99 allows expenses recognised in profit or loss to be classified based on either their nature or their function within the entity. The disclosure of expenses by nature in a Statement of Comprehensive Income would be recommended, however does permit disclosures by function where it is considered that this will provide more relevant information, subject to the requirement to disclose expenses by nature in the notes.

4.4 Other presentation and disclosure requirements

The following presentation and disclosure requirements will apply where material:

(i) Trading result

Where agencies are engaged in trading operations, the trading result (profit or loss on sales) is to be disclosed in the notes detailing sales revenue and the cost of sales including opening stock, purchases and closing stock.

(ii) Liability assumption [Chapter 4.7(i)]

In some cases, certain agencies may have their liability associated with resources consumed by them assumed by the Treasurer or by another party. In these cases, the recognition of an amount of income equivalent to the liability assumed by the other party is required.

(iii) Assets and/or services received free of charge or for nominal cost [Chapter 4.7(ii)]

Where assets and/or services have been provided to an agency free of charge or for nominal cost, they are to be recognised as assets or expenses at their fair value, together with income equivalent thereto. However, in relation to services, this requirement is subject to a value thereof being reliably determinable and the service being of a type that would otherwise have been purchased (i.e. such services must be relevant to the delivery of the agency's services).

4.5 Commercial Format Statement of Comprehensive Income

Where an accountable authority of a statutory authority prepares the commercial format Statement of Comprehensive Income, the following must be presented where applicable:

(i) under the heading INCOME where material:

(a) sales revenue in relation to trading operations. Where sales revenue includes operating subsidies, the amount is presented either in a Statement of Comprehensive Income or by way of note;

(b) revenues from the provision of goods and/or services, other than those relating to trading operations. Where such revenues include operating subsidies, the amount is presented either in a Statement of Comprehensive Income or by way of note;

(c) non-repayable grants and/or contributions from the Commonwealth Government;

(d) interest income;

(e) share dividend income;

(f) gains on disposal of non-current assets;

(g) developers' contributions income; and

(h) other income, not included as disclosures in Chapter 4.5(i)(a) to (g) of this Guidance, either presented by appropriate classifications where material, or presented as other income.

(ii) under the heading EXPENSES where material:

(a) employee benefits expense;

(b) depreciation and amortisation expense;

(c) finance costs;

(d) losses on disposal of non-current assets;

(e) other expenses, not included as disclosures in Chapter 4.5(ii)(a) to (d) of this Guidance, either presented by appropriate classifications where material, or presented as other expenses; and

(f) where an accountable authority of a statutory authority considers that it would provide more relevant information, expenses can be presented by function under the option in paragraph 99 of AASB 101 provided that the disclosure requirements of Chapter 4.5(ii)(a), (b), (d) and (e) are met by way of note;

(iii) the profit (loss) before income from State Government;

(iv) under appropriate headings:

(a) Income from State Government:

(aa) the amount of non-repayable State parliamentary appropriations;

(bb) income from other public sector entities, including amounts paid by other public sector entities on a charge out basis that would have been included in Chapter 4.5(i)(a) or (b) of this Guidance, but excluding amounts provided as specific owners' contributions to equity or as operating subsidies. Details and the respective amounts of different income are to be provided by way of note;

(cc) the amount of liabilities assumed by the Treasurer and/or other public sector entities, recognised in terms of Chapter 4.7(i) of this Guidance; and

(dd) the amount of resources received free of charge or for nominal consideration from other public sector entities, recognised in terms of Chapter 4.7(ii) of this Guidance;

(v) profit (loss) before income tax equivalent expense;

(vi) income tax equivalent expense;

(vii) profit (loss) for the period;

(viii) under the heading OTHER COMPREHENSIVE INCOME:

(a) each component of other comprehensive income classified by nature;

(b) the amount of income tax relating to each component of other comprehensive income; and

(ix) total comprehensive income for the period.

4.6 Cost of Service Format Statement of Comprehensive Income

Where an accountable authority prepares the cost of service format Statement of Comprehensive Income, the following disclosures must be made where applicable:

(i) under the heading COST OF SERVICES, and the sub-heading Expenses where material:

(a) employee benefits expense;

(b) depreciation and amortisation expense;

(c) finance costs;

(d) losses on disposal of non-current assets;

(e) other expenses, not included as disclosures in Chapter 4.6(i)(a) to (d) of this Guidance, either presented by appropriate classifications where material, or presented as other expenses;

(f) where an accountable authority considers that it would provide more relevant information, expenses can be presented by function under the option in AASB 101 paragraph 99 provided that the disclosure requirements of Chapter 4.6(i)(a), (b), (d) and (e) are met by way of note; and

(g) total cost of services;

(ii) further under the heading COST OF SERVICES, and under the sub-headings of Income where material:

(a) revenues from the provision of goods and/or services, other than those relating to trading operations. Where such revenues include operating subsidies, the amount is presented either in a Statement of Comprehensive Income or by way of note;

(b) non-repayable grants and/or contributions from the Commonwealth Government;

(c) interest income;

(d) share dividend income;

(e) gains on disposal of non-current assets;

(f) sales revenue in relation to trading operations. Where sales revenue includes operating subsidies, the amount is presented either in a Statement of Comprehensive Income or by way of note;

(g) other income, not included as disclosures in Chapter 4.6(ii)(a) to (f) of this Guidance, either presented by appropriate classifications where material, or presented as other income;

(iii) further under the heading COST OF SERVICES, the Net Cost of Services, being the difference between Total Cost of Services and Total Income other than income from State Government;

(iv) under the heading INCOME FROM STATE GOVERNMENT:

(a) the amount of non-repayable State parliamentary appropriations;

(b) income from other public sector entities, including amounts paid by other public sector entities on a charge out basis that would have been included in Chapter 4.6(ii)(a) or (f) of this Guidance, but excluding amounts provided as specific owners' contributions to equity or as operating subsidies. Details and the respective amounts of different income are to be disclosed by way of note;

(c) the amount of liabilities assumed by the Treasurer and/or other public sector entities, recognised in terms of Chapter 4.7(i) of this Guidance;

(d) the amount of resources received free of charge or for nominal consideration from other public sector entities, recognised in terms of Chapter 4.7(ii) of this Guidance; and

(e) the total amount of Income from State Government;

(v) where there is an income tax equivalent expense:

(a) the surplus/(deficit) before income tax equivalent expense; and

(b) income tax equivalent expense;

(vi) surplus/(deficit) for the period;

(vii) under the heading OTHER COMPREHENSIVE INCOME:

(a) each component of other comprehensive income classified by nature;

(b) the amount of income tax relating to each component of other comprehensive income; and

(viii) total comprehensive income for the period.

4.7 Reporting of Assets and Services Received Free of Charge or For Nominal Cost, and Liabilities assumed by Other Parties

Where assets or services have been received free of charge or for nominal cost, or liabilities have been extinguished without directly giving value in exchange to the other party or parties to the transaction or transactions:

(i) where a liability has been assumed by the Treasurer or another entity, the agency recognises income equivalent to the amount of the liability assumed. An exception is where the assumption of the liability is in the nature of a contribution by owners, in which event there should be a direct adjustment to equity; and

(ii) where assets or services have been received free of charge or for nominal cost, the agency should recognise income equivalent to the fair value of the assets that qualify for recognition or the fair value of those services that can be reliably determined and which would have been purchased if not donated, and those fair values should be recognised as assets or expenses, as applicable. An exception is where the contribution of assets or services is in the nature of a contribution by owners, in which event there should be a direct adjustment to equity.

4.8 State Parliamentary Appropriations

Non-repayable State parliamentary appropriations refer to those appropriations outlined in Chapter 1 'Consolidated Account Expenditure Estimates' of Budget Paper No. 2 'Budget Statements'. The appropriations are provided to those agencies to deliver services. In some instances, a department (e.g. Department of Health) and a number of statutory authorities (e.g. Health Service Providers) are combined to show a single Division of the Consolidated Account Expenditure Estimates. In such an instance, only the department is considered to receive the appropriations (as detailed in the Appropriations, Expenses and Cash Assets table of the budget statements).

The statutory authorities are not considered to receive the appropriations but instead receive funding from the department unless the statutory authority has an arrangement with Treasury for appropriations to be paid directly to its bank account. As a result, the statutory authorities are not required to disclose a 'Summary of consolidated account appropriations'. The department will include the funding in its disclosure as required by AASB 1058 *Income of Not-for-Profit Entities* paragraphs 39-41. Accordingly, the original amounts appropriated (as detailed in the budget papers) must be disclosed separately from any supplementary funding for existing and new items (as authorised under section 27 of the Act).

Similarly, recurrent (service) appropriations received through Treasury administered transactions should be classified as income from other public sector entities. Note that capital appropriations are designated by TI 8 *Financial Accounting and Reporting* – Requirement 8 *Contributions by Owners Made to Wholly-owned Public Sector Entities*, as contributions by owners.

4.9 Income from other public sector entities

Public sector entities refer to 'wholly-owned public sector entities' as defined in TI 8. Recurrent (service) appropriations received through a central department (controlled and/or administered) should be classified as income from other public sector entities. They include, for example, 'indirect appropriations' from the Department of Health to Health Service Providers (HSPs) and administered appropriations from Treasury to HSPs. They may also include funding from Treasurer's special purpose accounts such as Royalties for Regions Fund. Finally, they might include funding from other wholly-owned public sector entities (including funding from agency special purpose accounts (SPAs) such as Road Trauma Trust Account). Furthermore, income from other public sector entities should include amounts paid by other public sector entities on a charge out basis if material. However, operating subsidies should be classified as sales revenue in relation to trading operations or revenues from the provision of goods and/or services (and not as income from other public sector entities) as they are considered payments made on behalf of an external party.

Income from other public sector entities should not include National Specific Purpose Payments and National Partnership Payments received through Treasury. These payments are classified as grants and contributions from the Commonwealth Government under the heading Income as they are made under pass-through arrangements (refer to Chapter 3 Application of Australian Accounting Standards and Other Pronouncements).

4.10 Superannuation liabilities assumed by the Treasurer

For the majority of departments, prior to 1 July 2001, superannuation liability was assumed by the Treasurer in respect of employee membership of the various schemes administered by the GESB. With the introduction of accrual appropriations from 1 July 2001, all departments are now funded for concurrent contributions to the GESB in respect of the Gold State and the West State Superannuation Schemes. Although payments made to GESB in respect of the Gold State Scheme are paid into the Consolidated Account by the GESB, departments should recognise them as superannuation expense.

For those superannuation liabilities that were assumed by the Treasurer prior to 1 July 2001 in respect of pensions and pre-transfer benefits, departments are not required to recoup the Treasurer for pensions and pre-transfer liabilities paid after that date. Consequently, departments are not required to recognise these liabilities in their Statements of Financial Position.

On 30 June 2004, budget-funded statutory authorities had their unfunded superannuation liabilities relating to the Pension Scheme and the pre-transfer benefit of the Gold State Superannuation Scheme administered by GESB assumed by the Treasurer.

These statutory authorities are not required to recoup the Treasurer for pensions and pre-transfer liabilities paid after that date and consequently are not required to recognise these liabilities in their Statements of Financial Position.

Until 30 June 2008, departments and budget-funded statutory authorities were required to recognise a notional expense to reflect the annual movement of these liabilities assumed by the Treasurer (for current employees) and an equivalent notional income. Commencing with the reporting period ending on 31 December 2008, this requirement was discontinued. Consistent with this decision, the GESB no longer provides this information to departments and budget-funded statutory authorities.

4.11 Net profit/(loss) from the disposal of non-current assets

Paragraph 71 of AASB 116 *Property, Plant and Equipment* requires that gains or losses arising from the derecognition of an item of property, plant and equipment must be determined as the difference between the net disposal proceeds and the carrying amount of the asset (i.e. net basis). Subject to materiality, gains and losses arising from a group of similar transactions may be reported on a net basis with detailed disclosure in the notes. Where material, such gains and losses must be reported separately.

5. Statements of Financial Position

5.1 Introduction

TI 9 *Financial Statements* – Requirement 6 *Statement of Financial Position* applies to both departments and statutory authorities, except where otherwise specified.

There are certain requirements specified under the instruction that effectively duplicate the (or substantively duplicate) the same requirements in accounting standards that apply specifically to government departments. This has been done to maintain consistency in application and reporting under the instruction to both departments and statutory authorities if considered necessary.

The Framework for the Preparation and Presentation of Financial Statements (the Framework) describes the concepts that underlie the preparation and presentation of the elements of a Statement of Financial Position while AASB 101 *Presentation of Financial Statements* provides overall requirements and guidelines for the presentation, structure and content of those elements. The instruction prescribes additional and/or complementary information and disclosures.

5.2 Terms and Definitions

Term	Definition
Restricted Assets	Assets the use of which is restricted, wholly or partially, by regulations or other externally imposed requirements where information about those restrictions is relevant to assessment of the performance or financial position of an agency.

5.3 Requirements and Disclosures

5.3.1 Restricted assets [Chapter 5.4.1(3)]

Where the use of assets is limited through specific legal or externally imposed requirements, separate disclosure of the amounts is required in a Statement of Financial Position together with note disclosures highlighting the extent to which assets are reserved for particular uses and are not available in relation to the general activities of an agency.

5.3.2 Amounts provided from State government sources as equity contributions by owners [Chapter 5.4.3(i)]

Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires formal designation before transfers can be recognised as contributions by owners. Capital contributions (non-repayable capital appropriations) and non-reciprocal non-discretionary transfers between agencies (except transfers that occur as a consequence of a restructure of administrative arrangements) are designated as contributions by owners by TI 8 *Financial Accounting and Reporting* – Requirement 8 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. AASB 1004 *Contributions* requires transfers that occur as a consequence of a restructure of administrative arrangements to be recognised directly in equity.

5.3.3 Disclosures in respect of other money (money held in trust) and specific purpose money [TI 9 – Requirement 6.2(ii) and (iii)]

To provide full accountability to Parliament, TI 9 – Requirement 6 *Statements of Financial Position* requires agencies to disclose by way of note a statement of purpose, the opening and closing cash balances, and the total cash receipts and cash payments for each section 16(1)(b), (c) and (d) SPA.

A statutory authority's operating account is generally a section 16(1)(b) SPA. Therefore, statutory authorities are only required to report the information for statutory accounts other than their operating accounts established under their enabling legislation.

Section 16(1)(c) SPAs hold other money (money held in trust). Other money, which is defined in the Act, is not consolidated into the financial statements.

Specific purpose money may be held in an agency's operating account or in a separate section 16(1)(d) SPA. Specific purpose money, which is defined in TG 7 Special Purpose Accounts – Chapter 3 Specific Purpose and Other Money (Money Held in Trust), is consolidated into the financial statements. The additional note disclosures are only required where the money is held in a separate SPA (section 16(1)(d)).

Refer to TG 7 – Chapter 3 for further information on the accounting requirements for other money and specific purpose money.

5.4 Statements of Financial Position Structure

Statements of Financial Position are to be structured to present current assets, non-current assets, total assets, current liabilities, non-current liabilities, total liabilities, net assets and equity, as applicable, at the end of the reporting period, except where a liquidity presentation provides information that is reliable and more relevant.

5.4.1 Current and Non-Current Assets

(1) Current assets are presented under the heading ASSETS and the sub-heading Current Assets and include the following where applicable:

(i) cash and cash equivalents, including bank accounts which includes funds held at Treasury in accounts which are of the nature of a bank account, cash advances and cash on hand or in transit, with details to be disclosed in the notes;

(ii) the current portion of investments is presented as other financial assets, with details of the nature thereof as described by Chapter 5.4.1(2)(i) to be disclosed by way of note. This note disclosure may be in conjunction with the disclosure required by that Chapter 5.4.1(2)(i);

(iii) right-of-use assets that are expected to be realised within 12 months after the reporting period, except those that meet the definition of investment property in AASB 140 *Investment Property*, with details to be disclosed in the notes. This note disclosure may be in conjunction with the disclosure described by Chapter 5.4.1(2)(ii); and

(iv) the total amount of current assets.

(2) Non-current assets are presented under the heading ASSETS and the sub-heading Non-Current Assets and include the following where applicable:

(i) the non-current portion of investments are presented as other financial assets, with details of the nature thereof disclosed by way of note together with the current market value where applicable;

(ii) right-of-use assets that are expected to be realised beyond 12 months after the reporting period, except those that meet the definition of investment property in AASB 140 *Investment Property*, with details to be disclosed in the notes;

(iii) service concession assets; and

(iv) the total amount of non-current assets.

(3) The aggregate amount of restricted assets must be presented in a Statement of Financial Position for each class and the nature of the restrictions disclosed by way of note. Where restricted assets are a class required to be presented separately by Chapter 5.4.1 (1) and (2) above, the restricted and unrestricted aggregate amounts are also to be shown separately.

5.4.2 Current and Non-Current Liabilities

(1) Current liabilities are presented under the heading LIABILITIES and the sub-heading Current Liabilities and include the following where applicable:

(i) Interest-bearing borrowings and non-interest-bearing borrowings must be presented separately, with details of the components thereof as required by Chapter 5.4.2(2)(i) below to be disclosed by way of note. This note disclosure may be in conjunction with the disclosure required by that paragraph;

(ii) lease liabilities that are due to be settled within 12 months after the reporting period, with details to be disclosed in the notes. This note disclosure may be in conjunction with the disclosure required by Chapter 5.4.2(2)(ii) below;

(iii) service concession liabilities that are due to be settled within 12 months after the reporting period, with details to be disclosed in the notes. This note disclosure may be in conjunction with the disclosure required by Chapter 5.4.2(2)(iii) below; and

(iv) the total amount of current liabilities.

(2) Non-current liabilities are presented under the heading LIABILITIES and the sub-heading Non-Current Liabilities and include the following where applicable:

(i) Interest-bearing borrowings and non-interest-bearing borrowings must be disclosed separately, with the following components being shown by way of note:

(a) amounts provided from various sources by way of repayable advances and private and public loans guaranteed by the State. These are classified as:

(aa) Consolidated Account advances;

(bb) Private and public loans guaranteed by the Treasurer;

(cc) Commonwealth advances;

(dd) Advances provided from other State funds, with funding sources being identified; and

(ee) Other repayable funds with funding sources being identified;

Details of any security given is to be disclosed; and

(b) private and public loan raisings not guaranteed by the State and borrowings by way of mortgage.

Details of any security given is to be disclosed;

(ii) lease liabilities that are due to be settled beyond 12 months after the reporting period, with details to be disclosed in the notes;

(iii) service concession liabilities that are due to be settled beyond 12 months after the reporting period, with details to be disclosed in the notes; and

(iv) the total amount of non-current liabilities.

5.4.3 Equity

Under the heading EQUITY the following sub-headings must be presented where applicable:

(i) Contributed equity;

(ii) Reserves; and

(iii) Accumulated surplus/(deficit) or Retained earnings/Accumulated losses, as appropriate**.**

5.5 Dividends

For the purposes of AASB 101 *Presentation of Financial Statements* and AASB 110 *Events after the Reporting Period*, dividends mean distributions of the whole or part of operating surpluses or profits to the Consolidated Account.

Amounts transferred to the Consolidated Account in accordance with section 20 of the Act are not dividends and should be accounted for under TI *8 Financial Accounting and Reporting* – Requirement 8 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* as distributions to owners.

5.6 Disclosure of Capital Commitments

Financial transparency of financial statements is enhanced where users can evaluate the effect of future cashflow commitments on an agency's net asset position. As a minimum, disclosures of capital commitments required under Australian Accounting Standards should be reported in the following time bands, according to the time expected to elapse from the reporting date to expected date of settlement:

(a) within twelve months;

(b) twelve months or longer, but not longer than five years; and

(c) longer than five years.

5.7 Restricted Assets

Information about restrictions imposed by legislation or other authority on the manner in which an agency can deploy its assets is relevant in assessing the agency's capacity to provide a greater volume of particular types of services in the short-term, and in assessing the performance and financial position of an agency.

Restricted assets include certain specific purpose money (assets that may only be used for specific purposes, such as Commonwealth grants and Royalties for Regions funding), accrued salary accounts and amounts receivable for services (holding accounts).

The Australian Accounting Standards also require disclosures of certain restricted assets as follows:

- Disclosure of significant cash and cash equivalents held by an entity that is not available for use, including commentary by management, is required under AASB 107 *Statement of Cash Flows* (paragraphs 48 and 49);
- Disclosure of the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities under AASB 116 *Property, Plant and Equipment* (paragraph 74(a)); and
- Disclosure of the existence and carrying amounts of intangible assets whose title is restricted or pledged as security for liabilities under AASB 138 *Intangible Assets* (paragraph 122(d)).

5.8 Where liabilities exceed assets

Equity is defined in the Framework as 'the residual interest in the assets of the entity after deducting all its liabilities'. If liabilities exceed assets, instead of the term 'Total Equity', the term 'Equity Deficit' should be used, and the total shown in brackets.

5.9 Service Concession Liabilities

The nature of a liability recognised under AASB 1059 *Service Concession Arrangements: Grantors* is based on the nature of the consideration given by an agency to the operator in the contract.

The agency might compensate the operator for a service concession asset by:

(a) making payments to the operator (the 'financial liability' model); and/or

(b) granting the operator a right to earn revenue from the service concession asset and/or other public sector assets (the 'grant of a right to the operator' (GORTO) model).

Agencies are to determine (by reference to the terms of the contract) whether the liability is under the financial liability model or the GORTO model or a hybrid of the two, and account for it accordingly.

5.10 Accounting for recoups and reimbursements

The accounting treatment for recoups and reimbursements receivable or received by agencies needs to be considered on its merits by having regard to the circumstances under which the recoup or reimbursement arose. Where a recoup or reimbursement meets the definition of an asset (i.e. receivable) and the recognition criteria are met, an invoice (i.e. sundry debtor) should be raised. Common examples in the public sector include:

5.10.1 Non-monetary benefits provided to employees

An agency (employer) may provide employee benefits in a form of non-monetary benefits. Such benefits may take a form of payments for housing or motor vehicles. In most circumstances, employees' rights to non-monetary benefits do not accrue in proportion to their periods of service and do not accumulate. Usually, the right to receive those benefits in each period exists irrespective of the duration of service provided by employees. In such circumstances, an employer recognises the cost incurred in providing the benefits in the period during which the benefits are taken by employees.

The amount of cost is determined on a gross basis, i.e. total cost of providing the benefits (excluding employee contributions). Employee contributions will be recognised as income to the agency (employer). A liability is not recognised for any non-accumulating benefits that employees do not take during the period.

Where non-monetary benefits provided to employees are subject to leases capitalised in a Statement of Financial Position (e.g. housing and motor vehicles), the total cost of providing these benefits is interest and depreciation expenses recognised in accordance with AASB 16 *Leases*. A notional adjustment will be required for preparing the employee benefits expenses note which shows the total cost of employee benefits incurred by an agency (employer) and the net benefits provided to employees. Refer to TI 8 Requirement 4 *Leases* for further advice on accounting for leases.

For example, where an agency (employer) leases properties to provide housing or motor vehicles to its employees and the employees are required to make contributions, the expense to the agency is the sum of interest and depreciation expenses recognised by the agency under AASB 16. Employee contributions will be recognised separately as income. Therefore, if an interest expense of $80 and a depreciation expense of $150 are incurred by the agency and $160 will be contributed (recouped) from the employees, then a total expense of $230 and a receivable of $160 will be recognised.

The employee benefits expenses note should show both the total cost of employee benefits incurred by an agency (employer) and the net benefits provided to employees:

Employee benefits expenses (recognised under AASB 16)	$230
Less: Employee contributions	$160
Net benefits provided to employees	$70

5.10.2 Salary recoups – secondments and other temporary transfers

Where an employee is on secondment and the salary is being paid by the host agency (employer) directly to the employee and the amount is subsequently recouped from the recipient agency, this should be accounted for initially as a receivable by the host agency with the corresponding amount credited to either the salaries and wages expense account or a salary recoup suspense clearing account as appropriate (depending on the agency internal financial policy and payroll systems requirements), and as a payable by the recipient agency when the salary is paid every fortnight. The recipient agency using services of the seconded employee should record an expense in the period the services are rendered. When the salary is subsequently recouped, the host agency (employer) receipts the money against the receivable and the recipient agency extinguishes their liability to the host agency. Note that salary recoups are not income to the host agency.

5.10.3 Salary recoups – overpayment to employees

Where an employee is overpaid salary by an agency, and the amount is recognised in the following reporting period, the amount of the overpayment should be accounted for by recognising a receivable and crediting income. However, if the overpayment is recovered within the same reporting period as the overpayment was made, then the overpayment should be credited to salaries expense rather than income. When the overpaid salary is recouped from the employee, the agency receipts the money against the receivable.

5.10.4 Provision of services funded ultimately by other parties

Where an agency is recouped or reimbursed for the cost of providing a service that is ultimately funded by another party such as the Commonwealth Government, other agencies or persons, and this is integral to the pursuit of the agency's objectives, then the recoup or reimbursement will be accounted for by the agency as income (i.e. no offset against the expense). Offsetting against the expense is not appropriate because this does not reflect the cost of providing the service.

If the agency is merely acting as a conduit for the transfer of funds to another agency or persons, then the payment made by the agency will be accounted for as a receivable and the subsequent recoup or reimbursement will be receipted by the agency against the receivable. An example of this is where disbursements are made by Agency A for and on behalf of Agency B and these disbursements are not made in Agency A's own right. In this instance, there is no impact on Agency A's Statement of Comprehensive Income. However, where the subsequent recoup or reimbursement is from the Consolidated Account, the agency should classify these payments as administered transactions (refer to Chapter 3 Application of Australian Accounting Standards and Other Pronouncements).

5.10.5 Workers' compensation insurance recoups

Where a claim has been accepted, the amount of workers' compensation an agency pays its employee is considered to be made for and on behalf of the insurer (e.g. RiskCover). As such, the agency will account for the payment as a receivable and apply the subsequent recoups against that receivable. There will be no impact on the agency's financial performance. Workers' compensation should not be recognised as an expense because the liability has been effectively transferred to the insurer. Insurance recoups are not income because there is no increase in economic benefits. As insurance premiums have been recognised as expenses, accounting for worker's compensation as expenses would overstate the agency's total cost of services.

5.10.6 Other

In limited circumstances that a receivable (debtor) is not recognised because the original transaction was expensed, and a cash recoup or refund is subsequently received within the same reporting period as the transaction occurred, this should be offset against the expense account, otherwise it should be recognised as income. For example, an agency should credit legal service recoups to other expense where the recoups and related expenditures occur within the same reporting period. Legal service recoups received in a subsequent reporting period should be accounted for as income.

5.11 Accounting for RiskCover premiums and performance adjustments

Background

In December, RiskCover provide agencies with information about their forthcoming insurance renewals. This includes estimates on the premium and adjustment charges that the agency can expect to receive within six months and projections for outyears, which agencies will use for budget purposes.

Six months later, RiskCover issues each agency with a renewal advice, which confirm the amounts that are payable to RiskCover for insurance purposes. The advice typically comprises a fund contribution and prior year performance adjustments.

Accounting for fund contributions

The fund contribution—charged through a RiskCover invoice—is the agency's current insurance premium.

Although agencies may receive their invoices in June, the premium charges relate to their insurance coverage over the next twelve months. The timing of the expense should align with the service provided. Agencies with a June year-end should therefore record their expense after 1 July (i.e. in the following financial year). Agencies with a December (or any other) year-end should pro-rata their expense.

Accounting for performance adjustments

The performance adjustments—advised by way of an adjustment note—relate to the insurance premiums that RiskCover charged in previous years. The adjustments are the result of consideration of the latest forecast claims costs, claims administration expenses, reinsurance expenses and net investment income, and they can be both favourable and unfavourable.

Prior year performance adjustments are not considered prior year errors but changes in accounting estimates. As such, in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 36), agencies should recognise them prospectively in profit or loss in the period of the change.

Where an adjustment is unfavourable (increases the amount payable) agencies should recognise an additional expense and a payable. Where an adjustment is favourable (reduces the amount payable), agencies should recognise it as an income and a receivable.

As it is unlikely that the indicated values provided by RiskCover will change between December and June, agencies can recognise their adjustments early, based on the amounts indicated in December for the following financial year. Agencies can adjust them again later if the amounts shown on the adjustment advice are materially different.

Treatment of forward-looking estimates

Any forward-looking estimates for outyears indicated in RiskCover's projections should not be recognised in the current year. Nor should they be disclosed as contingent assets or liabilities.

Disclosure

For clarity and consistency in the financial statements, insurance premium expenses and adjustments additional expenses resulting from performance adjustments—if material—should be shown apart under 'Other expenses'.

5.12 Comparatives – three statements of financial position required in certain circumstances

If a Tier 1 agency (as listed in Schedule 1 of TI 9 *Financial Statements*) has applied an accounting policy retrospectively, restated items retrospectively or reclassified items in its financial statements, it must present a third statement of financial position as at the beginning of the preceding period as required by AASB 101 paragraph 40A. Tier 2 agencies are not required to comply with these requirements.

6. Consolidated Financial Statements

6.1 Introduction

Where an agency is exposed, or has rights, to variable returns from its involvement with another entity, and has the ability to affect those returns through its power over that entity, the agency (parent) and the entities it controls (subsidiaries) are considered to be a single economic entity.

A consolidated financial statement is required to be prepared in line with this Guidance, where an agency has had a subsidiary at any time during a reporting period. The consolidated financial statements are to be prepared in accordance with Australian Accounting Standard AASB 10 *Consolidated Financial Statements*, and as modified by this guidance chapter. Note that this guidance chapter only applies to accountable authorities of not-for-profit agencies (as mandated by TI 9 *Financial Statements* – Requirement 4 *Application of Australian Accounting Standards and Other Pronouncement*).

6.2 Terms and Definitions

Term	Definition
Control	The capacity of an agency to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that entity to operate with the agency in pursuing the agency level government desired outcomes.
Parent	An entity comprising an agency and its related bodies which: (a) has a subsidiary body, as defined in section 60(1) of the Act; or (b) controls an entity other than a subsidiary body or related body.
Subsidiary	Means: (a) a subsidiary body, as defined in section 60(1) of the Act; or (b) an entity, other than a subsidiary body or related body, which is controlled by a parent.
Financially dependent	When used concerning the relationship of a body to an agency, means that the body receives more than half of its funding and resources from the agency that is obliged to provide funding and resources to the body.

6.3 AASB 10 *Consolidated Financial Statements*

AASB 10 provides for consolidated financial statements to be prepared for a group of entities, which comprise a parent and its subsidiaries. However, the definitions of 'control', 'parent' and 'subsidiary' in AASB 10 are modified by this Guidance to reflect the accountability framework established under the Act and TIs, particularly with respect to related bodies and subsidiary bodies.

Broadly, section 60(1) of the Act defines related bodies as bodies which receive more than half their funding and resources from an agency and are subject to operational control of that agency. Generally, related bodies are captured by the AASB 10 definition of subsidiary, being a body which is controlled by a parent, and should therefore be included within the consolidated financial statements as required by AASB 10.

Notwithstanding their separate entity status, related bodies of an agency generally do not have their own financial resources, relying instead upon resources or control of the agency and consequently they have no separate accountability under the Act. The financial operations of related bodies are integrated with those of the agency and, as such, are incorporated within its (the parent's) financial statements in the manner prescribed by TI 8 *Financial Accounting and Reporting* – Requirement 6 *Related and Affiliated Bodies*.

Accordingly, this Guidance broadens the definition of 'parent' to mean an entity comprising an agency together with its related bodies. As a corollary to their inclusion within the 'parent', this Guidance specifically excludes related bodies from the definition of 'subsidiary'. As the financial affairs of related bodies will be included within the parent's financial statements, they will also be included within the consolidated financial statements. The principal effect of these modifications is to avoid the possibility of bodies being reported upon as both a related body and a subsidiary.

Generally, subsidiary bodies under section 60(1) of the Act have a relationship with the agency which conforms to AASB 10 definitions of 'control' and 'subsidiary'. However, it is conceivable that in some instances the relationship may not conform precisely to those definitions. The identification of a body as a subsidiary body of an agency recognises that it is intended to operate with that agency as part of a group. Accordingly, the AASB 10 definition of 'subsidiary' is modified by this Guidance to apply to 'subsidiary bodies' as defined by the Act, regardless of the AASB 10 test of control, ensuring their inclusion within the consolidated financial statements.

Some agencies may have a 'dormant' subsidiary (or subsidiaries) without assets, liabilities, revenues, or expenses, with any fees or charges in relation to its continued existence being met by the agency. Where there are no other active subsidiaries, the preparation of consolidated financial statements would not add any meaningful information. Accordingly, Chapter 6.4(4) of this Guidance does not require the preparation of consolidated financial statements in such circumstances provided that in the notes to the financial statements the situation is explained, and the dormant subsidiary (or subsidiaries) named.

6.4 Consolidated Financial Statement Requirements

(1) The financial statements of an agency which was a parent at any time during the reporting period comprises:

(i) financial statements for the parent entity prepared in accordance with TIs 3, 8 and 9; and

(ii) consolidated financial statements for the group prepared in accordance with this guidance chapter.

(2) The application of Australian Accounting Standard AASB 10 *Consolidated Financial Statements* is modified as follows:

(i) the definitions of 'control', 'parent' and 'subsidiary' in the Terms and Definition section of this Guidance are substituted for the definitions of 'control', 'parent' and 'subsidiary' in Appendix A of AASB 10;

(ii) where AASB 10 requires compliance with any other Australian Accounting Standards, the accountable authority must comply with those Australian Accounting Standards to the extent and in the manner required by TIs; and

(iii) the consolidated financial statements must, unless the Treasurer approves otherwise, be prepared on an accrual basis and in the same form as for the parent, comprising:

(a) a Statement of Comprehensive Income prepared in the form required by TI 9 *Financial Statements* – Requirement 5 *Statements of Comprehensive Income* as appropriate;

(b) a Statement of Financial Position prepared in the form required by TI 9 – Requirement 6 *Statements of Financial Position*;

(c) a Statement of Changes in Equity prepared in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, as applied by TI 9 – Requirement 4 *Application of Australian Accounting Standards and Other Pronouncements*;

(d) a Statement of Cash Flows prepared in accordance with Australian Accounting Standard AASB 107 *Statement of Cash Flows*, as applied by TI 9 – Requirement 4 *Application of Australian Accounting Standards and Other Pronouncements*; and

(e) proper and adequate notes to the consolidated financial statements.

(3) In addition to the information required by AASB 10 and AASB 12 *Disclosure of Interests in Other Entities*, notes to the consolidated financial statements must include:

(i) in respect of each subsidiary within the group at the end of the reporting period:

(a) the legal form of the subsidiary;

(b) the country of incorporation of the subsidiary, and the State or Territory in which each Australian subsidiary was formed or incorporated;

(c) the subsidiary's contribution to the operating result of the group for the reporting period; and

(d) where the parent holds or held an ownership interest in the subsidiary:

(aa) the ownership interest held by the parent;

(bb) where any part of the ownership interest referred to in Chapter 6.4(3)(d)(aa) of this Guidance is or was held by another subsidiary, the identity of that other subsidiary, the percentage of total ownership held by that subsidiary and the amount at which that ownership interest is recorded in the accounts of that other subsidiary; and

(cc) details of any change in the parent's ownership interest in the subsidiary during the reporting period; and

(ii) in respect of each subsidiary which ceased to be part of the group during the reporting period:

(a) the legal form of the subsidiary;

(b) the subsidiary's contribution to the operating result of the group for the reporting period; and

(c) where the parent disposed of an ownership interest in the subsidiary, the profit (surplus) or loss (deficit) attributable to the group on disposal of that ownership interest.

(4) Where a subsidiary, or subsidiaries, of an agency did not have any assets, liabilities, revenues or expenses during the current and previous reporting period (other than any expenses for the maintenance of its statutory existence met by the agency without recourse to the subsidiary), and the agency had no other subsidiaries other than this subsidiary, or these subsidiaries, during the reporting period, then the accountable authority is not required to comply with Chapter 6.4(1) to (3) but must disclose in the notes to the financial statements the names of the subsidiary, or subsidiaries, involved and the reason for consolidated financial statements not being prepared.

6.5 Presentation of consolidated financial statements

AASB 10 includes a provision that allows a parent to be exempted from presenting consolidated financial statements where certain conditions are met (refer to AASB 10, paragraph Aus4.1). However, TI 9 – Requirement 4.3.4 disallows such an election from being made. This means that a parent must present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with AASB 10.

7. Application of Tiered Reporting – Simplified Disclosures

7.1 Introduction

This Guidance introduces two tiers of reporting requirements for preparing general purpose financial statements, as prescribed by AASB 1053 *Application of Tiers of Australian Accounting Standards*. A two-tier reporting framework has been introduced to reduce the compliance costs and burden in preparing annual reports whilst improving the relevance and meaning for users.

Tier 1 comprises the full range of recognition, measurement and disclosure requirements of all Australian Accounting Standards and Interpretations. Tier 2 includes the same recognition and measurement requirements as of Tier 1, but with substantially reduced disclosures.

The Australian Government and State, Territory and Local Governments must comply with Tier 1 reporting requirements for their general purpose financial statements. Other public sector entities may adopt Tier 2 reporting requirements for their general purpose financial statements. However, TI 9 *Financial Statements* – Requirement 7 *Application of Tiered Reporting – Simplified Disclosures* mandates that those listed in Schedule 1 of TI 9 are to comply with Tier 1 reporting requirements for their general purpose financial statements.

In addition, those agencies not listed in Schedule 1 below but apply Australian Accounting Standards that are specific to the industry they significantly operate in or are significantly exposed to must comply with Tier 1 reporting requirements in applying those standards (refer to Schedule 2 below). For example, if a Tier 2 agency has significant operations in agriculture and applies AASB 141 *Agriculture*, the agency is to comply with the Tier 1 reporting requirements of that Standard.

For the purposes of this Guidance, 'agencies' include departments, sub-departments and all statutory authorities listed in Schedule 1 of the Act that are consolidated in the Annual Report on State Finances.

7.2 Application of Tier 1 reporting requirements

Tier 1 agencies are to apply the recognition, measurement and disclosure requirements of Australian Accounting Standards and Interpretations, the Act and TIs in full as outlined in the Tier 1 Illustrative Model Annual Report.

7.3 Application of Tier 2 reporting requirements

Tier 2 comprises the same recognition and measurement requirements of Tier 1, but with substantially reduced disclosure requirements. Except for the presentation of a third statement of financial position under Tier 1, the presentation requirements under Tier 1 and Tier 2 are the same. Tier 2 disclosure requirements are set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Disclosures under Tier 2 are the minimum disclosures required to be included in general purpose financial statements. Tier 2 agencies may include additional disclosures, if in their judgement such additional disclosures are consistent with the objective of general purpose financial statements.

Tier 2 agencies should refer to the Tier 2 Illustrative Model Annual Report (Simplified Disclosures) which has been issued as a guide to understand and meet the reporting requirements of Tier 2 agencies. The onus is on Tier 2 agencies to ensure compliance with all reporting requirements that are relevant to them.

7.4 Annual Report on State Finances

While most agencies are classified as Tier 2 under AASB 1053, the Standard distinguishes that the Annual Report on State Finances (ARSF) is to apply Tier 1 reporting requirements. Consequently, Tier 2 disclosure requirements are for agency financial reporting purposes only. Tier 2 agencies may be required by Treasury to provide supplementary disclosures and information where the ARSF is reliant upon them or for other whole of government reporting purposes.

Version Control

Version	Date	Section	Amendments
v9.0	30 September 2024	All	Initial publication.
v9.1	13 December 2024	All	Minor editorial amendments to enhance readability.
v9.2	17 June 2025	3.11 Disclosure of material modifications to accounting standards and interpretations by the Treasurer's instructions	Removed content that was relevant only for the transition to the new TIs.
		4.2 Statements of Comprehensive Income – Reporting Formats	Provides additional guidance around consistency in format of statement of comprehensive income.
		All	Minor editorial amendments.
v9.3	2 January 2026	2 Annual estimates	Remove Appendix 1 'Treasurer's direction under section 40(1) of the FMA' with respect to agencies exempt from preparing draft annual estimates. Treasurer's direction is now published separately on Financial Administration Bookcase website.
		All	Minor editorial amendments.
v9.4	25 May 2026	1.5	Provides guidance on certification.
		3.2	Removes one of the modifications.
v9.5	06 November 2026	3.1	Removed reference to Statements of Accounting Concepts (SAC).
		4.2.2	Minor editorial amendments to enhance readability.
		4.9	Minor editorial amendments to enhance readability.

TG 10 Internal Audit

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Internal Audit
Relevant Treasurer's instruction(s) (TI)	TI 10 *Internal Audit*
Other Related Instrument(s)	• Internal Audit in Australia, 2nd Ed. 2020 • 2024 Global Internal Audit Standards • Section 53 of the *Financial Management Act 2006* (Functions of accountable authorities) • Section 57 of the *Financial Management Act 2006* (Chief finance officers, designation and functions of)
Last Updated	2 January 2026
Current Version	v10.3

1. Internal Audit

1.1 Introduction

The independence of the internal audit function is critical to its effectiveness. Independence is generally achieved when those who are performing the internal audit function are not involved in the day-to-day management of an agency.

The internal audit of an agency comprises two areas, being the:

- internal audit function; and
- internal audit committee.

An effective internal audit function is critical to good governance, as it provides an independent, objective, risk-based review of an agency's governance, risk management and control processes which can lead to improved performance. The independence and effectiveness of the internal audit function is supported by the function reporting to an internal audit committee.

The internal audit committee is fundamental to good corporate governance by monitoring the performance of the internal audit function, reviewing responses to audit findings and independently advising the accountable authority on the agency's financial reporting, internal control systems, risk management systems and the internal and external audit functions.

1.2 Terms and Definitions

Term	Definition
The Three Lines of Defence Model	Includes: • The first line: management has responsibility to own and manage risks associated with the operations, including the design, implementation and operation of controls. • The second line: management has responsibility to monitor and oversee operations to ensure compliance with laws, regulations, and acceptable ethical behaviour; internal control; information and technology security; sustainability; and quality assurance. • The third line: involve internal audit (reporting to the audit committee), which provides independent and objective assurance and advice on the adequacy and effectiveness of the first and second line functions, governance and risk management.
Independence	According to the Institute of Internal Auditors (IIA) Standards, independence is defined as "the freedom from conditions that may impair the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner."

Term	Definition
Objectivity	According to the IIA Standards, objectivity is defined as "an unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others."

1.3 Internal Audit Function

The role of the internal audit function should be defined in accordance with the International Professional Practices Framework (IPPF) of the IIA including the Global Internal Audit Standards, as modified by the *Financial Management Act 2006* (the Act) and TIs.

Regarding TI 10 *Internal Audit* – Requirement 1.2(i) *Internal Audit*, the chief audit executive (CAE) should:

- functionally, for the operations of the internal audit function, report to the internal audit committee through the chair; and
- for the administration of the internal audit function, report to the accountable authority.

Functional reporting generally involves the internal audit committee performing the following responsibilities:

- reviewing and endorsing the internal audit charter;
- reviewing and determining a risk-based internal audit plan;
- overseeing the implementation of internal audit recommendations;
- ensuring compliance with standards, including quality assurance and improvement arrangements; and
- endorsing any changes to the annual internal audit plan.

Administrative reporting to the accountable authority generally includes:

- human resource administration;
- administration of internal policies and procedures;
- approving the Internal Audit resources and annual budget (in consultation with the internal audit committee); and
- provision of corporate services to internal audit including office accommodation, computers and equipment.

The role of the internal audit function, according to the IPPF of the Institute of IIA includes providing independent, objective assurance and advisory services designed to add value and improve an agency's operations. It assists an agency to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management[89], control, and governance processes.

An agency should ensure that the objectives, independence, accountability, reporting arrangements, and role of the agency's internal audit function are defined in a charter (internal audit charter).

The agency should ensure, through the internal audit charter, that processes are in place for the internal audit function to regularly, and in a timely manner, report on its progress and performance relative to its plan, authority, and responsibility, including key operational and strategic matters affecting the internal audit function and its purpose.

To maintain currency of the internal audit charter, it should be reviewed by the internal audit committee at least annually. Any changes should be endorsed by the internal audit committee and approved by the accountable authority.

The internal audit function may be established fully in-house, outsourced, partially performed by external professional service providers, or as part of a co-source arrangement with a professional service provider.

The agency's daily operational business and administrative activities under TI 10 *Internal Audit* – Requirement 1.2(iv) *Internal Audit* include the internal checking system, except those relating to the administration of the internal audit function.

1.4 Independence and Objectivity

The independence of the internal audit function is critical to its effectiveness. Objectivity is generally achieved where there is independence from the day-to-day management of an agency.

Regarding TI 10 – Requirement 1.2, there may be extenuating circumstances where the CAE is involved in executive decision making, administrative activities or the development of new systems. This may arise due to a number of factors such as size, skill levels and composition of an agency in the context of its operating environment.

Where the CAE is required to undertake roles outside of internal auditing, safeguards should be in place to limit impairing (or the appearance of impairing) the independence or objectivity of the CAE.

Safeguards may include the agency periodically evaluating reporting lines and responsibilities and developing alternative processes to ensure proper oversight of additional responsibility.

1.5 Internal Audit Committee

The internal audit committee of an agency:

- should determine the internal audit plan in consultation with the agency's accountable authority; and
- may oversee the internal audit function of another WA public sector agency, provided that each of the Committee members demonstrates a sound understanding of the other agency's operations, culture and goals.

Establishment of an internal audit committee strengthens the independence of the internal audit function, with the function reporting to the internal audit committee through the CAE. The accountable authority has responsibility for the internal audit committee's decisions, performance and outcomes. Thus, it is imperative that the agency makes arrangements for the regular monitoring of the internal audit committee's activities.

The role of the internal audit committee includes monitoring the implementation of audit recommendations of both internal and external audits and if required, ensuring that the agency implements the recommendations in a timely manner.

In addition to its oversight responsibilities, the internal audit committee should ensure that appropriate quality assurance frameworks are in place to support the internal audit function. This includes:

- Reviewing the effectiveness of the internal audit function's processes and ensuring adherence to the Global Internal Audit Standards.
- Monitoring the implementation of internal audit findings and ensuring that follow-up actions are taken as needed.
- Ensuring that internal audit activities are subject to periodic quality assessments, either internally or through external review, to verify the reliability and effectiveness of audits.
- Overseeing the agency's adherence to applicable internal audit standards, ensuring alignment with agency objectives and governance practices.

The internal audit committee charter should be reviewed by the internal audit committee at least annually and any changes are to be approved by the accountable authority.

The internal audit committee should clearly define the roles and responsibilities of any observers attending its meetings in the internal audit committee charter.

All members of the internal audit committee should be formally appointed by the accountable authority with an initial term of not more than three years and a maximum total period of service of not more than six years.

The internal audit committee of an agency should be comprised of at least three members, who should have an appropriate mix of skills, experience and knowledge to competently perform their duties. In this regard, at least one member of the committee should have financial and risk management experience, given the internal audit committee's role includes overseeing the financial and performance reporting of the agency.

The appointment of the internal audit committee members should be undertaken with a view to achieving independence from the day-to-day management of an agency. As a result, the Director General, Chief Finance Officer and Chief Executive Officer (if applicable) are not to be members of the internal audit committee. They should, however, be requested to attend meetings of the internal audit committee. Maintaining the independence of the committee will significantly improve its overall effectiveness.

To facilitate the independent status of an internal audit committee, the agency should:

- appoint committee members who are able to carry out their internal audit responsibilities in an unbiased manner;
- ensure that, where practicable, committee members have no management responsibility, and if this is not possible, the majority of members should have no management responsibility;
- have policies and procedures in place to identify events and circumstances that may give rise to potential conflicts of interest; and
- consideration should also be given to appointing other members not employed within the agency if possible.

Where practicable, it is permissible for an internal audit committee to oversee more than one agency. However, its effectiveness is optimised where the committee is restricted to overseeing the internal audit function of agencies similar in nature or where they are naturally grouped. Consideration of the relative complexity and risks inherent in an agency may preclude an internal audit committee from overseeing other agencies' internal audit functions.

1.6 Independent Internal Audit Committee Chair

The Chair of the internal audit committee plays a key role in the independence and overall effectiveness of the internal audit function.

The role of the Chair includes:

- overseeing the planning and conduct of meetings, including the approval of the agenda and draft minutes, and reporting to the accountable authority;
- ensuring meetings run smoothly so the views of all members are heard, adequate time is allowed for discussion of each issue and the agenda and meeting papers accurately reflect proceedings;
- promoting effective communications between the committee and the accountable authority, Chief Finance Officer, the CAE, other senior management and the external auditor;
- setting clear expectations for members; and
- understanding and holding to account, both management and the CAE.

Regarding TI 10 *Internal Audit* – Requirement 1.5 *Internal Audit*, the Chair, who should not be employed within the agency, is permitted to be either an independent board member, a person from another entity within the WA public sector (including corporatised entities such as Water Corporation and Western Power) or a person external to government.

If an agency intends to appoint a Chair who is external to government, it is recommended that the agency seeks advice from the State Solicitor's Office, to ensure that the Chair is subject to appropriate obligations (such as requirements relating to confidentiality and restrictions relating to the use of information). It is likely that such obligations will be imposed contractually.

1.7 Resourcing and Management of the Internal Audit Function

The internal audit function requires sufficient resources to enable it to effectively carry out its mission and objectives. The internal audit committee's role includes reviewing the resources and structure of the internal audit function and advising the accountable authority (annually) of the adequacy of the resources or budget to perform the internal audit plan.

> ***Section 53(1)(d)*** *of the Act states that, without limiting section 52, an accountable authority of an agency has the functions of, unless otherwise directed in writing by the Treasurer, developing and maintaining an effective internal audit function for the agency.*

The engagement of internal audit staff with the relevant skills and attributes goes directly to discharging the accountable authority's duties under section 53(1)(d) of the Act and assisting in meeting the other duties in that section. The agency should consult the agency's CAE and the agency's internal audit committee before appointing internal audit staff.

The CAE should report on a timely basis to the internal audit committee, and the internal audit committee should report to the accountable authority on the internal audit function's purpose, authority, responsibility, progress and performance relative to the internal audit plan.

The internal audit function should establish benchmarks that measure its performance. These should be linked to the audit mission and objectives that are contained in the internal audit charter. These benchmarks should be endorsed by the internal audit committee and approved by the accountable authority.

1.8 Appropriate Standards for the Conduct of Internal Audit

All internal audits should be carried out in accordance with the most recent Global Internal Audit Standards issued by the IIA Standards from time to time, except:

- to the extent that the IIA Standards are inconsistent with relevant legislation or TIs; or
- where agreed between the internal audit committee and an external professional services firm, to the extent the firm's internal audit methodologies differ in their application from IIA Standards.

Where an agency engages or proposes to engage an external professional services firm to carry out any internal audit activities for the agency, it is possible that the firm will have their own internal audit methodologies in place. The compliance of external professional services firm's methodologies with the IIA standards should be clearly stated in the internal audit engagement letter. As part of this process, the internal audit committee should be informed of any differences or inconsistencies between the IIA Standards and the external service provider's internal audit methodologies. This will enable the internal audit committee to make an informed decision on whether the IIA Standards or the external service provider's internal audit methodologies should apply before gaining approval from the accountable authority.

It is possible that professional services firms use internal audit methodologies (including quality assurance and review standards) that are compatible with the IIA Standards but may differ in their application. Where an external professional services firm has been engaged to perform internal audit work, the internal audit committee decides on which standards are the most appropriate to follow taking into account the agency's individual circumstances.

Where in-house methodologies are relied upon by external service providers, these should be in compliance with the latest IIA Standards.

1.9 Internal Audit Plan

The internal audit committee, in conjunction with the CAE, should establish and maintain a risk-based internal audit plan to determine the priorities and resources required that align with the organisation's objectives.

The internal audit plan should be developed according to the risk profile of the agency and may include longer term strategic factors.

The CAE should submit the internal audit function's plans and resource requirements for the year, including any significant changes occurring throughout the year, to the internal audit committee for endorsement and to the accountable authority for approval. The CAE should also inform the internal audit committee and the accountable authority the impacts of any resource limitations.

To maintain currency, the internal audit plan should be reviewed by the internal audit committee and the CAE at least annually. Any changes should be approved by the accountable authority.

1.10 Coordination

The internal audit function should share information with other internal and external providers (i.e. service providers where in a co-source arrangement) of relevant assurance and consulting services. This information sharing is expected to focus internal audit on higher level risk exposures, whilst leveraging coverage and reducing duplication of effort. The internal audit team liaises with the external audit team to ensure risks and controls are aligned and also to provide sufficient coverage for the external audit procedures.

1.11 Communicating and Monitoring of Audit Results

The CAE should communicate audit findings and recommendations to management at the finalisation of an internal audit engagement.

Management should be provided with the opportunity to comment on the audit findings and recommendations before they are accepted or rejected.

If the CAE believes that the risks being accepted are too high, these risks should be discussed with management and, if unresolved, be referred to the internal audit committee and the accountable authority.

The role of the internal audit function also involves monitoring the progress of the implementation of audit recommendations and ensures that they have been implemented in a timely manner.

This risk management protocol should be consistent with the risk appetite and risk management framework adopted by the agency.

1.12 Further Information

Further guidance on the internal audit committee and internal audit function can be obtained from[90]:

- Western Australian Public Sector Audit Committees - Better Practice Guide, issued by the Office of the Auditor General Western Australia.
- 2024 Global Internal Audit Standards issued by the Institute of Internal Auditors.
- Internal Audit in Australia, 2nd Ed. 2020, issued by the Institute of Internal Auditors, Australia.
- How to Implement the Global Internal Audit Standards in the Public Sector, issued by the Institute of Internal Auditors.
- Global Practice Guide: Building an Effective Internal Audit Function in the Public Sector, 2nd Ed., issued by the Institute of Internal Auditors.

[90] Please note that the IIA requires membership before it grants access to some material.

Version Control

Version	Date	Section	Amendments
v10.0	30 September 2024	All	Initial publication
v10.1	13 December 2024	All	Minor editorial amendments to enhance readability
v10.2	17 June 2025	1.2 Terms and Definitions	Updated the definition of 'Objectivity' to align with the Global Internal Audit Standards.
		1.3 Internal Audit Function	Added additional guidance on the appropriate reporting arrangement for chief audit executive of the agency.
		1.5 Internal Audit Committee	Added guidance on the Quality Assurance Responsibility, aligned with the principles outlined in the Global Internal Audit Standards.
		1.8 Global standards	Alignment with the new Global Audit Standards.
		1.12 Further information	Updated the links to relevant websites.
		All	Minor editorial amendments
v10.3	2 January 2026	All	Minor editorial amendments

TG 11 Payroll

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Payroll 2. Personnel Records 3. Transfer of Employees
Relevant Treasurer's instruction(s) (TI)	• TI 4 *Risk Management & Internal Control* • TI 5 *Expenditure and Payments* • TI 8 *Financial Accounting and Reporting*
Other Related Instrument(s)	• AASB 1004 *Contributions* • AASB 119 *Employee Benefits* • *Public Sector Management Act 1994* • Section 49D of the *Industrial Relations Act 1979* (Employer's duties as to employment records) • *Industrial Relations Legislation Amendment Act 2024*
Last Updated	2 January 2026
Current Version	v11.3

1. Payroll

1.1 Introduction

Effective internal controls around agency payroll procedures and systems reduce the risk of fraud and error and help agencies comply with applicable legislation and standards. Agencies should therefore implement and maintain an efficient, robust and effective human resource (HR) and payroll system. This chapter is aimed at helping agencies meet their obligations in relation to the internal controls over payroll procedures and systems.

1.2 HR and Payroll System

Establishing an effective HR and payroll system enhances controls to prevent fraud and error. Examples of attributes associated with effective systems are as follows:

- Comprehensive and up-to-date documentation of policies, procedures and controls relating to all aspects of human resources, from recruitment through payroll processing to accounting for employee benefits, including documentation of Acts, awards or agreement that affect payroll.
- Approvals process for authorising staff movements (employee commencement, transfer, higher duties allowances, training or leave) with timely and accurate recording in the HR or payroll systems;
- Automatic data posting to streamline accounting and minimise the need for manual intervention between the payroll system and general ledger accounts;
- Comprehensive reporting to facilitate reconciliation between the pay per the payroll and the general ledger accounts;
- Audit trail functionality to help audit assess the robustness and effectiveness of internal controls, such as restrictions around access to payment details;
- Safeguards restricting access to the payroll system, payment information and confidential employee details, with sufficient controls established when staff leave. For further guidance on staff exit control, please refer to the Office of the Auditor General's Audit Report 'Staff Exit Controls'.
- Rigor around payroll processing and operations to ensure that:
  - adequate segregation of duties between staff responsible for preparing payroll files to those responsible for processing and authorising payment;
  - only bona fide employees are paid;
- employees are paid at the correct rate in accordance with legislation, industrial award or agreement, with instances of overpayment minimised;
- applications for leave are approved, processed and accounted for;
  - clear processes around the recovery of salary overpayments;
  - overtime is authorised and hours processed are consistent with actual hours worked; and
  - deductions are authorised and disbursed promptly;
- Accounting for payroll costs and employee benefits:

- accurate and timely processing accounting data;
  - appropriate levels of security provided for payroll distribution; and
  - tracking and reconciling employee movements across cost centres through detailed management reports.

These and other control procedures should be implemented appropriate to each agency's circumstances and documented in its financial management manual.

1.3 Payroll approvals and certifications

Agencies should design and implement rigorous controls around payroll approvals and certifications. The nature and form of these controls will differ for each agency depending on its size and complexity and according to the nature of its payroll systems and processes. Key considerations might include the following:

- Payroll certification statements to be signed by appropriate line managers.
- Sufficient segregation of duties implemented in payroll authorisations.
- Higher duties allowances approved by appropriated authorisations.
- Payroll certification reports effectively monitored and reviewed.
- Timesheets approved in timely manner.
- The agency's internal audit section should regularly review the payroll certification processes and audit payroll related internal controls on a rotational basis.

The audit risk committee should satisfy itself that the agency has adequate internal controls and certification processes in place for payroll and that the internal audit function is reviewing them on a systematic basis.

1.4 Annual leave and long service leave

Agencies are advised to adhere to the following guidance:

- ensure that leave approvals are granted before the commencement of annual leave;
- ensure there is approval or submission of leave requests in cases of employee absences;
- maintain consistencies in the approval requirements of long service leave payments;
- ensure there is a HR agreement for interagency transfers;
- ensure that reconciliations of annual leave and long service leave are consistently maintained between leave reported and disclosures within financial statements;
- when staff exit, ensure that the final payout for accrued annual leave, long service leave, and other entitlements is calculated in accordance with applicable legislation and agreements; and
- review and verify the calculations for accuracy.

2. Personnel Records

2.1 Introduction

Employment records: Details contained in each employee's employment records should be sufficient to meet the legitimate demands for such personnel information. Employment records need to comply with any requirements contained in directions issued under the authority of the *Public Sector Management Act 1994* or any other Act, industrial award or agreement.

Records of Attendance and Time Worked: The maintenance of records of attendance or time worked is an integral part of the control procedures, which is necessary to ensure the accuracy and validity of salary and wage payments. Attendance and time records provide a level of assurance that employees are only paid for hours worked and that only bona fide employees are paid.

Pay Records: Salary and wage payments are major expenditure items for most organisations. As pay records provide the evidence to support these payments, control over the processing of pay records is essential to ensure the accuracy and validity of salary and wage payments.

This Chapter helps agencies accurately manage, document, and control employee records, attendance, and time worked, thereby ensuring the correctness and validity of salary and wage payments.

2.2 Employment Records

Agencies must maintain adequate and appropriate employment records for each employee. There should be formal advice for all commencements, cessations and variations in remuneration and allowances as the basis of payroll generation. Control procedures should be established to ensure that such information is timely, accurate, valid and complete.

2.2.1 What should be included in employee records?

One key use of employment records is to generate information within agency payroll systems. For the records to be a reliable source of information, there should be sufficient detail to determine salary payments, and the information should be maintained in a secure, accurate and up-to-date manner.

The following is the minimum level of detail that would normally be expected to be maintained in employment records:

- the employee's full name, address and date of birth;
- the authority for the appointment of that employee and the position held;
- the industrial award or agreement under which the employee is employed including the scale within the award or agreement;
- entitlements to each form of leave to which the employee is entitled, and details (including approvals) of leave taken; and
- any allowances payable to the employee.

2.2.2 Internal Controls

Agencies should establish control procedures to maintain the accuracy and quality of this information to ensure that employees are paid correctly, and that only current and bona fide employees are paid.

The agency should consider the following in establishing the basic controls relevant to employment records:

- To ensure that information in the payroll system is complete, procedures should be established to ensure that each formal advice of staff changes, whether in written form or electronically transmitted, is uniquely identifiable.
- To ensure probity, advice should be prepared outside the payroll area, preferably by the officer responsible for maintaining personnel records.
- To provide assurance that the information provided is accurate, valid and complete, advice should be verified against the original documentation for appropriate authorisation and accuracy by an officer appointed for the purpose of validating input information.

2.2.3 Maintaining Accuracy in Payroll Systems

After the initial input of employee details, many payroll systems continue to generate future payments at the same level until details of changes are input to the system. Therefore, to ensure the correctness and validity of payments, it is essential that details of all commencements, cessations and required variations in remuneration and allowances are input to the system in a timely and accurate manner.

Failure to implement appropriate procedures to ensure the accuracy, validity, completeness and timeliness of such information can result in incorrect payment to current employees and payments to non-existent or past employees.

2.3 Records of Attendance and Time Worked

It is essential that appropriate control procedures are adopted to ensure the integrity and accuracy of information in view of the impact on the payment of salaries and wages. Due certification by a supervising officer would be an essential part of control procedures in most circumstances.

Appropriate records of attendance or times worked by employees should be maintained.

Each record should be adequately controlled to ensure the accuracy and validity of information, and where appropriate a requirement that records of attendance or hours worked be certified by the officer immediately in charge or other officer appointed for that purpose.

Requirements relating to records of attendance or time worked which may be specified by any Act, industrial award or agreement must be complied with. For example, section 49D[91] of the *Industrial Relations Act 1979* may be relevant.

[91] Section 49D of the *Industrial Relations Act 1979* - Employer's duties as to employment records

2.4 Pay Records

2.4.1 What should be included in pay records?

Pay records should be prepared for each pay period in support of the gross payment of salaries and wages for that pay period.

The records should, as a minimum, detail with respect to each employee:

- employee's payroll number, where applicable;
- full name and designation of the employee;
- the total time worked;
- the rate payable;
- allowances payable;
- gross salary or wage earned during the pay period;
- taxation;
- other mandatory and voluntary deductions made;
- net salary or wage due and payable;
- mode of payment; and
- payee account(s).

2.4.2 Payroll Recordkeeping and Payment Procedures

For each financial year, agencies should maintain for each employee records that satisfy the requirements of the Commonwealth Commissioner of Taxation.

Each employee should, before or at the time of payment, be provided with or have access to particulars of the salary or wage paid.

Employees should nominate in writing an account at a bank or other authorised deposit taking institution to which the net salary or wage is to be credited.

Payment of salaries or wages should be authorised by the certifying officer in accordance with TI *5 Expenditure and Payments*.

2.4.3 Pay advice

A pay advice provides each employee with information concerning each salary or wage payment. It provides a record of the payment and a source of information which allows the employee to check both the gross and net pay calculations. Such pay advice may be electronic records that are accessible by staff. To protect the safety of an employee who is accessing paid family and domestic violence leave, section 49DA(2A) of the *Industrial Relations Act 1979* requires the pay advice to not include any information that indicates that leave taken by an employee is related to family and domestic violence leave, whether paid or unpaid.

2.4.4 Establishing Controls for Accurate Payroll Records

Appropriate controls should be established to ensure the accuracy and validity of pay records, including the certification of pay records by designated officers to verify that the employees to be paid are entitled to receive payment. The following guidance is offered to establish basic controls for this purpose.

The pay records should not be prepared by any officer whose duties include:

- the engagement or appointment of employees;
- the control of records of attendance or times worked; and
- the maintenance of employment records in accordance with the Employment Records in this guidance chapter.

Where such segregation of duties is not practicable or appropriate, compensating controls and safeguards relevant to the prevailing circumstances should be implemented.

2.4.5 Reconciliation

Agencies should establish robust processes for the reconciliation of pay records, such as reconciliations between the pay per the payroll system and the accounts in the general ledger and the related transactions in the agency's bank account.

- Reconciliations should be prepared regularly;
- Reconciliations should be reviewed by an officer not involved in the preparation of the reconciliation, and that officer should follow up on reconciling items that are not being cleared within a reasonable time frame.
- There should be evidence of review, and the reconciliations made available for audit purposes

3. Transfer of Employees

3.1 Introduction

The mobility of employees within the public sector and the portability of leave entitlements frequently leads to situations where employees carry over some form of leave between agencies.

Until 1998 agencies received no compensation for assuming the employee benefit liabilities of officers that transferred from other agencies. Now, however, transferor agencies are required to pay transferee agencies an amount to compensate them for taking on additional leave liability when an employee transfers. This is to align the cost of providing services with the actual costs incurred by each agency in providing those services and to encourage better management of accrued leave liabilities.

This Chapter details government policy on this matter and other aspects of remuneration costs where an employee is transferred.

Chapters 3.3 – 3.16 address the funding arrangements applicable to the transfer of employees between agencies that are subject to the *Financial Management Act 2006* (the Act).

Chapter 3.17 relates to transfers between WA state public sector agencies where one party is not subject to the Act.

3.2 Terms and Definitions

Term	Definition
Agency	Departments and all statutory authorities listed in Schedule 1 of the Act that are consolidated in the Annual Report on State Finances.
Temporary transfer	Secondment or any other means of temporary transfer that may occur between agencies.
Permanent transfer	Promotion, redeployment or any other means of permanent transfer that may occur between agencies.
Transferor agency	The agency from which the employee is transferring.
Transferee agency	The agency to which the employee is transferring.
Accrual and accrued (in relation to leave entitlements)	The amount of leave entitlements earned but not taken rather than leave credits available to be taken.
Long service leave entitlements	Includes: • Unconditional - exists where legal entitlement to payment arises after completion of a qualifying period of service.

Term	Definition
	• Conditional – exists where legal entitlement to pro-rata payment in lieu of long service leave arises. • Pre-conditional – occurs where the qualifying period of service for pro-rata has not been reached. At this point there is no legal entitlement to any payment or leave.

3.3 Temporary transfers

Where an employee is temporarily transferred between agencies, the following procedures should apply:

- the cost of the employee's remuneration is to be met by the transferee agency. This includes the payment of remuneration during any leave taken within the period of the transfer (without compensation from the transferor agency); and
- any increase in an employee's leave entitlement during the transfer period is accrued by the transferor agency (without compensation from the transferee agency).

Agencies may make alternative arrangements regarding the cost of an employee's remuneration and the payment and accrual of leave entitlements. Such arrangements may be appropriate where the transfers are for:

- an extended or indefinite period; or
- where an agency has a policy of full cost recovery for temporary transfers

Refer also to TG 9 Financial Statements on the accounting treatment for salary recoups – secondments and other temporary transfers.

3.4 Permanent transfers – effect on agencies' statements of financial position

Where an employee is permanently transferred between agencies, the following procedures should apply:

- any annual, long service or sick leave payable to the employee should be charged to the agency employing the employee at the time the leave is taken notwithstanding that the employee may have accrued such leave entitlement in other agencies;
- the transferor agency should pay the transfer value to the transferee agency, an amount equal to the employee's annual and long service leave entitlements, including pre-conditional entitlements and annual leave loading where it applies;
- with respect to the procedure above, where the employee would have been required, on resignation, to repay to the transferor agency an amount in respect of leave taken prior to the completion of the period of service necessary to qualify for that leave entitlement, the transferee agency should pay that amount to the transferor agency; and
- if the employee is participating in a scheme whereby the employee receives a reduced salary in return for additional annual leave or other time off, and will continue in this scheme in the transferee agency, the transferor agency should pay to the transferee agency the amount which the employee would receive if the employee had left the scheme and been compensated for the foregone salary.

The effects on the statements of financial position of both the transferor agency and transferee agency are shown in the following table:

Effect on Agencies' Statements of Financial Position with regard to Employee Transfers	
Transferor	**Transferee**
Decrease in Liability Decrease in Asset/Cash	Increase in Liability Increase in Asset/Cash

Because employees usually transfer at a different salary level, the transferor agency's decrease in liability will differ from the transferee agency's increase in liability. They may also differ from each other and from the transfer value because the liabilities include an estimate of the probability of the employee taking long service leave based on each agency's experience while the transfer value recognises long service leave according to the pro-rata progress of the pre-conditional entitlement.

Those employees who were on industrial agreements or awards which allowed for the paying out of accrued leave entitlements will still be able to access a payout if preferred.

3.5 Transfer value

The transfer value should be equivalent to:

- the annual and long service leave entitlements, including pre-conditional long service leave entitlements which the employee had accrued up to the time of the transfer; and
- any annual leave loading that will be required to be paid by the transferee agency when the employee eventually takes their annual leave.

The transfer value should also include, where applicable, any additional leave purchased by an employee and/or any deferred salary arrangement, where the employee continues the arrangement with the transferee agency.

3.6 Salary rate to be used in calculating the transfer value

The salary rate would normally be the nominal value of substantive salary prior to transfer. On costs, such as payroll tax, would not be included. The industrial agreement or industrial award under which the employee is currently employed should be used to calculate the substantive salary.

3.7 Fixed-term employees permanently transferring between agencies at the end of their fixed-term

In circumstances where a fixed-term employee:

- at or soon after the completion of their fixed-term at an agency, takes up employment with another agency; and
- that other agency is required to take up any annual leave, long service leave or sick leave due to the employee, whether accrued in the previous agency or other agencies;

this is considered to be a permanent transfer.

3.8 Employees permanently transferring to another agency as a fixed-term employee

If an employee transfers to another agency for a fixed-term (e.g. 12 month contract), and at the end of the fixed-term there is no obligation on the transferor agency to accept the employee back, then this type of transfer is considered to be a permanent transfer. However, this circumstance may lead to potential inequity for the transferor agency in applying the guidance outlined in this chapter for permanent transfer, especially in relation to any pre-conditional long service leave entitlements.

In this instance, it may be appropriate for an agreement between the relevant agencies to be reached that results in a fair and equitable outcome for all parties concerned.

3.9 Employees formally resigning from the public sector subsequently taking up employment at another agency

Where an employee:

- makes a formal resignation from an agency with the clear intention of permanently resigning from the public sector;
- is paid out in accordance with the requirements under the appropriate industrial agreement or industrial award; and
- subsequently takes up employment with another agency;

this is not considered to be a permanent transfer for the purposes of this chapter.

However, there may be circumstances where an industrial agreement or industrial award requires the take up of those employee entitlements that were accrued at previous agencies and not paid out upon the resignation of the employee (for example, pro-rata long service leave not paid out on resignation). In this case, it may be considered as a permanent transfer. These matters should be discussed with the Financial Policy team at Treasury where the circumstances are unclear.

3.10 Long service leave entitlements

The long service leave entitlements may include unconditional, conditional and pre-conditional leave entitlements, which are defined in this Chapter.

All of an employee's long service leave entitlements are included in the transfer value, i.e. not only the long service leave which an employee is entitled to take when transferred (i.e. unconditional) but also any pre-conditional and pro-rata leave which an employee could only take when a qualifying period is completed. For example, when an employee transfers after completing one year of a seven-year long service leave scheme the transfer value would include one-seventh of the value of the long service leave.

This means that the transfer value will be closer to the liability associated with the employee than in the past, when leave accumulated before a qualifying period was not included in the transfer value. Including all long service leave in the transfer value more accurately reflects the actual cost of employing staff.

When an employee transfers twice within a qualifying period, i.e. between three agencies, the difference between the first and second transfer values (to the extent they include long service leave) will reflect the length of service in the second agency.

3.11 Annual leave entitlements

Accrued annual leave is an unconditional leave entitlement. The employee has a legal entitlement to annual leave accrued in respect of completed service and the entitlement must be paid out on resignation or retirement. That portion of the employee's current entitlement (leave credits) accrued in respect of service up to the transfer date should be included in the transfer value. Any annual leave loading that will be required to be paid by the transferee agency when the employee eventually takes their annual leave should be included in the transfer value. Any credits in respect of future service should be excluded.

Example

An employee is currently working for Agency A and has gained a permanent position at Agency B.

The transfer of the employee is to take effect from 1 July 20X1.

The employee has 20 days' accrued annual leave balance as at 31 December 20X0 and accrues a further 10 days' annual leave credits in the 6 months to 30 June 20X1 (assuming no leave has been taken between January and June).

The transfer value at 1 July 20X1, would include the transferred employee's accrued annual leave entitlements earned but not taken of 30 days and any annual leave loading that will be required to be paid by the transferee agency when the employee eventually takes their annual leave.

3.12 Differing qualifying periods

An employer may offer multiple industrial agreements and/or industrial awards with differing leave provisions. This will not impact on the determination of an employee's leave entitlements, as the only relevant qualifying period for any employee in determining leave entitlements is the qualifying period in the industrial agreement/industrial award under which the employee was employed at the time of transfer.

3.13 Leave purchase, deferred salary schemes and salary packaging

When an employee has sacrificed salary in order to purchase additional annual leave or other time off, and will continue the arrangement with the transferee agency, the transfer value should recognise it. The transfer value should include the amount to which the employees would be entitled if they left the scheme and were compensated for the foregone salaries. The transfer value for employees on salary packaging schemes should be based on their salary packaging.

3.14 Leave taken prior to completion of the qualifying period of service

Where an employee has taken leave prior to completing the period of service necessary to qualify for the leave, on resignation, the employee would have to repay the employer an amount equal to the leave taken before the entitlement had accrued.

In such circumstances, where the employee transfers to another agency, the employee would effectively carry negative leave entitlements to the transferee agency. This has the effect of reducing the assets of the transferor agency. To compensate the transferor agency, the transferee agency pays the transfer value to the transferor agency.

3.15 Restructuring

A restructure includes any formal transfer of function and would generally be subject to TI 8 *Financial Accounting and Reporting* – Requirement 8 *Contributions by Owners Made to Wholly-owned Public Sector Entities.*

Where a restructure involves the transfer of employees, the transferor agency should pay the transfer value to the transferee agency. This transfer can be considered permanent, resulting in TI 8 not applying to the transferor agency or transferee agency with respect to the transfer of the employee entitlements liabilities and accompanying cash payment, as they are not considered to be non-reciprocal transfers under that instruction. This may have a significant financial impact on both the transferor and transferee agencies.

As with other liabilities and assets subject to the restructure, the funding of existing leave liability should be negotiated between the agencies prior to, or on the effective date of the restructure.

Where the transferee agency is entitled to receive payment for assuming the leave liability transferred, the transfer value may not always be equal to the employee's annual and long service leave entitlements, including pre-conditional entitlements and annual leave loading where it applies. For example, if a restructure results in the transferor agency being exposed to cash management difficulties and/or where the transferee agency is able to manage the leave liability it will receive from the transferor agency, it may be appropriate for the transferee agency to manage the leave liability rather than the transferor agency seeking supplementary funding for payments which may not emerge for some time (i.e. until the leave is actually taken).

Where the transferee agency has covered the leave liability for the transferor agency, the transfer of employee entitlements becomes non-reciprocal and therefore subject to the requirements of TI 8.

If the transferor agency is abolished in the restructure, the guidance in this chapter does not apply. In such a case, AASB 1004 *Contributions* is to be applied to non-reciprocal transfers in relation to a restructure of administrative arrangements. The final report of the abolished agency would include all assets and liabilities of the agency prior to the restructure.

All employee benefit provisions in final reports and annual financial statements are to be calculated under AASB 119 *Employee Benefits*. The transfer value calculated under Chapter 3.5 Transfer value of this chapter is not relevant to the calculation of employee benefit provisions under AASB 119.

3.16 Accounting treatments

Where an employee permanently transfers from one agency to another, the accounting treatment of accrued employee entitlements should be as follows:

- the sum of all accrued annual and long service leave entitlements should comprise a transfer value that is to be paid to the transferee agency;
- where the transfer involves a change in salary, the transferor agency would calculate the transfer value using the pay rate applicable prior to transfer (generally this would be the substantive salary of the employee);
- The transferee agency, however, will be required to recognise the liability calculated at the new pay rate, and will incur an expense as a consequence of the transfer (see Example 1 below);
- where the transfer value is more than the transferor agency's associated liability, the transferor agency should recognise an expense equal to the amount of the shortfall (see Example 2 below). (This may occur as the transfer value is calculated on the pro-rata basis); and
- if the transfer value also exceeds the additional liability recognised by the transferee agency, then the transferee agency should recognise an income for the excess (see also Example 2 below).

Example 1

An employee, with 10 weeks unconditional annual leave entitlements, permanently transfers from Agency A (transferor agency) to Agency B (transferee agency). The employee's current salary at Agency A is $1,000 per week. The transfer to Agency B is a promotion, which increases their salary to $1,200 per week.

The accounting treatments for Agency A and Agency B are as follows:

Agency A (Transferor agency)

The transferor agency should extinguish liabilities and recognise a decrease in assets (cash). The required journal entry is:

DR Leave Provisions (Liability)	$10,000	
CR Cash		$10,000

Agency B (Transferee agency)

The transferee agency should recognise the liability assumed (at the increased salary) and an increase in assets (cash). The required journal entry is:

DR Cash	$10,000	
DR Employee Benefits Expense	$ 2,000	
CR Leave Provisions (Liability)		$12,000

Example 2

If the employee in the above example also had a pre-conditional long service leave entitlement of three weeks which had not been fully recognised by the transferor agency (i.e. the transferor agency estimates the provision for long service leave on the probability of the employee taking long service leave based on its experience), the required journal entries are:

Agency A (Transferor agency)

DR Leave Provisions (Liability)	$10,000	
DR Employee Benefits Expense	$ 3,000	
CR Cash		$13,000

Agency B (Transferee agency)

DR Cash	$13,000	
CR Income		$ 1,000
CR Leave Provisions (Liability)		$12,000

In the above example:

- $10,000 represented the amount of unconditional annual leave entitlement (10 weeks at $1,000) transferred from Agency A to Agency B.
- $3,000 represented the amount of pre-conditional long service leave entitlement (3 weeks at $1,000) recognised by Agency A as an employee benefits expense.
- $12,000 represented the total amount of leave entitlements (10 weeks at $1,200) recognised by Agency B.

Example 3

If, in the previous examples, the employee had a negative leave entitlement of two weeks in Agency A (i.e. had taken leave in advance of accrual), this liability will transfer with them to Agency B. The necessary journal entries are as follows:

Agency A (Transferor agency)

DR Cash	$2,000	
CR Leave Provisions (Liability)		$2,000

Agency B (Transferee agency)

DR Leave Provisions (Liability)	$2,400	
CR Cash		$2,000
CR Employee Benefits Expense		$ 400

Example 4

Where an employee with a deferred salary agreement is transferred and continues the arrangement with the transferee agency, the required journal entries are:

Agency A (Transferor agency)

DR Provision for Deferred Salary	$10,000	
CR Cash		$10,000

Agency B (Transferee agency)

DR Cash	$10,000	
CR Provision for Deferred Salary		$10,000

The amount transferred is the amount of salary foregone by the employee.

3.17 Transfer of employees between agencies where one party is not subject to the *Financial Management Act 2006*

Transfers may occur between WA State public sector agencies not governed by the Act. For instance, corporatised entities such as port authorities and the Water Corporation are exempt from the TIs due to their enabling legislation. Universities are only required to comply with TIs related to annual reporting. Where a transfer of an employee involves one of these types of agencies, this Chapter does not apply to either party, as application to one party may be inequitable.

To ensure equity and fairness, agencies in the above scenarios are encouraged to collaborate to achieve a fair outcome for all parties. This may involve applying the principles outlined in this chapter or negotiating an alternative arrangement that does not disadvantage the employee or either agency.

This Chapter does not apply to the transfer of staff to Western Australian State public sector agencies where the individual was, immediately prior to the transfer, employed by:

- the Commonwealth government of Australia;
- another Australian State or Territory government; or
- a local government authority.

Version Control

Version	Date	Section	Amendments
v11.0	30 September 2024	All	Initial publication
v11.1	13 December 2024	All	Minor editorial amendments to enhance readability
v11.2	17 June 2025	Guidance Summary	Included TI 4 among the Treasurer's instructions relevant to this Guidance.
		2.3 Records of Attendance and Time Worked	Updated footnote 93 to include the *Industrial Relations Legislation Amendment Act 2024*
		2.4.3 Pay advise	Additional guidance added around privacy.
		All	Minor editorial amendments to enhance readability
v11.3	2 January 2026	All	Minor editorial amendments

TG 12 Registers[92]

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Exemptions to Treasurer's instructions granted 2. Delegation and authorisation 3. Guarantees and indemnities 4. Borrowings 5. Risk Management 6. Public property and other property (with a value of $5,000 or more) 7. Shortages and surpluses of money 8. Security documents 9. Appointments of certifying and incurring officers 10. Act of grace payments 11. Use of credit cards for personal purpose 12. Tariffs, fees and charges 13. Special Purpose Accounts 14. Write-offs 15. Contracts
Relevant Treasurer's instruction(s) (TI)	• TI *1 Foundation* • TI 3 *Financial Sustainability* • TI 4 *Risk Management & Internal Control* • TI 5 *Expenditure and Payments* • TI 6 *Income and Receipts*
Other Related Instrument(s)	• Section 16(2) of the *Financial Management Act 2006* (Agency special purpose accounts) • Section 53(1)(cd) of the *Financial Management Act 2006* (Functions of accountable authorities) • Rule F5 of the WA Procurement Rules (Establish and Maintain a Contracts Register)
Last Updated	2 January 2026
Current Version	v12.3

[92] Whether registers are maintained electronically or in paper form is at the agency's discretion.

The requirement for registers in this Guidance is the minimum that an agency is required to include to ensure compliance with the *Financial Management Act 2006* (the Act) and TIs.

1. Exemptions to Treasurer's instructions granted

The register of exemptions to TIs as permitted in TI 1 *Foundation* – Requirement 2.2 *Exemptions* should include:

- the TI(s) exempted from;
- section exempted in the TI;
- a brief description of the exemption;
- the date when the exemption was granted;
- any other relevant information including time limit that applies to the exemption and the particular circumstances under which the exemption remains valid; and
- document number or file reference associated with the exemption.

2. Delegation and authorisation

> ***Section 53(1)(cd)*** *of the Act states that an accountable authority of an agency has the functions of establishing and maintaining records relating to, and a register of, all delegations made, and authorisations given, to officers of the agency that authorise them to enter into financial obligations on behalf of the agency or the State.*

The register of delegations and authorisations, as required under section 53(1)(cd), should include, but not limited to:

- the nature of the delegation or authorisation in terms of financial obligation e.g. procurement of goods and services; fleet acquisition, accommodation fit-outs;
- position title and/or classification authorised or delegated the authority holding each delegation type;
- dollar or other threshold for each delegation or authorisation type; and
- any restrictions/limits placed on individual delegates/authorised officers or types of delegations.

3. Guarantees and indemnities

Requirement 3.2 of TI 3 *Financial Sustainability* requires agencies to maintain a register for all statutory guarantees and indemnities for valid reasons:

- It helps the agency assess and manage risk by keeping track of all its financial commitments;
- It aids transparency and accountability by ensuring that all guarantees and indemnities are documented and accessible;
- It helps the agency plan the necessary resources to meet its obligations;
- It facilitates audit by providing an audit trail; and
- It aids reporting of guarantees and indemnities in the Annual Report on State Finances.

Although the instruction mandates the maintenance of registers for statutory guarantees and indemnities, it does not specify the exact details to be recorded. The following list, which is not exhaustive, provides examples of the type of information that an agency might consider including in its registers:

- the authority for the grant of the guarantee or indemnity;
- the name of the person or organisation granting the guarantee or indemnity;
- the name of the recipient and the name of the person or organisation for whose benefit the guarantee or indemnity is granted;
- the terms and conditions (including loan repayment terms if applicable) of the guarantee or indemnity;
- the date the guarantee or indemnity was granted;
- the date the guarantee or indemnity will expire;
- the amount (or estimate, if the amount is unknown) of the potential liability in respect the guarantee or indemnity;
- the circumstances under which the guarantee or indemnity may be invoked, or an appropriate reference to where details pertaining to those circumstances are recorded;
- details of any of security taken in support of the grant of the guarantee or indemnity; and the manner in which the guarantee or indemnity was granted.

The Under Treasurer maintains a similar register for non-statutory guarantees or indemnities (sureties) exercised under Crown prerogative by the Treasurer. Though not required, agencies should maintain a register of sureties that have been issued by the Treasurer for the operations of the agency.

4. Borrowings

An agency should establish and maintain a register of borrowings. The register should include:

- legislative authority under which the borrowings are authorised;
- approvals obtained (e.g. legislation may require Minister with Treasurer's prior approval);
- purpose of borrowings;
- amount of borrowings;
- lending institution;
- date of borrowing;
- reference to where all relevant documentation is filed and/or stored;
- date instalments due;
- details of repayments (interest and principal); and
- any other relevant information.

5. Risk Management

Ideally the risk register should document the outcomes from each stage of the risk management process. For example:

- the context and objectives;
- description of identified risks and opportunities;
- the impact that the risk (or opportunity) may have on the objectives;
- an assessment of the likelihood and consequence of each risk (or opportunity);
- the resulting 'grade or level' of this assessment;
- the date of the last risk review (for that specific risk) and the result of that review (i.e. residual risk); and
- further treatment actions which may be taken to reduce the likelihood or severity of that residual risk.

The register should be seen as a reference point and live document that needs periodic updates for its accuracy and relevance.

6. Public property and other property with a value of $5,000 or more

The register required in TI 4 *Risk Management and Internal Control* – Requirement 7 Records *of Public Property and Other Property* should include the following, as applicable:

- description;
- original cost[93], or value if donated;
- date of acquisition;
- manufacturer's identification number (e.g. serial number);
- agency identification number; and
- location.

Where a property has a value of less than $5,000 but is part of a network with a total value of $5,000 or more, it may be appropriate for the entire network to be recorded in the property register. There may be circumstances in which this is not appropriate, for example where a property could be sold separately from the network. In such instances, it may be appropriate for each property to be recorded separately despite having a value of less than $5,000.

Despite the $5,000 limit set in TI 4 – Requirement 7, the agency may seek an exemption from this requirement for a higher limit (but not more than $10,000).

The following items of property should be recorded in the property register:

- plant, equipment and furniture including:
  - items of office equipment and furniture;
  - computing hardware and software;
  - vehicles; and
  - scientific equipment.
- land and buildings;
- copyrights, patents, trademarks and licences;
- personal property such as shares; and
- any other property as considered appropriate by the accountable authority.

Where the limit set in TI 4 – Requirement 7 is the same as the asset capitalisation threshold set in TI 9 *Financial Statements*, agencies may utilise this property register as an asset register for financial reporting purposes.

Differences between the property register or records of property and the property in existence at the time of the stocktake should be reported, together with particulars of follow-up action, to the accountable authority. The property registers or records of property should be adjusted with the differences identified, which would be subsequently written off as appropriate.

7. Shortages and surpluses of money

93 Where the original cost is nominal, the fair value of the asset should be used.

The register of shortages and surpluses of moneys should include:

- the date of the transaction or the date when the shortage or surplus was identified;
- details of the transaction that resulted in the shortage or surplus;
- the amount of the shortage or surplus; and
- document number or file reference associated with the shortage or surplus.

8. Security documents

Security documents include:

- securities as defined in section 39(8) of the *Banking Act 1959 (Cth)* which includes shares, stock, bonds, debentures, debenture stock, treasury bills and notes, and units or sub-units of a unit trust, and also includes deposit receipts in respect of the deposit of securities and documents of title to securities;
- guarantees, indemnities or sureties issued or received, whether of a financial or performance nature;
- negotiable instruments, whether issued or received;
- any document which is defined by the written law to be a security document; and any other document which the accountable authority determines must be treated as a security document.

The register of security documents may contain the following type of information:

- the date of lodgement;
- a full description of the document concerned;
- the nature of the document;
- who the document is lodged with;
- in whose favour the document is lodged;
- the face value of the document;
- under what statute, regulation or authority the document is granted;
- reference to where the security document is held;
- particulars regarding the payment of interest; and
- the date and particulars of release, substitution or alteration.

It is suggested that the register of security documents is reconciled annually with all security documents.

Adequate controls should be established and maintained to ensure:

- that appropriate details of all security documents are recorded in a register of security documents;
- the safe custody of security documents; and
- that the register of security documents is reconciled annually with all security documents.

9. Appointments of certifying and incurring officers

TI 1 *Foundation* permits appointments of certifying and incurring officers to be made by either name or position to minimise the need to constantly update the register.

The register required in TI 5 *Expenditure and Payments* – Requirement 1.2(ii) *Authorisation of Payments* may contain the following information:

- an appropriate identifier for each certifying and incurring officer;
- details of conditions of the appointment;
- cost centres/accounts/functions against which a transaction may be approved;
- monetary limits; and
- variation or cancellation of the appointment.

To preserve the integrity of the register, certifying and incurring officers should not be responsible for the custody and maintenance of the register. Furthermore, the agency should ensure that access to the register is secured at all times. Regular reviews of the register should be conducted to ascertain its integrity.

10. Act of Grace Payments

An agency should maintain a register of all act of grace payments as recommended in TG 5 Expenditure and Payments - Chapter 4.6 Register. Ex gratia payments should also be included in the register for transparency purposes.

The register for act of grace payments should include:

- the amount of the payment;
- the name of the recipient;
- the date that the payment was made;
- a comprehensive description of the special circumstances for making the payment;
- the authorising person i.e. Treasurer or Ministers of the Crown (under delegated authority from the Treasurer up to $250,000); and
- details of any terms and conditions of imposed as a part of making the payment, if applicable.

11. Use of credit cards for personal purpose

Agencies should not use a corporate credit card for personal purpose as required by TI 5 *Expenditure and Payments* – Requirement 2.2 *Credit Cards*. However, if a credit card is used for a personal purpose in contravention of this requirement, the misuse should be recorded in a register.

The register should include:

- employee's name
- last four digits of the corporate card;
- reason for personal use
- date of the expenditure incurred;
- amount of the expenditure incurred;
- confirmation that a written notice has been given to the chief finance officer of the agency and to the notifiable authority.
- confirmation of employee's payment of the amount; and
- date of the personal expenditure payment.

12. Tariffs, fees and charges

As required in TI 6 *Income and Receipts* – Requirement 3.3 *Tariffs, Fees and Charges*, a register of tariffs, fees and charges should contain the following information:

- the name of the tariff, fee or charge;
- a description of the goods and/or services to be provided;
- the name of the legislation that authorises the collection of the tariff, fee or charge;
- the amount and unit of the tariff, fee or charge;
- the level of cost recovery in percentages;
- the estimated revenue to be raised over the relevant financial year;
- the date of the last review; and
- any relevant information including policy decision to recover less than cost of recovery.

13. Special purpose accounts

> ***Section 16(2)*** *of the Act states that the accountable authority of any agency is to maintain records that enable the accountable authority to account separately for each agency special purpose account (SPA) of the agency.*

Section 16(2) mandates agencies to maintain records for their SPAs, therefore, it is required that agencies keep a register of these accounts to ensure proper accountability and transparency in their financial management.

The register should include:

- the name of the SPA;
- the authority under which the account was established;
- the date the special purpose statement or trust statement was approved or amended, if applicable;
- the current status of the account;
- date of review of the account;
- the account closure date; and
- any additional information or comments.

14. Write-offs

An agency should establish and maintain a register of all relevant amounts and items written off.

This register should include:

- details of the relevant amounts written off;
- the authority for the write-offs;
- the amount written off;
- any insurance recovery; and
- any subsequent action to reinstate and recover the debt.

Agencies should also maintain a register of the forgiveness (or waiver) of debts to enable compliance with TI 9 *Financial Statements* – Requirement 1 *General Information in Financial Statements*.

15. Contracts

An agency is required to establish and maintain a contract register according to Rule F5 of the WA Procurement Rules.

A register of contracts should contain information on an agency's 'live' contracts. The information is to be entered on the register within 30 days of the contract being awarded and should remain on the register for the term of the contract, plus at least 12 months after the contract completion; thereafter, the record may be archived.

A register of contracts is required to contain the following minimum information:

- a unique identifier (contract number);
- the contract title;
- legal identity of the Supplier;
- the commencement date and expiry date of the contract (if applicable);
- the estimated dollar value of the contract at award;
- the number and total value of approved Variations to date;
- for Standing Offers, total expenditure (updated annually); and
- final contract dollar value at final contract completion.

The policy for recording contracts should be disclosed in the agency's financial management manual as required by TI 4 *Risk Management and Internal Control* – Requirement 1 *Financial Management Manuals*.

Where contracts are entered into with a foreign currency exposure, agencies should also refer to TI 4 *Risk Management and Internal Control* – Requirement 5 *Managing Foreign Exchange Risk*.

Version Control

Version	Date	Section	Amendments
v12.0	30 September 2024	All	Initial publication
v12.1	13 December 2024	All	Minor editorial amendments to enhance readability
v12.2	17 June 2025		Minor editorial amendments
v12.3	2 January 2026	All	Minor editorial amendments

TG 13 Treasury Forms and Templates

Guidance Summary

Treasurer's Guidance (TG) Chapter(s)	1. Treasury Forms 2. Resource Agreement 3. Special Purpose Statements and Trust Statements 4. Related Party Disclosures - Data Collection Form 5. Certification of financial management manual 6. Contributions by Owners Made to Wholly-Owned Public Sector Entities
Relevant Treasurer's instruction(s) (TI)	• TI 3 *Financial Sustainability* • TI 4 *Risk Management and Internal Control* • TI 7 *Special Purpose Account* • TI 8 *Financial Accounting and Reporting*
Other Related Instrument(s)	• *Financial Management Act 2006* • *Financial Management Regulations 2024*
Last Updated	25 May 2026
Current Version	v13.4

1. Treasury Forms

Requisition for funds transfer between statutory accounts requires the approval of the Treasurer (and the Governor in relation to new funding). The following Treasury Forms help agencies to obtain sufficient information for the Treasurer (and the Governor) to exercise their powers under the *Financial Management Act 2006* (the Act):

Treasury Form	
Treasury Form 1	Requisition to Transfer Moneys - section 21(3)
Treasury Form 2	Requisition for Transfer of Appropriations - section 25(2)
Treasury Form 3	Requisition for Transfer of Appropriations - section 25(4)
Treasury Form 8	Requisition for Advances - section 28(1)
Treasury Form 11	Requisition for Supplementary Funding - section 27(2)
Treasury Form 12	Requisition for New Funding - section 27(1)
Treasury Form 13	Requisition for Amount Authorised by Other Statute

Agencies should also develop financial management forms relevant to their own specific needs and circumstances. Examples might be forms for data input, information storage or authorisation. These agency-specific accounting forms should be included in the agency's financial management manual.

2. Resource Agreement

According to TI 3 *Financial Sustainability* – Requirement 2 *Resource Agreements*, it is mandated for a draft resource agreement to be prepared in the form of the relevant template outlined below.

Template	Description
Template 1	For use by agencies with one portfolio Minister
Template 2	For use by agencies with multiple portfolio Ministers
Template 3	For use by agencies who do not require Minister's agreement under section 43(2) of the Act.
Template 4	For use by agencies who have no relationship to Government Goals
Template 5	For use by agencies to report actual performance compared to resource agreement targets under section 61(2) of the Act
TG 3 Appendix 1 (relates to Templates 1,2,3,4 above)	Treasurer's direction under section 42(1) of the Act provides the listed accountable authorities which have been granted an exemption from preparing the resource agreement. Additional information is also in TG 3 Financial Sustainability – Chapter 2 Resource Agreement.

3. Special Purpose Statements and Trust Statements

TI 7 *Special Purpose Accounts* – Requirement 1.1 *Special Purpose Statements and Trust Statements* mandates agencies to provide, at a minimum, the information outlined in the following templates for special purpose statements or trust statements.

Template	
Template 6	Special Purpose Statements
Template 7	Trust Statements

4. Related Party Disclosures – Data Collection Form

According to TI 8 *Financial Accounting and Reporting* – Requirement 5.1 *Related Party Disclosures*, Agencies are required to ensure that senior officers of the agency complete the Data Collection Form (Template 8) at the end of each reporting period. They must also complete the form if they are affected by changes, such as machinery of government changes, resignation or acting arrangements.

5. Certification of Financial Management Manual

TI 4 *Risk Management and Internal Control* – Requirement 1.2 *Financial Management Manuals* mandates agencies to annually certify their financial management manuals to the Under Treasurer using Template 9A for individual accountable authorities and Template 9B for bodies that are the accountable authority.

6. Contributions by Owners Made to Wholly-owned Public Sector Entities

As outlined in TG 8 Financial Accounting and Reporting – Chapter 6 Contributions by Owners Made to Wholly-owned Public Sector Entities, Template 10 is applicable in situations where transactions require a formal designation.

Version Control

Version	Date	Chapter	Amendments
v13.0	30 September 2024	All	Initial publication
v13.1	13 December 2024	All	Minor editorial amendments to enhance readability
		Treasury Forms Templates	Updated Treasury Forms as follows: Forms 1, 8, and 11: Updated footnote. Forms 2 and 3: Added sign-off of the delegation of the Treasurer powers under the Act.
v13.2	17 June 2025	Certification of financial management manual Templates	Developed Template 9B for agencies where bodies are the accountable authority. Agencies now have two templates to use: Template 9A: For individual accountable authorities. Template 9B: For bodies that are the accountable authority.
v13.3	2 January 2026	Certification of financial management manual Templates	Update Template 9A and 9B to expand on the declaration in certifying agency's financial management manual.
		All	Minor editorial amendments
V13.4	25 May 2026	Templates	Updates the Resource Agreements templates to align with the Department of Treasury and Finance's current templates.

Templates

TREASURY FORM 1: REQUISITION TO TRANSFER MONEYS

REQUISITION to direct money standing to the credit of a special purpose account be transferred to another special purpose account in relation to a transfer of the **relevant service** by the Treasurer under section 21(3) of the *Financial Management Act 2006*.

Relevant Service Transferred: _____ **Effective Date of Transfer:** _____

TRANSFER OF MONEYS

TRANSFEROR'S SPECIAL PURPOSE ACCOUNT	**TOTAL FUNDS AVAILABLE**	**AMOUNT EXPENDED TO DATE**	**AMOUNT TRANSFERRED**
	1	**2**	**COLUMNS 1 *minus* 2**
□ **s. 16(1)(a)** □ **s. 10(a)** □ **s. 16(1)(c)** □ **s. 10(f)** □ **s. 16(1)(d)**	$'000	$'000	$'000
TOTAL			

TRANSFERRING AGENCY: _____

_____ _____ _____

Accountable Authority (name) **Signature** **Date**

TRANSFEREE'S SECTION 16 AGENCY SPECIAL PURPOSE ACCOUNT	**AMOUNT TRANSFERRED**
□ **s. 16(1)(a)** □ **s. 16(1)(c)** □ **s. 16(1)(d)**	$'000
TOTAL	

RECEIVING AGENCY: _____

_____ _____ _____

Accountable Authority (name) **Signature** **Date**

DIRECTED

_____ _____

Treasurer (signature) **Date**

or executed pursuant to delegated power[1] by _____

Name and Position

_____ _____

Signature **Date**

[1] Delegated power may be exercised where Machinery of Government change has been approved by Cabinet. Under section 21(3) of the FMA, the Treasurer has delegated his/her powers to the Under Treasurer, Deputy Under Treasurer, Assistant Under Treasurer (Agency Budgeting & Governance), Assistant Under Treasurer (Strategic Policy & Evaluation), and Director Financial Policy & Operations.

TREASURY FORM 2: REQUISITION FOR TRANSFER OF APPROPRIATIONS

REQUISITION to determine an unexpended amount of the relevant appropriation upon the transfer of a service or function, after the commencement of an Appropriation Act, be issued and applied for the purposes of that service or function by the Treasurer under section 25(2) of the *Financial Management Act 2006*.

Note: Section 25 requirement applies only to the transfer of an appropriation in the current financial year. However, the financial implications and adjustments arising from the transfer of a service or function should also be provided as set out in Attachments 1, 2, and 3 for budgeting purposes.

Function or Service Being Transferred: _____		**FY _____**
		$'000
Transfer of Amount Appropriated to Deliver Services		
From Item Number: _____		
To Item Number: _____		
	Cash Receipt	
	Non-Cash Items	
	Total Appropriation	
Transfer of Capital Appropriation		
From Item Number: _____		
To Item Number: _____		
	Cash Appropriation	

TRANSFERRING AGENCY: _____

_____	_____	_____
Accountable Authority (name)	**Signature**	**Date**

RECEIVING AGENCY: _____

_____	_____	_____
Accountable Authority (name)	**Signature**	**Date**

DETERMINED

_____	_____
Treasurer (signature)	**Date**

or executed pursuant to delegated power[1] by _____

Name and Position

_____	_____
Signature	**Date**

ENDORSED

_____	_____	_____
Director (name)	**Signature**	**Date**

_____

Directorate

[1] Delegated power may be exercised where the expenditure has been approved by Cabinet as recommended by the Expenditure Review Committee or under Treasurer's Delegated Authority from Cabinet. Under section 25(2) of the FMA the Treasurer has delegated his/her powers to the Under Treasurer, Deputy Under Treasurer and Director State Finances.

Attachment 1

TRANSFER OF EXPENSES AND INCOME BETWEEN AGENCIES

	Budget Year	**Outyear**	**Outyear**	**Outyear**
	$'000	$'000	$'000	$'000
Expenses				
Employee benefits ……..				
Grants and subsidies ……				
Supplies and services ……				
Accommodation ……..……				
Depreciation and amortisation …….....				
Finance and interest costs ……..……..				
Other expenses ……..……..				
Total Expenses ……				
Income				
Sales of goods and services …….....				
Regulatory fees and fines ……..				
Grants and subsidies …….....				
Other revenue …….....				
Total Income ……				
INCOME FROM GOVERNMENT				
Service appropriations ……				
Resources received free of charge ……..				
Royalties for Regions Fund ……...				
Other revenues ……				
TOTAL INCOME FROM GOVERNMENT ……				

Attachment 2

TRANSFER OF ASSETS AND LIABILITIES BETWEEN AGENCIES

	Budget Year	**Outyear**	**Outyear**	**Outyear**
	$'000	$'000	$'000	$'000
CURRENT ASSETS				
Cash assets ……				
Restricted cash ……				
Holding Account receivables ……				
Receivables ……				
Loans and advances ……				
Other ……				
Assets held for sale ……				
Total current assets ……				
NON-CURRENT ASSETS				
Holding Account receivables ……				
Property, plant and equipment ……				
Loans and advances ……				
Receivables ……				
Intangibles ……				
Restricted cash ……				
Other ……				
Total non-current assets ……				
TOTAL ASSETS ……				
CURRENT LIABILITIES				
Employee provisions ……				
Payables ……				
Borrowings and leases ……				
Other ……				
Total current liabilities ,,,,,,……				
NON-CURRENT LIABILITIES				
Employee provisions ……				
Borrowing and leases ……				
Other ……				
Total non-current liabilities ……				

TOTAL LIABILITIES				

Attachment 3

TRANSFER OF CASHFLOWS BETWEEN AGENCIES

	Budget Year	Outyear	Outyear	Outyear
	$'000	$'000	$'000	$'000
CASHFLOWS FROM GOVERNMENT				
Service appropriations ……..				
Capital appropriation …….				
Holding Account drawdowns ……				
Royalties for Regions Fund ……...				
Receipts paid into Consolidated Account ……...				
Other …….....				
Net cash provided by Government ……				
CASHFLOWS FROM OPERATING ACTIVITIES				
Payments				
Employee benefits …….				
Grants and subsidies …….				
Supplies and services ……				
Accommodation …….....,				
GST payments ……..,,				
Finance and interest costs ……				
Other payments ……..				
Receipts				
Regulatory fees and fines …….				
Grants and subsidies …….				
Sale of goods and services ……..				
Taxation ……				
GST receipts ……				
Other receipts ……..				
Net cash from operating activities ……..				
CASHFLOWS FROM INVESTING ACTIVITIES				
Purchase of non-current assets ……				
Proceeds from sale of non-current assets ……..				
Net cash from investing activities ……..				
CASHFLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings and leases ……				

Proceeds from borrowings ……				
Other payments ……..				
Net cash from financing activities ……..				

TREASURY FORM 3: REQUISITION FOR TRANSFER OF APPROPRIATIONS

REQUISITION to direct an amount appropriated by an Appropriation Act for a financial year by way of a central appropriation for a general purpose be transferred to another appropriation item by the Treasurer under section 25(4) of the *Financial Management Act 2006*.

		FY _____
		$'000
General purpose of appropriation: _____		
From Item Number: _____		
Agency: _____		
To Item Number: _____		
	Cash Receipt	
	Non-Cash Items	
	Total Appropriation	

RECOMMENDED

Name	**Signature**	**Date**

Directorate

APPROVED

Treasurer (signature)	**Date**

or executed pursuant to delegated power[1] by _____

Name and Position

Signature	**Date**

[1] Delegated power may be exercised where the expenditure has been approved by Cabinet as recommended by the Expenditure Review Committee or under Treasurer's Delegated Authority from Cabinet. Under section 25(4) of the FMA, the Treasurer has delegated his/her powers to the Under Treasurer, Deputy Under Treasurer and Director State Finances.

TREASURY FORM 8: REQUISITION FOR ADVANCES

REQUSITION to authorise advances on the terms and conditions determined by the Treasurer and is to be recovered before the end of the financial year for which the advance is authorised by the Treasurer under section 28(1) of the *Financial Management Act 2006*.

TREASURER'S ADVANCE ACCOUNT

PURPOSE OF ADVANCE (Tick all applicable)	AMOUNT $'000
☐ For the temporary financing of works and services of the State under section 28(1)(a)(i)	
☐ To a public authority under section 28(1)(a)(ii)	
☐ To the credit of a special purpose account under section 28(1)(a)(iii)	
☐ For the purchase of stores under section 28(1)(a)(iv)	
☐ For the temporary financing of works and services undertaken in the circumstances described in section 28(1)(b)	

I certify that it is necessary for the amount of $ _____ be provided to the agency for the above-mentioned purpose(s) for the financial year ending 30 June _____.

AGENCY: _____

_____	_____	_____
Accountable Authority (name)	**Signature**	**Date**

RECOMMENDED

_____	_____	_____
Minister (name)	**Signature**	**Date**

AUTHORISED

_____	_____
Treasurer (signature)	**Date**

or executed pursuant to delegated power[1] by _____

Name and Position

_____	_____
Signature	**Date**

[1] Delegated power may be exercised where the advance has been approved by Cabinet as recommended by the Expenditure Review Committee or under Treasurer's Delegated Authority from Cabinet, except where an advance is required from year to year temporarily to manage cashflows. Under section 28(1) of the FMA the Treasurer has delegated his/her powers to the Under Treasurer, Deputy Under Treasurer, Director State Finances, Assistant Under Treasurer (Agency Budgeting & Governance), Assistant Under Treasurer (Strategic Policy & Evaluation), and Director Financial Policy & Operations.

TREASURY FORM 11: REQUISITION FOR SUPPLEMENTARY FUNDING

REQUISITION to authorise expenditure in a financial year that exceeds the amounts appropriated by an Appropriation Act for the year by the Treasurer under section 27(2) of the *Financial Management Act 2006*.

CONSOLIDATED ACCOUNT

ITEM NO.	PURPOSE OF ITEM	BUDGET ESTIMATE	AMOUNT EXPENDED TO DATE	AMOUNT APPLIED FOR (CASH)	AMOUNT PREVIOUSLY AUTHORISED (CASH)	TOTAL SUPPLEMENTARY FUNDING
		1	2	3	4	COLUMNS 3+4
		$'000	$'000	$'000	$'000	$'000
	TOTAL					

I certify that it is necessary for the amount of $ _____ (Column 3) be provided to the agency to meet the expenditure specified in the Agency Information in Support of the Estimates for the financial year ending 30 June _____.

AGENCY: _____

_____ _____ _____

Accountable Authority (name) **Signature** **Date**

RECOMMENDED

_____ _____ _____

Minister (name) **Signature** **Date**

AUTHORISED

_____ _____

Treasurer (signature) **Date**

or executed pursuant to delegated power[1] by _____

Name and Position

_____ _____

Signature **Date**

ENDORSED

_____ _____ _____

Director (name) **Signature** **Date**

_____

Directorate

[1] Delegated power may be exercised where the expenditure has been approved by Cabinet as recommended by the Expenditure Review Committee or under Treasurer's Delegated Authority from Cabinet. Under section 27(2) of the FMA the Treasurer has delegated his/her powers to the Under Treasurer, Deputy Under Treasurer and Director State Finances.

TREASURY FORM 12: REQUISITION FOR NEW FUNDING

REQUISITION to authorise expenditure in a financial year that is not provided for by an Appropriation Act for the year by the Governor, on the recommendation of the Treasurer, under section 27(1) of the *Financial Management Act 2006.*

CONSOLIDATED ACCOUNT

PURPOSE OF ITEM	AMOUNT APPLIED FOR	AMOUNT PREVIOUSLY AUTHORISED	TOTAL NEW FUNDING
	1	2	COLUMNS 1 + 2
	$'000	$'000	$'000
TOTAL			

I certify that it is necessary for the amount of $ _____ (Column 1) be provided to the agency to meet the above-mentioned expenditure for the financial year ending 30 June _____.

AGENCY: _____

Accountable Authority (name)	**Signature**	**Date**

SUPPORTED

Minister (name)	**Signature**	**Date**

RECOMMENDED

Treasurer (signature)	**Date**

AUTHORISED by the Governor in Executive Council — **Executive Council No.:** _____

Clerk of the Executive Council (name)	**Signature**	**Date**

ENDORSED This form is to be endorsed by the Under Treasurer before being submitted to the Treasurer.

Under Treasurer (signature)	**Date**

TREASURY FORM 13: REQUISITION FOR AMOUNTS AUTHORISED BY OTHER STATUTES

REQUISITION to increase the amounts authorised by other statutes specified in the Agency Information in Support of the Estimates for the financial year to be charged to the Consolidated Account and appropriated accordingly pursuant to:

CONSOLIDATED ACCOUNT

STATUTE (Provide details in attachment if required.)	**SECTION**	**BUDGET ESTIMATE**	**AMOUNT APPLIED FOR**	**AMOUNT PREVIOUSLY CHARGED**	**TOTAL AMOUNT CHARGED**
		1	2	3	COLUMNS 1 + 2 + 3
		$'000	$'000	$'000	$'000
TOTAL					

I certify that it is necessary for the amount of $ _____ (Column 2) be provided to the agency to meet the expenditure authorised under the written law for the financial year ending 30 June _____.

AGENCY: _____

_____	_____	_____
CFO or authorised officer (name)	**Signature**	**Date**

ENDORSED

_____	_____	_____
Treasury Manager (name)	**Signature**	**Date**

_____

Branch

ACTIONED

_____	_____	_____
Treasury Officer (name)	**Signature**	**Date**

TEMPLATE RESOURCE AGREEMENTS

XXXX-XX
AGENCY RESOURCE AGREEMENT

Please find attached your agency's draft Resource Agreement (RA) for completion and signing.

Please note that:

- Treasury will accept **scanned copies of signed draft RAs via email** (hard copies with wet signatures are not required).

- Draft RAs can be signed in counterpart, meaning each Minister and accountable authority can sign a separate copy of the draft RA (with all copies to be provided to Treasury). Alternatively, the same copy of the RA can be scanned and signed by all parties and emailed to Treasury.

Where to from here:

Accountable authority's signature on the completed copy? **YES** ☐ **NO** ☐

Relevant Portfolio Minister's signature on the completed copy? **YES** ☐ **NO** ☐

Please:

☐ return by email the scanned, signed draft RA to your Treasury Analyst by **{Day, Date}.**

DO NO SEND THE MINISTERIALLY SIGNED DRAFT RESOURCE AGREEMENT TO THE TREASURER'S OFFICE

All Resource Agreements will be coordinated centrally by Treasury and provided to the Treasurer for agreement

RESOURCE AGREEMENT

between the

MINISTER FOR **{PORTFOLIO}**

the

ACCOUNTABLE AUTHORITY OF **{AGENCY NAME}**

and the

TREASURER

For the financial year ending 30 June **XXXX**

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Appendix 8

1.0 INTRODUCTION

1.1 Purpose

This agreement records undertakings by:

- the Minister - that the agency-level desired outcomes and performance targets identified in the Budget Statements and summarised in the attached Appendix are consistent with the broader strategic policy direction and priorities of the Government; and

- the Accountable Authority - to efficiently deliver the services and to achieve the desired outcomes and targets (both financial and non-financial) specified in the Budget Statements and the Appendix, while ensuring the development and maintenance of high quality human and capital resources of the agency; and

- the Treasurer - subject to Parliament's approval, to provide financial resources to facilitate achievement of the agreed outcomes and performance targets.

These undertakings are made to allocate accountabilities for the budget, including for achieving the agreed expense limit and other budget targets.

Treasury will report material breaches of the agreed expense limit to Cabinet's Expenditure Review Committee. Expense limit outcomes are disclosed in the Annual Report on State Finances.

1.2 Term and Scope

This agreement covers the period from **1 July XXXX to 30 June XXXX**. References to the Budget and Budget Statements are to the **XXXX-XX** Budget and Budget Statements, unless the context implies otherwise. All parties recognise the importance of ongoing review of obligations in the resource agreement to ensure:

- targeted outcomes represent maximum benefit to the community;

- optimal combination of services to achieve the identified outcomes;

- services are delivered at least cost;

- there is co-ordinated effort to facilitate whole-of-government and cross-agency initiatives (where appropriate);

- the total cost of services does not exceed the agreed expense limit; and

- approved salary expense levels, in line with Government Wages Policy, are managed, monitored and reported against.

1.3 Signatures of the Parties[1]

Minister
Dated

Accountable Authority[2]
Dated

Treasurer
Dated

[1] Note: This Resource Agreement may be signed in counterpart, and:

(a) this Agreement may be executed in any number of counterparts
(b) all counterparts, taken together, constitute one instrument, and
(c) a party may execute this Agreement by signing any counterpart.

[2] Accountable authority is the chief executive officer of a department, the holder of an office declared to be the accountable authority of a sub-department and the person or body having general direction and control of the statutory authority.

2.0 STRATEGIC CONTEXT

2.1 Relationship to Government Goals

The Budget Statements identify links between the Government Goals articulated for the **XXXX-XX** Budget, and the following agency level desired outcomes:

(Department of Treasury and Finance example)

- Sustainable and transparent public sector finances.
- A strong and competitive State economy.
- Value for money outcomes in service delivery and infrastructure provision.

2.2 Performance Monitoring

Progress towards the agency level desired outcomes is to be monitored with the assistance of key effectiveness indicators. Key efficiency indicators will be used to assist in monitoring service delivery. These performance indicators, together with performance targets, are published in the Budget Statements and actual results against these targets will be disclosed in the agency's annual report as required by section 61(2) of the *Financial Management Act 2006* (the Act).

2.3 Significant Issues Impacting the Agency

All parties agree that this section of the Budget Statements describes:

(agency to describe if applicable)

- the key external influences (including risks) which impact on operations;
- past and present trends in those influences; and
- potential future trends in the operating environment, including the:
  - effect on demand; and
  - effect on cost.

2.4 Whole-of-Government and Cross-Agency Initiatives

All parties acknowledge that there is shared accountability for the successful implementation of whole-of-government reform initiatives as determined from time to time, if applicable.

The **{Agency Name}** contributes to the following key cross-agency initiatives:

Cross-Agency Initiatives

Initiative	Related outcome(s)	Contributing agencies	Financial (or resource) commitment	Target result for **XXXX-XX**
	•	•		•
	•	•		•

Drafting note: The Minister and lead agency with responsibility for coordinating the delivery and reporting on each of the preceding State Government cross-agency initiatives are to be identified.

3.0 FINANCIAL MANAGEMENT

3.1 Responsibility for Financial Management

This agreement recognises the shared financial management responsibilities of the parties. In broad terms the Treasurer, as representative of the State, represents the State's ownership interest in **{Agency Name}.** It is the Minister's and the Accountable Authority's role to agree to work to achieve the financial targets as specified in section 3.2.

3.2 Financial Targets

The Minister and the Accountable Authority, subject to agreed modifications (see section 4.0), undertake to ensure that the total amount of resources disclosed in the Budget Statements for the budget year is managed to achieve:

- the endorsed expense limit, identified as the Total Cost of Services in the Budget Income Statement (impacting the Government's expense growth target for the general government sector). The expense limit is a critical parameter within which the budget must be managed. Approval of Cabinet (through the Expenditure Review Committee or under Treasure's Delegated Authority) is required to spend beyond this limit in the budget year.

  The **{Agency Name}** must manage its service delivery within existing expense limits and use cash balances as a source of funding in the first instance in accordance with Treasury's Cash Management Policy.[3]

- the Net Cost of Services in the Budget Income Statement (impacting the Government's net operating balance target for the general government sector);
- the Total Equity target in the Budget Balance Sheet (impacting the Government's net worth target);
- the approved Working Cash Limit equivalent to 5% of approved budgeted recurrent payments (total operating and financing);
- the approved Salary Expense Level;
- the approved Executive Salary Expenditure Limit; and
- the approved Borrowing Limit, where applicable.

Actual results against these financial targets will be disclosed in the agency's annual report as required by section 61(2) of the Act.

[3] https://www.wa.gov.au/system/files/2020-02/cash_management_policy.pdf

3.3 Ownership Interest

The **{Agency Name}** must account for capital appropriations as equity contributions by the State.

The State is entitled to make such decisions as it sees fit concerning the **{Agency Name}** capital, defined as assets less liabilities (equity) as per the Australian Accounting Standards. These decisions include those regarding:

- equity contributions;
- distribution of net proceeds of asset disposal; and
- treatment of operating surpluses.

3.4 Reporting

The Accountable Authority is required under section 5 of the *Government Financial Responsibility Act 2000* (GFRA) to comply with a request from the Under Treasurer to provide any information needed to meet reporting under the GFRA.

3.5 Administered Transactions

The Budget Statements disclose details of expenses/income to be incurred/received on behalf of the State, as well as assets and liabilities administered on behalf of the State. The Minister and the Accountable Authority undertake to ensure the effective management of these administered items on behalf of the Government, if applicable.

4.0 MODIFICATION OF THE AGREEMENT

Under section 44 of the Act, the Treasurer may, at any time in a financial year, modify this agreement by giving written notice to the Accountable Authority specifying the modification, and directing that the agreement, with the modification, is to be the agreement for the agency for the remainder of the financial year.

Modification of this agreement may be a consequence of changes to:

- agreed expense limits;
- other financial targets (see section 3.2)
- Government policy;
- economic parameters;
- demand for services; and/or
- administrative arrangements that have a material impact.

Where there is a function transfer, the Accountable Authority shall provide sufficient information to enable all relevant agencies to report on the transferred functions and associated assets and liabilities during the year.

Treasury will advise the Accountable Authority and Minister of revised financial targets approved by Cabinet in the course of the financial year, if applicable.

This resource agreement, as modified from time to time, forms part of evidence in the CEO Performance Agreement developed by the Public Sector Commission under Commissioner's Instruction No. 30: Chief Executive Officer Performance Management and section 47 of the *Public Sector Management Act 1994*.

Appendix

DETAILS OF DESIRED OUTCOMES, SERVICES AND PERFORMANCE TARGETS

(Department of Treasury and Finance example)

Desired Outcomes, Key Effectiveness Indicators and Targets [a]

	XXXX-XX Target
Outcome: Sustainable and transparent public sector finances:	
Status of the State's credit rating[b]	
Unqualified audit opinion on the Annual Report on State Finances	Yes
Percentage of financial reports released as per agreed timeframes	x%
Outcome: A strong and competitive State economy:	
Accuracy of key general government revenue forecasts:	
Tax revenue	+/-x%
Royalty revenue	+/-x%
Accuracy of key economic forecasts (percentage point difference):	
Employment growth	+/-x
Real State Final Demand (SFD) growth	+/-x
Outcome: Value for money outcomes in service delivery and infrastructure provision:	
Percentage of advice provided to the Expenditure Review Committee at least 5 days prior to their consideration.....	x%
Percentage of Ministerially endorsed Strategic Asset Plans (SAPs) for the upcoming year received and reviewed by the Department before the commencement of the Budget bilateral process	x%
Outcome: Due and payable revenue is collected and eligible grants, subsidies and rebates paid:	
Taxpayer debt as a percentage of taxation revenue raised.....	x%
Extent to which correct grants, subsidies and rebates are paid.....	x%
Outcome: Value for money from public sector procurement[c]:	
Extent to which client agencies agree that their procurement under common use arrangements achieved value for money……	**X%**

(a) More details of effectiveness indicators in annual report.

(b) Western Australia's credit rating is currently assessed by Standard and Poor's and by Moody's.

Total amount of resources that are expected to be made available to the {Agency Name} for the XXXX-XX financial year:

Recurrent _____

Capital _____

Services, Key Efficiency Indicators and Targets

(Department of Treasury and Finance example)

Service/Key efficiency indicators	XXXX-XX Target
4. Revenue Assessment and Collection, and Grants and Subsidies Administration	
Average cost per revenue determination …….	$X
Average cost per grant or subsidy determination ……	$X
5. Development and Management of Common Use Arrangements	
Cost of developing and managing whole of government common use contract arrangements as a percentage of the total annual value of purchase through the arrangements ……..	$X

Financial Targets

	XXXX-XX Budget Estimate $'000
Total Cost of Services (i.e. endorsed expense limit – detailed in the Income Statement) …….	X
Net Cost of Services (detailed in the Income Statement) ……	X
Total Equity (detailed in the Statement of Financial Position) ……...	X
Salary Expense Level……	X
Executive Salary Expenditure Limit.....	X
Borrowing Limit…….	X
Working Cash Limit - at the commencement of XXXX-XX, the approved working cash limit is **$X**.	

XXXX-XX
AGENCY RESOURCE AGREEMENT

Please find attached your agency's draft Resource Agreement (RA) for completion and signing.

Please note that:

- Treasury will accept **scanned copies of signed draft RAs via email** (hard copies with wet signatures are not required).

- Draft RAs can be signed in counterpart, meaning each Minister and Accountable Authority can sign a separate copy of the draft RA (with all copies to be provided to Treasury). Alternatively, the same copy of the RA can be scanned and signed by all parties and emailed to Treasury.

Where to from here:

Accountable authority's signature on the completed copy? **YES** ☐ **NO** ☐

Relevant Portfolio Ministers' signatures on the completed copy? **YES** ☐ **NO** ☐

Please:

☐ return by email the scanned, signed draft RA to your Treasury Analyst by **{Day, Date}.**

DO NOT SEND THE MINISTERIALLY SIGNED DRAFT RESOURCE AGREEMENT TO THE TREASURER'S OFFICE

All Resource Agreements will be coordinated centrally by Treasury and provided to the Treasurer for agreement

RESOURCE AGREEMENT

between the

MINISTER FOR **{PORTFOLIO}**

[Insert additional Ministers here as required]

the

ACCOUNTABLE AUTHORITY OF **{AGENCY NAME}**

and the

TREASURER

For the financial year ending 30 June **XXXX**

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Appendix 8

1.0 INTRODUCTION

1.1 Purpose

This agreement records undertakings by:

- each Minister – that the agency-level desired outcomes and performance targets identified in the Budget Statements and summarised in the attached Appendix are consistent with the broader strategic policy direction and priorities of the Government; and

- the Accountable Authority – to efficiently deliver the services and to achieve the desired outcomes and targets (both financial and non-financial) specified in the Budget Statements and the Appendix, while ensuring the development and maintenance of high quality human and capital resources of the agency; and

- the Treasurer – subject to Parliament's approval, to provide financial resources to facilitate achievement of the agreed outcomes and performance targets.

These undertakings are made to allocate accountabilities for the budget, including for achieving the agreed expense limit and other budget targets.

Treasury will report material breaches of the agreed expense limit to Cabinet's Expenditure Review Committee. Expense limit outcomes are disclosed in the Annual Report on State Finances.

1.2 Term and Scope

This agreement covers the period from **1 July XXXX to 30 June XXXX**. References to the Budget and Budget Statements are to the **XXXX-XX** Budget and Budget Statements, unless the context implies otherwise. All parties recognise the importance of ongoing review of obligations in the resource agreement to ensure:

- targeted outcomes represent maximum benefit to the community;

- optimal combination of services to achieve the identified outcomes;

- services are delivered at least cost;

- there is co-ordinated effort to facilitate whole-of-government and cross-agency initiatives (where appropriate);

- the total cost of services does not exceed the agreed expense limit; and

- approved salary expense levels, in line with Government Wages Policy, are managed, monitored and reported against.

1.3 Signatures of the Parties[1]

Minister
Dated

Accountable Authority[2]
Dated

[Insert additional Ministers as required]

Treasurer
Dated

[1] Note: This Resource Agreement may be signed in counterpart, and:

(a) this Agreement may be executed in any number of counterparts
(b) all counterparts, taken together, constitute one instrument, and
(c) a party may execute this Agreement by signing any counterpart.

[2] Accountable Authority is the chief executive officer of a department, the holder of an office declared to be the accountable authority of a sub-department and the person or body having general direction and control of the statutory authority.

2.0 STRATEGIC CONTEXT

2.1 Relationship to Government Goals

The Budget Statements identify links between the Government Goals articulated for the **XXXX-XX** Budget, and the following agency level desired outcomes:

(Department of Treasury and Finance example)

- Sustainable and transparent public sector finances.
- A strong and competitive State economy.
- Value for money outcomes in service delivery and infrastructure provision.

2.2 Performance Monitoring

Progress towards the agency level desired outcomes is to be monitored with the assistance of key effectiveness indicators. Key efficiency indicators will be used to assist in monitoring service delivery. These performance indicators, together with performance targets, are published in the Budget Statements and actual results against these targets will be disclosed in the agency's annual report as required by section 61(2) of the *Financial Management Act 2006* (the Act).

2.3 Significant Issues Impacting the Agency

All parties agree that this section of the Budget Statements describes: (

agency to describe if applicable)

- the key external influences (including risks) which impact on operations;
- past and present trends in those influences; and
- potential future trends in the operating environment, including the:
  - effect on demand; and
  - effect on cost.

2.4 Whole-of-Government and Cross-Agency Initiatives

All parties acknowledge that there is shared accountability for the successful implementation of whole-of-government reform initiatives as determined from time to time, if applicable.

The **{Agency Name}** contributes to the following key cross-agency initiatives:

Cross-Agency Initiatives

Initiative	Related outcome(s)	Contributing agencies	Financial (or resource) commitment	Target result for **XXXX-XX**
	•	•		•
	•	•		•

Drafting note: The Minister and lead agency with responsibility for coordinating the delivery and reporting on each of the preceding State Government cross-agency initiatives are to be identified.

3.0 FINANCIAL MANAGEMENT

3.1 Responsibility for Financial Management

This agreement recognises the shared financial management responsibilities of the parties. In broad terms the Treasurer, as representative of the State, represents the State's ownership interest in **{Agency Name}.** It is each Ministers' and the Accountable Authority's role to agree to work to achieve the financial targets as specified in section 3.2.

3.2 Financial Targets

Each Minister and the Accountable Authority, subject to agreed modifications (see section 4.0), undertake to ensure that the total amount of resources disclosed in the Budget Statements for the budget year is managed to achieve:

- the endorsed expense limit, identified as the Total Cost of Services in the Budget Income Statement (impacting the Government's expense growth target for the general government sector). The expense limit is a critical parameter within which the budget must be managed. Approval of Cabinet (through the Expenditure Review Committee or under Treasure's Delegated Authority) is required to spend beyond this limit in the budget year.

  The **{Agency Name}** must manage its service delivery within existing expense limits and use cash balances as a source of funding in the first instance in accordance with Treasury's Cash Management Policy.[3]

- the Net Cost of Services in the Budget Income Statement (impacting the Government's net operating balance target for the general government sector);

- the Total Equity target in the Budget Balance Sheet (impacting the Government's net worth target);

- the approved Working Cash Limit equivalent to 5% of approved budgeted recurrent payments (total operating and financing);

- the approved Salary Expense Level;

- the approved Executive Salary Expenditure Limit; and

- the approved Borrowing Limit, where applicable.

Actual results against these financial targets will be disclosed in the agency's annual report as required by section 61(2) of the Act.

[3] https://www.wa.gov.au/system/files/2020-02/cash_management_policy.pdf

3.3 Ownership Interest

The **{Agency Name}** must account for capital appropriations as equity contributions by the State.

The State is entitled to make such decisions as it sees fit concerning the **{Agency Name}** capital, defined as assets less liabilities (equity) as per the Australian Accounting Standards. These decisions include those regarding:

- equity contributions;
- distribution of net proceeds of asset disposal; and
- treatment of operating surpluses.

3.4 Reporting

The Accountable Authority is required under section 5 of the *Government Financial Responsibility Act 2000* (GFRA) to comply with a request from the Under Treasurer to provide any information needed to meet reporting under the GFRA.

3.5 Administered Transactions

The Budget Statements disclose details of expenses/income to be incurred/received on behalf of the State, as well as assets and liabilities administered on behalf of the State. Each Minister and the Accountable Authority undertake to ensure the effective management of these administered items on behalf of the Government, if applicable.

4.0 MODIFICATION OF THE AGREEMENT

Under section 44 of the Act, the Treasurer may, at any time in a financial year, modify this agreement by giving written notice to the Accountable Authority specifying the modification, and directing that the agreement, with the modification, is to be the agreement for the agency for the remainder of the financial year.

Modification of this agreement may be a consequence of changes to:

- agreed expense limits;
- other financial targets (see section 3.2)
- Government policy;
- economic parameters;
- demand for services; and/or
- administrative arrangements that have a material impact.

Where there is a function transfer, the Accountable Authority shall provide sufficient information to enable all relevant agencies to report on the transferred functions and associated assets and liabilities during the year.

Treasury will advise the Accountable Authority and each Minister of revised financial targets approved by Cabinet in the course of the financial year, if applicable.

This resource agreement, as modified from time to time, forms part of evidence in the CEO Performance Agreement developed by the Public Sector Commission under Commissioner's Instruction No. 30: Chief Executive Officer Performance Management and section 47 of the *Public Sector Management Act 1994*.

Appendix

DETAILS OF DESIRED OUTCOMES, SERVICES AND PERFORMANCE TARGETS

(Department of Treasury and Finance example)

Desired Outcomes, Key Effectiveness Indicators and Targets [(a)]

	XXXX-XX Target
Outcome: Sustainable and transparent public sector finances:	
Status of the State's credit rating[(b)]	
Unqualified audit opinion on the Annual Report on State Finances	Yes
Percentage of financial reports released as per agreed timeframes	x%
Outcome: A strong and competitive State economy:	
Accuracy of key general government revenue forecasts:	
Tax revenue	+/–x%
Royalty revenue	+/–x%
Accuracy of key economic forecasts (percentage point difference):	
Employment growth	+/–x
Real State Final Demand (SFD) growth	+/–x
Outcome: Value for money outcomes in service delivery and infrastructure provision:	
Percentage of advice provided to the Expenditure Review Committee at least 5 days prior to their consideration.....	x%
Percentage of Ministerially endorsed Strategic Asset Plans (SAPs) for the upcoming year received and reviewed by the Department before the commencement of the Budget bilateral process	x%
Outcome: Due and payable revenue is collected and eligible grants, subsidies and rebates paid:	
Taxpayer debt as a percentage of taxation revenue raised.....	**X%**
Extent to which correct grants, subsidies and rebates are paid.....	**X%**
Outcome: Value for money from public sector procurement:	
Extent to which client agencies agree that their procurement under common use arrangements achieved value for money……	X%

(a) More details of effectiveness indicators in annual report.

(b) Western Australia's credit rating is currently assessed by Standard and Poor's and by Moody's.

Total amount of resources that are expected to be made available to the {Agency Name} for the XXXX-XX financial year:

Recurrent _____

Capital _____

Services, Key Efficiency Indicators and Targets

(Department of Treasury and Finance example)

Service/Key efficiency indicators	XXXX-XX Target
–	
4. Revenue Assessment and Collection, and Grants and Subsidies Administration	
Average cost per revenue determination …….	$X
Average cost per grant or subsidy determination ……	$X
5. Development and Management of Common Use Arrangements	
Cost of developing and managing whole of government common use contract arrangements as a percentage of the total annual value of purchase through the arrangements ……..	$X
–	

Financial Targets

	XXXX-XX Budget Estimate $'000
Total Cost of Services (i.e. endorsed expense limit – detailed in the Income Statement) …….	X
Net Cost of Services (detailed in the Income Statement) ……	X
Total Equity (detailed in the Statement of Financial Position) ……...	X
Salary Expense Level……	X
Executive Salary Expenditure Limit.....	X
Borrowing Limit…….	X
Working Cash Limit – at the commencement of XXXX-XX, the approved working cash limit is **$X**.	

XXXX-XX
AGENCY RESOURCE AGREEMENT

Please find attached your agency's draft Resource Agreement (RA) for completion and signing.

Please note that:

Treasury will accept a **scanned copy of the signed draft RA via email** (a hard copy with wet signatures is not required).

Where to from here:

Accountable authority's signature on the completed copy? **YES** ☐ **NO** ☐

Please:

☐ return by email the scanned, signed draft RA to your Treasury Analyst by **{Day, Date}.**

DO NOT SEND THE SIGNED DRAFT RESOURCE AGREEMENT TO THE TREASURER'S OFFICE

All Resource Agreements will be coordinated centrally by Treasury and provided to the Treasurer for agreement

RESOURCE AGREEMENT

between the

ACCOUNTABLE AUTHORITY OF **{AGENCY NAME}**

and the

TREASURER

For the financial year ending 30 June **XXXX**

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1.0 INTRODUCTION

1.1 Purpose

This agreement records undertakings by:

- the Accountable Authority – to efficiently deliver the services and to achieve the agency level desired outcomes and targets (both financial and non-financial) specified in the Budget Statements and the Appendix, while ensuring the development and maintenance of high quality human and capital resources of the agency; and

- the Treasurer – subject to Parliament's approval, to provide financial resources to facilitate achievement of the agreed outcomes and performance targets.

These undertakings are made to allocate accountabilities for the budget, including for achieving the agreed expense limit and other budget targets.

Treasury will report material breaches of the agreed expense limit to Cabinet's Expenditure Review Committee. Expense limit outcomes are disclosed in the Annual Report on State Finances.

1.2 Term and Scope

This agreement covers the period from **1 July XXXX to 30 June XXXX**. References to the Budget and Budget Statements are to the **XXXX-XX** Budget and Budget Statements, unless the context implies otherwise. All parties recognise the importance of ongoing review of obligations in the resource agreement to ensure:

- targeted outcomes represent maximum benefit to the community;

- optimal combination of services to achieve the identified outcomes;

- services are delivered at least cost;

- there is co-ordinated effort to facilitate whole-of-government and cross-agency initiatives (where appropriate);

- the total cost of services does not exceed the agreed expense limit; and

- approved salary expense levels, in line with Government Wages Policy, are managed, monitored and reported against.

1.3 Signatures of the Parties

Accountable Authority	**Treasurer**
Dated	Dated

2.0 STRATEGIC CONTEXT

2.1 Relationship to Government Goals

The Budget Statements identify links between the Government Goals articulated for the **XXXX-XX** Budget, and the following agency level desired outcomes:

(Department of Treasury and Finance example)

- Sustainable and transparent public sector finances.
- A strong and competitive State economy.
- Value for money outcomes in service delivery and infrastructure provision.

2.2 Performance Monitoring

Progress towards the agency level desired outcomes is to be monitored with the assistance of key effectiveness indicators. Key efficiency indicators will be used to assist in monitoring service delivery. These performance indicators, together with performance targets, are published in the Budget Statements and actual results against these targets will be disclosed in the agency's annual report as required by section 61(2) of the *Financial Management Act 2006* (the Act).

2.3 Significant Issues Impacting the Agency

All parties agree that this section of the Budget Statements describes:

(Agency to describe if applicable)

- the key external influences (including risks) which impact on operations;
- past and present trends in those influences; and
- potential future trends in the operating environment, including the:
  - effect on demand; and
  - effect on cost.

3.0 FINANCIAL MANAGEMENT

3.1 Responsibility for Financial Management

This agreement recognises the shared financial management responsibilities of the parties. In broad terms the Treasurer, as representative of the State, represents the State's ownership interest in **{Agency Name}.** It is the Accountable Authority's role to agree to work to achieve the financial targets as specified in section 3.2.

3.2 Financial Targets

The Accountable Authority, subject to agreed modifications (see section 4.0), undertakes to ensure that the total amount of resources disclosed in the Budget Statements for the budget year is managed to achieve:

- the endorsed expense limit, identified as the Total Cost of Services in the Budget Income Statement (impacting the Government's expense growth target for the general government sector). The expense limit is a critical parameter within which the budget must be managed. Approval of Cabinet (through the Expenditure Review Committee or under Treasure's Delegated Authority) is required to spend beyond this limit in the budget year.

  The **{Agency Name}** must manage its service delivery within existing expense limits and use cash balances as a source of funding in the first instance in accordance with Treasury's Cash Management Policy.[1]

- the Net Cost of Services in the Budget Income Statement (impacting the Government's net operating balance target for the general government sector);

- the Total Equity target in the Budget Balance Sheet (impacting the Government's net worth target);

- the approved Working Cash Limit equivalent to 5% of approved budgeted recurrent payments (total operating and financing);

- the approved Salary Expense Level;

- the approved Executive Salary Expenditure Limit; and

- the approved Borrowing Limit, where applicable.

Actual results against these financial targets will be disclosed in the agency's annual report as required by section 61(2) of the Act.

[1] https://www.wa.gov.au/system/files/2020-02/cash_management_policy.pdf

3.3 Ownership Interest

The **{Agency Name}** must account for capital appropriations as equity contributions by the State.

The State is entitled to make such decisions as it sees fit concerning the **{Agency Name}** capital, defined as assets less liabilities (equity) as per the Australian Accounting Standards. These decisions include those regarding:

- equity contributions;
- distribution of net proceeds of asset disposal; and
- treatment of operating surpluses.

3.4 Reporting

The Accountable Authority is required under section 5 of the *Government Financial Responsibility Act 2000* (GFRA) to comply with a request from the Under Treasurer to provide any information needed to meet reporting under the GFRA.

4.0 MODIFICATION OF THE AGREEMENT

Under section 44 of the Act, the Treasurer may, at any time in a financial year, modify this agreement by giving written notice to the Accountable Authority specifying the modification, and directing that the agreement, with the modification, is to be the agreement for the agency for the remainder of the financial year.

Modification of this agreement may be a consequence of changes to:

- agreed expense limits;
- other financial targets (see section 3.2)
- Government policy;
- economic parameters;
- demand for services; and/or
- administrative arrangements that have a material impact.

Treasury will advise the Accountable Authority of revised financial targets approved by Cabinet in the course of the financial year, if applicable.

Appendix

DETAILS OF DESIRED OUTCOMES, SERVICES AND PERFORMANCE TARGETS

(Department of Treasury and Finance example)

Desired Outcomes, Key Effectiveness Indicators and Targets[(a)]

	XXXX-XX Target
Outcome: Sustainable and transparent public sector finances:	
Status of the State's credit rating[(b)]	
Unqualified audit opinion on the Annual Report on State Finances	Yes
Percentage of financial reports released as per agreed timeframes	x%
Outcome: A strong and competitive State economy:	
Accuracy of key general government revenue forecasts:	
Tax revenue	+/–x%
Royalty revenue	+/–x%
Accuracy of key economic forecasts (percentage point difference):	
Employment growth	+/–x
Real State Final Demand (SFD) growth	+/–x
Outcome: Value for money outcomes in service delivery and infrastructure provision:	
Percentage of advice provided to the Expenditure Review Committee at least 5 days prior to their consideration.....	x%
Percentage of Ministerially endorsed Strategic Asset Plans (SAPs) for the upcoming year received and reviewed by the Department before the commencement of the Budget bilateral process	x%
Outcome: Due and payable revenue is collected and eligible grants, subsidies and rebates paid:	
Taxpayer debt as a percentage of taxation revenue raised.....	**x%**
Extent to which correct grants, subsidies and rebates are paid.....	x%
Outcome: Value for money from public sector procurement:	
Extent to which client agencies agree that their procurement under common use arrangements achieved value for money……	x%

(a) More details of effectiveness indicators in annual report.

(b) Western Australia's credit rating is currently assessed by Standard and Poor's and by Moody's.

Total amount of resources that are expected to be made available to the {Agency Name} for the XXXX-XX financial year:

Recurrent _____

Capital _____

Services, Key Efficiency Indicators and Targets

(Department of Treasury and Finance example)

Service/Key efficiency indicators	XXXX-XX Target
–	
4. Revenue Assessment and Collection, and Grants and Subsidies Administration	
Average cost per revenue determination …….	$X
Average cost per grant or subsidy determination ……	$X
5. Development and Management of Common Use Arrangements	
Cost of developing and managing whole of government common use contract arrangements as a percentage of the total annual value of purchase through the arrangements ……..	$X

Financial Targets

	XXXX-XX Budget Estimate $'000
Total Cost of Services (i.e. endorsed expense limit – detailed in the Income Statement) ……..……	X
Net Cost of Services (detailed in the Income Statement) ……	X
Total Equity (detailed in the Statement of Financial Position) ……...	X
Salary Expense Level……	X
Executive Salary Expenditure Limit.....	X
Borrowing Limit…….	X
Working Cash Limit – at the commencement of XXXX-XX, the approved working cash limit is **$X**.	

XXXX-XX
AGENCY RESOURCE AGREEMENT

Please find attached your agency's draft Resource Agreement (RA) for completion and signing.

Please note that:

Treasury will accept a **scanned copy of the signed draft RA via email** (a hard copy with wet signature is not required).

Where to from here:

Accountable authority's signature on the completed copy? **YES** ☐ **NO** ☐

Please:

☐ return by email the scanned, signed draft RA to your Treasury Analyst by **{Day, Date}.**

DO NOT SEND THE SIGNED DRAFT RESOURCE AGREEMENT TO THE TREASURER'S OFFICE

All Resource Agreements will be coordinated centrally by Treasury and provided to the Treasurer for agreement

RESOURCE AGREEMENT

between the

ACCOUNTABLE AUTHORITY OF **{AGENCY NAME}**

and the

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For the financial year ending 30 June **XXXX**

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This agreement records undertakings by:

- the Accountable Authority – to efficiently deliver the services and to achieve the agency level desired outcomes and targets (both financial and non-financial) specified in the Budget Statements and the Appendix, while ensuring the development and maintenance of high quality human and capital resources of the agency; and

- the Treasurer – subject to Parliament's approval, to provide financial resources to facilitate achievement of the agreed outcomes and performance targets.

These undertakings are made to allocate accountabilities for the budget, including for achieving the agreed expense limit and other budget targets.

Treasury will report material breaches of the agreed expense limit to Cabinet's Expenditure Review Committee. Expense limit outcomes are disclosed in the Annual Report on State Finances.

1.2 Term and Scope

This agreement covers the period from **1 July XXXX to 30 June XXXX**. References to the Budget and Budget Statements are to the **XXXX-XX** Budget and Budget Statements, unless the context implies otherwise. All parties recognise the importance of ongoing review of obligations in the resource agreement to ensure:

- targeted outcomes represent maximum benefit to the community;

- optimal combination of services to achieve the identified outcomes;

- services are delivered at least cost;

- there is co-ordinated effort to facilitate whole-of-government and cross-agency initiatives (where appropriate);

- the total cost of services does not exceed the agreed expense limit; and

- approved salary expense levels, in line with Government Wages Policy, are managed, monitored and reported against.

1.3 Signatures of the Parties

Accountable Authority	**Treasurer**
Dated	Dated

2.0 STRATEGIC CONTEXT

2.1 Outcomes, Services and Key Performance Information

The Budget Statements identify links between the services undertaken by the agency and the following agency level desired outcome(s):

(Legislative Council example)

- The Legislative Council Members' requirements are met.

2.2 Performance Monitoring

Progress towards the agency level desired outcome(s) is to be monitored with the assistance of key effectiveness indicators. Key efficiency indicators will be used to assist in monitoring service delivery. These performance indicators, together with performance targets, are published in the Budget Statements and actual results against these targets will be disclosed in the agency's annual report as required by section 61(2) of the *Financial Management Act 2006* (the Act).

2.3 Significant Issues Impacting the Agency

All parties agree that this section of the Budget Statements describes:

(Agency to describe if applicable)

- the key external influences (including risks) which impact on operations;
- past and present trends in those influences; and
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  - effect on demand; and
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3.1 Responsibility for Financial Management

This agreement recognises the shared financial management responsibilities of the parties. In broad terms the Treasurer, as representative of the State, represents the State's ownership interest in **{Agency Name}.** It is the Accountable Authority's role to agree to work to achieve the financial targets as specified in section 3.2.

3.2 Financial Targets

The Accountable Authority, subject to agreed modifications (see section 4.0), undertakes to ensure that the total amount of resources disclosed in the Budget Statements for the budget year is managed to achieve:

- the endorsed expense limit, identified as the Total Cost of Services in the Budget Income Statement (impacting the Government's expense growth target for the general government sector). The expense limit is a critical parameter within which the budget must be managed. Approval of Cabinet (through the Expenditure Review Committee or under Treasure's Delegated Authority) is required to spend beyond this limit in the budget year.

  The **{Agency Name}** must manage its service delivery within existing expense limits and use cash balances as a source of funding in the first instance in accordance with Treasury's Cash Management Policy.[1]

- the Net Cost of Services in the Budget Income Statement (impacting the Government's net operating balance target for the general government sector);

- the Total Equity target in the Budget Balance Sheet (impacting the Government's net worth target);

- the approved Working Cash Limit equivalent to 5% of approved budgeted recurrent payments (total operating and financing);

- the approved Salary Expense Level;

- the approved Executive Salary Expenditure Limit; and

- the approved Borrowing Limit, where applicable.

Actual results against these financial targets will be disclosed in the agency's annual report as required by section 61(2) of the Act.

[1] https://www.wa.gov.au/system/files/2020-02/cash_management_policy.pdf

3.3 Ownership Interest

The **{Agency Name}** must account for capital appropriations as equity contributions by the State.

The State is entitled to make such decisions as it sees fit concerning the **{Agency Name}** capital, defined as assets less liabilities (equity) as per the Australian Accounting Standards. These decisions include those regarding:

- equity contributions;
- distribution of net proceeds of asset disposal; and
- treatment of operating surpluses.

3.4 Reporting

The Accountable Authority is required under section 5 of the *Government Financial Responsibility Act 2000* (GFRA) to comply with a request from the Under Treasurer to provide any information needed to meet reporting under the GFRA.

4.0 MODIFICATION OF THE AGREEMENT

Under section 44 of the Act, the Treasurer may, at any time in a financial year, modify this agreement by giving written notice to the Accountable Authority specifying the modification, and directing that the agreement, with the modification, is to be the agreement for the agency for the remainder of the financial year.

Modification of this agreement may be a consequence of changes to:

- agreed expense limits;
- other financial targets (see section 3.2)
- Government policy;
- economic parameters;
- demand for services; and/or
- administrative arrangements that have a material impact.

Treasury will advise the Accountable Authority of revised financial targets approved by Cabinet in the course of the financial year, if applicable.

Appendix

DETAILS OF DESIRED OUTCOMES, SERVICES AND PERFORMANCE TARGETS

(Department of Treasury and Finance example)

Desired Outcomes, Key Effectiveness Indicators and Targets[(a)]

	XXXX-XX Target
Outcome: Sustainable and transparent public sector finances:	
Status of the State's credit rating[(b)]	
Unqualified audit opinion on the Annual Report on State Finances	Yes
Percentage of financial reports released as per agreed timeframes	x%
Outcome: A strong and competitive State economy:	
Accuracy of key general government revenue forecasts:	
Tax revenue	+/–x%
Royalty revenue	+/–x%
Accuracy of key economic forecasts (percentage point difference):	
Employment growth	+/–x
Real State Final Demand (SFD) growth	+/–x
Outcome: Value for money outcomes in service delivery and infrastructure provision:	
Percentage of advice provided to the Expenditure Review Committee at least 5 days prior to their consideration.....	x%
Percentage of Ministerially endorsed Strategic Asset Plans (SAPs) for the upcoming year received and reviewed by the Department before the commencement of the Budget bilateral process	x%
Outcome: Due and payable revenue is collected and eligible grants, subsidies and rebates paid:	
Taxpayer debt as a percentage of taxation revenue raised.....	x%
Extent to which correct grants, subsidies and rebates are paid.....	x%
Outcome: Value for money from public sector procurement	
Extent to which client agencies agree that their procurement under common use arrangements achieved value for money……	**x%**

(a) More details of effectiveness indicators in annual report.

(b) Western Australia's credit rating is currently assessed by Standard and Poor's and by Moody's.

Total amount of resources that are expected to be made available to the {Agency Name} for the XXXX-XX financial year:

Recurrent _____

Capital _____

Services, Key Efficiency Indicators and Targets

(Department of Treasury and Finance example)

Service/Key efficiency indicators	XXXX-XX Target
1. Revenue Assessment and Collection, and Grants and Subsidies Administration	
Average cost per revenue determination …….	$X
Average cost per grant or subsidy determination ……	$X
2. Development and Management of Common Use Arrangements	$X
Cost of developing and managing whole of government common use contract arrangements as a percentage of the total annual value of purchase through the arrangements …….	

Financial Targets

	XXXX-XX Budget Estimate $'000
Total Cost of Services (i.e. endorsed expense limit – detailed in the Income Statement) ……..…….	X
Net Cost of Services (detailed in the Income Statement) ……	X
Total Equity (detailed in the Statement of Financial Position) ……...	X
Salary Expense Level……	X
Executive Salary Expenditure Limit.....	X
Borrowing Limit…….	X
Working Cash Limit – at the commencement of XXXX-XX, the approved working cash limit is **$X**.	

TEMPLATE 5
TO REPORT ACTUAL PERFORMANCE COMPARED TO RESOURCE AGREEMENT TARGETS

FINANCIAL TARGETS

	Target [1] $	Actual $	Variation[2] $
Total cost of services (expense limit) (sourced from Statement of Comprehensive Income)			
Net cost of services (sourced from Statement of Comprehensive Income)			
Total equity (sourced from Statement of Financial Position)			
Approved salary expense level			
Agreed borrowing limit (where applicable)			

(1) As specified in the Budget Statements for the relevant financial year.

(2) Explanations are required for material variations between target and actual results. Where actual results vary from the Budget Statements due to Government policy decisions made after finalisation of the Budget, these decisions (and the associated financial impact) need to be described.

WORKING CASH TARGETS

	Agreed Limit [1] $	Target [2] Actual [3] $	Variation [4] $
Agreed Working Cash Limit (at Budget)			n/a
Agreed Working Cash Limit (at Actuals)			

(1) Agencies are required to operate within an agreed working cash limit, defined as five per cent of budgeted cash payments (operating and financing), excluding any GST payments. Refer to Treasury's Cash Management Policy, December 2007 for further information.

(2) Target to reflect the agency's anticipated working cash for the relevant financial year.

(3) Actual to reflect the actual working cash held at the close of the financial year.

(4) Explanations are required for any variation where the actual working cash held at the close of the financial year exceeds the agreed limit.

KEY PERFORMANCE INDICATORS

	Target [1]	Actual	Variation [2]
Outcome 1: (title) Key Effectiveness Indicator(s) *Service 1: (title)* Key Efficiency Indicator(s)			
Outcome 2: (title) Key Effectiveness Indicator(s) *Service 2:* (title) Key Efficiency Indicator(s)			

(1) As specified in the Budget Statements for the relevant financial year.

(2) Explanations are required for material variations between target and actual results. Where actual results vary from the Budget Statement due to Government policy decisions made after finalisation of the budget, these decisions (and the associated financial impact) need to be described.

TEMPLATE 6

{Agency Name}

SPECIAL PURPOSE STATEMENT

{NAME OF ACCOUNT}

NAME	An account titled the *{Account Name}* (the Account) shall be established and maintained as a special purpose account pursuant to section *{10(a) or 16(1)(d)}* of the *Financial Management Act 2006* by the *{agency name}*.
PURPOSE	*{Describe the purpose of the Account (i.e. for what reason is the Account being established and, if applicable, under what authority)}*
RECEIPTS	There shall be credited to the Account *{describe what money can (or must) be credited to the Account, including references to any relevant legislation, agreement, etc.}* and investment income (if applicable). *{Agency to ensure that this aligns with the purpose outlined above.}*
PAYMENTS	Money standing to the credit of the Account may be used for *{describe the expenditure that may lawfully be charged to the Account}*. *{Agency to ensure that this aligns with the purpose outlined above.}*
ACCOUNTABILITY AND GOVERNANCE	The Account shall be administered, accounted for and reported on by the *{title of the agency's accountable authority}* in accordance with the *Financial Management Act 2006, Financial Management Regulations 2024*, and Treasurer's instructions. *{If applicable, amend the previous sentence by including any other legislation, agreement, etc. that is relevant.}*
REVIEW	A detailed review of the Account is to be undertaken on an annual basis. This is to include an assessment of the payments and receipts to ensure compliance with the purpose outlined above.
DISPOSAL OF FUNDS ON CESSATION	Upon closure of the Account, any balance standing to the credit of the Account shall be *{disbursed in accordance with [specify relevant legislation, agreement, etc.] or credited to the Consolidated Account.}*

I have examined and agree to the provisions of this special purpose statement	Approved (under delegated authority)
_____	_____
{Name of the accountable authority}	*{Name of the Under Treasurer}*
{Title of the accountable authority}	UNDER TREASURER
{Agency}	Department of Treasury and Finance
Date: _____	Date: _____

TEMPLATE 7

{Agency Name}

TRUST STATEMENT

{NAME OF ACCOUNT}

NAME	An account titled the *{Account Name}* (the Account) shall be established and maintained as a special purpose account pursuant to section *{10(f) or 16(1)(c)}* of the *Financial Management Act 2006* by the *{agency name}*.
PURPOSE	*{Describe the purpose of the Account (i.e. for what reason is the Account being established and, if applicable, under what authority)}*
RECEIPTS	There shall be credited to the Account *{describe what money can (or must) be credited to the Account, including references to any relevant legislation, agreement, etc.}* and investment income (if applicable). *{Agency to ensure this aligns with the purpose outlined above.}*
PAYMENTS	Money standing to the credit of the Account may be used for *{describe the expenditure that may lawfully be charged to the Account}*. *{Agency to ensure that this aligns with the purpose outlined above.}*
ACCOUNTABILITY AND GOVERNANCE	The Account shall be administered, accounted for and reported on by the *{title of the agency's accountable authority}* in accordance with the *Financial Management Act 2006, Financial Management Regulations 2024*, and Treasurer's instructions. *{If applicable, amend the previous sentence by including any other legislation, agreement, etc. that is relevant.}*
REVIEW	A detailed review of the Account is to be undertaken on an annual basis. This is to include an assessment of the payments and receipts to ensure compliance with the purpose outlined above.
DISPOSAL OF FUNDS ON CESSATION	Upon closure of the Account, any balance standing to the credit of the Account shall be *{disbursed in accordance with [specify relevant legislation, agreement, etc.] or credited to the Consolidated Account.}*

I have examined and agree to the provisions of this trust statement

_____

{Name of the accountable authority}

{Title of the accountable authority}

{Agency}

Date: _____

Approved

(under delegated authority)

_____

{Name of the Under Treasurer}

UNDER TREASURER

Department of Treasury and Finance

Date: _____

TEMPLATE 8

Data Collection Form

Section 1: Personal details

Senior officers are to list all people whose interests they are required to provide to the intent of the Standard and indicate the relationship they have with that person as follows: **S** - Spouse; **P** – Partner, **C** – Children; **D** – Dependants; and **O** - Others.

Party	Full Name	Relationship
Senior officer		
Person A		S/P
Person B		C
Person C		C
Person D		D
Person E		O

Section 2: Declaration of controlling interests

Senior officer is to indicate the controlling (or jointly controlling) interest and the parties who hold this interest by reference to the personal details provided in section 1 of this Form. That is, **K** for the senior officer or **S** through **O** for each of the people the senior officer has provided as a spouse/partner, children, dependants or others that hold the interest.

Name and address of entity	ABN or ACN of entity	Controlling party
XYZ Ltd Pty 000 Barrack Street, Perth, WA 6000		C

Section 3: Transaction details

Senior officer is to provide details of certain related party transactions with the responsible entity since the beginning of the reporting period. Note that certain related party transactions include business transactions above $50,000 and other sensitive transactions, but exclude general citizen transactions.

Name of related party	Details of transactions	Total value of transaction (GST included)	Outstanding balance	Commitment	Terms and conditions
XYZ Pty Ltd	Provision of accountancy services to the Department	$100,000	$20,000 payable	$50,000 to be provided in the following period	• open tender • unsecured • settlement by bank transfer

Section 4: Additional information

Senior officer is to provide any other relevant information in this section.

Section 5: Declaration

Senior officer is to read and sign the declaration below after completing this Form.

I declare that, to the best of my knowledge, the information recorded above is accurate and complete. If it becomes apparent at any stage that the information provided was or is inaccurate, incomplete or otherwise misleading, I will take the necessary steps to correct or update the record.

Signature
Date

TEMPLATE 9A

Certification of financial management manual

For the year ended XX Month 20XX

I hereby certify that the financial management manual developed and maintained for the **{agency name}** is, as at the date of signing, fit for purpose in assisting officers in discharge of their financial management responsibilities during the financial year ended XX Month 20XX.

The financial management manual will be reviewed and updated as necessary to reflect any significant changes to financial practices, procedures, or policies in the course of the financial year.

(Signature)

{Name of the accountable authority}

{Title of the accountable authority}

{Agency}

Date:_____

(You may amend the signature block as required).

Please:

☐ return by email the scanned, signed certification to your Treasury Analyst and the Financial Policy team at Treasury (Financial.Policy@dtf.wa.gov.au)**.**

TEMPLATE 9B

Certification of financial management manual

For the year ended XX Month 20XX

I hereby certify that the financial management manual developed and maintained for the **{agency name}** is, as at the date of signing, fit for purpose in assisting officers in discharge of their financial management responsibilities during the financial year ended XX Month 20XX.

The financial management manual will be reviewed and updated as necessary to reflect any significant changes to financial practices, procedures, or policies in the course of the financial year.

(Signature)

{Name}

Chief Executive Officer (if applicable)

{Agency}

Date:_____

ENDORSED:

(Signature)

{Name of the member of the Body/Board}

{Title of the Body/Board}

{Agency}

Date:_____

(You may amend the signature block as required).

Please:

☐ return by email the scanned, signed certification to your Treasury Analyst and the Financial Policy Division at Treasury (Financial.Policy@dtf.wa.gov.au).

TEMPLATE 10

Our ref : {TRIMREF}
Enquiries : {name of Officer}
Telephone : {phone of Officer}

{Title and Full name of CFO of Transferee}
Chief Finance Officer
{Transferee}
{ADDRESS1}
{ADDRESS2}

Dear {NAMESHORT}

ASSET(S) TO BE TRANSFERRED FROM {TRANSFEROR} TO {TRANSFEREE}

I am writing to you in relation to the asset(s) (at fair value of {$x.x}) to be transferred from {Transferor} to {Transferee} as part of the… which was approved by Cabinet on…

In accordance with paragraph 8(c) of the Australian Accounting Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*, the transfer is formally designated as a contribution by owners and will form part of the contributed equity of {Transferee}.

The transfer will subsequently be reported as a distribution to owners in the accounts of {Transferor}.

Yours sincerely

{name of Director}
DIRECTOR
{DIVISION}

cc. {Full name of CFO of Transferor}, Chief Finance Officer, {Transferor}