ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

RELATED PARTY DISCLOSURES

(GRAP 20)

Issued by the
Accounting Standards Board

June 2011

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Related Party Disclosures* is based on the International Public Sector Accounting Standard (IPSAS) 20 on *Related Party Disclosures* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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Standard of Generally Recognised Accounting Practice

Related Party Disclosures

RELATED PARTY DISCLOSURES

This Standard was originally issued by the Accounting Standards Board (the Board) in June 2011. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 37 *Joint Arrangements*
- Improvements to the Standards of GRAP, issued by the Board in March 2020.

Introduction

This pronouncement is set out in paragraphs .01 to .39C. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

.01 The objective of this Standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting (in this Standard referred to as the reporting entity) shall apply this Standard in:

(a) identifying related party relationships and transactions;

(b) identifying outstanding balances, including commitments, between an entity and its related parties;

(c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and

(d) determining the disclosures to be made about those items.

.03 This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standards of GRAP on Consolidated Financial Statements (GRAP 35) and Separate Financial Statements. This Standard also applies to individual financial statements.

.04 Related party transactions and outstanding balances within an economic entity are disclosed in an entity's financial statements. Intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the economic entity.

Purpose of related party disclosures

.05 Related party relationships exist throughout the public sector, because:

(a) departments and municipalities are subject to the overall direction of an executive government or council, and ultimately, parliament, and operate together to achieve the policies of the government;

(b) departments and municipalities frequently conduct activities necessary for the achievement of different parts of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence;

(c) public entities enter into transactions with other government entities on a regular basis; and

(d) ministers, councillors or other elected or appointed members of the government and other members of management can exert significant influence over the operations of an entity.

.06 Government and entities are expected to use resources efficiently, effectively and in the manner intended, and to deal with public monies with the highest levels of integrity. The existence of related party relationships means that one party can control, jointly control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may give one party an advantage at the expense of another. Disclosure of related party transactions, outstanding balances, and the relationship underlying those transactions is necessary for accountability purposes. It enables users to better understand the financial statements of the reporting entity because:

(a) related party relationships can influence the way in which an entity operates with other entities in achieving its objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;

(b) related party relationships might expose an entity to risks or provide opportunities that would not have existed in the absence of such a relationship; and

(c) related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties. This occurs frequently where goods and/or services are transferred between entities at less than full cost recovery as a part of normal operating parameters consistent with the achievement of the objectives of the entity and the government.

.07 Management holds positions of responsibility within an entity. Members of management are responsible for the strategic direction and operational management of an entity and are entrusted with significant authority. Their remuneration may be established by statute or by another body independent of the reporting entity. However, their responsibilities may enable them to influence the benefits of office that flow to them, or their related parties or parties that they represent on the governing body.

.08 Close members of the family of persons related to the entity may influence, or be influenced by them in their transactions with the entity.

.09 Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

Definitions

.10 ***The following terms are used in this Standard with the meanings specified:***

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. As a minimum, a person is considered to be a close member of the family of another person if they:

(a) are married or live together in a relationship similar to a marriage; or

(b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Management comprises those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

(a) A person or a close member of that person's family is related to the 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 management of the entity or its controlling entity.

(b) An entity is related to the reporting entity if any of the following conditions apply:

(i) the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity 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 an economic entity 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 entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

(viiA) The entity, or any member of a group of which it is part, provides management services to the reporting entity or to the controlling entity of the reporting entity.

***Related party transaction** is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.*

***Significant influence** is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.*

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Close member of the family of a person

.11 Judgement will be necessary in determining whether a person should be identified as a close member of the family of another person for purposes of application of this Standard. In the absence of information to the contrary, such as where a spouse or other relative is estranged from the person, immediate family members and close relatives are presumed to have, or be subject to, such influence as to satisfy the definition of close members of the family of that person. At a minimum, the following should be considered to be close members of the family:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner;

(c) dependants of that person or that person's spouse or domestic partner;

(d) a grandparent, grandchild, parent, brother or sister; and

(e) a parent-in-law, brother-in-law or sister-in-law.

Management

.12 Management includes all persons having the authority and responsibility for planning, directing and controlling the activities of the entity, including:

(a) all members of the governing body of the reporting entity;

(b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the entity;

(c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the entity; and

(d) the senior management team of the entity, including the chief executive officer or permanent head of the entity, unless already included in (a).

.13 Where an entity is subject to the oversight of an elected or appointed representative of the governing body of the government to which the entity belongs, that person is a member of the management if, and only if, the oversight function includes the authority and responsibility for planning, directing and controlling the activities of the entity.

.14 Oversight is not political influence. Political influence is exercised in Parliament and the legislatures when drafting laws and regulations. Oversight is exercised when entities implement those laws and regulations.

.15 In some instances, key advisors of management, including members of the sub-committees of the governing body, may not possess sufficient authority, legal or otherwise, to satisfy the definition of management. In other instances, key advisors may be deemed to be part of management because they are responsible for planning, directing and controlling the activities of the reporting entity. Where key advisors have access to privileged information, they may be able to exercise control, joint control or have significant influence over an entity. Judgement is required in assessing whether a person that is a key advisor, or a member of a sub-committee of the governing body, is part of management.

.16 The management of controlled entities will usually not have sufficient authority and responsibility to qualify as the management (as defined by this Standard) of the reporting entity. In this case, management will consist only of those members of management who have the greatest responsibility for the reporting entity. For example, at a whole-of-government level, members of Cabinet may satisfy the definition.

.17 The management of an economic entity may comprise persons from both the controlling entity and other entities that collectively make up the economic entity.

Related parties

.18 In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. In determining whether or not control or common control exists, reference should be made to GRAP 35 or the Standards of GRAP on *Transfer of Functions Between Entities Under Common Control* and *Transfer of Functions Between Entities Not Under Common Control.*

.19 In the context of this Standard, the following are not necessarily related parties:

(a) two entities simply because they have a member of management in common or because a member of management of one entity has significant influence over the other entity;

(b) two venturers simply because they share joint control over a joint venture;

(i) providers of finance; and

(ii) trade unions;

simply by virtue of their normal dealings with the entity (even though they may affect the freedom of action of an entity or participate in its decision-making process); or

(c) a customer, supplier, distributor or general agent with whom the entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Remuneration of management

.20 Remuneration of management includes remuneration derived for services provided to the reporting entity in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the entity for services in any capacity other than as an employee or a member of management do not satisfy the definition of remuneration of management in this Standard. However, paragraph .27 requires other disclosures to be made about transactions and outstanding balances. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the reporting entity, such as the reimbursement of accommodation costs associated with work-related travel. Paragraphs .35 to .37 contain disclosure requirements about remuneration of management.

Significant influence

.21 Significant influence may be exercised in several ways, usually by representation on the governing body but also, for example, by 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 or otherwise. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in the Standard of GRAP on *Investments in Associates and Joint Ventures* (GRAP 36).

Disclosure

.22 Different laws and regulations applicable to the entity may require the entity to disclose information about related party relationships, related party transactions and outstanding balances. In particular, attention is focused on the entity's transactions with management. This Standard includes the minimum disclosure requirements for related party transactions. Entities may need to consider additional disclosures as a result of applicable laws and regulations.

.23 Information required by paragraphs .24 to .37 shall be provided only if it is not already provided as part of the financial statements in accordance with legislative requirements or other Standards of GRAP.

Disclosure of control

.24 Related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties. An entity shall disclose the name of its controlling party and if different, the ultimate controlling party.

.25 To enable users of financial statements to form a view about the effects of related party relationships on a reporting entity, it is appropriate to disclose related party relationships where control exists, irrespective of whether there have been transactions between the related parties.

.26 The requirement to disclose related party relationships between controlled entities and controlling entities is in addition to the disclosure requirements in GRAP 35, GRAP 36 and the Standards of GRAP on *Joint Arrangements* (GRAP 37) and *Disclosure of Interests in Other Entities.*

Disclosure of related party transactions

.27 Subject to the exemptions in paragraph .32, if a reporting entity has had related party transactions during the periods covered by the financial

statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph .35 to disclose remuneration of management. At a minimum, disclosures shall include:

(a) the amount of the transactions;

(b) the amount of outstanding balances, including commitments; and

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(ii) details of any guarantees given or received;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

.27A Amounts incurred by the entity for the provision of management services that are provided by a separate management entity shall be disclosed. Management services are services where employees of a management entity perform functions as "management" as defined in paragraph .10.

.27B Amounts incurred for the provision of management services includes amounts paid or payable, and amounts recognised and/or disclosed as services in-kind in terms of the Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)*.

.28 The disclosures required by paragraph .27 shall be made separately for each of the following categories:

(a) the controlling entity;

(b) entities with joint control or significant influence over the entity;

(c) controlled entities;

(d) associates;

(e) joint ventures in which the entity is a venturer;

(f) management; and

(g) other related parties.

.29 The classification of amounts payable to and receivable from related parties in the different categories as required by paragraph .28 is an extension of the disclosure requirements in the Standard of GRAP on *Presentation of Financial Statements*

(GRAP 1) for information to be presented either in the statement of financial position or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

.30 The following are examples of transactions that are disclosed if they are with a related party:

(a) purchases, transfers or sales of inventory (finished or unfinished);

(b) purchases, transfers or sales of property or other assets;

(c) rendering or receiving services;

(d) leases;

(e) transfers of research and development;

(f) transfers of licence agreements;

(g) transfers under finance arrangements (including loans and contributions to net assets in cash or in kind and other financial support including cost sharing arrangements);

(h) provisions of guarantees or collateral; and

(i) settlement of liabilities on behalf of the entity or by the entity on behalf of the related party.

.31 To the extent that related party transactions relate to the same related party, and are of a similar nature, they may be disclosed in aggregate except when separate disclosure is necessary to provide relevant and reliable information for decision-making and accountability purposes.

.32 A reporting entity is exempt from all the disclosure requirements in paragraph .27 in relation to related party transactions if that transaction occurs within:

(a) normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and

(b) terms and conditions within the normal operating parameters established by that reporting entity's legal mandate.

.33 Entities may transact extensively with one another on a daily basis. These transactions may occur at cost, less than cost or free-of-charge. Some entities are established to provide services to other entities. For example, a public entity may provide fleet services to departments or other public entities or may act as an agent to collect revenues for other entities. Commonly, all the transactions by such entities would constitute related party transactions. The exclusion of these related party transactions from the disclosure requirements of paragraph .32 recognises that public sector entities operate together to achieve common objectives, and acknowledges that different mechanisms may be adopted for the delivery of services by public sector entities.

.34 ***Where a reporting entity is exempt from the disclosures in accordance with paragraph .32 the entity shall disclose narrative information about the nature of the transactions and the related outstanding balances referred to in paragraph .27 to enable users of the reporting entity's financial statements to understand the effect of related party transactions on its financial statements.***

Disclosure of remuneration of management

.35 ***An entity shall disclose the remuneration of management per person and in aggregate, for each class of management, in the following categories:***

(a) fees for services as a member of management;

(b) basic salary;

(c) bonuses and performance related payments;

(d) other short-term employee benefits;

(e) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(f) termination benefits;

(g) other long-term benefits;

(h) any commission, gain or surplus sharing arrangements; and

(i) any other benefits received.

.35A ***If an entity obtains management services from another entity ("the management entity") the entity is not required to apply the requirements in paragraph .35 to the remuneration paid or payable by the management entity to the management entity's employees or those charged with governance of the entity in accordance with legislation, in instances where they are required to perform such functions.***

.36 ***Entities shall make separate disclosures about the major classes of management that they have. For example, where an entity has a governing body that is separate from its senior management group, disclosures about remuneration of the two groups must be made separately.***

.37 Where a person is a member of both the governing body and the senior management group, that person will be included in only one of those groups for the purposes of this Standard. The categories of management identified in paragraph .12 provide a guide to identifying classes of management.

Transitional provisions

.38 ***The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.***

Effective date

Initial adoption of the Standards of GRAP

.39 ***This Standard becomes effective on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***

Entities already applying Standards of GRAP

.39A ***Paragraphs .03, .10, .18 and .26 were amended by GRAP 35 issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.39B ***Paragraph .21 was amended by GRAP 37 issued March 2017. An entity shall apply this amendment retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply this amendment earlier, it shall disclose this fact.***

.39C ***Paragraph .10 was amended and paragraphs .27A, .27B and .35A added by the Improvements to the Standards of GRAP (2020) issued March 2020. These amendments are effective for annual periods beginning on or after 1 April 2023. An entity shall apply these amendments retrospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

Appendix A – Examples of application of this Standard

This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

Example 1 – Identifying related parties and related party disclosures

Background

National public entity A (entity A) is in the process of preparing its financial statements for the year ended 31 March 2010. It needs to identify its related parties and make the necessary disclosures in the financial statements.

Entity structure

Entity A was established in terms of national legislation to provide training to health and safety officers across the public sector. It reports functionally to the National Department of Labour, i.e. the Minister of Labour is the executive authority of the entity.

Since entity A requires training material to be developed on a regular basis, it has entered into a joint venture with provincial public entity B (entity B), which also provides training in the public sector. Entity B reports functionally to the relevant provincial treasury. Entity A and entity B are the only two venturers in another entity, entity C, which is jointly controlled by them.

Management structure

Entity A is governed by a board. The board members are appointed by the Minister of Labour. The board members comprise Mr X, (who is an independent member employed in the private sector), Mrs Y (who is employed by the Department of Labour and is a member of its executive committee), and Mr Z (who is a representative of the Department of Health). Only Mr X is remunerated. As Mrs Y and Mr Z are employed in the public sector, they are not remunerated for serving on the board of entity A.

Entity A shares an audit committee with the other public entities that have been established by the Department of Labour. Entity A does not make any monetary contribution towards the costs of the audit committee.

The chief executive officer (Mrs U), chief financial officer (Mr V) and chief operations officer (Mrs W) are responsible for planning, directing and controlling the entity's activities.

Transactions

Entity A provides training services to health and safety officers working in a variety of entities in national, provincial and local government. These services are provided on a cost recovery basis. Certain administrative costs of entity A are funded by a transfer payment from the Department of Labour.

Apart from the transactions listed in the previous paragraph, entity A undertakes the following transactions with other entities in the public sector:

- Basic services such as electricity, water and sanitation are supplied by the local municipality.
- Air travel is supplied by the national carrier, which is controlled by the national government.
- IT services are supplied by the state IT agency, which is also controlled by the national government.
- PAYE, SITE and other payroll taxes are collected by entity A and remitted to the revenue authority on a monthly basis.

As a benefit to employees, entity A issues guarantees to financial institutions for housing loans.

Mr V controls InvestProp Holdings and CleanCo. CleanCo provides cleaning services to entity A.

Analysis – Identifying related parties and related party disclosures

Part I - Related entities

Related entity: Existence of control

As the Minister of Labour is the executive authority of entity A, this entity is related to all other entities (and their controlled/jointly controlled entities) for which the Minister of Labour is the executive authority and, more broadly, to all other entities controlled by the national executive.

Entity A and the Department of Labour are thus related parties.

Entity A is thus related to all entities within the economic entity (group).

Related entity: Existence of joint control

Entity A, together with entity B, exercises joint control over entity C. Entity C is thus a related party of entity A.

Entities A and B are not necessarily related parties for the following reasons:

- Entity B is a provincial public entity which means that it is not under common control and not within the same economic entity.
- Entity B and entity A are not deemed to be related parties merely because they share joint control over a joint venture.

Entity A would, however, assess whether any other circumstances exist that may indicate that a related party relationship exists.

Related entity: Entity controlled by a related person

Entity A should test whether any other entities are related to it through related persons.

Mr V, the CFO, is responsible for the planning, directing and controlling the activities of entity A and is thus part of its management personnel. He also controls both CleanCo and InvestProp. Since Mr V is part of the management of entity A and controls CleanCo and InvestProp, both Clean Co and InvestProp are related to entity A.

Required disclosures

Entity A should disclose the existence of any control relationships in its financial statements, irrespective of whether there are any transactions with those entities. These disclosures should be developed in conjunction with the requirements in GRAP 35, GRAP 36 and GRAP 37.

Sufficient disclosures should be made in the financial statements about the various relationships to enable the user to understand the nature of the relationships and their effect on the financial statements.

Part II - Related persons

The Minister of Labour as the executive authority of entity A, is a related person of entity A.

The management of entity A are those responsible for planning, directing and controlling the activities of the entities. As a result, the board members, the CEO, CFO and COO are related to entity A.

The members of the audit committee may also be related in cases where they are responsible for planning, directing and controlling the activities of entity A.

Required disclosures

Entity A would disclose transactions with any related persons. Any remuneration to management is disclosed separately from other transactions.

Part III - Related party transactions

The various transactions undertaken by entity A have been analysed in the table below and rationale provided as to whether they are related party transactions or not.

Transaction	**Related party transaction**	**Not a related party transaction**
Transactions with entities		
Transfer payment from Department of Labour	The Department of Labour and entity A are related as they are under common control.	
Provision of services to other public sector entities	Entities in the national sphere of government and entity A are related as they are under common control. No disclosure is required if the transaction meets the exemption in	Entities within each province or at each local authority level are not under common control (i.e. they are not part of the same economic entity).

Transaction	Related party transaction	Not a related party transaction
	paragraph .32.	Unless there is other evidence to the contrary, the transactions with entity A are not related party transactions.
Transactions with entity B		Entity B is a provincial public entity. Entity A and entity B are therefore not under common control. Entity A and entity B jointly control entity C. Entities A and B are not automatically related parties, because they are venturers of the same joint venture. Unless there is other evidence to the contrary, the transactions with entity A are not related party transactions.
Transactions with entity C	Since entity A jointly controls entity C, any transactions between entity A and entity C are related party transactions. No disclosure is required if the transaction meets the exemption in paragraph .32.	
Water, sanitation and electricity		The municipality and entity A are not under common control. Unless there is other evidence to the contrary, the transactions with entity A are not related party transactions.
Air travel	The national carrier and entity A are related as they are under common control. No disclosure is required if the transaction meets the exemption in paragraph .32.	
IT services	The state IT agency and entity A are related as they are under	

Transaction	Related party transaction	Not a related party transaction
	common control. No disclosure is required if the transaction meets the exemption in paragraph .32.	
PAYE, SITE and other payroll taxes		Entity A acts as an agent on behalf of its employees and the revenue authority. The payment of taxes is a transaction between taxpayers and the revenue authority and not entity A and the revenue authority.
Transactions with persons		
Remuneration (management)	Remuneration paid by entity A to Mr X, and to the CEO, CFO and COO respectively is a related party transaction. Free services provided by Mrs Y and Mr Z as result of the relationship between their employers and entity A is a related party transaction.	
Remuneration and cost of audit committee	Free services provided by the audit committee as a result of the relationship between the Department of Labour and entity A is a related party transaction.	
Financial guarantees issued (CEO, CFO and COO)	The issue of financial guarantees to the CEO, CFO and COO constitutes part of the remuneration of management and is a related party transaction.	
Procurement of cleaning services – CleanCo	Mr V controls CleanCo. As a result, any transactions with CleanCo are related party transactions.	

Required disclosures:

Entity A should disclose the nature of its related party relationships as well as any transactions (with entities and persons), outstanding balances or commitments that will enhance the understanding of the potential effect of the relationship on the financial statements.

Entity A is not required to disclose the value of transactions with other public sector entities where the transactions are concluded within normal operating procedures and on terms that are no more or no less favourable than the terms it would use to conclude transactions with another entity or person.

Entity A is required to separately disclose any remuneration to management personnel, i.e. any remuneration paid to the board members or employees. Where no compensation is paid by Entity A (or the compensation is paid on its behalf) this fact should be disclosed.

Example 2 - Illustrative disclosures

Based on the analysis outlined in example 1, the following illustrative disclosures could be made in the financial statements of A[2].

Extract from the notes to the financial statements

Entity A – 31 March 2010

Note X. Related Parties

Entity A has been established by the Department of Labour in terms of national legislation. The Minister of Labour is the executive authority of entity A. Entity A is ultimately controlled by the national executive.

Entity A is controlled by the national executive. It is therefore related to all other entities within the national government.

Entity A received a transfer payment of R XXX funding for its administrative activities from the National Revenue Fund through the Department of Labour. There were no amounts owing to or by entity A to the Department of Labour.

Entity A provides training to health and safety officers within the public sector on a cost recovery basis. The revenue from these transactions is included in the statement of financial performance. At 31 March 2010, the following amounts were owing to entity A by other national public sector entities (amounts owed included in short-term receivables):

[2] Note: These disclosures are illustrative only and are not complete. The requirements in this Standard as well as other Standards of GRAP, e.g. GRAP 35, GRAP 36 and GRAP 37, should also be consulted in formulating appropriate disclosures.

31 March 2010 R'000	Nature of outstanding balance	Outstanding balance	Provision for doubtful debt	Net balance
Department A	Training services	X	X	X
Department E	Training services	X	X	X

Entity A shares its audit committee with the Department of Labour. Entity A does not pay for these services. The estimated saving on entity A's administrative budget amounted to R XXX.

Entity A established entity C as a joint venture with provincial public entity B. Entity C develops training material for entities A and B. Both entities pay entity C for the training material developed and have agreed to jointly fund the administrative costs of entity B. Actual expenditure for the current financial period is disclosed as the development of training materials and is included in note x. The amount paid to entity C to fund administrative costs amounted to R XXX.

CleanCo, which is controlled by Mr V (the CFO), provides cleaning services to entity A. The contract is reviewed and, if appropriate, renewed on an annual basis in accordance with the supply chain management regulations. The CFO has declared his interest in this contract and has recused himself from any discussions or decisions pertaining to this contract.

Entity A used several national public sector entities as service providers for travelling and IT services during the year. These transactions were concluded on normal operating terms. These amounts are included in payables/receivables on the statement of financial position.

Entity A is governed by a board, comprising three members appointed by the Minister of Labour. These board members, together with the CEO, CFO and COO are responsible for planning, directing, and controlling the activities of the entity. During the year, the following remuneration was paid to these members of management:

	Board fees	Basic salary	Other long–term benefits	Total
Board member				
Mr X	XXX	_	_	XXX
Employees				
Mrs U	_	XXX	XXX	XXX
Mr V	_	XXX	XXX	XXX
Mrs W	_	XXX	XXX	XXX
Total	**XXX**	**XXX**	**XXX**	**XXX**

Only one member is remunerated by entity A. The other board members are not remunerated as they are employed by the national Departments of Labour and Health respectively. Included in other benefits is the cost of issuing financial guarantees to various financial institutions for housing loans. For the year, the cost was R XXX for Mrs U and R XXX for Mrs W.

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to related party disclosures. This basis for conclusions accompanies, but is not part of, this Standard.

BC1. The basis for conclusions summarises the Board's considerations in making changes from the International Public Sector Accounting Standard on *Related Party Disclosures* (IPSAS 20). The Board also considered aspects of the IAS Standard on *Related Party Disclosures* (IAS 24) issued in November 2009.

BC2. The Board has clarified that there is a distinction between political influence and oversight. Political influence is exercised in the drafting of laws and regulations, but oversight relates to the implementation of those laws and regulations. Only when oversight includes the authority and responsibility for planning, directing and controlling the activities, does the person exercising that oversight become a member of management.

BC3. The structure of this Standard differs from IPSAS 20 in line with the structure adopted by the Board.

BC4. The definitions of related party, close members of the family, related party transaction and remuneration of key management has been updated in line with IAS 24 and the Companies Act, Act No. 71 of 2008, in South Africa.

BC5. Changes have been made to reflect the South African public sector. For example, references to significant influence have been added, while references to concepts such as voting powers, which does not form part of the governance structure in the South African public sector, have been deleted.

BC6. The Board has expanded the exemption of related transactions and the related outstanding balances of transactions that occur within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances, to also include transactions, and any resulting balances, that are undertaken on terms and conditions within the normal operating parameters established by that reporting entity's legal mandate. This exemption was expanded to include such transactions and balances as information on these arrangements would be disclosed in information about the entity's legal mandate.

Comparison with the International Public Sector Accounting Standard on *Related Party Disclosures* (October 2002)

This Standard is drawn primarily from IPSAS 20. The main differences between this Standard and IPSAS 20 are as follows:

- The structure of this Standard differs substantially from that of IPSAS 20. This Standard incorporates aspects of the IAS 24 issued in November 2009. These include:
  - amendments to the Objective and the Scope;
  - replacement of the "Related Party Issue" with a section dealing with the Purpose of Related Party Disclosures;
  - amendments to the definition of a related party, close members of the family, related party transaction, and remuneration of key management;
  - amendments to include "joint control";
  - deletion of the definition of "oversight" as it is contained in the definition and explanatory paragraphs of management;
  - deletion of section on voting power as it is covered by "significant influence";
  - additions for definitions of control and joint control;
  - amendments to disclosure requirements, including disclosures per the different categories of related parties;
  - deletion of explanatory paragraphs, not included in IAS 24, where specific public sector issues were not clarified;
  - deletion of disclosure requirements in relation to the remuneration of key management personnel and their close family members not in IAS 24; and
  - deletion of explanatory paragraphs on materiality as it is already included in GRAP 1.
- "Key management personnel" has been changed to "management" as that definition is consistent with the way in which management is defined in other Standards of GRAP. Parts of the IPSASB definition have been included in the explanatory paragraphs. The explanatory paragraphs were further amended to include members of the sub-committees of the governing body where they are co-responsible for the management and control of the entity as this would be similar to key advisors.
- This Standard has been amended to include the change to IAS 24 to expand the definition of a related party, and the disclosure of related party disclosures, to include management services.
- Examples have been amended for South African purposes.

- The disclosure requirements relating to key management have been amended to include legislative requirements in South Africa.
- The exemption from the disclosure requirements in IPSAS 20 on normal terms and conditions were amended to clarify the types of transactions that would be exempt from disclosure.
- This Standard includes a section on transitional provisions not included in IPSAS 20.