



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

Ms Kris Peach  
The Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Dear Ms Peach

## **MATERIALITY OF KEY MANAGEMENT PERSONNEL RELATED PARTY TRANSACTIONS FOR PUBLIC SECTOR ENTITIES**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) appreciates the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the AASB *Tentative Agenda Decision Materiality of Key Management Personnel Related Party Transactions for Public Sector Entities*.

HoTARAC supports the AASB's decision to review the application of materiality to related party disclosures in the public sector.

### **PURPOSE OF AASB 124 RELATED PARTY DISCLOSURES (AASB 124)**

HoTARAC strongly agrees that the key assessment of materiality is, in line with the overall objective of AASB 124, "whether knowledge of the relationship and terms and conditions of the transactions would influence a user's understanding of the impact on the financial statement". There is a real risk, which some HoTARAC members have already observed, that this objective becomes confused, and conflicts, with broader concepts of Ministerial and senior executive accountability. If this occurs, information will be collected and reported that is not material to the financial statements. HoTARAC recommends that the agenda decision emphasise that AASB 124 is not intended to be an accountability mechanism or to require disclosure of transactions that are not material in terms of the financial statements of an entity.

### **IMPACT OF MATERIALITY ON COLLECTION PROCESSES**

Noting that there are differences in the nature and size of related party transactions in the public sector, HoTARAC agrees with the reiteration of the statement that entities should avoid collecting immaterial information. HoTARAC notes that this will require the providers of related party information, rather than the financial statement preparer, to assess what information is material, which is pertinent to the data collection processes.

HoTARAC notes that the AASB considers existing guidance sufficient and that entities' existing materiality thresholds are applicable for commercial transactions conducted on normal terms and conditions. However, this requires significant judgement in interpreting paragraphs IG9, IG11 and 27 of AASB 124. These interpretations are then subject to review by audit. Consistent with the principle that immaterial information should not be collected, the AASB should articulate additional guidance on materiality that is relevant to application by the public sector. This would assist information providers, including key management personnel, in exercising the key judgements as to whether 'knowledge of the relationship and terms and conditions of the transaction would influence a user's understanding of the impact on the financial statements' and auditors in reviewing these judgements.

## **TRANSACTIONS CONDUCTED ON NORMAL TERMS AND CONDITIONS**

HoTARAC notes that the criteria of AASB 124 would exclude most transactions conducted on normal terms and conditions, unless they were significant in size under AASB 124.27(a). HoTARAC considers that this will be difficult to apply in practice since, while Commonwealth, State and Territory public sectors are collectively large and would have high materiality limits; individual reporting entities within the public sectors can be very small with low materiality limits. This is of specific concern in respect of cabinet ministers, who may be a related party of the entire public sector and will need to review all transactions with not-for-profit public sector entities. Any guidance that the AASB can give to assist with this would be helpful.

HoTARAC notes that paragraph 23 of AASB 124 anticipates the disclosure of commercial transactions made on terms equivalent to those in an arm's length transaction (this would encompass transactions made on normal terms and conditions). To simplify the collection and disclosure process, HoTARAC recommends that, where a reporting entity has a transaction of this type with a KMP of the executive government (i.e. Cabinet Ministers), the AASB consider applying whole of government quantitative materiality thresholds to that transaction. This would be consistent with the principle that material transactions be disclosed, while greatly assisting in reducing the cost of the collection process. HoTARAC notes that this would still be stricter than the related party reporting requirements the public sector applies in other jurisdictions under IPSAS 20 *Related Party Disclosures*,

If you have any queries regarding HoTARAC's comments, please contact Alan Greenslade from the Commonwealth Department of Finance on (02) 6215 2006.

Yours sincerely



*For* David Nicol  
CHAIR  
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE  
22 February 2017