

3.9 RELATED PARTY DISCLOSURES

3.9.1 Introduction

3.9.1.1 Authorities shall identify related party relationships and transactions, identify outstanding balances between the authority and its related parties, and identify the circumstances in which disclosures are required, in accordance with IAS 24 *Related Party Disclosures* except where interpretations or adaptations to fit the public sector are detailed in the Code.

3.9.1.2 IPSAS 20 *Related Party Disclosures* is based on IAS 24, and provides additional guidance for public sector bodies.

Interpretation and adaptation for the public sector context

3.9.1.3 The following interpretation of IAS 24 applies for the public sector context:

- In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the authority and the related party.

3.9.2 Accounting Requirements

Definitions

3.9.2.1 **Close members of the family** of an individual are close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the authority:

- a spouse, domestic partner, dependent child or relative living in a common household
- a grandparent, parent, non-dependent child, grandchild, brother or sister, and
- the spouse or domestic partner of a child, a parent-in-law, a brother-in-law or a sister-in-law.

3.9.2.2 **Key management personnel** are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

3.9.2.3 **Government** refers to government, government agencies and similar bodies whether local, national or international.

Deleted: 3.9.1.4 IPSAS 20 includes a public sector adaptation which the Code has adopted. The adaptation is as follows:¶
<#>Providers of finance in the course of their business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and an entity with which the relationship is solely that of an agency, are deemed not to be related parties. ¶

3.9.2.4 A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

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3.9.2.5 **Material.** Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

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3.9.2.6 **Oversight** means the supervision of the activities of an authority, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the authority.

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3.9.2.7 **Related party** – parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. Related parties include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries)
- associates
- joint ventures in which the authority is a venturer
- an entity that has an interest in the authority that gives it significant influence over the authority
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

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3.9.2.8 **Related party transaction** is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

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3.9.2.9 **Remuneration/allowance** is any consideration or benefit derived directly or indirectly by key management personnel from the authority for services provided in their capacity as elected members or otherwise as employees of the authority.

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3.9.2.10 **Significant influence** (for the purpose of this section of the Code) is the power to participate in the financial and operating policy decisions of an authority, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy-making process, material transactions between entities within an economic entity, interchange of managerial personnel or dependence

on technical information. Significant influence may be gained by an ownership interest, statute or agreement.

3.9.2.11 The definitions above should be applied to the determination of related parties and hence the associated disclosure requirements.

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Related party disclosures

3.9.2.12 In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

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3.9.2.13 Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.

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3.9.2.14 In the context of this section of the Code, the following are deemed not to be related parties:

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- providers of finance in the course of their business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and
- an entity with which the relationship is solely that of an agency.

3.9.2.15 Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

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3.9.2.16 The disclosure of related party transactions and balances shall have regard to materiality. In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the entity and the related party.

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3.9.3 Statutory Accounting Requirements

3.9.3.1 There are no statutory accounting requirements in relation to related party disclosures.

3.9.4 Disclosure Requirements

3.9.4.1 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to related party disclosures:

1) Information in respect of transactions with related parties, not disclosed elsewhere, including:

- a) the description of the nature of the related party relationships

- b) the amount of transactions that have occurred
- c) the amount of outstanding balances, and

Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

3.9.4.2 Transactions with related parties may be disclosed on an aggregated basis (aggregation of similar transactions by type of related party) unless disclosure of an individual transaction, or connected transactions, is necessary for an understanding of the impact of the transactions on the financial statements of the authority or is required by law.

3.9.4.3 The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in section 3.4 of the Code.

3.9.4.4 ~~The disclosure requirements of paragraph 3.9.4.1 do not apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities. Instead, authorities shall disclose:~~

2) The name of the government (ie UK Government, Scottish Government, Welsh Assembly Government or Northern Ireland Assembly) and the fact that the government exerts significant influence through legislation and grant funding.

3) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

- a) the nature and amount of each individually significant transaction; and
- b) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

3.9.5 Statutory Disclosure Requirements

3.9.5.1 There are statutory disclosure requirements in relation to officer remuneration in England and Wales. These disclosure requirements are included in section 3.4 of the Code, Presentation of Financial Statements.

The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in section 3.4 of the Code.

3.9.6 Changes since the 2010/11 Code

3.9.6.1 ~~The disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities are less detailed than in the 2010 Code.~~

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