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## Related Party Transactions

This started from the point of view of considering what types of transactions, including balances, might need to be identified between related parties.

The thought process continued as to whether these would fall within an Entity CoA structure?

Or whether they should be part of some secondary process – what would be truly a Sch rather than a DE type structure?

Was there a way of identifying what transaction and balances should be isolated?

Whether these were universal to all types of Related Parties

What could a BRL type approach do to aiding an Agent collect information and improve accuracy?

Looked around the Net to see if any guidance on how in practice Entities or their Auditors actually identified related party transactions.

See links below:

<https://www.unicreditgroup.eu/content/dam/unicreditgroup/documents/en/governance/transaction-wit-related-parties/Procedures%20Related%20Parties%20ENG%20Marzo%202012%20Agg.pdf>

Process

A series of works sheets was created looking at anything to do with Related Parties.

This looked at UK GAAP, UK IFRS and IFRS.

*Notes from the SS*

**Purpose and Observations**

**This is looking at categorising types of transactions and balances as would be appropriate between entities.**

**So this is not as would be required within a CoA, however summarised the level - if only because the source would not be built up from the GL (it requires analysis of the personal ledgers such as Sales and Purchases)**

**This would be derived at some secondary level. So it is an example of a true Schedule type creation - albeit one that can benefit from Entity cross checking i.e. a good candidate for BRL type analysis.**

**It is clear that IFRS has a much clearer and more comprehensive list of transaction and balance types than either UK GAAP or UK IFRS.**

**Within Related Party Transactions need to see not just PL and BS but also Cashflow types.**

There is a published standard which covers most of what we are interested in with regard to this area – IAS 24: Related Party Transactions *(surprise surprise)*

This is invoked to a much greater extent in IFRS than GAAP – hence observations above.

It is pleasing to see that it looks to analyse transactions separately from the type of related party i.e. it is making the transaction classification as general as possible, not fragmented by the specifics of each type of related party relationship. So it is a good base from our perspective.

Identification and recording of Related Parties and Transactions

It is clear from reading various documents, that it is not expected that such entities and transactions will be revealed directly from any GL system.

See links below re ISA 550, which is the main audit publication I have found re related parties..

<http://www.frc.org.uk/Our-Work/Publications/APB/ISA-550-Related-parties.aspx>

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So the auditors will have in place working papers and standard letters for seeking out the details and keeping a record of their results.

At this stage, things such as materiality are not important. That will be part of the review process to decide what should be disclosed. So the former relates to InBroSet, the latter to OutBroSet. Perhaps more precisely, In and Out may the same , and the disclosure logic maybe handled by logic within the RG section.

So the question we need to address is, to what extent Bros aids recognition and recording of this information.

This question is likely to be common for much information that is of a Sch rather than a DE nature.

So might be useful to have an idea how we want to approach these area in general.

For instance, would we envisage Braiins developing into a full blown audit package? Certainly not whilst it is just you and me developing it, but possibly if we teamed up with a suitable party, such as one of the Big 4.

Even then such a module might be done as more of a 3rd party add-on, where we just provide whatever tools, APIs etc. to enable Auditing Working Papers to be added. (This approach would also leave us free to work with all of the Big 4 firms and anyone else. A joint ownership/development deal would most likely tie us in with just one Big 4 firm; and they may have commercial desires to keep it very much as an in-house product).

But are Related Party Transactions Sch or DE?

The implication of the above re ISA 550 is that it is something to be extracted piecemeal, often by the auditors.

But turning again to IFRS (the US not the UK ones)

So it might be better to treat it as a DE entry in much the same manner as a Prior Year Adjustment or an Accruals and Prepayments entry.

This would also have the advantage of ensuring that the correct figures got picked up in the Cashflow Statement (one of the areas that has been niggling me).

I realise when trying to judge whether Related Party Transactions were a DE or Sch type entry I was approaching it with a pre-conception. Namely that related party would be at the level of the Personal Ledgers (Sales Ledger, Purchase Ledger). Which it would be, and if so would one expect to have the GL hold some property to isolate RPTs from other transactions. Almost certainly not. BUT I had not thought of it in terms of a period end adjustment as say would be the case with Accruals and Prepayments. Looked at this way, one can see that the information re ISA 550 etc. all hold true, but the resulting figures should be posted as part of the DE system.

To see in part why this is so important. Notice that in the UK and USA taxonomies, both GAAP and IFRS, there is a requirement to age RPT re payables and receivables.

To handle this level of analysis outside of a DE structure would rapidly get very complex.

Also in the case of IFRS (USA), the analysis of Trade and Other Payables and Trade and Other Receivables is clearly net of any RPT figures.





