



QUEENSLAND TREASURY

2020-21 FINANCIAL REPORTING REQUIREMENTS

FOR QUEENSLAND GOVERNMENT AGENCIES

FRR 5B Related Party Transactions

INTRODUCTION

Policy items, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

Application Guidance, indicated by plain text under the "Application Guidance" sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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5B.1 GENERAL DISCLOSURE MATTERS

REFERENCES

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 124 *Related Party Disclosures*
- AASB 128 *Investments in Associates and Joint Ventures*

POLICY

- **AASB 124 is only to be applied at the reporting entity level, not to lower levels of an agency (such as Commercialised Business Units (CBUs)).**

APPLICATION GUIDANCE

In working through the various elements of the related party definition in AASB 124, agencies should acknowledge that paragraph 9(a)(i) and (ii) have no application in a Government context (as "control", "joint control" and "significant influence" are to be interpreted according to AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 128 *Investments in Associates and Joint Ventures*, respectively).

AASB 124 judgements generally applied on a case-by-case basis

Agencies need to exercise judgement about which related party transactions should be disclosed in financial statements based on all available information about transactions, in the context of AASB 124's requirements and the stated objective in paragraph 1 of AASB 124. Such judgements generally need to be made on a case-by-case basis.

Qualitative materiality more relevant to related party transactions

Qualitative materiality, according to the specific circumstances of a transaction, is more likely to be a key determinant of whether the transaction warrants financial statement disclosure.

Indicators of potential materiality include:

- if a transaction did not follow applicable employment/procurement processes that apply to unrelated parties (with an implication that the agency may be receiving/paying significantly more or less than with an unrelated party);
- if the terms and conditions of the transaction differ from those that would apply to unrelated parties (with an implication that the agency may be receiving/paying significantly more or less than with an unrelated party);
- if knowledge of the related party's involvement in the transaction could lead to a perception that the transaction may have/had a material financial impact on the agency; and
- in the case of employment of a KMP's close family member within the agency - the position is a senior/influential role within the agency.

Materiality assessment relative to the reporting entity, NOT related party

In assessing materiality of a related party transaction, the focus should be on the reporting entity, NOT necessarily any special advantage that the related party may have received compared to an unrelated person. If no identifiable impact can be determined for the reporting entity, then it would not likely warrant financial statement disclosure.

In disclosing material related party transactions, Treasury's position is that paragraph 18 of AASB 124 does not require the identification of the people or entities that are party to the transaction.

Where an agency's controlled entity is itself a reporting entity, that controlled entity needs to prepare its own general purpose financial statements and comply with AASB 124 from its own perspective.

In preparing consolidated financial statements, for transactions between any entity within the consolidated group and related parties external to that group, materiality should be assessed from the perspective of the consolidated group, rather than at the individual entity level.

Where such transactions are with Government-related entities, the separate AASB 124 disclosure requirements for such transactions apply.

5B.2 TRANSACTIONS NOT CONNECTED WITH KMP

REFERENCES

- AASB 124 *Related Party Disclosures*

POLICY

- **The disclosure requirements of AASB 124 apply to both controlled and administered transactions and balances.**
- **Tier 1 agencies are required to adopt the limited disclosure approach for transactions with Government-related entities outlined in paragraphs 25 - 27 of AASB 124.**

APPLICATION GUIDANCE

Agencies need to implement their own approach to identifying related party transactions not connected with their KMP e.g. transactions with Government, controlled entities, associates, joint ventures, and other Queensland Government-controlled entities.

Parent & controlled entities might be Government-related entities

In terms of the categories of related parties listed in paragraph 19 of AASB 124, some of those parties (e.g. the whole-of-Government parent (where applicable) and controlled entities), also meet the criteria for Government-related entities (refer to the sub-section below). Hence, transactions with some of those categories of entities can be disclosed according to the separate requirements for Government-related entities (in paragraphs 25 – 27), instead of paragraph 18 of AASB 124.

Treasury doesn't expect agencies to have material transactions to disclose regarding post-employment benefit plans (refer to paragraph 9(b)(v) of AASB 124).

Also, sub-paragraph 9(b)(viii) of AASB 124 (key management personnel services) only applies where another entity takes full responsibility for the KMP roles, duties and responsibilities for the agency. That may involve providing individuals to operate the agency concerned (e.g. an employing office for a statutory body) or providing services to the agency that effectively constitute the planning, directing and controlling activities that would be undertaken by KMP.

Para.25-27 of AASB 124 apply to material administered transactions with Government-related entities

In making disclosures about material administered transactions/balances, agencies should determine their approach consistent with the limited amount of information otherwise provided about administered transactions and balances. Where material administered transactions/balances are with other Queensland Government-controlled entities (refer to the sub-section below), the limited disclosure approach in paragraphs 25-27 of AASB 124 applies.

Government-related entity transactions

Government-related entities are any entities 'controlled' by the Queensland Government. For this purpose, the term 'control' is as per AASB 10 *Consolidated Financial Statements*. All departments, Government-owned corporations and almost all statutory bodies are Government-related entities.

One source of guidance about which entities are controlled by the Queensland Government is the list of Tridata entities in the WoGFIR manual, or the Controlled Entities note in the annual Report on State Finances of the Queensland Government (on Treasury's web site). However, there are other smaller Government entities also controlled by the Queensland Government but not consolidated as they don't meet the monetary thresholds for Tridata reporting. As necessary, agencies are advised to do their own research to confirm the legal status of entities they have significant transactions with.

Small number of entities not controlled by Queensland Government

Agencies should note that there are a small number of Queensland Government entities not regarded as being controlled by the Queensland Government (e.g. universities, grammar schools, and water distributor-retailers such as Queensland Urban Utilities). Therefore, those entities do not have the same Government "parent" for the purposes of identifying and disclosing transactions with a Government-related entity.

Assess significance – individually & collectively

Tier 1 agencies are responsible for assessing which Government-related entity transactions, if any, are individually significant or collectively significant to warrant disclosure under paragraphs 26-27 and BC22 of AASB 124 (Tier 2 entities being exempted from those disclosures under AASB 124). For that purpose, agencies should develop a position about what sort of Government-related transactions are 'significant' to them. This would ensure agency effort is focussed on identifying those types of transactions (about which there should be general corporate knowledge), rather than identifying all Government-related entity transactions.

Mirror disclosures between Government-related entities not necessary

As these disclosures do not impact on reported figures, and the significance of Government-related entity transactions depends on the individual entity, it is not necessary for each party to these transactions to have “matching” narrative disclosures.

Where one agency acts as “agent” for another Queensland Government entity, and reflects underlying transfers to/from that entity only in note disclosures, such transfers do not impact on the financial performance or position of the agent, so should not be considered for AASB 124 purposes.

5B.3 TRANSACTIONS CONNECTED WITH KMP**REFERENCES**

- AASB 124 *Related Party Disclosures*
- FRR 3C *Employee Benefits Expenses and Key Management Personnel Remuneration*
- *Information Privacy Act 2009*
- Information Privacy Principles
- *Right to Information Act 2009*

APPLICATION GUIDANCE**Self-declaration by KMP is recommended approach**

Self-declaration by KMP is Treasury’s recommended approach to collect the necessary information about related party transactions with KMP, their close family members and any entities that those people control or jointly control.

Declarations of interests currently made by KMP pursuant to *the Public Service Act 2008* are not suitable for the purposes of AASB 124 for the following reasons:

- the objective of AASB 124 is to facilitate transparency about the extent to which an agency’s operating result or financial position has been affected by transactions with related parties, rather than for conflict of interest purposes;
- the existing declarations deal more with personal investments and other asset holdings, rather than identifying transactions with Queensland Government entities;

- the definition of “related party” for the purposes of AASB 124 is potentially significantly broader than what applies under the existing declarations; and
- legally, the information provided via the existing declarations is unable to be used for any other purpose (e.g. for disclosure in financial statements).

The people who meet the KMP definition for their agency (which the agency concerned determines) also comprise a much narrower sub-set of the people who provide declarations under the *Public Service Act 2008*.

Appendix 1 – Recommended forms to collect related party information

Appendix 1 provides a recommended format for agencies to use to collect sufficient information from their non-Ministerial KMP regarding related party transactions (further guidance in using this format is outlined below). This format includes guidance for identifying who is “related” to a KMP, explains what transactions are not required to be declared by a KMP, and refers to the application of the *Information Privacy Act 2009* (IP Act) and the *Right to Information Act 2009* (RTI Act).

Agencies will note that KMP are to identify all their own related parties (both people and entities) in the declaration form. This information is necessary to enable external auditors to conduct the necessary audit work according to Australian Auditing Standard ASA 550 *Related Parties*.

Treasury acknowledges that application of AASB 124’s “close family member” definition may be difficult for KMP from diverse cultural backgrounds (e.g. KMP from Indigenous communities). In these circumstances, **IF** the guidance in Appendix 1 to the recommended declaration form is clearly not acceptable to the KMP concerned, the KMP may identify their “close family members” in the way that is acceptable to them.

Employment of Close Family Members

Part B of the declaration form covers the employment of close family members of the KMP in a position equivalent to, or above, Senior Executive Service (SES) classification. Where an agency is not subject to the SES classifications issued by the Public Service Commission (PSC), the agency may refer to the SES remuneration rates issued by the PSC as a guide in determining the equivalent employment positions that are significant due to their seniority/influential nature within that agency. These rates can be accessed at <https://www.forgov.qld.gov.au/documents/directive/1017/senior-executive-service-employment-conditions>.

Agency practices for collection of information from non-Ministerial KMPAgency responsibilities

Agencies need to implement their own strategies for co-ordinating collection of information from their non-Ministerial KMP, including:

- initial and ongoing education/advice for non-Ministerial KMP (particularly with turnover of KMP) about completion of declarations;
- skills and seniority of the officers who will be handling the personal information;
- secure arrangements for the storage of, and access to, completed declarations; and
- skills and seniority of the officers assessing whether or not financial statement disclosure is warranted, drafting any necessary disclosures, and dealing with external auditors about associated matters.

Who and when?

Agencies must only collect information from those agency-specific officers who meet the KMP definition for a material portion of the financial year (including where this was under a short-term staffing arrangement). There should be consistency with who will be reflected in the agency's KMP remuneration note disclosure. Agencies should also heed the guidance about identifying KMP for their agency (including for short-term arrangements) in FRR 3C Employee Benefits Expenses and Key Management Personnel Remuneration (refer to both FRR 3C.3 and FRR 3C.4).

Agencies responsible for determining frequency of collection

Agencies are responsible for determining how frequently they collect information from their non-Ministerial KMP, ensuring an appropriate balance between minimising administrative effort while optimising timely collection of information. More frequent information collection assists in identifying potential changes in a KMP's own related parties during the year. Agencies should also note:

- circumstances that should trigger information collection from KMP include abolition of an agency, significant organisational re-structuring within individual agencies, turnover of KMP, and short-term staffing arrangements that would meet the KMP definition (if those are for a material portion of the financial year – refer to FRR 3C.3);

- judgements about who meets the KMP definition at any time during the financial year (e.g. with short-term arrangements) may therefore be required much earlier than previously (N.B. KMP only need to declare information in respect of the period(s) of time they met the KMP definition); and
- collection of information should be incorporated into the exit processes for KMP who leave the agency, where a significant amount of time has elapsed since their last completed declaration. Individual agencies need to determine their own strategy to facilitate this.

Working with completed non-Ministerial KMP declarations

Agency staff needs to be aware that the content of completed declarations, including any notes written on them, may be subject to disclosure under the RTI Act. As the completed declarations contain personal information, agencies need to ensure that they are managed and used in accordance with the requirements of the IP Act, including the Information Privacy Principles. To ensure there is no question about compliance with Information Privacy Principle 11 Limits on Disclosure, agencies should ensure that External Audit Plans and/or Client Assistance Schedules with external auditors include a standard request by auditors for access to completed declarations for the audit of the financial statements pursuant to the *Auditor-General Act 2009*.

The recommended declaration form in Appendix 1 is designed to enable agencies to implement greater security measures over information declared by KMP regarding their close family members and their controlled entities. Therefore, the Word versions available directly from the FRR web page facilitates collection of that personal information in a separate document (Part A), enabling that information to be stored separately from transactional information (Part B) used to determine financial statement disclosures.

Part A also contains an option to allow individual KMP to avoid repeating such personal information, provided the details in the KMP's own last fully completed Part A remain correct. Agencies will also note that explanatory information is now located in a separate Word document. Agencies are free to decide whether this division of material into separate documents is practical for them.

If agencies use Treasury's recommended declaration forms, (given the wording of the KMP certifications) agencies should rely on the information supplied by their non-Ministerial KMP, acknowledging that the KMP completes their declaration to their best of their knowledge. This declaration process, and AASB 124 itself, are not intended to identify, or deal with, governance or probity issues. However, where a transaction between the agency and a

KMP-related person/entity comes to light, and has not been declared by the KMP concerned, agencies cannot ignore that information in complying with AASB 124. Agencies are reminded that those officers certifying the agency's annual financial statements are required to attest to the material compliance of those statements with prescribed requirements.

Agencies to undertake their own verification of transaction details

Agencies need to undertake their own verification of any transaction details declared by KMP (both figures and other information) before determining whether or not a financial statement disclosure will be required. Such verification is best undertaken soon after receipt of the completed declarations.

Agencies should note that the recommended declaration format does not ask the KMP to provide information about matters that the agency is best placed to "source", based on the information declared (e.g. more specific information about the transaction, associated receivables or payables, provisions for impairment, bad debt expenses etc).

Not all information collected will be disclosed in financial statements

Not all information collected from KMP will be required to be disclosed in financial statements, or in the same level of detail as revealed via declarations.

Collection of information from Ministerial KMP

All Ministers' related parties related to all Qld Govt-controlled entities

As all Ministers meet the KMP definition of the Whole-of-Government, all Ministers, their close family members, and any entities controlled or jointly controlled by any of those people, are related to all Queensland Government-controlled entities (refer to the latter part of FRR 5B.2) for related party transaction purposes.

Agencies must not collect information from Ministers

However, regardless of whether or not an agency's responsible Minister (where applicable) is reported as part of its KMP, **agencies MUST NOT collect information from their Minister for related party disclosure purposes.**

Instead, the Ministerial information collection process will be centrally managed by Queensland Treasury, the Department of the Premier and Cabinet, and the Integrity Commissioner. The Queensland Audit Office (QAO) will also audit this information centrally.

Where transactions are identified, affected agencies will be contacted and advised ahead of audit certification of their financial statements by QAO.

The information collected through that process will meet the needs of individual reporting entities that are controlled by the Queensland Government. The central process will include:

- collection of information from Ministers and secure storage of that information;
- review of completed declarations to determine potential transactions to be disclosed;
- where such transactions are identified, liaison with relevant Queensland Government entities to verify transactional information collected will occur to obtain further information required for financial statement disclosures. Ordinarily, this liaison is planned to occur during June and July each year;
- drafting of proposed disclosures on behalf of the Queensland Government entity involved in the transaction;
- consultation with the Minister concerned re the proposed disclosure;
- negotiation of the proposed disclosure with QAO, and handling (in the first instance) of questions from external auditors regarding related party transactions connected with Ministers; and
- supply of the agreed financial statement disclosure to the entity involved in the transaction. This will ordinarily be supplied by early August each year.

APPENDIX 1 RECOMMENDED DECLARATION FORM TO COLLECT RELATED PARTY INFORMATION FROM NON-MINISTERIAL KMP

The following declaration format has been primarily designed to enable completion in Microsoft Word, and the key tables for completion by KMP incorporate drop-down lists and check boxes to assist with completion. Therefore, agency KMP should be encouraged to complete their declarations using Microsoft Word. This declaration format is designed for completion by KMP in the following steps:

- Part A - Who are my close family members (irrespective of the existence of transactions)?
- Part A - Do I, or any of the people I've listed as close family members, control or jointly control any entities (irrespective of the existence of transactions)?
- Part B - Did I, or any of the people or entities I've already identified in the declaration, enter into a transaction with the reporting entity, according to any of the transaction types outlined in the declaration form?
- If the answer is "yes" to the above question, a limited amount of information about such transactions is requested of the KMP via Part B.

Before issuing blank declaration forms to KMP, agencies need to complete/review certain details:

- in each Word document - identification of the agency and its controlled entities, and the period of time to be considered by the KMP when completing the declaration (which will depend on your agency practice regarding frequency of collecting declarations); and
- in the privacy statements in Part A and Part B - details of specific entities, to comply with information privacy requirements. "Names of entities that may be provided with copies of completed Part A/Part B" refers to other entities (other than Queensland Treasury and external auditors), if any, that will be involved in reviewing completed declarations and/or drafting of related party disclosures in respect of non-Ministerial KMP. If there are no other such entities, the sentence can be revised to refer simply to Queensland Treasury (in case of Treasury ever being asked for advice about a specific scenario).

Due to paragraph 9(a)(iii) of the “related party” definition of AASB 124, in determining whether there is a transaction to declare, KMP need to consider transactions that they, their close family members and/or any entities controlled or jointly controlled by any of them, have entered into with:

- the Government reporting entity for which they are a member of KMP; and
- where that reporting entity also controls any other entities – any of those controlled entities.

Agencies therefore need to ensure this is clear to their KMP via the entities listed on the first pages of Part A and Part B.