



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Accounting Manual for Departments

Related Party Disclosures

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1 Overview

The purpose of this chapter is to provide guidance on how to identify and disclose related party relationships and certain transactions with related parties.

The Office of the Accountant-General has compiled a Modified Cash Standard (MCS) and this manual serves as an application guide to the MCS which should be used by departments in the preparation of their financial statements.

Any reference to a “Chapter” in this document refers to the relevant chapter in the MCS and / or the corresponding chapter of the Accounting Manual.

Explanation of images used in manual:

	Definition
	Take note
	Management process and decision making
	Example


2 Key Learning Objectives


- Understanding what is a related party
- Understanding what needs to be disclosed for related parties

3 Scope


The Chapter on Related Party Transactions in the MCS, and consequently this guide applies to the identification and disclosure of related party relationships and specific transactions between related parties.

4 Identifying Related Parties


	<p>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.</p> <p>The following are regarded as related parties of the reporting department:</p> <ol style="list-style-type: none"> a. A person or a close member of that person's family is related to the department if that person: <ol style="list-style-type: none"> i. has control over the department; or ii. is a member of the management of the department or its executive authority. b. An entity is related to the department if any of the following conditions apply: <ol style="list-style-type: none"> 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) or group entity; ii. the entity is controlled or jointly controlled by a person identified in (a); and iii. a person or a close member of that person's family who has control over the department has significant influence over that entity or is a member of the management of that entity (or its controlling entity).
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	<p>Related parties include:</p> <ol style="list-style-type: none"> a. entities that directly, or indirectly through one or more intermediaries, control or are controlled by the reporting department; b. associates and joint ventures; c. individuals owning, directly or indirectly, an interest in the reporting department that gives them significant influence over the department, and close members of the family of any such individual; d. management personnel, and close members of the family of key management personnel; e. entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence
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4.1 Control

	<p>Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.</p>
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A department (or a person or body of persons) has control over another entity when it has certain decision-making capabilities over that entity and it benefits from the activities of that entity.

	<p>The following indicators can either individually or collectively be indicative of the existence of control:</p> <ul style="list-style-type: none"> • the department has the ability to veto operating and capital budgets of the other department / entity; • the department has the ability to veto, overrule, or modify the board of directors or equivalent governing body decisions of the other department / entity; • the department has the ability to approve the hiring, reassignment and removal of key personnel of the other department / entity; • the mandate of the other department / entity is established and limited by legislation; • the department holds a “golden share” (or equivalent) in the other department that confers rights to govern the financial and operating policies of that department; • the department holds direct or indirect title to the net assets of the other department / entity; • the department has a right to a significant level of the net assets of the other department / entity in the event of a liquidation or in a distribution other than a liquidation; • the department is able to direct the other department / entity to co-operate with it in achieving its objectives; • the department is exposed to the residual liabilities of the other department.
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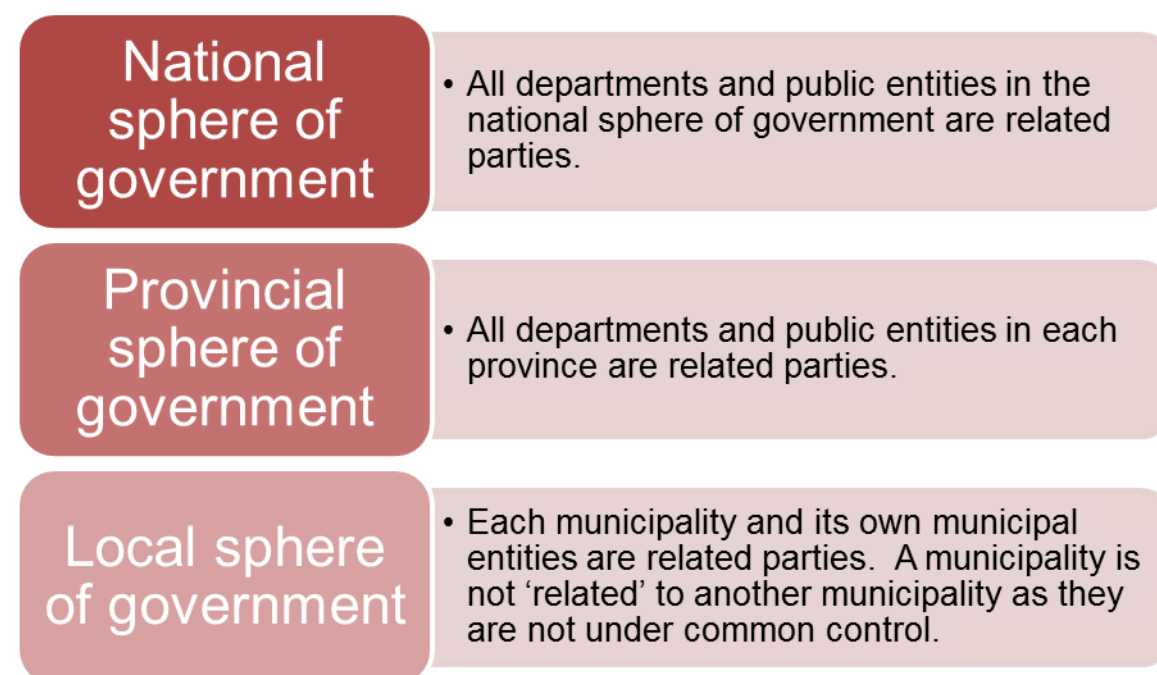
	<p>Example: Existence of control</p> <p>Department ABC has 5 programmes in its annual performance plan. The department also has a public entity which is responsible to ensure that all the objectives and indicators in programme 5 are met. The department is responsible for drafting the indicators and transfers 30% of its annual budget to the public entity.</p> <p>As the department is responsible for providing the public entity with a budget and the department also determines the objectives of the public entity, the department is controlling the public entity.</p>
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In the South African context, the government is divided into three spheres, namely the national, provincial and local spheres of government. Although provinces and municipalities are responsible for executing its assigned functions in line with the overall policies and objectives set by the relevant

national department, the autonomy of the different spheres is guaranteed in terms of the Constitution of South Africa and provinces and municipalities can therefore decide how it will achieve those objectives. The national government does not **control** provinces or municipalities for accounting purposes, although funding may be received from the national government.

Departments within the national sphere of government are related parties because they operate together to achieve common objectives determined by Cabinet and Provincial Legislature. Similarly departments within a specific province are related parties. However, a department in one province is not “related” to another department in a different province. In addition a municipality is not necessarily a related party to a department.

The following figure illustrates the related parties in the South African government context (note that the different spheres of government are not related to each other):




All departments and public entities in the national sphere of government are related parties and all departments and public entities in each province are related parties.


Example: Identification of related parties

	National Department A	Public Entity reporting to National Department A	Provincial Department A	Municipality A
National Department B	Yes	Yes	No	No
Public Entity reporting to National Department B	Yes	Yes	No	No
Provincial Department B	No	No	Yes (assuming they are in the same province)	No
Municipality B	No	No	No	No

	<p>Example: Related parties within the relevant spheres of government</p> <p>National sphere:</p> <p>For example: Telkom, the Post Office, Transnet, the National Departments of Public Works and Trade and Industry, the Competition Commission and the Market Theatre will all be related parties, as they fall within the national sphere of government.</p> <p>Provincial sphere:</p> <p>For example: The Gauteng Department of Health, Gauteng Economic Development Agency, Gauteng Gambling Board and the Gauteng Tourism Authority will all be related parties, as they fall within the same province. Note that these entities will be unrelated to any departments or public entities from another province.</p> <p>Local sphere:</p> <p>For example: The City of Johannesburg and its municipal entities are related parties. The City of Tshwane and the City of Johannesburg are not related parties as they are not under common control.</p>
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	<p>Significant Influence</p> <p>Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by an ownership interest, statute, or agreement.</p> <p>The existence of related party relationships means that one party can control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may advantage one party inappropriately at the expense of another. In the public sector, an individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. Entities under joint control are also considered to have significant influence.</p>
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4.2 Key management personnel

	<p>Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the department.</p>
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From the above definition, the key management personnel would include:

- all senior managers, directors or members of a governing body of the entity on executive management level or above;
- other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement key management personnel include;

- ✓ where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing and controlling the activities of the reporting entity, that member [e.g. Minister or MEC];
- ✓ any key advisors of that member;
- ✓ unless already included in first bullet point above, the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity [e.g. Accounting Officer]; and
- ✓ a close family member of the person employed by the department.

	<p>Key Management includes the Minister and Deputy Ministers responsible for the department, the Director-General, the Deputy Director-General(s), and the Chief Financial Officer (CFO) and all other officials who occupy positions in the levels specified above. It is unlikely that all members of Senior Management Service are also key management. Where any key person is below level 14, his/her remuneration should be included with the level 14 values.</p>
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Promoted employees:

- If an employee on level 13 or below is promoted to a level 14 position or above during the financial year, the employee's remuneration from the date that the employee is on level 14 or above must be disclosed in the note.
- Remuneration of family members of the promoted employee must also be disclosed in the note.


Employees appointed in acting positions:

- Remuneration of employees on level 13 or below acting for senior management of level 14 and above during the financial year must be included in the note.
- The amount that must be disclosed is the acting employee's full remuneration including his or her acting allowance during the acting period.
- The full month's or months' remuneration during the acting period must be disclosed and not pro-rated.
- Remuneration of family members of the acting employee must also be included in this note.

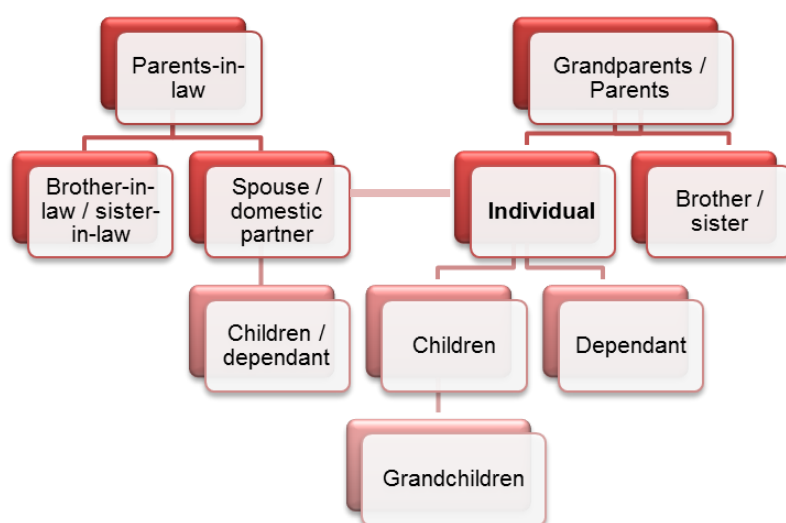
4.3 Close member of the family of a person


	<p>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 department. As a minimum, a person is considered to be a close member of the family of another person if they:</p> <ul style="list-style-type: none"> • are married or live together in a relationship similar to a marriage; or • are separated by no more than two degrees of natural or legal consanguinity or affinity.
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Close family members of management (and entities under significant influence of such individuals) are related parties of a department.


	<p>The reason for the inclusion of close family members in the definition of a related party is to prevent departments from transacting with these individuals rather than with management in order to circumvent the disclosure requirements of the MCS.</p>
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Judgement will be necessary in determining whether an individual should be identified as a close member of the family of an individual for purposes of related party disclosures. However, in the absence of information to the contrary, the following 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 **an individual**:



	<p>Although close members of the family of an individual defined as “key management personnel” may be deemed to be influential, it is not a requirement currently to disclose any transactions involving them (other than their remuneration).</p>
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5 Related Party Transactions

	<p>Related party transaction is a transfer of resources, services or obligations between the reporting department and a related party, regardless of whether a price is charged.</p>
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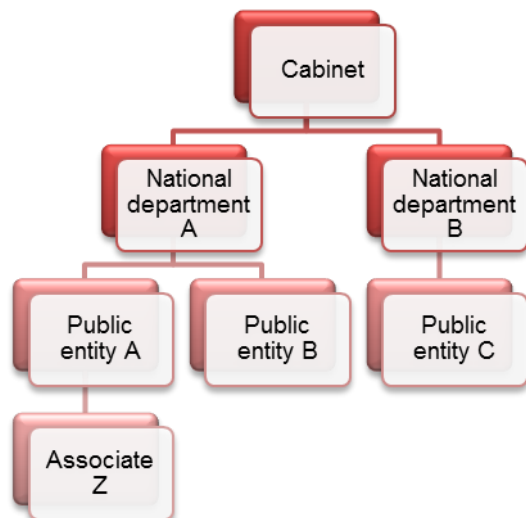
5.1 Identifying related party transactions for disclosure purposes


As a general rule, a department should disclose all transactions with its related parties other than those undertaken at arm’s length (i.e. where the transactions are consistent with a normal supplier or

client/recipient relationship and are undertaken on terms and conditions that are normal for such transactions in the circumstances).


	<p>Example: Related party transaction at arm's length</p> <p>The Department of Communications would not need to disclose the total amount paid to Telkom for 20x1 for its telephone lines and calls as a related party transaction unless the department was granted a discount that's not ordinarily available to other entities.</p>
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However for reporting purposes a department need only disclose those related party transactions that qualify for disclosure (i.e. non-arm's length transactions), between itself and the public entities, trading entities, companies, trusts or any other entities falling under its Minister/MEC's portfolio. The disclosures exclude transfers & subsidies paid to public entities where these have been included in the annexures to the financial statements. However, the fact that the public entity is a related party should be included in the related party transactions note; (e.g. the National Treasury will only list the ASB, FSB, IRBA, StatsSA, SARS etc).

	<p>Example: Identifying related party transactions</p> <div data-bbox="654 828 1181 1344">  <pre> graph TD Cabinet[Cabinet] --> NA[National department A] Cabinet --> NB[National department B] NA --> PA[Public entity A] NA --> PB[Public entity B] NB --> PC[Public entity C] PA --> AZ[Associate Z] </pre> </div> <p>Although all the above parties are “related” in terms of the definition, departments are only required to identify related party transactions (for disclosure purposes) as follows:</p> <ul style="list-style-type: none"> • National department A: must identify and disclose all non-arms’ length transaction between National department A, Public entity A, Public entity B and Associate Z. • National department B: must identify and disclose all non-arms’ length transactions between National department B and Public entity C. <p>Transactions between Public entity A and Public entity C that are not at arms’ length need not, per the MCS be disclosed.</p> <p>Note: Each department should also identify transactions between itself and the Minister/MEC that could qualify for disclosure purposes.</p>
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	<p>Example: Related party transaction not at arm's length</p> <p>If Department A occupied a building owned by Department DPW without paying for this service then the relationship and the fact that a building is provided free of charge would have to be disclosed in Department A's Accounting Officer's report. Department DPW will also have to disclose the relationship and the fact that a building is provided free of charge in its AO Report.</p>
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The disclosure of any related party transactions is limited to transactions between the department and another related party and should not include transactions between the related parties of the department. For example the National Treasury will not disclose transactions between ASB and FSB just because both of which are related parties of the National Treasury.


	<p>Example: Transactions that may indicate a related party relationship</p> <ul style="list-style-type: none"> • Arrangements where one party incurs expenses on behalf of another party (these costs may or may not be recovered); • Lease arrangements at more or less than market value or for no consideration; • Sales without substance (funds are transferred to an entity for goods or services that were never rendered/delivered); • Services or goods are purchased at nominal or no cost.
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A department must disclose transactions and balances with its related parties falling under its Minister / MEC's portfolio.

A department must disclose a list of its related party relationships with entities falling under its Minister/MEC portfolio, irrespective of whether there were any transactions between the related parties.

6 Disclosure

	<p>The department should provide for the following disclosure:</p> <ul style="list-style-type: none"> • a breakdown of related party revenue into the major categories of revenue; • a breakdown of related party expenditure into the major categories of expenditure; • the total balances of receivables and payables that arose from related party transactions; • the balance of loans made to related parties; • a breakdown of any guarantees issued to related parties; • a breakdown of any other contingent liabilities between the department and the related parties; and • disclose information about any in-kind goods or services received from or provided to a related party. <p>The disclosure required in terms of the second bullet point above excludes transfers and subsidies paid to public entities where these have been included in the annexures to the financial statements.</p>
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	<p>A department is exempt from all the disclosures requirements listed above in relation to related party transactions if that transaction occurs within:</p> <ul style="list-style-type: none"> • 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 department to have adopted if dealing with that individual entity or person in the same circumstances; and • terms and conditions within the normal operating parameters established by that reporting entity's legal mandate.
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	<p>The following remuneration needs to be disclosed of key management personnel and their close family members:</p> <ul style="list-style-type: none"> • Compensation paid to key management personnel including their family members where relevant; • Short-term employee benefits such as salaries, unemployment insurance and workmen's compensation funds (where applicable), paid annual leave and paid sick leave, profit sharing and bonuses and non-monetary benefits such as medical benefits, housing, cars and free or subsidised goods and services; • Post-employment benefits (social benefits) such as pensions, other retirement benefits, post-employment life insurance and medical care; • Other long-term employee benefits, including long-service leave or sabbatical leave, long term disability benefits; and • Termination benefits. <p>Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the department, such as subsistence or the reimbursement of accommodation costs associated with work-related travel.</p> <p>The aggregate compensation of the senior management of the department and the number of individuals determined on full time equivalent basis received remuneration within this category, showing separately major levels of senior management must be disclosed.</p> <p>All officials from level 14 and above are deemed to be key management personnel.</p> <p>Remuneration of employees on level 13 or below acting for key management of level 14 and above during the financial year must be included in this note. The amount that must be disclosed is the acting employee's full remuneration including his or her acting allowance during the acting period. The full month's or months' remuneration during the acting period must be disclosed and not pro-rated. Remuneration of family members of the acting employee must also be included in this note.</p>
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7 Summary of Key Principles

This chapter prescribes how a department should identify and disclose related party relationships and certain transactions with related parties.

7.1 Identifying related parties

Parties are considered to be related if one party has the ability to **control** the other party or exercise **significant influence** over the other party in making financial and operating decisions or if the related party and another entity are subject to **common control**.

All departments and public entities in the national sphere of government are related parties;

All departments and public entities in each province are related parties; and

Each municipality and its own municipal entities are related parties. A municipality is not 'related' to another municipality as they are not under common control.

The national government does not **control** provinces or municipalities for accounting purposes, although funding may be received from the national government.

7.2 Control

A department (or a person or body of persons) has control over another entity when it has certain decision making capabilities over another and it benefits from the activities of that entity.

7.3 Close family members of the family of a 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.

7.4 Key management personnel

Key management members are those persons having the authority and responsibility for planning directing and controlling the activities of the department. All officials from level 14 and above are deemed to be key management personnel.

Employees on level 13 or below acting for key management of level 14 and above during the financial year must be included in the note.

7.5 Disclosure requirements

Departments must disclose non-arm's-length transactions and balances with its related parties falling under its Minister / MEC's portfolio.

Departments should also disclose a list of all its related party relationships irrespective of whether there were any transactions between the related parties.

Disclosure of key management remuneration must also be made.

Departments are not required to disclose the value of transactions (other than those dealt with above) with other public sector entities if the transactions 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 department to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by that reporting entity's legal mandate.

ANNEXURE 1: Related Party Disclosures

