OPINION

RELATED PARTIES: THE RELATIONSHIP BEHIND THE NUMBERS | WHY UAE BUSINESSES SHOULD LOOK BEYOND YEAR-END DISCLOSURES



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In many UAE businesses, significant transactions take place within networks of owners, directors, family members and group entities. Intercompany funding, management charges, shared services, asset transfers and guarantees may be part of normal operations. However, familiarity should not replace appropriate governance, accounting analysis or supporting evidence.

Related-party reporting is more than a year-end disclosure exercise. It helps users understand whether relationships may have influenced an entity's financial position, performance or cash flows.

IDENTIFYING RELATED PARTIES

Under IAS 24, a related party may include a person who controls or jointly controls an entity, has significant influence over it, or is a member of its key management personnel, as well as relevant close family members. The definition also covers certain parent, subsidiary, fellow subsidiary, associate and joint venture relationships, and entities connected through control or key management.

The assessment is based on the substance of the relationship and the applicable reporting framework—not simply a shared name, address or shareholder. Equally, relationships may exist even when they are not obvious from the legal entity chart.

COMMON TRANSACTIONS AND KEY CONSIDERATIONS

Loans and funding

Review contractual terms, maturity, repayment expectations and pricing. A group relationship does not, by itself, demonstrate recoverability.

Management fees and shared services

Retain evidence of services, allocation methods, approvals and pricing; consider period recognition and relevant tax requirements.

Sales, purchases and asset transfers

Assess the accounting treatment, transaction value, supporting evidence and appropriate authorisation.

Year-end balances

Reconcile counterparties, investigate differences, assess subsequent settlement, classification and impairment.

IAS 24 DISCLOSURE: SUBSTANCE AND TRANSPARENCY

IAS 24 generally requires disclosure of the nature of related-party relationships and relevant transactions, outstanding balances and commitments. Depending on the circumstances, disclosures may include transaction values, balance terms, whether balances are secured, settlement arrangements, provisions for doubtful debts and related expenses.

Key management personnel compensation is disclosed by specified categories. Parent–subsidiary relationships must also be considered even where no transactions occurred during the period.

ARM'S LENGTH' REQUIRES EVIDENCE

Management should describe a transaction as being on terms equivalent to those between independent parties only where that assertion can be substantiated. A general statement that pricing is market-based is not sufficient on its own.

For UAE businesses, the analysis may also intersect with Corporate Tax rules on related parties, connected persons and the arm's-length principle. Financial reporting and tax are separate assessments; compliance with one does not automatically establish compliance with the other.

INTERCOMPANY LOANS: THE IFRS 9 ECL CONSIDERATION

An intercompany loan is a financial asset for the lender and is subject to IFRS 9 expected credit loss (ECL) requirements. The ownership link does not remove the need to assess credit risk. In consolidated financial statements, intragroup balances are eliminated; however, in separate financial statements and the individual accounts of group entities, the loan remains recognised and must be assessed. ECL may also apply to loans to associates, joint ventures and other related parties outside the consolidated group.

Staging

Stage 1 attracts 12-month ECL; Stage 2 attracts lifetime ECL following a significant increase in credit risk; and Stage 3 applies where the asset is credit-impaired. Interest is generally calculated on the gross carrying amount in Stages 1 and 2, and on the net carrying amount in Stage 3.

Forward-looking assessment

ECL reflects probability-weighted outcomes, the time value of money and reasonable, supportable information about future conditions.

Group support

Consider parent or fellow-group support only where it is enforceable or there is credible evidence of both the intention and ability to provide it. A general comfort statement may not be sufficient.

Stage	Credit risk position	ECL measurement
1	No significant increase in credit risk since initial recognition	12-month ECL; interest on gross carrying amount
2	Significant increase in credit risk, but not credit-impaired	Lifetime ECL; interest on gross carrying amount.
3	Credit-impaired, including default or repayment not expected	Lifetime ECL; interest on net carrying amount

ARM'S LENGTH' REQUIRES EVIDENCE

Maintain a current register

Capture shareholders, beneficial owners, directors, key management, relevant family relationships and group entities.

Identify activity throughout the year

Use general-ledger to capture transactions and balances early.

Keep a clear audit trail

Retain agreements, approvals, invoices, loan calculations and evidence of services or other considerations.

Reconcile and assess

Confirm balances, investigate differences, assess ECL on balances, and consider settlement and subsequent events.

Review reporting and tax separately

Prepare IAS 24 disclosures and separately assess applicable UAE Corporate Tax and transfer-pricing requirements.

QUESTIONS MANAGEMENT SHOULD ASK

01 | Have ownership, control and key management changes been captured?

02 | Have intercompany loans and guarantees been assessed for ECL and staging?

03 | Have UAE Corporate Tax and transfer-pricing requirements been assessed separately?

04 | Are related-party balances reconciled and supported?

05 | Are the required IAS 24 relationships, transactions and balances disclosed?

THE AUDITOR'S PERSPECTIVE

Related-party arrangements may create audit risks where transactions are complex, are not conducted on ordinary commercial terms or are not captured by routine accounting processes. Auditors consider the completeness of management's identification, the rationale and authorisation for significant transactions, the accounting treatment and the adequacy of disclosures. Procedures may include reviewing contracts and minutes, testing unusual transactions and obtaining confirmations. Management remains responsible for identifying related parties, maintaining records and preparing compliant financial statements; an audit does not transfer that responsibility.

Related-party transactions are a normal feature of many businesses. The objective is not to avoid them, but to ensure they are properly governed, supported, accounted for and disclosed. Identifying relationships early, documenting activity as it occurs and reconciling balances regularly supports better oversight and confidence in financial reporting.

How can we help

At RAA Auditing, we take pride in delivering audit and assurance services which go beyond regulatory requirements. We provide expertise by, enhancing transparency, and support informed decision-making by providing reliable assurance. We offer extensive expertise and a commitment to quality, ensuring that your stakeholders can rely on your financial reporting.

Who we are

RAA Auditing is a UAE registered audit firm which has experience in the multi jurisdictional regime, within the country, from the north of UAE at Ras Al Khaimah Economic Zone to the south at Abu Dhabi Global Market.

Our teams are internationally trained, certified auditors, who bring a breadth of skills and expertise, coupled with a personalized approach and a commitment to service excellence.

Our audits aim to help clients mitigate risk, improve operational efficiencies, and safeguard their business by providing clarity on issues that matter.

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