

# 9. Disclosure of trustee and staff remuneration, related party and other transactions

## Introduction

9.1. A charity's accounts should inform the user and help them to assess a charity's financial performance and position, and the stewardship exercised by its trustees over the charitable funds held. The disclosure of certain transactions is important for stewardship purposes to provide assurance that the charity is operating for the public benefit and that its trustees are acting in the interests of their charity and not for private benefit.

**Table 9.1A: Tiered reporting requirements for module 9**

Tier 1	Charities in tier 1 that have chosen to use natural classifications apply this module in full except for the disclosure of total staff costs and employee benefits (see paragraph 9.27 below). Tier 1 charities that are companies must disclose the information required at 9.27 if they are not eligible for the small companies regime.
Tiers 2 and 3	This SORP requires charities within tiers 2 and 3 to adopt the activity basis of reporting. The requirements of this module apply in full to charities in tiers 2 and 3.

9.2. This SORP requires a transaction involving a trustee or other related party to always be regarded as material regardless of its size unless it falls within the exceptions set out at paragraph 9.20 below. A charity must make the same disclosures for de-facto trustees (see Appendix 1 '*Glossary of terms*') as for trustees.

9.3. Charities should refer to Section 33 of FRS 102 for more information about related party disclosures. This module sets out:

- [Disclosure of trustees' remuneration and benefits](#)
- [Disclosure of trustees' expenses](#)
- [Transactions with related parties that require disclosure](#)
- [Exceptions to the disclosure of related party transactions](#)
- [Disclosure of related party transactions](#)
- [Disclosure of audit, independent examination and other financial service fees](#)
- [Disclosure of ex-gratia payments](#)
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- [Remuneration and benefits received by key management personnel](#)
- [Exemptions from disclosure of the names of related parties](#)

## Disclosure of trustees' remuneration and benefits

- 9.4. Most trustees are volunteers who give their time and expertise without charge. However, provided the arrangement is legally authorised, a trustee may be remunerated for their role as a trustee. On occasions, a trustee may also be employed in some other role, either directly by the charity or by a related entity, including a subsidiary, joint venture or associate of the charity.
- 9.5. This SORP requires that all charities must disclose in the notes to the accounts that either:
- none of the trustees have been paid any remuneration or received any other benefits from an employment with their charity or a related entity; or
  - one or more of the trustees has been paid remuneration or has received other benefits from an employment with their charity or a related entity
- 9.6. This SORP requires the following information to be provided for each individual trustee who received remuneration or other benefits in the reporting period:
- the legal authority under which the payment was made (for example a provision in the governing document of the charity, an Order of the Court, or the charity regulator for the jurisdiction(s) of registration)
  - the name and role of the remunerated trustee
  - the period that the payment covered if different to the dates for which they were a trustee
  - details of why the remuneration or other employment benefits were paid
  - the amount of remuneration paid
  - the amount of any pension contributions paid by the charity for the reporting period; and
  - the amount of any other benefit, for example any termination benefits, private health cover or the provision of a vehicle
- 9.7. If a trustee receives remuneration or other benefits from their employment with the charity in addition to their trusteeship, the note may distinguish between remuneration and benefits received as a trustee, if any, from that received for other services or other employment with the charity.

## Disclosure of trustees' expenses

- 9.8. Trustees may incur costs in fulfilling their duties, for example in travelling to meetings or visiting charity facilities or activities to understand or monitor what is taking place. The reimbursement of properly incurred expenses is not considered a payment for goods or services or the remuneration of a trustee, nor does it count as any kind of personal benefit.
- 9.9. Trustee expenses include the reimbursement by a charity of costs incurred by its trustees in carrying out their duties and similar payments made by a charity direct to third parties on their behalf. For example, a charity may purchase travel tickets or pay for accommodation used by its trustees when carrying out their duties.
- 9.10. This SORP requires that all charities must disclose either:
- that no trustee expenses have been incurred; or
  - that one or more of the trustees has claimed expenses or had their expenses met by the charity
- 9.11. If expenses have been incurred, this SORP also requires that charities must disclose:
- the total amount of expenses reimbursed to trustees or paid directly to third parties
  - the nature of those expenses (for example travel, subsistence, accommodation, entertainment etc.)
  - the number of trustees reimbursed for expenses or who had expenses paid by the charity

## Transactions with related parties that require disclosure

- 9.12. A related party is a person or entity that is related to the entity that is preparing its financial statements, for further details see paragraph 33.2 of FRS 102. Related parties include a charity's trustees and their close family members and those entities which they control or in which they have a significant influence. Entities related to a charity include any subsidiary, joint venture or associate of the charity. Appendix 1 '*Glossary of terms*' provides a full definition of persons or entities that must be regarded as a related party for disclosure purposes.
- 9.13. In considering a possible related party relationship, a charity must assess the substance of the relationship and not merely its legal form. For example, if a person has significant influence over a charity's decision making or if a charity acts on their instructions, then that person must be treated as related to the charity.
- 9.14. This SORP requires charities to disclose transactions with former related parties when the transaction in the current reporting period is directly related to a time when the former related party was a related party of the charity. An example of this could be a settlement that is paid to a former related party in the current period but relates to a time when they were a related party.

- 9.15. A decision by a charity to enter into any transaction must be made in the charity's own interests and for the benefit of its beneficiaries. The disclosure of related party transactions is an important element of transparency in financial reporting because:
- related parties may enter into transactions that unrelated parties would not
  - transactions between related parties may not be made at the same amounts or on the same terms as those between unrelated parties
  - the existence of the relationship may be sufficient to affect the transactions of the charity with other parties
- 9.16. Users of the accounts need to be able to assess whether the relationship between the charity and the other party or parties to a transaction may have been influenced by interests other than those of the charity. Disclosing related party transactions also shows how far, if at all, the reported financial position and activities may have been affected by such transactions.
- 9.17. Donations to the reporting charity from a trustee or a related party may not need to be disclosed separately provided the donor has not attached conditions which would, or might, require the charity to alter significantly the nature of its existing activities if it were to accept the donation. Examples of conditions that make the donation a transaction that must be disclosed separately include: requiring the charity to purchase goods or services from a specified supplier; making an interest bearing loan to the charity; or requiring that payments be made to a specified third party. However, charities must provide an aggregate disclosure of the total amount of donations received without conditions.
- 9.18. This SORP requires that all transactions (including ex-gratia payments) between a charity and a related party, including transactions entered into between two or more members of a group, to be disclosed subject to the exceptions set out in the following paragraphs.

## **Exceptions to the disclosure of related party transactions**

- 9.19. This SORP requires a transaction involving a trustee or other related party to always be regarded as material regardless of its size unless it falls within the following exceptions set out at 9.20.
- 9.20. The transactions involving trustees or related parties, may not need to be disclosed unless there is evidence to indicate that they have influenced the charity's activities or use of resources. However, consideration must be given to any outstanding balances that will need to be disclosed (see paragraph 9.22 of this module). Exceptions to the disclosure of related party transactions are as follows:
- services provided on a voluntary basis to a charity as an unpaid general volunteer by a trustee or other related party
  - contracts of employment between the charity and its employees (except where the employee is a trustee or other related party)

- the purchase from the charity by a trustee, or other related party, of minor articles which are offered for sale on the same terms as they are offered to the general public, for example a small purchase made from a charity shop
- the provision of services to a trustee or other related party where the services are received on the same terms as they are received by other beneficiaries of the charity. Examples include the use of a village hall by members of its committee of management as inhabitants of the area of benefit
- the payment or reimbursement of out-of-pocket expenses where the trustee acts as agent for the charity (but certain details of trustee expenses must be disclosed – see ‘Disclosure of trustees expenses’)
- the amount of any expenses waived by a trustee need not be disclosed unless the amount is material in the context of a charity’s total expenditure

## Disclosure of related party transactions

9.21. If there have been no related party transactions in the reporting period that require disclosure, this SORP requires that this fact must be stated.

9.22. All charities that have one or more related party transactions must disclose:

- the description of a relationship between the parties (including the interest of the related party or parties in the transaction)
- a description of the transaction(s)
- the amounts involved
- outstanding balances and commitments with related parties at the reporting date and any provisions for doubtful debts
- any amounts written off from bad or doubtful debts relating to balances with related parties during the reporting period
- the terms and conditions, including any security and the nature of the consideration to be provided in settlement
- details of contingent assets and liabilities (refer to the SORP module 10A and Section 21 of FRS 102)
- details of any guarantees given or received
- any other elements of the transactions which are necessary for the understanding of the accounts
- this SORP requires the disclosure of the name(s) of the transacting related party or parties

Further details and examples of disclosures of related party transactions are included in paragraphs 33.8 to 33.12 of FRS 102.

- 9.23. The reporting charity must not state that related party transactions were made at open market value or on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated (see paragraph 33.13 of FRS 102).

## **Disclosure of audit, independent examination and other financial service fees**

- 9.24. This SORP requires that charities must disclose in the notes to the accounts the amounts payable to their auditor or independent examiner, analysed between fees payable for:

- statutory audit or independent examination
- assurance services other than audit or independent examination
- tax advisory services
- other financial services, for example consultancy, financial advice or accountancy services

## **Disclosure of ex-gratia payments**

- 9.25. An ex-gratia payment is a payment, or the waiver of a right to an asset which the trustees have no legal obligation or legal power to make from a charity's funds but which they believe they have a moral obligation to make. For the purposes of disclosure, occasional gifts of small and inexpensive items such as flowers or chocolates should not be regarded as ex-gratia payments.
- 9.26. This SORP requires that charities must disclose details of all ex-gratia payments made including those where the charity has obtained the authority of the Court, the Attorney General or the charity regulator for the jurisdiction(s) of registration to sanction the payment or waiver. For each payment the notes to the accounts must:
- provide an explanation of the reason and nature of the payment
  - state the legal authority
  - state the amount of the payment (or value of any waiver of a right to an asset)

## **Disclosure of staff costs and employee benefits**

- 9.27. This SORP requires that charities reporting on an activity basis must provide details of their total staff costs and employee benefits for the reporting period, analysed between:
- wages and salaries
  - social security costs

- employer's contribution to defined contribution pension schemes
  - the operating costs of defined benefit pension schemes (excluding pension finance costs related to defined benefit pension schemes)
  - other forms of employee benefits
- 9.28. Charities that are companies that have chosen to report on the natural classification basis must disclose this information if they are not eligible for the small companies regime.
- 9.29. The recognition of expenditure relating to staff costs and employee benefits is dealt with in the SORP module 7 '*Recognition of expenses and liabilities*'. Liabilities for the cost of benefits that employees are entitled to must be recognised even if not yet paid.
- 9.30. In addition for any redundancy or termination payments relating to the reporting period, charities must state:
- the total amount for the reporting period
  - the nature of the payment
  - its accounting policy
  - the extent of funding at the reporting (balance sheet) date
- 9.31. The information provided for staff costs and employee benefits must also include any expenditure on staff working for the charity whose contracts are with and are paid by a related party.
- 9.32. This SORP requires that all charities must disclose the average head count (number of staff employed) during the reporting period. Charities may also provide details of the average number of full-time and part-time staff for the reporting period together with an estimate of the equivalent number of full-time staff. Further analysis of staffing according to the number of staff engaged in particular activities of the charity may also be provided where this information helps the user of the accounts understand how staff are deployed.
- 9.33. This SORP also requires that all charities must disclose:
- the fact that there are no employees who received employee benefits (excluding employer pension costs) of more than £60,000 (€70,000)
  - the number of employees whose total employee benefits (excluding employer pension costs) for the reporting period fell within each band of £10,000 (€10,000) from £60,000 (€70,000) upwards

Employer National Insurance Contributions must be excluded from this calculation.

## **Remuneration and benefits received by key management personnel**

- 9.34. Although the trustees control and manage the administration of a charity, the day-to-day management of its activities may be delegated to senior management personnel who report to the trustees. FRS 102 uses the term 'key management

personnel' to describe the trustees and senior management of the charity. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity.

- 9.35. All charities must disclose the total amount of any employee benefits received by trustees and its key management personnel for their services to the charity. When calculating employee benefits for this purpose, the definition of employee benefits must include Employers National Insurance Contributions, refer to paragraph 28.4 FRS 102. Where key management personnel have been employed in post for part of a financial year this should be disclosed alongside the amounts.
- 9.36. In addition to the disclosure set out above at paragraph 9.33, the trustees of charities, particularly tier 2 and 3 charities, should give consideration to the information needs of their funders and other stakeholders in making their accounting disclosures. For example, it may be helpful to provide details of the employee benefits received by the charity's Chief Executive Officer or highest paid staff member, or a charity may choose to disclose the amount of employee benefits paid to its key management personnel on an individual basis.