

AASB 124 RELATED PARTY DISCLOSURES PUBLIC SECTOR NOT-FOR-PROFIT ENTITIES

QUESTIONNAIRE TO ASSIST WITH NEW REQUIREMENTS
APPLICABLE TO PERIODS BEGINNING ON OR AFTER 1 JULY 2016

JUNE 2016

For periods commencing on or after 1 July 2016, the requirements of AASB 124 *Related Party Disclosures* (AASB 124) will apply to General Purpose Financial Statements (GPFS) prepared by not-for-profit public sector entities.

Public sector financial report preparers will need to ensure financial reports prepared for periods commencing on or after 1 July 2016 comply with the new disclosure requirements. Although these new requirements only affect disclosures, there are many unique features associated with related parties and related party transactions within the public sector that could pose significant challenges.

Public sector entities need to implement suitable processes/mechanisms now to capture relevant related party information including information on Key Management Personnel (KMP). The processes should also facilitate capturing any changes that may occur, throughout the year (e.g. resignation of KMP).

To assist with implementation of the new requirements, the Australian Accounting Standards Board has developed and issued the "Australian Implementation Guidance for Not-for-profit Public Sector Entities" as an integral part of AASB 124.

CPA Australia has developed this questionnaire to assist entities consider the key issues in seeking to comply with the new requirements. The questionnaire draws from the implementation guidance referred to above and AASB 124.

Note: This questionnaire seeks to highlight some common issues that may arise in the public sector in respect of the requirements in AASB 124. The questionnaire is not intended as an exhaustive list and financial report preparers must consider their own circumstances and related party transactions to ensure all related party disclosures are made as required by AASB 124.

AASB 124 RELATED PARTY DISCLOSURES

Are you ready for a 1 July 2016 start?

Consideration should be given to ensuring relevant information is available to comply with requests from auditors general for provision of related party information.

When considering the disclosures required by AASB 124, public sector entities may wish to consider the existing processes in place to capture information such as pecuniary interests and conflicts of interest. Such existing processes and information may assist with the new requirements of AASB 124.

BE HEARD.
BE RECOGNISED.



IDENTIFICATION OF KEY MANAGEMENT PERSONNEL (KMP)

In identifying KMP, have all facts and circumstances been considered, including the terms of the relevant legislative instruments that give rise to the entity?

KMP are defined as those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Facts and circumstances may indicate that not all persons described as “senior executive staff”, “secretary” or “minister” will be KMP of the entity if they do not have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly (for example, powers may only be ceremonial or procedural in substance).

Examples of descriptions or titles that may need to be considered include those at local government level such as “Mayor”, “Councillor” or “Aldermen”.

It should be noted that KMP are individuals, not entities.

Consideration should be given as to whether KMP disclosures are applicable to both controlled and administered financial statements.

Questions to ask in considering whether a person is KMP would depend on the circumstances.

Paragraph 9 of AASB 124 defines KMP as being those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Public sector entities should give consideration to facts and circumstances including the terms of the relevant legislative instruments that give rise to the entity in assessing whether a person is KMP as defined, of the entity.

For example, if the person being considered is a minister and the entity is within the minister’s portfolio, questions that may be asked could include:

- **Does the minister have “authority and responsibility for planning, directing and controlling the activities of the entity”?**
If yes, the minister is KMP of the entity.
- **Is the minister part of a group of persons tasked with the determination of the direction of the entity?**
A minister may be a member of the KMP of an entity where the minister’s roles and responsibilities result in the minister forming part of a group of persons tasked with determining the direction of the entity.
- **Does the government have control over the entity which is within the minister’s portfolio?**
If the government does not control the entity it would be uncommon for the minister to be KMP as the government’s powers and functions (executed by the minister) in relation to that entity would have formed part of the government’s assessment of whether it controls the entity.

KMP COMPENSATION

Does the member of KMP (e.g. minister) get compensated through one or more government agencies or authorities?

Does the entity have to reimburse the government agency or authority that has to compensate the member of KMP?

If the answer is yes to both questions, the entity should make the disclosures required under paragraph 18A of AASB 124.

If the answer is yes to the first question and no to the second question, then no disclosure is required by the entity with the KMP, to comply with the requirement in paragraph 18A of AASB 124.

It should be noted that paragraph 18A only requires disclosure of amounts reimbursed to the government agency or authority, no further disclosure is required.

The government agency or authority that compensates the KMP may have to make relevant disclosures in its own financial statements.

RELATED PARTY TRANSACTIONS

Is the entity a controlled entity of the Commonwealth or State/Territory government?

Has the entity transacted with a minister or other senior public servant of the Commonwealth or State/Territory government during the period?

Is the minister or senior public servant KMP of the Commonwealth or State/Territory government?

If the answer is yes to all three questions, the entity should consider making disclosures of the related party transactions with the minister(s) or senior public servant(s). These are necessary to meet the objective noted in paragraph 1 of AASB 124.

Paragraph 18 of AASB 124 requires an entity to disclose information about transactions that have occurred between the entity and its related parties, including transactions between the entity and its KMP or KMP of the entity's parent that is necessary for users to understand the effect of the relationship on the financial statements.

The questions below can assist entities in determining whether the related party transactions are likely to be material for disclosure.

Have the related party transactions with KMP occurred in the course of the entity delivering its public service objectives, including the raising of funds (for example rates and taxes) to meet those objectives?

Have the related party transactions with KMP occurred on terms and conditions that are no different to those applying to the general public (for example the Medicare rebate or public school fees)?

If the answer is yes to both questions, the entity may determine that the related party transactions are not material for disclosure as they have occurred on terms and conditions no different to those applying to the general public, and have occurred during the course of the entity delivering on its public service objectives. Guidance relevant to the assessment of materiality for disclosure is included in AASB 101.

Have the related party transactions occurred with a close family member of KMP?

A close member of family is defined as a family member who may be expected to influence, or be influenced by KMP in their dealings with the entity and include:

- That person's children, spouse or domestic partner;
- Children of that person's spouse or domestic partner (including adopted, step, dependant, non-dependant and adult children); and
- Dependants of that person and/or of that person's spouse or domestic partner (including all family members who are financially supported e.g. parents who are financially supported).
- Examples of questions that may be asked include:
 - Is the employment of KMP's partner in the same government agency a related party transaction?
 - Is the employment of KMP's partner in another related government agency a related party transaction?

If the answer is yes to both questions, the entity would need to disclose the related party transactions that have occurred, subject to materiality considerations.

Has consideration been given to how the entity should capture relevant related party information to comply with the disclosure requirements of AASB 124?

For example, as part of its procedures to capture relevant party information, the entity may wish to consider requiring assessment and annual declaration by all KMP and other related parties.

Standing information about related parties (including any declarations made) should be reviewed regularly and updated as required.

Entities should also ensure compliance with relevant data protection and privacy requirements when obtaining related party information from individuals.

GOVERNMENT RELATED ENTITIES

Does the reporting entity have related party transactions with

- **a government that has control, joint control or significant influence over the entity? or**
- **another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity?**

If the answer is yes, paragraph 25 of AASB 124 exempts the reporting entity from the disclosure of related party transactions required in paragraph 18. However, an entity claiming the exemption under paragraph 25 is required to disclose the information required in paragraph 26 of AASB 124. Paragraph 27 of AASB 124 provides further material to assist with judgement on the level of detail to be disclosed.

LINKS TO FURTHER RESOURCES

- AASB 124 *Related Party Transactions* can be obtained from the website of the Australian Accounting Standards Board at <http://www.aasb.gov.au/Pronouncements/Current-standards.aspx>
- The Queensland Department of Infrastructure, Local Government and Planning has developed guidance for local government in Queensland, which is available from <http://www.dilgp.qld.gov.au/newsletters-and-brochures/bulletin-02-16.html>

Contributors

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