

3.9 RELATED PARTY DISCLOSURES

3.9.1 Introduction

- 39.11** 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 adaptations to fit the public sector are detailed in the Code.
- 39.12** IPSAS 20 *Related Party Disclosures* is based on IAS 24, and provides additional guidance for public sector bodies.

Adaptation for the public sector context

- 39.13** The following adaptation 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

- 39.21** **Close members of the family of a person** are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:
- that person’s children and spouse or domestic partner
 - children of that person’s spouse or domestic partner, and
 - dependants of that person or that person’s spouse or domestic partner.
- 39.22** **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.
- 39.23** **Government** refers to government, government agencies and similar bodies whether local, national or international.
- 39.24** A **government-related** entity is an entity that is controlled, jointly controlled or significantly influenced by a government.
- 39.25** **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

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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.

39.26 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.

39.27 A related party is a person or entity that is related to the entity that is preparing its financial statements (in this section of the Code referred to as the 'reporting entity').

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i) has control or joint control over the reporting entity
 - ii) has significant influence over the reporting entity, or
 - iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions apply:
 - i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii) Both entities are joint ventures of the same third party.
 - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi) The entity is controlled or jointly controlled by a person identified in a).
 - vii) A person identified in a)i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

39.28 Related party transaction is a transfer of resources or obligations between a

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reporting entity and a related party, 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.

39.2.9 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.

39.2.10 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.

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

Related party disclosures

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

39.2.13 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 fact that there is a member of key management personnel in common or the fact that a member of key management personnel of one entity has significant influence over the other entity does not create a related party relationship.

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

- providers of finance
- trade unions
- public utilities
- departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity

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.

39.2.15 Related party relationships where control exists should be disclosed irrespective of

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whether there have been transactions between the related parties.

39.216 In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture. Therefore, for example, an associate's subsidiary and the investor that has significant influence over the associate are related to each other.

39.217 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 reporting entity and the related party.

3.9.3 Statutory Accounting Requirements

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

3.9.4 Disclosure Requirements

39.41 Having regard to paragraph 3.4.2.~~26-27~~ of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, 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.

39.42 Amounts incurred by the (reporting) entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

39.423 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.

39.434 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~~–~~, though authorities may need to separately

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consider the requirements at paragraph 3.9.4.2.

3.9.4.5 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 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 reporting 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.

3.9.5.2 As stated in paragraph 3.9.4.34 above, 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 2014/15 Code

3.9.6.1 ~~There have been no changes in the reporting requirements for the related party disclosures section of the Code since the 2014/15 Code.~~ The 2016/17 Code includes an addition to the definition of a related party for an entity, or any member of a group of which it is a part that provides key management personnel services to the reporting entity and a new disclosure on the provision of key management personnel services that are provided by such a separate management entity as a result of the *Annual Improvements to IFRSs 2010-2012 Cycle*.