

TSANTSABANE LOCAL MUNICIPALITY



RELATED PARTY POLICY 2026/27

Subject: Related Party Policy

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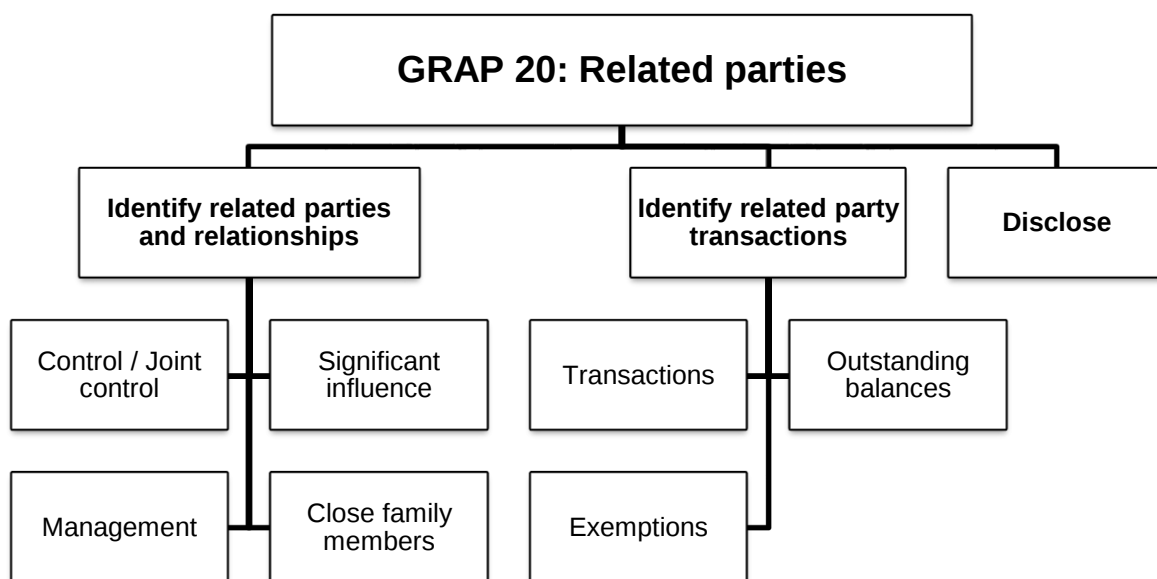
TSANTSABANE MUNICIPALITY

RELATED PARTIES POLICY

DEFINITION :

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

GRAP 20 : RELATED PARTIES :



INTRODUCTION / BACKGROUND

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 a person or a party can control, jointly control or significantly influence the activities of another person or party. Related party relationships may:

- influence how an entity operates with other entities in achieving its objectives,

- influence how an entity co-operates with other entities in achieving common or collective objectives;
- expose an entity to risks or provide opportunities that would not have existed in the absence of such a relationship;
- result in entering into transactions that unrelated parties would not enter into; or
- result in agreeing to transactions on different terms and conditions than those that would normally be available to unrelated parties.

The qualitative characteristics of financial reports known as faithful representation implies, *inter alia*, that the information contained in the reports faithfully represents that which it purports to represent. It means that the financial reports, be it in the financial position and surplus or deficit, represent the result of transactions between independent parties on a normal arm's length basis and the outstanding balances with such parties. However, the closing of transactions on terms different to those normally applicable in the trade market often occurs between parties that are "related", which include transactions at a value lower than normal retail pricing, cost, less than cost, free-of-charge, etc. This provides the opportunity for transactions to occur on a basis that may give one party an advantage at the expense of another.

The disclosure of related party transactions, outstanding balances, and the relationship underlying those transactions:

- Is necessary for accountability purposes;
- Ensures that the reporting entity is transparent about its dealings with related parties; and
- Provide information to allow users' to assess the effects of related party transactions on the reporting entity's:
 - Financial position and performance;
 - Ability to deliver agreed services; and
 - Risks and opportunities.

According to GRAP 20.24 (IPSAS 20.25), related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties, whereas GRAP 20.27 (IPSAS 20.27) requires the disclosure of the nature of the related party relationship as well as information about related party transactions during the periods covered by the financial statements, and outstanding balances (IPSAS 20.30(d)), including

commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

According to GRAP 20.10, the following persons and entities are considered to be in a related party relationship where any of such person or entity. GRAP 20.10 includes joint control in addition to the IPSAS 20.4 definition of a related party. IPSAS 20 differ from GRAP 20 in that IPSAS 20 does not define control and joint control.

#	Ability	Ability description
1	Has the ability to control the other person or entity.	Control is: - the power to govern the financial and operating policies of an entity - so as to obtain benefits from its activities.
2	Has the ability to jointly control the other person or 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.
3	Exercise significant influence over the other person or entity.	Significant influence is: - the power to participate in the financial and operating policy decisions of an entity, - but is not control over those policies.
4	Is subject to common control or joint control of the other entity.	In determining common control , the Standard of GRAP on Consolidated and Separate Financial Statements or the Standards of GRAP on Transfers of Functions Between Entities Under Common Control and Transfers of Functions Between Entities Not Under Common Control should be considered.

According to GRAP 20.10 (IPSAS 20.04), a related party transaction:

- is a transfer of resources, services (GRAP 20 specific inclusion) or obligations
- between the reporting entity and a related party,
- regardless of whether a price is charged.

As reporting for accounting purposes is usually based on the values agreed upon by the parties to the transaction, which are not necessarily the values determined in the free market, the financial statements of entities with related party transactions may not be comparable with the statements of entities without these types of transactions. A related party relationship can also have a significant influence on the financial position and operating results of the reporting entity as these parties are often involved in transactions which unrelated parties would not enter into. Even the mere existence of such a relationship without any transactions may be sufficient to affect the transactions of the reporting entity with other parties.

For the above-mentioned reasons, knowledge of related party transactions, outstanding balances and relationships may affect assessments of an entity's operations by users of financial statements including assessments of the risks and opportunities facing the entity. The objective is therefore to ensure that an 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.

IDENTIFYING RELATED PARTIES

The following needs to be done to identify persons and entities that are related parties to the entity. I.e. where the entity has the following abilities or is subject to any of these abilities as set out in the following "related party" definition requirements:

- The ability to control the other person or entity.
- The ability to jointly control the other person or entity.
- Can exercise significant influence over the other person or entity.
- Is subject to common control or joint control of the other entity.

As to where natural persons are deemed to be related parties, which also extend to close members of the family of such person, those include persons whom:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or

- is a member of the management (GRAP 20) / key management personnel (IPSAS 20) of the entity or its controlling entity.

GRAP 20.18 (IPSAS 20.10) indicates that in considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. For example, the mere fact that there is a member of management personnel in common between two entities does not necessarily create a related party relationship. It is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings.

The requirements of GRAP 20 (IPSAS 20) as to related parties and its disclosure are included below:

AFS DISCLOSURE REQUIREMENTS FOR RELATED PARTY TRANSACTIONS

According to GRAP 20.23 information 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.

1. Disclosure of Control:

According to GRAP 20.24 (IPSAS 20.25), 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 any of the controlled entities,
- the name of its controlling party; and
- the name of its ultimate controlling party (if different from the controlling party).

Where related party relationships exist between controlled entities and controlling entities, other additional disclosure requirements also exist:

- in terms of the Standards of GRAP (GRAP 20.26) on:
 - Consolidated and Separate Financial Statements,
 - Investment in Associates and
 - Interest in Joint Ventures.
- in terms of the Standards of IPSAS (IPSAS 20.24) on:

IPSAS 1: amounts payable to and receivable from controlling entities, fellow controlled entities, associates and other related parties'

- o IPSAS 6, "Consolidated and Separate Financial Statements" and IPSAS 7 require disclosure of a list of significant controlled entities and associates;
- o IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" requires disclosure of extraordinary items and items of revenue and expense within surplus or deficit from ordinary activities that are of such size, nature or incidence.

Municipal Finance Management Act (MFMA) (South African Legislation), Section 125 requires the notes to the financial statements of a municipality to include:

- a list of all municipal entities under the sole or shared control of the municipality during the financial year and as at the last day of the financial year.

2. Disclosure of related party transactions

2.1. General disclosure requirement

According to GRAP 20.27 (IPSAS 20.27), if a reporting entity has had related party transactions during the periods covered by the financial statements, it shall disclose the following:

- the nature of the related party relationship. For example, a description of the nature such as whether the relationship was one of a controlling entity, a controlled entity, an entity under common control, member of management / key management personnel, etc.);
- information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. This may include details of the type of transactions, elements of the transactions necessary to clarify the significance of these transactions such as broad terms and conditions, amounts and proportions, how these terms and conditions differ from those normally associated with similar transactions with unrelated parties, etc.

At a minimum, GRAP 20.27 requires that these disclosures also include:

- the amount of the transactions;
- the amount of outstanding balances, including commitments; and

- o their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
- o details of any guarantees given or received;
- provisions for doubtful debts related to the amount of outstanding balances; and
- the expense recognised during the period in respect of bad or doubtful debts due from related parties.

IPSAS 20.30 requires the following additional disclosure as to the summary of the terms and conditions to disclosure how these terms and conditions differ from those normally associated with similar transactions with unrelated parties.

Although IPSAS 20.30 also states that related party transaction would need to be summarised into broad classes of transaction, with an indication of the volume of each of these classes (be it as a specific monetary amount or as a proportion of the class of transactions and/or balances), it does not provide details as to these broad classes. GRAP 20 makes provision for this and indicates that the disclosures of related party transactions and outstanding balances, including commitments, shall be made separately for each of the following categories (GRAP 20.28):

- the controlling entity;
- entities with joint control or significant influence over the entity;
- controlled entities;
- associates;
- joint ventures in which the entity is a venturer;
- management; and
- other related parties.

GRAP 20.29 requires further extended categories as to the classification of amounts payable to and receivable from related parties in the different categories as required by GRAP 20.28. This is an extension of the disclosure requirements in the Standard of GRAP on Presentation of Financial Statements for information to be presented either in the statement of financial position or in the notes.

IPSAS 20.32 allows that items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary to provide relevant and reliable

information for decision making and accountability purposes. GRAP 20.31 further expands on this and requires the following two additional criteria to be met together with the IPSAS 20 'relevant and reliable information requirement' prior to allowing related party transactions to be disclosed in aggregate:

- these transactions relate to the same related party, and
- these transactions are of a similar nature.

The following are examples of transactions (GRAP 20.30 / IPSAS 20.28) that are disclosed if they are with a related party:

- Purchase or transfers/ sale of inventory (finished or unfinished);
- Purchase or transfers/ sales of property and other assets;
- Rendering or receiving of services;
- Agency arrangements;
- Leasing arrangements;
- Transfers of research and development
- Finance (including loans, capital contributions, grants whether in cash or in kind and other financial support including cost sharing arrangements); and
- Provisions of guarantees and collaterals
- Settlement of liabilities:
 - o on behalf of the entity; or
 - o by the entity on behalf of the related party

2.2. Exemptions of disclosure of related party transactions

GRAP 20.32 (IPSAS 20.29) provides an exemption to a reporting entity of the requirements to disclose the information about the related party transactions and the related balances of transactions, if that transaction occurs 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; and
- terms and conditions within the normal operating parameters established by that reporting entity's legal mandate.

Where a reporting entity is exempt from the related party transactions disclosures, the entity shall disclose narrative information about the nature of the transactions and the related outstanding balances (GRAP 20.34). This is to enable users of the reporting entity's financial statements to understand the effect of related party transactions on its financial statements. GRAP 20.BC6 indicated that this exemption was included as information on such arrangements would be disclosed in information about the entity's legal mandate. There are no such disclosure requirements in terms of IPSAS 20.

2.3. MFMA (South African Legislation) disclosures applicable to municipalities and municipal entities

Section 123(1) and 125 of the MFMA (South African Legislation) requires a municipality to disclose the following information on the annual financial statements:

- any allocations received by the municipality from:
 - o an organ of state in the national or provincial sphere of government; or
 - o a municipal entity or another municipality;
- any allocations made by the municipality to:
 - o a municipal entity or another municipality; or
 - o any other organ of state;
- how any above allocations were spent, per vote, excluding allocations received by the municipality as its portion of the equitable share or where prescribed otherwise because of the nature of the allocation;
- whether the municipality has complied with the conditions of:
 - o any allocations made to the municipality in terms of section 214(1)(c) of the South African Constitution (i.e. any other allocations to a municipality from the national government's share of the non-equitable revenue raised nationally or provincially or from local spheres of government, and any conditions on which those allocations may be made); and
 - o any allocations made to the municipality other than by national organs of state;
- the reasons for any non-compliance with above conditions;

- whether funds destined for the municipality in terms of the annual Division of Revenue Act were delayed or withheld, and the reasons advanced to the municipality for such delay or withholding.
- within the notes to the financial statements, the total amount of contributions to organised local government for the financial year, and the amount of any contributions outstanding as at the end of the financial year.

Section 123(2) of the MFMA (South African Legislation) requires a municipal entity to disclose the following information on the annual financial statements:

- any allocations received by the entity from any municipality or other organ of state;
- any allocations made by the entity to a municipality or other organ of state; and
- any other information as may be prescribed.

3. Disclosure of remuneration of management

The entity shall also disclose:

a) the remuneration of management per person and in aggregate, paid or receivable for the last financial period, for each class of management, in the following categories (GRAP 20.35 / Public Finance Management Act (PFMA) (South African Legislation) Section 55: Treasury Regulation 28.1):

- fees for services as a member of management;
- basic salary;
- bonuses and performance related payments;
- other short-term employee benefits;
- sums paid by way of expense, salary or other allowance;
- contributions made to any pension fund, medical aid fund, insurance scheme, etc.;
- post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- termination benefits;
- other long-term benefits;

- any commission, gain, profit- or surplus sharing arrangements;
- any share options, including their strike price and period; and
- any other benefits received.

IPSAS 20.34(a) requires that the aggregate remuneration of management personnel disclosure be determined on a full time equivalent basis, receiving remuneration within different categories and classes. This should also indicate the number of individuals.

b) separately for each of the major classes of management that the entity have (GRAP 20.36) which are responsibility for planning, directing and controlling the activities of the entity. 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.

IPSAS 20.34(a) also requires that the separately major classes of management personnel include a description of each class. It has been clarified by the ASB and Office of the Accountant General that the disclosure on key management personnel should be per name of individual and rank.

c) PFMA , Section 55: Treasury Regulation 28.1.3 requires that the payment receivable for the remuneration disclose above be indicated per the following capacities of those parties:

- the members of the accounting authority;
- the chief executive officer or the person in charge of the public entity;
- the chief financial officer;
- persons serving on the public entity's senior management; and
- other.

GRAP 20 provides for the following additional sub-categories as a guide to identifying classes of management:

- the governing body of the reporting entity;
- the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the entity;
- sub-committees;

- key advisors of these bodies and committees;
- the senior management team of the entity, which include the chief executive officer or permanent head of the entity; etc.

In addition to these capacities and classes, IPSAS 20.34(b) at minimum requires that the total amount of all other remuneration and compensation provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period showing separately the aggregate amounts provided to:

- Key management personnel; and
- Close members of the family of key management personnel.

GRAP 20.37 requires that each member of management only to be included in one of those management classes for the purpose of the related party disclosures. For example, 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 these groups.

d) MFMA , Section 124 requires municipalities to disclose the following particulars concerning councillors, directors and officials in the notes of the annual financial statements:

- the salaries, allowances and benefits of political office-bearers and councillors of the municipality, whether financial or in kind, including a statement by the accounting officer whether or not those salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution;
- any arrears owed by individual councillors to the municipality, or a municipal entity under its sole or shared control, for rates or services and which at any time during the relevant financial year were outstanding for more than 90 days, including the names of those councillors; and
- the salaries, allowances and benefits of the municipal manager, the chief financial officer, every senior manager and such categories of other officials as may be prescribed.

e) MFMA , Section 124 requires municipal entities to disclose the following particulars of the salaries, allowances and benefits of:

- the members of the board of directors of the entity; and

- the chief executive officer of the entity, every senior manager and such categories of other officials as may be prescribed.

f) IPSAS 20.34(c) further requires in respect of loans which are not widely available to persons who are not key management personnel and loans whose availability is not widely known by members of the public, for each individual member of key management personnel and each close member of the family of key management personnel, which requires:

- The amount of loans advanced during the period and terms and conditions thereof;
- The amount of loans repaid during the period;
- The amount of the closing balance of all loans and receivables; and
- Where the individual is not a director or member of the governing body or senior management group of the entity, the relationship of the individual to such.

IPSAS 20 further states that disclosures on related party transactions that were made on terms equivalent to those that prevail in arm's length, can only be made if such terms can be substantiated.

4. Disclosure consideration for consolidated financial statements

GRAP 20.03 requires that related party disclosures should be included in the consolidated and separate financial statements of the reporting entity.

According to GRAP 20.04, related party transactions and outstanding balances within an economic entity are disclosed in an entity's financial statements. However, no disclosure of intra-group related party transactions and outstanding balances are required in consolidated financial statements as such transactions and balances are eliminated in the preparation of consolidated financial statements.

Should Government Business Enterprise (GBE) be included for consolidation, it should be remembered that GBEs apply IFRSs and not GRAP or IPSAS. IPSAS 20 applies to all public sector entities other than Government Business Enterprises (GBE) as defined in IPSAS 1, "Presentation of Financial Statements.

IPSAS 6, "Consolidated and Separate Financial Statements" requires that certain disclosures be made about significant controlled entities.