

Conflict of Interest and Related Party Transactions

Conflict of Interest

All officers of registered charities have a duty to act in the best interests of their charity. A conflict of interest will occur when an officer could benefit or could be perceived to benefit from the transaction. Following good policies and procedures will ensure that if transactions are brought into question, you will be able demonstrate that decisions were made in the best interests of the charity.

Refer Conflict of Interest Policy and Procedure under Governance

Refer to Charities Services for more information -

<https://www.charities.govt.nz/im-a-registered-charity/running-your-charity/conflict-of-interestpanga-rongorua/>

Related party transactions for Tier 3 and Tier 4 charities

The Tier 3 and Tier 4 financial reporting standards require charities 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.

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

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 charity (such as officeholders, committee members, or managers) and close members of their families (such as a parent, partner, sibling, or child)
- 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 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 and a related party.

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).

Conflict of Interest and Related Party Transactions

What is considered 'significant' will mean different things for different charities. What is considered significant for a small charity may not be significant for a larger charity. 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 charity, terms and conditions can often be different. For example, a charity 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.

Charities are required to show the following information about related party transactions:

- description of the related party relationship
- description and amount (where a dollar value is applicable) of the transaction(s) during the financial year
- 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, members of the governing group will often use their professional skills and knowledge to assist the charity. A general statement that members of the governing group have used their professional skills to provide services at no charge to the charity will be sufficient to acknowledge the normal day-to-day role of members of the governing group.

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.

Refer to Charities Services for more information -

<https://www.charities.govt.nz/reporting-standards/tier-3/related-party-transactions-for-tier-3-and-tier-4-charities/>

Performance Report – Related Party Transactions

In the charitable sector, related party transactions are really common and that's not a bad thing. It's really great if you can get goods and services for less than you would normally have to pay. The key thing is that you disclose them so that everything is out in the open.

You can use the following steps when you are preparing your related party disclosures in your Performance Report:

1. Review the list of related party transactions and the Conflict of Interest register and talk to your Trustees to ensure you have identified all transactions
2. Establish whether any transactions aren't at market value
3. If they are at market value, ask yourself whether they are significant
4. If the transactions aren't significant, ask whether they should be disclosed anyway in the interests of transparency. The test we like to use is "If I didn't disclose this, and someone questioned it, how would this look for my charity if it was published on the front page of a news article?"

Conflict of Interest and Related Party Transactions

The information about related party transactions that you need to disclose in your Performance Report is:

1. A description of the relationship between the charity and the related party;
2. A description of the transaction;
3. The value of the transaction; and
4. Any amounts payable or receivable at balance date to the related party.