



ACCOUNTING STANDARDS BOARD

REVIEW REPORT

DESKTOP REVIEW OF THE STANDARD OF GRAP ON *RELATED PARTY DISCLOSURES* (GRAP 20)



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Executive summary

The Standard of GRAP on *Related Party Disclosures* (GRAP 20) requires entities to disclose related party relationships and transactions. These disclosures ensure that financial statements reflect the potential impact of related party relationships, transactions and outstanding balances on the entity's financial position and performance.

This Review Report summarises the issues, root causes and outcomes identified from a review that assessed the application of GRAP 20. The review also evaluated the practices used by preparers in disclosing related party relationships and transactions. This Report includes the Board's responses to the issues identified, to improve application and understanding of the Standard.

The review considered the latest available audited financial statements and related audit reports from a representative selection of entities across all spheres of government that apply Standards of GRAP. The review identified pervasive issues and areas where corrective action may be necessary. Key stakeholders, including public sector entities, technical specialists, the National Treasury and auditors, were consulted to provide context to the issues and root causes.

Results of the review

The key issue from the review is that stakeholders face challenges in correctly identifying related party relationships and related party transactions, as defined in GRAP 20. This complexity in general arises from the need to exercise judgement in certain areas, including:

- **Identifying related parties:** Determining whether individuals or entities have control, joint control or significant influence over the reporting entity, or vice versa.
- **Disclosure of related party transactions and relationships:** Ensuring that all relationships, transactions and outstanding balances with related parties are disclosed in the financial statements as required by GRAP 20.
- **Materiality considerations:** Applying materiality to determine the related party transactions and disclosures to report in the financial statements.

Specific issues identified include uncertainty about whether audit and risk committee members, traditional leaders and councillors are related parties. Entities also face difficulties disclosing councillors' remuneration, outstanding balances, commitments and goods provided in-kind to related parties.

Board decisions and key actions

The Board has identified key actions that will be taken to provide guidance to stakeholders. These actions aim to improve the identification and disclosure of related party relationships and transactions:

- Amendments to GRAP 20 as the authoritative source of guidance.
- Non-authoritative guidance in the form of Frequently Asked Questions (FAQs) by the Secretariat.
- Communication of review outcomes to key stakeholders.

Detailed information on the key issues and actions from the review is provided in the section titled **Results of the Review.**



Introduction

Related party relationships are widespread in the public sector due to the structure of government. The existence of related party relationships means that one party can control, jointly control, or significantly influence another, creating opportunities for transactions that may benefit one party at the expense of another. Therefore, disclosing related party transactions, outstanding balances and the underlying relationships is crucial for accountability. These disclosures help users make informed decisions by providing information necessary to understand how such relationships impact the financial position and performance of an entity.

Authority of this publication

The Board publishes Review Reports to communicate the results of reviews undertaken on the application of Standards of GRAP or any other topic the Board may deem appropriate.

Review Reports are non-authoritative pronouncements issued by the Board, and their application is not mandatory.

Results of the review

The review highlighted certain areas where the application of GRAP 20 presents challenges. These issues are detailed below.

1. Identification of related parties and related party transactions

GRAP 20 requirements

GRAP 20.10 states: “...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);
- (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); and
- (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.”

GRAP 20.12 defines management as: “... 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.”

| (a) Identification of management as related parties | |
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| Issues | Root cause |
| <ul style="list-style-type: none"> • Entities are unsure whether to identify audit and risk committee members as part of management, leading to inconsistent disclosures. • Some municipalities disclose traditional leaders as related parties, while others do not. • Municipalities have difficulty determining who is considered management, leading to inconsistencies in recognising councillors as part of management. As a result, councillors' remuneration is not always disclosed as related party transactions. | <ul style="list-style-type: none"> • Preparers consider audit and risk committee members to be "management" because these committees are considered governing bodies. However, some entities do not disclose these members due to perceived immateriality or lack of control over the entity's activities and therefore the committees do not meet the definition of related parties. • Traditional leaders are sometimes considered to have authority for planning, directing and controlling some aspects of municipal activities, leading to their inclusion as related parties. • Entities are uncertain whether the distinction between ward councillors and proportional representative councillors affects the definition of management or who is considered management according to GRAP 20. • Entities are unclear whether the Standard requires the disclosure of management positions, regardless of who occupies the position, or disclosure of the individuals who occupy those positions, even if they did not occupy the position for the entire financial year. |
| Actions to be taken to address the issues | |
| <p>Amendment to GRAP 20:</p> <p>Amendments to Example 1 of the Standard will be considered to illustrate the assessment of whether audit and risk committee members meet the definition of related parties, depending on the circumstances.</p> <p>FAQ:</p> <p>Develop an FAQ addressing what entities should consider when applying the definition of management in GRAP 20.12. The FAQ will highlight that who is considered as "management" may differ between organisations depending on the structure and governance arrangements within the organisation.</p> | |
| (b) Identification of entities under common control as related parties | |
| Issue | Root cause |
| <p>Stakeholders have difficulty identifying entities under common control, particularly municipalities are unclear whether entities within a province are considered to be under common control.</p> | <p>GRAP 20 provides guidance only for relationships at the national level.</p> |

Actions to be taken to address the issues

Amendments to GRAP 20:

Amendments will be proposed to the Standard to explain the relationship between the three spheres of government and clarify which entities could be considered related parties. This guidance will consider existing principles in GRAP 105 and GRAP 106.

2. Disclosure of related parties and related party transactions

GRAP 20 requirements

GRAP 20.32 states: “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.”

GRAP 20.27 states: “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, 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.”

GRAP 20.34 states: “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.”

(a) Inconsistent disclosure of councillors’ remuneration

| Issues | Root cause |
|---|---|
| <ul style="list-style-type: none"> • Municipalities face challenges in determining whether to aggregate or disaggregate councillors’ remuneration. | <ul style="list-style-type: none"> • Municipalities aggregate remuneration paid to councillors because they do not consider the remuneration paid to each councillor as individually material. |

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| <ul style="list-style-type: none"> • Municipalities are unsure whether to disclose only the cash paid for remuneration and other transactions with councillors or to include accrual amounts. • Municipalities are unsure whether disclosing arrears owed by councillors for rates or services that were outstanding for more than 90 days adequately covers the requirement in GRAP 20 paragraph .28 to disclose outstanding balances or whether additional disclosures are required. • Entities are uncertain how to treat related party transactions and events that are not recognised but only disclosed in the financial statements. For example, contingent liabilities involving councillors. • Municipalities inconsistently identify and disclose goods provided in kind to municipal councillors. | <ul style="list-style-type: none"> • Entities have difficulty interpreting the basic principles in the Standards and applying them to specific scenarios such as contingent liabilities involving councillors, and disclosure of accrual or cash amounts. This difficulty arises because Standards are principle based and do not provide detailed guidance for every scenario. • Entities have difficulty distinguishing between MFMA (legislative) and GRAP 20 disclosure requirements, resulting in disclosures that comply with legislation but do not comply with GRAP 20. • Municipalities are unaware that goods in kind should be disclosed as related party transactions. They often conclude that these goods are provided within the normal course of business. |
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Actions to be taken to address the issues

FAQs:

- Assess if FAQ 4.3 on *Should a municipality disclose the councillors' remuneration on an individual basis or in aggregate?* should be updated to provide further guidance on the aggregation and disaggregation of councillors' remuneration.
- Assess if FAQ 4.14 on *What is the interaction of legislated disclosure requirements and disclosure requirements in Standards of GRAP?* should be updated to provide guidance on the distinction between legislative requirements and the Standard.
- Assess the extent to which guidance provided in FAQ 4.15 on *What is the interaction of Standards of GRAP where two or more Standards have similar requirements?* can be incorporated into the Standard to explain the linkage between GRAP 20 and GRAP 25 on *Employee Benefits*.

Other actions:

Raise awareness of recordings on the [ASB's YouTube Channel](#) explaining the basic principles and how they can be applied in financial reporting.

(b) Balances and commitments not disclosed

| Issue | Root cause |
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| Entities do not disclose outstanding balances or commitments to related parties. | <ul style="list-style-type: none"> • There are different interpretations of whether narrative descriptions or amounts need to be disclosed for transactions under normal supplier and/or client/recipient relationships, where terms and conditions are as favourable |

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| | <p>as those expected with that individual entity or person in the same circumstances.</p> <ul style="list-style-type: none"> Entities are reluctant to disclose certain balances and commitments due to confidentiality concerns, for example, misconduct cases that could lead to dismissal or settlements relating to confidential CCMA agreements. |
| Actions to be taken to address the issues | |
| <p>Amendments to GRAP 20:</p> <p>Amendments will be proposed to the Standard to clarify the requirement to disclose narrative information about the nature of the transactions and the related outstanding balances in paragraph .34.</p> <p>FAQ:</p> <p>An FAQ will be developed to clarify the principle in GRAP 20.32. on the exemption from the disclosure requirements in paragraph .27.</p> | |

3. General issues identified

| (a) Materiality not considered in the application of the Standard | |
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| Issues | Root cause |
| Stakeholders do not consider materiality in financial reporting; leading to the disclosure of information that is not useful to users. | Stakeholders are unsure to what extent materiality should be considered when applying the Standards, leading to a focus on consistency and alignment with similar entities. To avoid the application of judgement in determining materiality and audit queries, entities disclose all information required by the Standard. |
| Actions to be taken to address the issues | |
| <p>Other actions:</p> <ul style="list-style-type: none"> The root causes will be considered during the materiality project proposed for the 2027-2029 work programme. Raise awareness of recordings on the ASB's YouTube Channel explaining the relationship between Consistency and Comparability, and materiality. | |
| (b) Boilerplate information included in the financial statements | |
| Issue | Root cause |
| Related party accounting policies do not provide useful information to users of financial statements. | <ul style="list-style-type: none"> Entities are uncertain about the development of accounting policies, particularly in determining whether specific policies are required for disclosure items. This uncertainty leads to the inclusion of boilerplate information in financial |



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| | <p>statements, such as the definitions from GRAP 20 being presented as accounting policies.</p> <ul style="list-style-type: none"> • Entities have inadequate quality review processes for the preparation of financial statements resulting in errors or the use of boilerplate information. |
| <p>Actions to be taken to address the issues</p> | |
| <p>FAQ:</p> <ul style="list-style-type: none"> • An FAQ will be developed to provide guidance on the development of accounting policies <p>Other actions:</p> <ul style="list-style-type: none"> • Raise awareness of a recording on the ASB's YouTube Channel on improving the quality of financial statements. • Consider including a video on the development of accounting policies in the 2024/25 plan for Enhancing the Application of the Standards of GRAP. | |