



Project:	Post-implementation Reviews	Meeting:	M211
Topic:	Related party disclosures by NFP public sector entities	Agenda Item:	7.2
		Date:	14 February 2025
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		Decision-Making:	High
		Project Status:	Decide on next steps

Objective of this paper

- 1 The objective of this Staff Paper is for the Board to consider:
 - a) the feedback received on Topic 3: Related party disclosures by NFP public sector entities in [ITC 51 Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements](#); and
 - b) staff analysis and recommendations on possible next steps.

Structure of this paper

- 2 This paper is structured as follows:
 - a) Background (paragraphs 3 to 10);
 - b) Summary of feedback received (paragraphs 11 to 13);
 - c) Summary of staff recommendations (paragraphs 14 to 16);
 - d) Appendix B: Feedback received, staff analysis and recommendations

Background

- 3 AASB 124 *Related Party Disclosures* requires the disclosure of related party relationships, transactions and outstanding balances, including commitments, in the financial statements of an entity. Its purpose is to provide users of financial statements with information that may affect assessments of the entity's operations, including assessments of the risks and opportunities facing the entity.¹

1 2015-6 paragraphs BC4 and BC5

- 4 In general, AASB 124 does not require disclosure:
- a) to be made at a level that identifies the related party transactions and outstanding balances of any specified entity or person; or
 - b) of the names of related persons or their controlled entities.
- 5 The not-for-profit (NFP) public sector requirements for related party disclosures are set out in AASB 124 (including Australian Implementation Guidance for Not-for-Profit Public Sector Entities), as amended by AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*. These requirements apply to annual periods beginning on or after 1 July 2016.
- 6 AASB 124 has applied to NFP private sector entities since 2005. However, NFP public sector entities were specifically exempted from applying AASB 124 on the grounds of practicability, including the number of intra-government transactions.²
- 7 When the IASB revised IAS 24 *Related Party Disclosures* in 2009 to partially exempt transactions between government-related entities of the same jurisdiction from disclosure, the AASB considered the revised Standard would provide a more appropriate basis for application by NFP public sector entities. As a result, in furtherance of its policy of promulgating transaction-neutral Standards to the extent feasible, the AASB undertook a project to amend AASB 124 to require NFP public sector entities to apply the Standard.
- 8 Consequently, the AASB issued ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector* in July 2011 for comment by the end of January 2012. Feedback from seven submissions on the ED, public roundtable discussions and private sessions with stakeholders on the proposals in the ED were considered and deliberated by the Board. In July 2012, the Board completed its consideration of the issues raised by constituents in relation to ED 214 and directed staff to begin drafting the amendments to AASB 124, including developing accompanying implementation guidance/illustrative examples. This effort was finalised through the issue of AASB 2015-6.³
- 9 According to paragraph BC6 of AASB 2015-6, in finalising its proposals that NFP public sector entities be required to apply AASB 124 unamended, the Board addressed a range of issues, including consideration of:
- (a) amending the definition of 'key management personnel' for such entities;
 - (b) amending the requirements to provide such entities with some relief from disclosure of ministerial compensation;
 - (c) exempting such entities from disclosing certain related party transactions with Ministers;
 - (d) not requiring general government sector (GGS) financial statements to comply with AASB 124;
 - (e) adding a public sector perspective to AASB 124, for example, by inserting an alternative definition for the term 'business' in paragraph 5 of AASB 124; and
 - (f) extending the disclosure requirements in AASB 124 for key management personnel.

2 AASB 2015-6 paragraph BC3

3 AASB 2015-6 paragraphs BC4 and BC5

- 10 AASB 2015-6 filled the perceived disclosure gap for NFP public sector entities. It was the first time Australian Accounting Standards (AAS) specified that information about an NFP public sector entity's related parties should be included in its general purpose financial statements (GPFS). In response to stakeholder concerns about the complexity of applying AASB 124 to NFP public sector entities, the Board decided to include implementation guidance in the final amendments to support these entities in implementing the Standard.

Summary of feedback received

- 11 The post-implementation review (PIR) of AASB 2015-6 affects only **NFP public sector entities**. It is important to note that the disclosure requirements for related party transactions are outlined in AASB 124 (Tier 1 GPFS) or AASB 1060, paragraphs 189-203 (Tier 2 GPFS).⁴ ITC 51 focuses on AASB 124 as applied by NFP public sector entities. A separate PIR project will consider the related party disclosure requirements in AASB 1060.
- 12 There was various feedback received on this topic as follows:
- (a) six out of eight submissions received on ITC 51 responded to this topic (HoTARAC, CAANZ & CPA, KPMG, BDO, ACAG and Deloitte) specifically addressed this topic;
 - (b) no attendees made comments regarding this topic in the January 2023 ITC 51 roundtable;
 - (c) no survey respondents provided feedback on this topic;
 - (d) some feedback was received at a NFP Project Advisory Panel meeting; and
 - (e) other feedback was received in a group meeting and other one-on-one meetings.⁵
- 13 Appendix B to this paper provides further discussion on the feedback received, along with staff analysis and recommendations. Overall, the feedback received was in line with the preliminary feedback received prior to the issue of ITC 51, and the main themes of the stakeholder's feedback are:
- (a) the structures and nature of NFP public sector entities can make it challenging to determine who is considered Key Management Personnel (KMP). This can be particularly evident where a job 'title' does not give rise to a practical ability to plan, control or direct the activities of the entity and where ministers, for example, have oversight across various portfolios;
 - (b) obtaining related party information can be challenging for preparers, and ensuring completeness of the disclosure can be challenging for auditors, too. Reasons for this can include the number of related parties and the related party transactions to be considered, incomplete or insufficient declarations of interest from KMP and difficulty obtaining sufficient audit evidence;
 - (c) applying the definition of close members of the family can be difficult. Further, the current guidance is insufficient particularly in light of recent changes to the *Family Law Act 1975*, which extended the definition of "relative" in certain circumstances to more closely align with cultural traditions;

4 AASB 1053 *Application of Tiers of Australian Accounting Standards* outlines that Australian Accounting Standards consist of two Tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Simplified Disclosures

5 Five one-on-one meetings were conducted for ITC 51, but only three of these meetings yielded feedback on this topic.

- (d) applying the materiality concept in the NFP public sector is important given the volume of related party transactions, some of which may not require disclosure if, for example, they are operational in nature. Additional guidance on determining whether a transaction is material by nature would be beneficial;
- (e) there can be practical challenges when calculating and disclosing KMP remuneration. Some examples include calculating the superannuation component of remuneration where KMPs are members of defined benefit plans, disclosing negative leave provisions where significant leave is taken and reconciling accrual-based remuneration with cash-based remuneration where 'cash accounting' is required by an independent regulator; and
- (f) balancing the costs and benefits of complying with the disclosure requirements. Some stakeholders were concerned that the costs of complying with the disclosure requirements can be significant, and some stakeholders questioned whether the disclosures are a good use of public resources and provide useful information.

Overall staff analysis and recommendations

14 As noted above, the feedback received in response to ITC 51 is in line with the preliminary feedback received prior to the issue of the ITC.

15 In summary, staff acknowledge that:

- (a) the structures and nature of NFP public sector entities can make it challenging to determine who is considered KMP. However, staff also acknowledge the implementation guidance that currently exists within the Standard to support this and note that professional judgement will always be required when applying principles-based AAS, such as when determining who is considered KMP;
- (b) obtaining related party information can be challenging for preparers, and ensuring completeness of the disclosure can be challenging for auditors, too. However, staff understand that NFP public sector entities generally have well-established policies and procedures in place to gather the required information. Further, the practical challenges experienced by the NFP public sector in both the preparation and audit of related party information are not unique to the NFP public sector as they affect for-profit entities, too. Further, staff are not aware of any modifications to the audit reports of NFP public sector entities suggesting that these challenges can be effectively mitigated;
- (c) applying the definition of close members of the family can be difficult. However, the definition is principles-based, and entities must consider the facts and circumstances of each relationship when determining whether a person is a related party. Specifically, staff do not consider the recent legislation changes to affect the application of the definition for financial reporting purposes as the specific facts and circumstances of each relationship, including a person's ability to influence or be influenced by another person, should already have been being considered;
- (d) applying the materiality concept in the NFP public sector is important, given the volume of related party transactions. However, staff do not consider additional guidance is required. Staff consider that the current guidance in AASB Practice Statement 2 *Making Materiality Judgements*, combined with material in AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a sufficient basis for the application of the materiality concept in relation to the identification and disclosure of related party information;
- (e) there can be practical challenges when calculating and disclosing KMP remuneration. However, staff note that AASB 124 does not govern how KMP remuneration should be calculated. AASB 124 does, however, set out the minimum information that should be disclosed in GPFS (subject to materiality). If an entity is concerned that disclosures such as 'negative' expenses or other unusual

items could be confusing for users of the financial statements, staff consider they should already be making additional disclosures that explain the transactions or balances in question; and

- (f) balancing the costs and benefits of complying with the disclosure requirements. However, staff consider that disclosing related party information is fundamental to enhancing transparency and accountability in the public sector. Further, staff understand that some of the information required to be disclosed by AASB 124 is consistent with the information that entities are required to collect for legislative reporting. Whilst it is difficult to determine whether the costs of collecting and disclosing related party information exceed the benefits, there is limited evidence to suggest that the ongoing implementation costs of applying AASB 124 in the public sector exceed the benefits.

- 16 As such, staff recommend that the Board **not take any action at this stage** in relation to the disclosure of related party information by NFP public sector entities.

Question for Board members:

Question 1: Do Board members have any questions or comments on the feedback received and staff analysis on Topic 3 regarding the related party disclosures?

Question 2: Do Board members agree with the staff analysis and recommendation in paragraph 16 on Topic 3 regarding the related party disclosures?

Appendix B: Feedback received, staff analysis and recommendations

Questions for respondents

Do you have any comments regarding the disclosure of related party information by NFP public sector entities? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

- 1 Sections below provide the overall feedback received, staff analysis and recommendations.

Structures and nature of NFP public sector entities

- 2 Stakeholders generally commented that NFP public sector entities are often structured differently from the structures adopted by for-profit entities. This feedback is consistent with numerous research papers that discuss the nature and operations of government and its differences from the private sector (Chan 2003⁶, Barton 2004⁷, Carnegie and West 2005⁸, Challen and Jeffrey 2005⁹, Cordery and Simpkins 2016¹⁰). For this reason, it can often be challenging to determine who is considered KMP in the NFP public sector. Examples provided in HoTARAC's submission include:
 - (a) courts and military services have two parallel management structures. The "administrative" structure is different from the structure of the judges or military officers, but both structures have roles in the entity's financial and operating policies, resulting in extensive KMP disclosures.
 - (b) a statutory office holder who is legally independent of the organisation established to carry out their functions – raised the question of whether the statutory office holder should be identified as a KMP.
- 3 Deloitte's submission also provided an example, noting that the NFP public sector typically requires ministers to manage various portfolios with varying levels of responsibilities. This overlapping of roles can complicate the identification of related parties and KMP.
- 4 However, the CPA and CAANZ joint submission and two NFP Project Advisory Panel members noted that feedback they received indicated that implementation challenges faced by NFP public sector entities are primarily due to the intricate nature of related party relationships in the sector rather than shortcomings in the Standard's requirements. Further, a NFP Panel Advisory Panel member also highlighted that, in their view, no additional guidance or clarification within the Standard is necessary.

6 Chan, J. L. 2003. Government accounting: An assessment of theory, purposes and standards. *Public Money & Management*, 23(1), pp.13–20.

7 Barton, A., 2004. How to profit from defence: a study in the misapplication of business accounting to the public sector in Australia. *Financial Accountability and Management*, 20(3), pp.281–304.

8 Carnegie, G.D. and West, B.P., 2005. Making accounting accountable in the public sector. *Critical Perspectives on Accounting*, 16, pp.905–928.

9 Challen, D. and Jeffrey, C., 2005. Definition of the reporting entity. *Australian Accounting Review*, 35(1), pp.71–78.

10 Cordery, C. and Simpkins, K. 2016. Financial reporting standards for the public sector: New Zealand's 21st-century experience, *Public Money & Management*, 36(3), pp.209-218.

Staff analysis and recommendations

- 5 Staff acknowledge stakeholders' comments regarding the complexity of identifying related parties in the NFP public sector. The examples provided in HoTARAC's submissions demonstrate that entities are required to consider the facts and circumstances of individual relationships and transactions and often exercise significant judgment when identifying related parties and KMP.
- 6 However, as noted by some stakeholders, staff are of the view that the Standard provides adequate guidance. In particular, the implementation guidance developed for the NFP public sector acknowledges the intricate nature of the sector's structures and emphasises the need to consider facts and circumstances when determining related parties and KMP. For example, AASB 124:
 - (a) paragraph IG3 requires public sector entities to evaluate the specific facts and circumstances, including relevant legislative instruments, when determining whether an individual qualifies as a member of the KMP as defined by the Standard. For instance, not all individuals with titles such as 'senior executive staff', 'Secretary', or 'Minister' may necessarily be considered KMP of an entity.
 - (b) paragraph IG3 highlights that in certain situations, an individual's authority may be ceremonial or procedural in nature, lacking the substantive power to guide or manage an entity's operations. In such cases, the facts and circumstances would indicate that the person does not possess the actual capacity to direct or control the entity's activities.
 - (c) paragraph IG4 addresses the nature of ministerial roles in the public sector, noting that a Minister would be considered KMP of an entity within their portfolio if they possess the "authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly". However, in some cases, the responsible Minister may not have such substantive authority and thus would not meet the KMP definition.
 - (d) paragraph IG5 further clarifies that KMP determination is made on an entity-by-entity basis. Consequently, a member of the KMP of the government is not necessarily also a member of the KMP of each entity controlled by the government. Examples 1 and 2 in the implementation guidance illustrate these principles.
- 7 Staff acknowledge that overlapping roles and responsibilities in NFP public sector structures are common and that substantial work may be required to identify related parties and KMP. However, as noted in paragraphs IG3-IG5, the implementation guidance clarifies that a Minister with overlapping roles does not necessarily mean the Minister is a KMP of all the entities they are overseeing.
- 8 Noting the existing implementation guidance and that the concerns raised by stakeholders appear to stem from the requirement to exercise professional judgement, staff consider that judgement will always be required in applying AAS as they are principles-based. Further, staff do not consider that additional implementation guidance, for example, would resolve the concerns raised by stakeholders.
- 9 As such, staff are of the view that **no action is required** to address this feedback. As noted above, entities are expected to apply their judgment when identifying related parties and KMP. The feedback received has not suggested that the implementation guidance is inapplicable or inconsistent with the core principles of disclosing and identifying related party and KMP information under AASB 124. Some stakeholders also noted that the challenge in implementing the Standard stems from the complex structure within the NFP public sector and concurred that no further standard-setting work is necessary for AASB 124.

Obtaining related party information and audit challenges

- 10 A theme noted in many of the responses to ITC 51 is that due to the nature of the public sector, there are often a large number of related parties and related party transactions. HoTARAC noted that having a large number of KMP can make it difficult to ensure the completeness of KMP representations. BDO, Deloitte, HoTARAC and ACAG also noted that obtaining the information needed to comply with the disclosure requirements can be challenging.
- 11 For example, HoTARAC noted that entities generally have no legal power or authority to compel individuals to provide details that would determine whether or not they are considered related parties. Also, some related parties, such as close family, have privacy concerns and may be hesitant or unwilling to provide pertinent information.
- 12 In addition to the challenges noted when disclosing related party transactions, submissions from HoTARAC and ACAG, along with other stakeholders providing verbal feedback, highlighted several challenges that auditors face when auditing related party disclosures.
- 13 One of the primary issues identified is the difficulty in obtaining sufficient evidence that all related parties have been identified and that the information provided is complete and accurate. Stakeholders commented that information, such as details about ministers and relatives of KMP (and related parties) are often not captured adequately by some public sector entities.
- 14 Another concern raised by ACAG is that the Ministerial or Councillor disclosures [declarations] required by legislation are not sufficiently detailed for disclosure purposes due to the difference in the requirements in the legislative disclosures [declarations] and AASB 124. Some stakeholders noted that related party disclosures in the financial statements can be incomplete, and determining whether this is because entities are unwilling to disclose certain information or lack the awareness or understanding of the requirements of the Standard is unclear. Regardless, it leads to additional audit effort and resources being required and at times when auditors request additional information, entities may not be able to provide it. This can further complicate the audit process.
- 15 Finally, HoTARAC specifically pointed out that auditors in the public sector face unique challenges with related party disclosures, particularly those beyond KMP remuneration. These difficulties are partly due to the different nature of related parties in the public sector compared to the private sector. Given these challenges, HoTARAC has suggested that the AASB engage further with auditors to address these issues and improve the auditability of related party disclosures in the public sector.

Staff analysis and recommendations

- 16 Staff acknowledge the nature of the NFP public sector often gives rise to a large number of related parties and related party transactions. Staff also acknowledge that determining which transactions should be disclosed and ensuring the completeness of the related party disclosures can require additional effort.
- 17 However, staff note that NFP public sector entities generally have well-established policies and processes in place to gather sufficient information about related parties to comply with AASB 124 and other legislative requirements. For example, the Department of Finance collects related party declarations from Ministers as part of a centralised process. Ministerial declarations include details of any related party transactions by Ministers, their close family members or organisations they control.¹¹ Public sector employees (such as Ministerial staff, agency heads and senior executive

11 <https://www.finance.gov.au/government/managing-commonwealth-resources/commonwealth-entities-financial-statements-guide-rmg-125/appendix-d-related-party-disclosures> (accessed 21 January 2025)

service employees) are also commonly required to submit, at least annually, a written declaration of their own and their immediate family's financial and other material personal interests to relevant authorities.¹²

- 18 Whilst staff recognise that in certain situations, entities may encounter challenges in identifying related parties, in particular those who are not ministers or public sector employees and also obtaining the information they need to meet the disclosure requirements of the Standard, this challenge is not exclusive to the NFP public sector. For-profit entities face similar difficulties in identifying related parties who, for example, are not directors or employees and ensuring that all related parties and related party transactions are identified.
- 19 Further, the challenges identified in auditing-related party disclosures, such as difficulty obtaining sufficient audit evidence, are also not exclusive to the NFP public sector. For example, research on related party transactions in for-profit sector entities indicates that these related-party transactions often require significant and complex audit judgements (Gordon, Henry, Louwers and Reed 2007¹³, Fang, Lobo, Zhang and Zhao 2018¹⁴, Hope, Yue and Zhong 2023¹⁵). Additionally, audit failures involving related-party transactions rank among the top 10 causes for audit deficiencies (Beasley, Carcello, and Hermanson 2001¹⁶). AASB staff consulted with AUASB staff to understand whether they were aware of any concerns about auditing related party disclosures. AUASB staff are not aware of anything that would suggest necessary audit procedures cannot be carried out to verify related party information based on Australian Auditing Standards. However, if auditors cannot obtain sufficient evidence for whatever reason (e.g. incomplete data in the system or management's unwillingness to provide information), auditors could provide a modified audit opinion.¹⁷
- 20 AASB staff reviewed a sample of public sector entities' financial reports and the corresponding audit opinions and did not come across any audit opinions that were modified because of related party disclosures.
- 21 In summary, staff are of the view that difficulties identified by stakeholders relating to the identification and disclosure of related party transactions are generally associated with an entity's internal systems, processes and controls for capturing the required information rather than being indicative of a deficiency in the Standard itself. Staff consider that if entities are concerned that related parties may not be providing information that is required due to privacy concerns for example, this too is something that is best addressed by the entity through education of internal stakeholders or other means. Finally, staff are also not aware of any instances where auditors have been unable to obtain sufficient audit evidence over related party disclosures, resulting in a modification to the audit opinion as noted above.
- 22 Staff acknowledge that obtaining the information required to disclose related party transactions can be challenging; however, staff are of the view that **no action is required** to address this feedback.

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- 12 <https://www.apsc.gov.au/working-aps/integrity/integrity-resources/declaration-interests#:~:text=This%20guidance%20sets%20out%20that%20agency%20heads%20and,cause%20a%20real%20or%20apparent%20conflict%20of%20interest.> (accessed 21 January 2025)
 - 13 Gordon, E. A., E. Henry, T. J. Louwers, and B. J. Reed. 2007. Auditing RPTs. *Accounting Horizons*, 21(1), pp81–102.
 - 14 Fang, J., G. J. Lobo, Y. Zhang, and Y. Zhao. 2018. Auditing RPTs: Evidence from audit opinions and restatements. *Auditing: A Journal of Practice & Theory* 37(2), pp.73–106.
 - 15 Hope, O., Yue, H. and Zhong, Q. 2023. Public Communication of Audit Risks and Related-Party Transactions: Evidence from China. *Auditing: A Journal of Practice & Theory* 42(4), pp.23–44.
 - 16 Beasley, M. S., J. V. Carcello, and D. R. Hermanson. 2001. Top 10 audit deficiencies—SEC sanctions. *Journal of Accountancy* 191(4), pp.63–67.
 - 17 ASA 705 Modifications to the Opinion in the Independent Auditor's Report establishes that there are three types of modified opinions, namely a qualified opinion, an adverse opinion and a disclaim of opinion.

Definition of close members of the family

23 ACAG's submission noted that the existing guidance on applying the 'close family members'¹⁸ concept is insufficient. For example, the Standard does not sufficiently cover the application of 'close members of the family' to Aboriginal or Torres Strait Islanders, particularly in light of the recent changes to the *Family Law Act 1975*, which came into effect on 6 May 2024. These changes extended the definition of "relative" to include individuals considered family according to Aboriginal or Torres Strait Islander cultural traditions, regardless of biological connections. ACAG suggested that further guidance could be provided to address whether this change affects who would be considered 'close members of the family' when applying AASB 124.

Staff analysis and recommendations

24 Staff acknowledge the need to consider how regulatory changes might impact the application of AASB 124 when they occur. The definition of close members of the family is important when determining who could be considered a related party. However, it is important to note that the definition of close members of the family in AASB 124 is fundamentally principle-based.

25 This means that entities are required to evaluate each scenario by considering the degree to which a family member can influence or be influenced by a person when considering whether they meet the close members of the family definition. This evaluation requires a case-by-case assessment of the relevant facts and circumstances.

26 Staff note that in March 2015, the IFRS Interpretations Committee (Committee) addressed a question about whether parents fall under the definition of close family members.¹⁹ The Committee clarified that the list of family members in paragraph 9 of IAS 24 (i.e. AASB 124) is not exhaustive and does not exclude other family members from being considered close family members. It was concluded that additional family members, such as parents or grandparents, could be classified as close family members based on an assessment of specific circumstances.

27 Similarly, staff are of the view that the definition of close family members is not restricted to biological relations. For instance, it could include stepchildren or adopted children. The crucial factor is whether these non-biological family members are likely to influence or be influenced by a person in their dealings with the entity.

28 As such, staff are of the view that the change in legislation does not significantly affect the application of the 'close members of the family' definition under AASB 124 and recommend **no action is required** to address this feedback.

Applying the materiality concept

29 Two respondents [BDO and HoTARAC] noted that applying the materiality concept is important when identifying which transactions with KMP and related parties should be disclosed.

18 AASB 124 paragraph 9 defines Close members of the family of a person as "...are those family members who may be expected to influence, or to be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependents of that person or that person's spouse or domestic partner."

19 <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2015/ias-24-definition-of-close-members-of-the-family-of-a-person.pdf> (accessed 10 January 2025)

30 HoTARAC noted that Appendix A of AASB Practice Statement 2 *Making Materiality Judgements* is useful for assessing the materiality of operational transactions with related parties in the NFP public sector and determining which transactions should be disclosed in accordance with AAS 124. HoTARAC also suggested that the guidance from Appendix A of Practice Statement 2 should be incorporated into the implementation guidance of AASB 124 to ensure consistency in practice. They also suggested that additional guidance about determining materiality by nature would be beneficial.

Staff analysis and recommendations

- 31 The concept of materiality is an overarching principle when applying the requirements of all AAS.
- 32 When the Board decided to extend the related party disclosure requirements to NFP public sector entities, it considered the concept of materiality. As noted in BC17 of AASB 124, judgment is often necessary when determining the materiality of related party transactions, particularly when making qualitative assessments about the nature of these transactions. This is consistent with the principles of AASB Practice Statement 2.
- 33 Furthermore, as discussed in paragraph IG11 of AASB 124, additional guidance on assessing the materiality of disclosures in GPFS can be found in AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 34 Staff acknowledge that there may be more related party transactions in the NFP public sector due to the nature of NFP public sector entities' activities. However, in the staff's view, determining whether related party transactions are material is not a public sector-specific challenge. Staff consider that entities in the not-for-profit private sector, for example, would need to apply similar considerations when exercising their professional judgement about which transactions should be disclosed.
- 35 One possible benefit of including the guidance in Appendix A of AASB Practice Statement 2 in the implementation guidance of AASB 124, is that the implementation guidance is an integral part of AASB 124 and, therefore, has a higher 'status' than a voluntary practice statement. However, staff consider that the guidance can only be used to support the exercise of professional judgement. Therefore, whether it is voluntary guidance or an integral part of the Standard, the outcomes are likely to be the same. For this reason, and because the information is already publicly available, staff consider there would be limited value in moving (or duplicating) the information in Appendix A in AASB 124. This is because, voluntary or not, guidance cannot replace the exercise of professional judgement.
- 36 Further, staff are of the view that the current material in AASB 101, AASB 108 and AASB Practice Statement 2 provides sufficient support for entities to exercise their professional judgement and determine whether a transaction is material in the context of related party disclosure requirements. Therefore, staff recommend **no action is required** to address this feedback.

Calculation and disclosure of KMP remuneration

37 HoTARAC's submission noted some practical challenges with the calculation and disclosure of KMP remuneration. These include:

- (a) calculating the superannuation component of remuneration for disclosure purposes when KMP are members of a defined-benefit superannuation fund;
- (b) disclosing the leave component of remuneration can be challenging because the remuneration calculation typically includes the movements in leave provisions, which may be negative if the

provision is “run down” or if there is a significant increase in discount rates. Negative amounts in a remuneration calculation are counter-intuitive and difficult for users to understand; and

- (c) reconciling accrual-based remuneration information required by AASB 124 with cash-based remuneration requirements set by independent regulators such as the Commonwealth Remuneration Tribunal (Tribunal).

38 Further, the submission also noted that some of these issues are not unique to the NFP public sector but are often magnified because of the nature of related parties and financial statement users.

Staff analysis and recommendations

- 39 Accurately calculating superannuation and leave components of remuneration is critical for public sector reporting, as it directly impacts compliance, transparency, and accountability. As noted by World Bank Group (2021)²⁰, effective management of these components ensures that financial statements reflect the true obligations of government entities and provide stakeholders with reliable information. Staff acknowledge the complexities involved in calculating both superannuation and leave components of remuneration, particularly in the public sector where defined benefit schemes are prevalent. These complexities arise from various factors, including actuarial assumptions, salary progression, years of service, fund performance and movements in leave provisions.
- 40 However, it is important to note that AASB 124 does not provide specific guidance on how these calculations should be performed. The Standard’s scope is limited to disclosure requirements rather than calculation methodologies.
- 41 While staff recognise that negative amounts in remuneration calculations (such as those arising from changes in leave provisions) can be confusing for financial statement users, these issues are not unique to the NFP public sector. Similar challenges exist in for-profit entities as well. Staff also note that there is an expectation that in preparing their financial statements, entities include sufficient disclosures (even if they are not required) to ensure that users of the financial statements can understand the entity’s financial position, performance and cash flows. Therefore, if an entity is concerned about disclosing ‘negative’ expenses or other unusual items, staff consider they should include additional disclosures in the financial statements to explain this.
- 42 Further, staff recognise the challenges in reconciling accrual-based remuneration information required by AASB 124 with cash-based remuneration requirements set by the Tribunal. This reconciliation process often demands additional effort, including maintaining detailed records of both cash payments and accrued entitlements and developing systems to track and value non-monetary benefits. However, staff are of the view that the feedback on the ‘reconciliation of expenditures’ is a matter of systems and processes rather than a shortcoming of the Standard itself. Given that GPFS are prepared on an accrual basis, staff are of the view that disclosing a reconciliation of the opening and closing balances of certain balances is important to ensure the financial statements provide a comprehensive and accurate representation of an entity’s financial position and performance, aligning with the fundamental principles of accrual accounting.
- 43 Staff acknowledge the practical challenges; however, recommend **no action is needed** to address this feedback.

20 World Bank Group. 2021. Public Sector Employment and Compensation: An Assessment Framework. Washington, DC: World Bank.

Costs and benefits

- 44 Several stakeholders commented on the cost-benefit balance of requiring NFP public sector entities to comply with the related party disclosure requirements in AASB 124. The general sentiment is that the effort and resources required to comply with the Standard may outweigh the usefulness of the resulting disclosures. For example:
- (a) BDO and a stakeholder who provided verbal feedback noted that the significant workload involved in preparing and disclosing related party transactions in the public sector may produce little useful information for users. In some cases, the process has not resulted in any disclosures due to materiality considerations, raising questions about the efficient use of public resources.
 - (b) HoTARAC suggested that additional KMP disclosures shouldn't be required. However, a stakeholder who provided verbal feedback noted that KMP remuneration disclosures could be useful to meet users' needs.
 - (c) ACAG shared that one jurisdiction questioned the relevance of related party disclosures for public sector entities, particularly disclosing transactions between government entities. The jurisdiction suggested that unlike in the private sector, there is no risk to the bottom line in the public sector, and routine inter-governmental transactions are already part of normal operations and are documented in existing financial reports. HoTARAC shared a similar view noting that material asset transfers between agencies are likely already covered under other accounting standards (e.g., AASB 1004 *Contributions*). HoTARAC recommended simplifying the disclosure requirements by focusing only on transactions that provide valuable information to users; that is, routine inter-governmental transactions should be exempt from AASB 124 disclosure requirements.
 - (d) An attendee at a group meeting also commented that the disclosure of related party transactions is increasing the length of the financial statements, questioning whether users actually read and benefit from this information. Additionally, stakeholders who provided verbal feedback pointed out potential overlaps with existing legislation, such as registers of interest for parliamentarians, suggesting that the added value of disclosing similar information in financial statements may be low.
- 45 Conversely, other stakeholders acknowledge the benefits of the related party disclosures for the NFP public sector. For example:
- (a) KPMG acknowledged that obtaining the information may be time-consuming, but they remain of the view that the benefit of the disclosures outweighs the cost; and
 - (b) a stakeholder who provided verbal feedback noted that KMP disclosures are important despite the cost. While the broader related party disclosures might not be as critical in the public sector, in their view, KMP disclosures are important to highlight conflict of interest or probity issues despite the challenge of preparing and auditing.

Staff analysis and recommendations

- 46 The implementation of AASB 124 in the public sector has raised concerns among some stakeholders regarding the costs and efforts required to comply with its objectives. While these concerns are acknowledged, it is crucial to consider the broader context and benefits of such disclosures in maintaining public trust and ensuring proper management of public funds.

- 47 As noted by Mulgan 2000²¹ and Barton 2005²², accountability is often regarded as more complex and salient for the public sector than the for-profit sector. Prior research also has highlighted the importance of emphasizing accountability as a primary objective of public sector financial reporting (Barton 1999²³, 2002²⁴, Chan 2003²⁵, Ellwood and Newberry 2006²⁶, Kober, Lee and Ng 2012²⁷). As discussed in Grossi et al. (2022)²⁸, “... it is widely believed that non-financial reporting, including reporting of outcomes, is essential to engage citizens and encourage democratic participation in decision making (Cordery and Simpkins 2016²⁹, Mack and Ryan 2007³⁰, Manes-Rossi 2019³¹)”. The primary objective of AASB 124, aligned with IAS 24, is to provide necessary disclosures that highlight the potential impact of related parties on an entity’s financial position and performance. This objective is fundamental to enhancing transparency and accountability in the public sector.
- 48 It is important to note that the process of identifying transactions and applying materiality concepts is not unique to related party requirements. Similar processes are required for compliance with other accounting standards. Furthermore, as noted by some stakeholders, some of the information required by AASB 124 may already be collected to meet other legislative requirements. This suggests that the incremental cost of identifying such information for financial reporting purposes may not be significant.
- 49 The disclosure of related party information is a critical element of accountability in the public sector, as acknowledged in BC3 of AASB 2015-6. For instance, the disclosure of KMP information, previously not required under AAS, is important for assessing the stewardship of public resources and the integrity of decision-making processes.
- 50 Although a direct cost-benefit analysis is challenging due to the lack of quantifiable evidence (Schipper 2010³²), the Board has aimed to ensure that the implementation of AASB 124 is not excessively burdensome for public sector entities. When the scope of the Standard was broadened

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- 21 Mulgan, R., 2000. Comparing accountability in the public and private sectors. *Australian Journal of Public Administration*, 59(1), pp.87–97.
- 22 Barton, A., 2005. Professional accounting standards and the public sector – a mismatch. *ABACUS*, 41(2), pp.138–158.
- 23 Barton, A., 1999. Public and private sector accounting – the non-identical twins. *Australian Accounting Review*, 9(2), pp.22–31.
- 24 Barton, A., 2002. Accrual accounting in government: a review of its applications, achievements and problems, and proposals for reform. *Annual research lecture in government accounting*, 12 November 2002, the Australian National University, Canberra.
- 25 Chan, J. L. 2003. Government accounting: An assessment of theory, purposes and standards. *Public Money & Management*, 23(1), pp.13–20.
- 26 Ellwood, S. and Newberry, S., 2006. A bridge too far: a common conceptual framework for commercial and public benefit entities. *Accounting and Business Research*, 36 (1), pp.19–32.
- 27 Kober, R., Lee, J. and Ng, J., 2012. Conceptual framework issues: perspectives of Australian public sector stakeholders. *Accounting and Business Research*, 42(5), pp.495–518.
- 28 Grossi, G., Steccolini, I., Adhikari, P., Brown, J., Christensen, M., Cordery, C., Ferry, L., Lassou, P., McDonald III, B., Raudla, R., Sicilia, M. and Vinnari, E. 2023. The future of public sector accounting research. A polyphonic debate. *Qualitative Research in Accounting & Management*, 20(1), pp.1–37.
- 29 Cordery, C.J. and Simpkins, K. 2016. Financial reporting standards for the public sector: New Zealand’s 21st-century experience. *Public Money and Management*, 36(3), pp.209–218.
- 30 Mack, J. and Ryan, C., 2007. Is there an audience for public sector annual reports: Australian evidence?. *International Journal of Public Sector Management*, 20(2), pp.134–146.
- 31 Manes-Rossi, F. 2019. New development: alternative reporting formats: a panacea for accountability dilemmas?. *Public Money and Management*, 39(7), pp.528–531
- 32 Schipper, K., 2010. How can we measure the costs and benefits of changes in financial reporting standards?. *Accounting and Business Research*, 40, pp.309–327.

to apply to NFP public sector entities, partial exemptions to address concerns about identifying all government-related entities and quantifying every transaction in detail were included.

51 Further, as discussed in BC22 of AASB 2015-6, the Board shares the IASB's view that the disclosure requirements should not be too onerous for the reporting entity because: (a) individually significant transactions should be a small subset, by number, of total related party transactions; (b) the reporting entity should know what those transactions are; and (c) reporting such items on an exceptional basis takes into account cost-benefit considerations.

52 Given the limited evidence suggesting that ongoing implementation costs of AASB 124 outweigh its benefits, staff recommend **no action is needed at this time** to address this feedback. However, recognising the potential ongoing nature of this concern, staff will continue monitoring the situation closely. That is, staff will remain attentive to feedback from stakeholders and emerging issues related to the implementation of AASB 124 in the NFP public sector.

Overall staff recommendation

53 After considering all feedback received from stakeholders, staff **recommend** the Board **take no action** in relation to the related party disclosures at this time.