

# Related Party Transactions

## Tier 3 and Tier 4 Charities

---

The Tier 3 and Tier 4 financial reporting standards require us to report related party transactions. Related party transactions are recorded in the Notes section of the Performance Report.

A related party transaction is a transfer of money, goods or services **between a charity** and those who are **closely associated** and have the **ability to influence the charity**.

We typically rely on volunteers and sometimes on donated goods or services, especially from related parties such as officeholders and members of the Parish Council, for example, which is the governing group of the Parish. Therefore, reporting related party transactions is an important requirement to ensure accountability and transparency of transactions between the Parish and any related parties. It will also show the level of contribution and support the Parish receives from related parties through donated and discounted goods or services.

The discussion provided here is for a Parish but can be translated to ANY registered charity. It just so happens that I am addressing issuing within a Parish.

### **Who are Related Parties?**

Related parties can be people or organisations, including:

- people who have **significant influence** over the strategic and financial decisions of the Parish (such as officeholders, committee members, or managers), and close members of their families (such as a parent, partner, sibling, or child); **and**
- other organisations that have significant influence over the charity (for example, an organisation that appoints one of the members of the governing group of the charity).

**Note:** People and organisations are not considered to have significant influence if they are involved only in the day-to-day running of the charity and have no involvement in its strategic or financial decisions.

### **What are Related Party Transactions?**

A related party transaction is a transfer of money, goods or services between a charity (Parish in this case) and a related party (the “who”).

You **must** report transactions with a related party that are:

- **significant** to your charity (in nature or financial value), or
- **not on normal terms and conditions** (for example, discounted or donated goods, or discounted or volunteered professional services).

What is considered 'significant' will mean different things for different Parishes. What is considered significant for a small parish may not be significant for a larger parish. Use your best judgement to decide what is significant. Ask yourself,

*“could including or excluding the information change a reader’s understanding of your charity and its Performance Report?”*

'Normal terms and conditions' is how a type of transaction would normally take place. Because of the relationship a related party has with the Parish, terms and conditions can often be different. For example, a Parish might pay less than the market price (including free goods or services), or the opportunity or agreement would not be available to someone who was not a related party.

All registered charities (which include all Methodist Parishes) are required to show the following information about related party transactions, if there are any:

- description of the related party relationship
- description and amount (where a dollar value is applicable) of the transaction(s) during the financial year; and
- amount due to, or from, related parties at balance date.

## **Do we separately list every single related party transaction?**

The focus should be on the separate reporting of transactions that are:

- **significant to your charity, or**
- **outside the normal day-to-day operations of your charity, or outside the normal day-to-day role of members of the governing group.**

Other related party transactions may be sufficiently reported by grouping them together or providing a general statement.

For example, a member of the Parish Council (governing body of the Parish) who is a chartered accountant will often use their professional skills and knowledge to assist the Parish. A general statement that *“Peter Wood who is on the Parish Council has used their professional skills to provide services at no charge to the Parish”* will be sufficient to acknowledge the normal day-to-day role of members of the Parish Council.

Charities will need to use their best judgement to decide which transactions should be separately reported and when a general statement or grouping them together is sufficient.

## Examples of Decisions about Related Party Transactions

The following fictional examples have been created to help you understand how to report related party transactions. Three questions are used to help decide when and how to report:

1. Are they a related party?
2. Should the transaction be reported?
3. Should it be reported separately?

### Example 1: Judy – a treasurer who is an Accountant

Judy West, an accountant, is a trustee and the treasurer for a small charity. Judy uses her expertise to manage the charity’s finances and prepares financial reports, free of charge.

1. Judy is a *related party* because she is a member of the governing group.
2. Providing this work for free would be considered *not normal terms and conditions*, as Judy normally charges for accounting work. Therefore, this transaction should be reported.
3. The services that she provides are typical of services provided by trustees as *part of their normal day-to-day role*. Therefore, the following general statement could be used to provide information about this and similar transactions:

Description of Related Party Relationship	Description of the transaction (whether in cash or amount in-kind)	This Year Value of Transactions	Last Year Value of Transactions	This Year Amount Outstanding	Last Year Amount Outstanding
Trustees	Regularly provided their time and skills to the oversight and	-	-	-	-

	operation of the trust at no charge.				
--	--------------------------------------	--	--	--	--

### Example 2: Karen – a committee member who makes an anonymous donation

Karen Lee is a member of the committee of the charity Project Green. Karen makes a significant donation of \$12,000 to Project Green on the basis that it remains anonymous. The donation is for the particular purpose of building a glass house at their plant nursery.

1. Karen is a *related party* as she is a committee member.
2. The donation is of *significant* value to the charity. Therefore, this transaction should be reported.
3. As it is *significant*, it should be reported separately. For example:

Description of Related Party Relationship	Description of the transaction (whether in cash or amount in-kind)	This Year Value of Transactions	Last Year Value of Transactions	This Year Amount Outstanding	Last Year Amount Outstanding
A committee member	Made a donation for building a glass house at the Project Green nursery.	\$12,000	0	0	0

### Example 3: Sam – a Parish Stewards son who provides professional services

#### Scenario one:

Maraea Paki is on the Parish Council and a Parish Steward of Central Community Methodist Parish. Her son, Sam Paki, is an electrician who often helps out at working bees and doing odd jobs, which have included replacing a broken light fitting and installing an outdoor sensor light.

1. Sam is a *related party* because he is a close family member of someone who has significant influence over the Parish.
2. The extent of the work Sam does for the Parish may not be considered financially significant, but it is *not on normal terms and conditions* as Sam would normally charge people for this type of work. Therefore, this should be reported as a related party transaction.
3. This type of volunteer activity is part of the *normal day-to-day running* of the Parish. The following general statement, which groups together the similar work of family members, could be used to provide information about this and similar transactions:

Description of Related Party Relationship	Description of the transaction (whether in cash or amount in-kind)	This Year Value of Transactions	Last Year Value of Transactions	This Year Amount Outstanding	Last Year Amount Outstanding
Close family members of the Parish Council	Helped out at working bees and did odd jobs for the Central Community Methodist Parish.	-	-	-	-

### Scenario two:

Another year, Central Community Methodist Parish had to rewire its hall and church. Sam did all the electrical work and only charged for the cost of materials, which was \$2,000. It would have cost about \$7,000 in total had Sam charged his usual commercial rates.

1. Sam is a *related party*.
2. The work is *not on normal terms and conditions* as Sam only charged for materials. Therefore, this transaction should be reported.
3. Sam's services are over and above the type of assistance usually provided to the Parish by volunteers (*outside normal day-to-day operations*) so it should be separately reported. For example:

Description of Related Party Relationship	Description of the transaction (whether in cash or amount in-kind)	This Year Value of Transactions	Last Year Value of Transactions	This Year Amount Outstanding	Last Year Amount Outstanding
A close family member of the Parish Council	Rewired the Central Community Methodist Parish hall and church for the cost of materials only. The estimated total value of the work if charged at commercial rates is \$7,000.	\$2,000	0	0	0

If the charity does not know how much the work would have cost at commercial rates it could say “The commercial value is not known.”

#### **Example 4: Paul – who is on Parish Council, his partner who is employed by the Parish**

Paul O'Brien is a member of the Parish Council. The Parish is a small Tier 4 charity. Paul's partner, Kerry O'Brien, is employed by the Parish as a part-time administrator to look after the day-to-day running of the Parish. Kerry is the only employee and a large portion of the charity's operating payments are used to pay her salary, which was \$44,500 this year and \$42,500 the year before.

1. Kerry is a *related party* as her husband is a board member.
2. She is paid a salary which is financially *significant* to the charity. Therefore, this transaction should be reported.

3. It should be separately reported as it is *significant* to the charity. For example:

Description of Related Party Relationship	Description of the transaction (whether in cash or amount in-kind)	This Year Value of Transactions	Last Year Value of Transactions	This Year Amount Outstanding	Last Year Amount Outstanding
A close family member of Parish Council	Employed Part-time and paid a salary.	\$44,500	\$42,500	0	0

## More information

Further guidance can be found in the Tier 3 and Tier 4 standards.

In the Tier 3 Standard refer to Section 9, A202 – A207.

In the Tier 4 Standard refer to Section 7, A109 – A114.