

# The Looking Glass



Insights into financial reporting and accounting standards

Issue 6 | January 2017

## Welcome

In this edition of *The Looking Glass* we provide an update on Treasury's work on AASB 124 *Related Party Disclosures* and outline some key focus areas and practical considerations. We also reflect on the feedback received in the cross-sector asset valuations group. Finally, we continue our summaries of the latest financial reporting developments relevant to the public sector.

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## AASB 124 Related party disclosures for not-for-profit public sector entities

The scope of AASB 124 has been extended to include not-for-profit public sector entities prospectively from 1 July 2016. In Looking Glass Issue 4 we took a high level look of the key principles and disclosure requirements of AASB 124. In this edition, we look at the next steps and include some practical pointers.

### Treasury Circular

A Treasury Circular has just been issued with guidance on applying AASB 124 in the NSW public sector. We have consulted with the Audit Office of NSW (AO) throughout drafting.

The Circular summarises the related party concept, and considers how materiality applies to related party transactions. There is also guidance on determining whether and how a related party transaction should be disclosed in the financial statements.

AASB 124 concepts of 'key management personnel (KMP)' and 'close family members' have been elaborated from a public sector perspective and common related party relationships in the NSW public sector are discussed.



### Key considerations

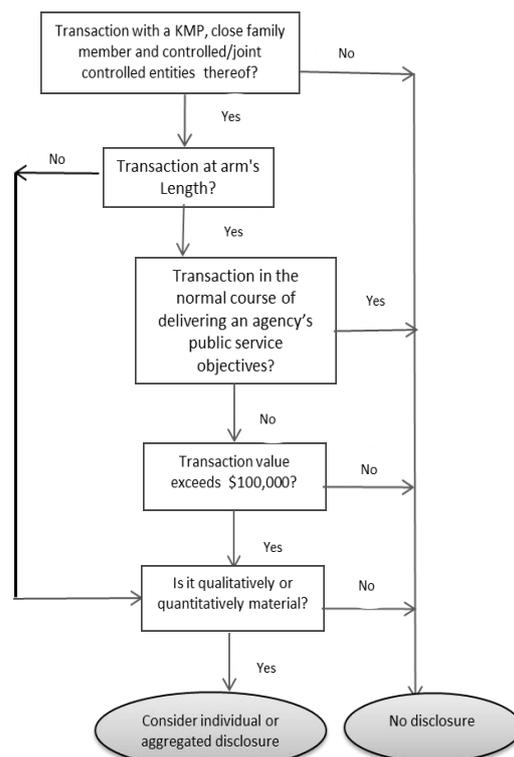
- **KMP identification** - When assessing whether a person is a KMP the facts and circumstances need to be considered, including the terms of relevant legislative instruments. For example, there may be instances where a person's powers are ceremonial or procedural in substance and do not give rise to a capacity to direct or control activities. Preparers of financial statements should review Examples 1 to 6 of the Australian implementation guidance in AASB 124 that illustrate the application of the KMP definition by not-for-profit public sector entities.
- **Aggregated disclosures** – While AASB 124 requires disclosure by category of related party, it also allows similar related party transactions to be disclosed in aggregate unless separate disclosure is necessary to understand the effects on the financial statements. KMP compensation is disclosed in aggregate for each of the following categories: (a) short-term employee benefits (b) post-employment benefits (c) other long-term benefits and (d) termination benefits.
- **Materiality** – Materiality is relevant to both whether a transaction should be disclosed in the financial statements and the degree of disaggregation of the disclosures. Agencies will need to consider qualitative and quantitative aspects in determining whether a related party transaction is material.

For practical purposes, Treasury has determined certain transactions are unlikely to be material and generally need not be collected. For example, transactions in common with the general public in the course of delivering an agency's public service objectives and entered into under the same terms and conditions as a public citizen are unlikely to be material.

In general, arm's length transactions only need to be collected if they exceed \$100,000, but non-arm's length transactions should be collected irrespective of their dollar value.

- **Government related-entities** – AASB 124 provides some disclosure relief for transactions with government-related entities (i.e. all NSW Government controlled entities). Where transactions with government-related entities are not individually but collectively significant, entities can to choose whether to describe the effect of the transactions qualitatively or quantitatively. For consistency, Treasury is requiring agencies to describe such transactions qualitatively as the intention of AASB 124 is not to identify every government-related entity or quantify every underlying transaction.

Diagram 1: Decision tree on disclosure



## Guidance on how to collect information

Agencies should establish appropriate systems, processes and policies to identify and collect information on related party transactions. The Circular lists some examples as guidance.

The Circular also provides agencies with a pro forma self-declaration they can use, subject to confirmation from their legal advisors that it is compliant with relevant agency legislation, to collect information about transactions with KMP and their close family members.

## Related party transactions with Ministers

Treasury is liaising with DPC to develop a centralised process to collect information about related party transactions with Ministers, their close family members, and controlled or jointly controlled entities thereof. The plan would be for disclosure information to be disseminated to agencies where relevant.

One exception to the above process would be in respect of any non-monetary benefits provided to Ministers directly by agencies. In such cases agencies will need to calculate the monetary value of such benefits and disclose them as part of KMP compensation in their financial statements, as well as advise Treasury.

## Asset valuations – FY 2015-16 debrief and way forward

Treasury's Accounting Policy team recently met with the cross-sector Accounting Valuation Group to discuss their experiences with valuations of property, plant and equipment. The Group has members from each cluster who work on accounting valuations.

The extent and variety of physical non-current assets across the sector continues to make fair value assessments a challenging area. Among the topics discussed by the Group was the need for management to engage early in the process with external valuers. This includes agreeing that the scope, including valuation techniques and sampling methodologies, is appropriate in the circumstances. Management should review the external valuer's assumptions and findings and challenge where necessary.

Treasury's 2016-17 Early Close Circular TC 16-13 includes additional guidance on asset valuations in the form of a high level summary of TPP 14-01 *Accounting Policy: Valuation of Physical Non-current Assets at Fair Value* and requirements for the early close.

Given this importance of valuations, Treasury intends to build on asset valuation seminars that were held in 2016 with further sessions in the New Year, with an emphasis on the challenges faced by specific agencies.

For enquiries or questions on these workshops or guidance please contact the Accounting Policy team.

## Other Developments

The table below briefly highlights some other recent technical accounting developments.

Financial reporting developments	Estimated issue date	Suggested action
<p><b>Progress update – ED 261 Service Concession Arrangements: Grantor</b></p> <p>The April 2016 edition of <i>The Looking Glass</i> covered AASB decisions on certain concepts of <i>Service Concession Arrangements: Grantor</i>. Since then, the AASB agreed to adopt a principles-based approach for the disclosure requirements and remove references to accounting for service concession assets as a separate class or classes of assets. They discussed the final findings of the field test on service concession arrangements and agreed to provide an additional 'hybrid' example. They have also tentatively decided to include guidance on 'public service' for assessing whether an arrangement is within the scope of the proposed Standard.</p> <p>The effective date of the Standard for NSW public sector is FY 2019-20.</p>	<p>A revised draft Standard will be issued in February 2017 for a fatal-flaw review process.</p>	<p>NSW Treasury continues to monitor new developments and assess the impact on NSW public sector.</p>
<p><b>AASB 1058 Income of Not-for-Profit Entities</b></p> <p>The AASB has finalised AASB 1058 <i>Income of Not-for-Profit Entities</i> and associated amending Standards AASB 2016-7 (deferral of AASB 15 for not-for-profit entities) and AASB 2016-8 (Australian implementation guidance). The Standards will be available on the AASB website shortly.</p> <p>The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) applied to AASB seeking an extension for the not-for-profit sector on the application dates for AASB 15 and AASB 1058 in order to prepare and deliver effective implementation of these Standards. Subsequently, the AASB granted a one-year extension of the effective date for both AASB 15 and AASB 1058 to FY 2019-20 for not-for-profits.</p>	<p>Dec 2016 / Jan 2017</p>	<p>Consider how the new Standard will impact income recognition, measurement and disclosure.</p>

<p><b>Questions?</b></p> <p>Please contact <a href="#">Sean Osborn</a> if you would like to discuss any of the above Standards.</p> <p>Please email <a href="#">accpol</a> if you have any feedback or would like to subscribe to <i>The Looking Glass</i>.</p>	<p>This publication is made available for information purposes only and is not intended to be a substitute for, or relied upon as, specific professional advice. All persons accessing this publication are responsible for making their own enquiries in relation to assessing the relevance, completeness and accuracy of its contents. To the full extent permitted by law, the State of NSW excludes all liability for loss or damage of any kind to any person arising from or related to this publication (however such loss or damage is caused, including by negligence).</p>
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