

Related Party Disclosures Policy

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Policy Objectives

The purpose of this Policy is to provide guidance to the City in the preparation of financial statements to ensure disclosure requirements are met for AASB 124 Related Party Disclosures.

Policy Scope

The Related Party Disclosures Policy (this 'Policy') applies to Related Parties of the City and their Related Party Transactions with the City. This Policy provides guidance in determining Related Parties of the City along with associated transactions and outstanding balances, materiality and disclosure requirements.

Policy Statement

1. Background

The Australian Accounting Standards Board extended the application of AASB 124 Related Party Disclosures (the 'Standard') to include Not-for-Profit Public Sector Entities. Local Governments, from 1 July 2016, are therefore required to comply with disclosure requirements of this standard in their financial statements.

The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

The Standard is not intended to assess governance or probity issues. Related party relationships are a normal part of doing business. It is acknowledged that the City collects information on conflict of interest and related party transactions for other purposes that may then also be utilised to satisfy AASB 124.

2. Related Party Disclosures and the City

The City must undertake the following:

- Identification of Related Party relationships;
- Identification of transactions and outstanding balances/commitments with Related Parties;
- Assessment of materiality of the transactions and outstanding balances/commitments; and
- Determine the level of disclosure required

3. Identification of Related Parties

A related party, according to the Standard, is a person or entity that is related to the entity that is preparing its financial statements. There are many conditions outlined in the Standard that do not apply to the City.

Related parties to the City include:

- Entities where the entity is set up, controlled or is significantly influenced by the City;
- Key Management Personnel (KMP) of the City;
- Close family members of KMP; and
- Entities that are controlled or jointly controlled by KMP or their close family members.

Entities

When determining whether an entity is a related party, the City will need to consider definitions as outlined in various Accounting Standards.

AASB 128 Investments in Associates and Joint Ventures provides the following relevant definitions:

- Joint Control – ‘is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control’.
- Significant influence – ‘is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies’.

Key Management Personnel

The Standard defines KMP as ‘those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity’.

The City considers the following to be KMP:

- Elected Members (including the Mayor);
- Chief Executive Officer; and
- Directors and Executive Managers

It should be noted that KMP are different to Senior Employees as defined in Council Policy CP-026 Employee Appointments, which limits Senior Employees to the Chief Executive Officer and Directors.

Close Family Members

Close family members of a KMP is defined by the Standard as being ‘those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- That person’s children and spouse or domestic partner;
- Children of that person’s spouse or domestic partner; and
- Dependents of that person or that person’s spouse or domestic partner.

Entities and KMP

Entities (including companies, trusts, joint ventures, partnerships and not-for-profit associations) controlled or jointly controlled by KMP or their close family members are also considered related parties.

4. Related Party Transactions

The Standard defines a related party transaction as being 'a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged'.

The City deems the following transactions with a Related Party to be a Related Party Transaction (but not limited to):

- Employee compensation whether it is for KMP or close family members of KMP;
- Application fees paid to the City for licences, approvals or permits;
- Lease agreements for housing rental for property owned or sub-leased by the City;
- Lease agreements for commercial properties;
- Monetary and non-monetary transactions between the City and any business or associated entity owned or controlled by the related party in exchange for goods/services provided to/by the City (trading arrangement);
- Sale or purchase of any property owned by the City, to a related party;
- Sale or purchase of any property owned by a related party, to the City;
- Loan arrangements; and
- Contracts and agreements for construction, consultancy or services.

Ordinary Citizen Transactions

The City acknowledges that there are related party transactions that also satisfy the definition of an Ordinary Citizen Transaction (OCT). An OCT is a transaction that occurs on terms and conditions no different to those applying to the general public and has been provided in the course of delivering public service objectives. The City will not disclose such related party transactions in the financial statements.

The City has determined that the following transactions with related parties are OCT's and do not need to be disclosed:

- Paying rates
- Fines
- Use of City owned facilities (including Civic Centre, Health and Lifestyle facilities, libraries, parks and open spaces)
- Attending Council functions that are open to the public.

Where an OCT occurs and it was not under the same terms and conditions applying to the public, then the KMP is required to declare the nature of the transaction and any special terms received.

Declaration

KMP will be required to complete a 'Related Party Disclosure Declaration' form every six months (January and July) and submit to the Manager Financial Services. In addition to this, events may warrant additional disclosure during the year. Such events include both ordinary and extraordinary Council elections, terminations of KMP or appointments of KMP.

Inspection of Local Government information is regulated under the *Local Government Act 1995* (sections 5.93, 5.94 and 5.95) and the provisions of the *Freedom of Information Act 1992* also apply. Information provided by KMP and other related parties will be held for the purpose of compliance with the City's reporting obligations and will be disclosed for compliance or legal reasons only.

The Manager Financial Services will also review other information held by the City, including but not limited to:

- Minutes of Ordinary Meetings of Council and Committee Meetings
- Disclosures of Interests Register
- Gift Register.

5. Materiality

The Australian Accounting Standards Board 'expects those parties preparing the financial statements to apply professional judgement in making an assessment about the materiality of a related party disclosure'. It also considers there to be 'little value in an entity incurring significant costs to obtain data that is immaterial for disclosure and does not expect information to be collected unless it could be material for disclosure'.

AASB 101 Presentation of Financial Statements defines material as '*omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor*'.

The following factors should be considered when determining the level of significance of a transaction, such as whether it is:

- Significant in terms of size;
- Carried out on non-market terms;
- Outside normal day-to-day business operations, such as the purchase or sale of businesses;
- Disclosed to regulatory or supervisory authorities;
- Reported to senior management; or
- Subject to Council approval.

The City's management will therefore apply the above along with professional judgement in determining disclosure of related party transactions and will seek guidance from the City's external Auditors and/or Financial Management, Audit, Risk and Compliance Committee where necessary.

6. Disclosure

AASB 124 outlines disclosure requirements that enable users of financial statements to understand the potential effect of related party relationships on the financial statements.

Key disclosure requirements are as follows:

- a) Compensation to KMP in total and for each of the following categories:
 - Short-term employee benefits
 - Post-employment benefits
 - Other long-term benefits
 - Termination benefits.
- b) Amounts incurred by the City for KMP services that are provided by a separate management entity.
- c) Relationships between the City and its subsidiaries, irrespective of whether there have been transactions between them.
- d) Where related party transactions have occurred, the nature of the related party relationship must be disclosed along with:
 - The amount of the transaction
 - The amount of outstanding balances, their terms and conditions and details of any guarantees given or received
 - Provision for doubtful debts related to the amount of outstanding balances
 - The expense recognised during the period in respect of bad or doubtful debts due from the related parties.

The above disclosures should be made separately for each of the following categories:

- The parent;
- Entities with joint control or significant influence over the entity;
- Subsidiaries;
- Associates;
- Joint ventures in which the entity is a venturer;
- Key management personnel of the entity or its parent;
- Other related parties.

Changes to this Policy

This Policy is to remain in force until any of the following occur:

1. The related information is amended/replaced; or
2. Other circumstances as determined from time to time by the Council

References that may be applicable to this Policy

Legislative Requirements:

AASB 101 Presentation of Financial Statements
 AASB 124 Related Party Disclosures
 AASB 128 Investments in Associates and Joint Ventures
 Local Government Act 1995
 Freedom of Information Act 1992

Procedures, Process Maps, Work Instructions:

Other Plans, Frameworks, Documents Applicable to Policy: CP-026 Employee Appointments.

Delegated Authority No: DA-024 Senior Employees

ORIGIN/AUTHORITY		Item No.
Ordinary Meeting of Council	15/08/2017	C17/5565
Reviews		
Ordinary Meeting of Council	19/06/2018	C18/5617