



AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

21 February 2017

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Ms Peach

AASB's Tentative Agenda Decision – AASB 124 Related Party Disclosures

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the AASB's Tentative Agenda Decision (TAD) "*Materiality of Key Management Personnel Related Party Transactions for Public Sector Entities*". The views in this submission represent those of all Australian members of ACAG.

Summary

ACAG supports the AASB's views expressed in the Tentative Agenda Decision (TAD) that transactions that are part of a normal public service provider/taxpayer relationship such as rates, and also other non-citizen transactions that are conducted on normal terms and conditions, should not automatically be presumed to be material by nature.

ACAG considers however that the existing implementation guidance could be enhanced to address the issues arising from the implementation of AASB 124 *Related Party Disclosures* by public sector entities.

Citizen transactions

The TAD reaffirms that the AASB does not expect 'citizen' type transactions to be material for disclosure and refers to the basis of conclusion commentary in paragraph BC 17 of AASB 2015-6. ACAG agrees with the 'citizen' transaction principle and the presumption that these citizen transactions are not material to the users of the financial report. We believe that this principle should be elevated to the authoritative implementation guidance.

ACAG suggests that the inference that grants paid by a public sector entity to a related party are similar in nature to 'citizen' type transactions, such as taxes or rates, is unhelpful. The term 'grant' can have a range of meanings. Typically they are non-reciprocal transfers, which may or may not have performance obligations attached. They may be awarded through a competitive or non-competitive process, and may also be restricted to certain classes or groups, and for certain purposes.

As such the issue is not so much as to whether the 'normal' process for that grant program was followed, but whether the process was an arm's length one, and whether the KMP (particularly the Minister, as is often the case) was involved in, or was the final decision-maker, in determining the grant recipients. If grants generally are considered to be 'citizen' type transactions, they would also be deemed to be immaterial and potentially not identified and captured for assessment.

It would be desirable therefore in the final agenda decision, and any implementation guidance, to characterise grants generally as non-citizen transactions.

Non-citizen transactions on normal commercial terms

ACAG does not support the implicit extension of the 'citizen' transaction principle to related party 'market' based transactions. Our understanding is that paragraph BC 17 contrasts the two transaction types, and acknowledges that the market transaction "may be relevant for disclosure". There is an increased risk that, by analogising market transactions with citizen transactions, a reporting entity could incorrectly interpret that market transactions are also presumed not to be material, and do not need to be identified, captured and assessed for disclosure.

Unlike citizen transactions, the concept of '*on terms no different to those applying to the general public*' is not necessarily a critical factor. We see a difference between a related party electing to supply goods or services to an entity and a member of the general public necessarily transacting with the government. The fact that an entity is entering into commercial or business transactions with related parties may be relevant to users of the financial report.

The example and references to normal procurement processes and market (terms no different to that for the general public) could be reworded and used as an example of the application of qualitative factors.

In particular the measure of procurement processes being 'the entity's normal procurement processes' is not meaningful. Normal procurement processes may be of varying standards, and it cannot be presumed that the transaction would be not material by nature. For example 'normal' procurement processes allow for exemptions from competitive tendering. In some jurisdictions, certain reciprocal payments for public service provision (styled as grants) are not subject to general procurement and purchasing laws and regulations. In these cases as part of the 'normal' process a Minister may award a service contract to whomever they choose, in the absence of any competitive process.

ACAG suggests therefore that the guidance include a rebuttable presumption based assessment of appropriate controls at a public sector entity, or an open, competitive process.

Qualitative and quantitative materiality

ACAG appreciates that the AASB wants disclosures to reflect the objectives of AASB 124, and that the disclosures are not a tool for highlighting probity issues in isolation. However, it is not helpful to compartmentalise the assessment of materiality into quantitative and qualitative. In determining whether transactions warrant disclosure, a reporting entity should consider the combination of qualitative and quantitative factors.

Currently, IG 11 states that an entity may determine the transaction is not material but it does not elaborate on how a reporting entity might reach that conclusion through a consideration of qualitative and quantitative materiality factors.

We recommend that the AASB include some of the TAD information in the authoritative implementation guidance, instead of solely in the Basis for Conclusions or the final Agenda Decision, as it would add to the interpretation of the Standard in the public sector context.

ACAG appreciates the opportunity to respond and trust that you will find our comments useful.

Yours sincerely



Andrew Greaves
Chairman
ACAG Financial Reporting and Auditing Committee

