The Institute of Public Accountants

IPA INSTITUTE OF PUBLIC ACCOUNTANTS

Partnership beyond numbers

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The Chairperson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
Australia

Dear Kris

AASB Tentative Agenda Decision *Materiality of Key Management Personnel Related Party Transactions for Public Sector Entities*

Thank you for the opportunity to comment on the AASB's Tentative Agenda Decision *Materiality of Key Management Personnel Related Party Transactions for Public Sector Entities*.

The Institute of Public Accountants (IPA) ***does not support*** the AASB tentative decision not to provide further guidance on the application of materiality to transactions with KMP related parties. We find the AASB's rationale for its decision unconvincing.

The IPA is of the opinion that AASB 124 *Related Party Disclosures* guidance is inadequate. The guidance is virtually silent on the need to consider:

- The governance effects of related party transactions
- The need for transparency in relation to dealing with related parties; and
- Consideration of conflict of interest.

There is an increasing level of distrust and scepticism in relation to activities of KMP and whether those activities are undertaken for their own benefit rather than that of taxpayers (in the case of public sector entities). In should be noted the same distrust and scepticism exists in the private sector.

The IPA is of the view that AASB 124 is an inferior standard, in particular, in relation to the pre-IFRS related party reporting disclosures.

Financial reporting has a role in addressing these issues. It is the responsibility of the AASB to ensure financial reports adequately address governance and transparency issues in the interest of users of financial statements in both the public and private sectors.

Being a disclosure-related standard, the IPA believes the AASB is not limited in addressing governance and transparency issues in the framework of AASB 124 without impacting compliance with IFRS.

Furthermore, the arguments put forth by the AASB for not addressing the issue of materiality are unpersuasive. The reliance on the transactions being on normal terms and conditions of similar transactions as a basis for non-disclosure does not address the fundamental issues of governance and transparency.

Just because the transaction is at arms-length does not necessarily mean the KMP has not received a benefit, that is, the income from the related party transaction that he/she may not have otherwise obtained. Similarly, the argument that the transaction going through normal procurement process is prima facie a basis for the transaction being at arms-length ignores the reality that KMP can exert influence on even standard procurement processes. And again, the fact the transaction is at arms-length does not mean the KMP has not derived a benefit.

While there are qualitative considerations in determining materiality arising from governance, transparency and conflict of interest that need to be addressed in AASB 124, quantitative guidance is also required. In particular, the basis for qualitative assessment should consider the materiality in terms of benefits received by the KMP.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely

Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants