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### Related Party Transactions

Effective from 1 July 2023, ACNC require all registered charities to report their related party transactions annually through their Annual Information Statement (AIS). This widens the ACNC reportable obligations beyond "Conflict of Interest" issues significantly. Charities will now need to ensure they maintain adequate records to cover the new requirements.

**The only exception with the AIS is for a Basic Religious Charity (BRC).** A BRC is an unincorporated religious entity and is not required to provide financial information in its AIS. Even a Medium or Large BRC does not need to lodge a financial report with the ACNC. However, if a BRC chooses to lodge a financial report in addition to its AIS the Related Party Transaction provisions will apply for internal record keeping.

#### **Related Parties include –**

- Board/Committee members and senior management and their close family members,
- Other people or organisations that can influence a charity's decision making,
- Another organisation where a Related Party controls the organisation, or has a significant influence over that organisation, or is a member of the key management of that entity.

#### **What is a Related Party?**

An extract from the ACNC website states:

*"For reporting purposes, a Related Party Transaction (RPT) is defined as a transfer of resources, services or obligations between related parties. It does not have to include financial payment.*

*The RPT reporting is designed to ensure that charities have good governance and their interests and funds are protected. Related parties, including key management personnel, should not receive significant private benefits from charity operations.*

*Charities can manage the risk by recording related party transactions and having clear conflict of Interest policies and procedures. A register of related party transactions will also help charities when it comes time to report in their AIS. A reportable related party transaction in the AIS can include:*

- *Fees paid to a related party for providing goods or services to the charity*
- *Loans from /to a related party*
- *Salary/wages paid to a related party's relative(s)*
- *Transfer of charity property or assets to a related party*
- *Charity good or services provided at a discount to a related party*
- *Significant use of charity property by a related party*
- *Investment in a related party."*

Currently many Small charities (those with a revenue below \$500,000 annually), record minimal information in regard to either Conflict of Interest or Related Party Transactions. Others have been identifying instances where Board Members have either a direct or perceived Conflict of Interest. By these new provisions ACNC now require all charities, regardless of size, to maintain appropriate records of Conflict of Interest and/or



related party matters. Many charities, particularly Small ones, may have been identifying Conflict of Interest matters through their Board/Committee Minutes. This remains an important procedure. When a Board Member becomes aware of an actual or potential conflict, he should advise the meeting. Such advice should be recorded in the Minutes and/or the Register of Interests where one is maintained. The nature and extent of the conflict should also be identified.

ACNC recommend that charities –

1. create a policy and procedure process which includes a clear direction that any decisions that involve a related party must be made by those without a conflict of interest, and
2. the use of a Register of Interests, preferably as an additional record. This would provide a speedy point of reference in the event of need. It is also very helpful when the AIS is being prepared.

ACNC have a template available on their website for such a Register. You can access their template by searching at “Templates Register of Interests”.

#### Is a transaction “material”?

A related party transaction is not material if it:

- does not substantially influence a charity’s decisions or activities
- does not affect someone’s understanding of the charity or its finances

Information in a financial report is considered “material” if omitting, misstating or obscuring it could reasonably be expected to influence someone using that information to make a decision.

A charity does not need to report a related party transaction that is not material.

Medium and Large charities should refer to [AASB 124 Related Party Disclosures](#) to determine when and how to disclose related party transactions.

#### What does Conflict of Interest mean?

Conflict of Interest matters are included in the ACNC Related Party requirements.

ACNC define a conflict of interest as when someone’s personal interests’ conflict with their ability to act in the best interests of the charity in which they are involved.

Conflict of Interest can be divided into three categories – actual, potential and perceived.

Small charities, particularly in small communities are more likely to experience conflicts of interest.

Conflicts of Interest matters are not an issue provided they are appropriately managed. Good planning, sound policies and an attitude of transparency and disclosure are important tools in managing conflicts of interest.

**A BRC has the same obligations with regard to conflict of interest as other charities.**

**The Associations Incorporations Act 2015 (WA)** at Sections 42 and 43 refers to the disclosure of a “material personal interest” for board/committee members. This includes identifying the nature and extent of the conflict (actual, perceived or potential). Such disclosure must be made at the board/committee meeting and also at a relevant general meeting of members. The person must not be present when the matter is being considered by the meeting and also cannot vote on the matter. This should not prevent the person from providing relevant information on the subject prior to withdrawing from the meeting while it is being discussed and decided. Heavy financial penalties may be imposed under the Act for non-compliance with these provisions.

#### Annual Information Statement

ACNC guidance notes re the AIS for Small charities require a comment regarding “reportable related party transactions”. The word “reportable” is not defined. Board/Committee Members should, for transparency,



ensure openness. With Medium and Large charities ACNC use the term "Material". This term is also defined so is a matter of judgement for the individual board/committee. A potential meaning of the term could be similar to its use in regard to an audit. In such an instance it would refer to the omission, misstating or obscuring information whereby it could be reasonably expected to influence someone in the making of a decision. This includes conflict of Interest, which relates to board/committee members, but is wider to include other persons or organisations. This includes instances where individuals charged with management responsibility and/or their close family members, and other people or organisations, may influence decision making.

The actual AIS will ask for a response to specific questions, being:

- Fees paid for goods or services,
- Loans to or from a related party or relative,
- Transfer of assets or property to a related party,
- Charitable goods or services provided at a discount to a related party,
- Significant use of charity property by a related party,
- Investment in a related party.
- Other.

In such instances either the Minutes of the Meeting or a Related Party Register needs to provide a specific record.

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## Register of interests

[Charity name]

Name of board member	Description of interest	Has the board been notified?	Date of disclosure	Steps taken by board for dealing with the conflict	Board member actions to address the conflict