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RELATED PARTIES

ST138   **F22**

OBJECTIVES

From July 2016, the Australian Accounting Board Standard – Related Parties Disclosures (AASB 124) applies to councils in New South Wales.

Council is required to disclose Related Party Transactions and Relationships and Key Management Personnel compensation in the annual Financial Statements to comply with AASB 124.

APPLICABILITY

Key Management Personnel named in this policy.

GENERAL

AASB 124 framework and requirements

The Policy establishes that Related Parties and Key Management Personnel will be identified such that transactions between Council and Related Parties can be identified and where assessed as being required to be disclosed, be reported in the annual Financial Statements in accordance with AASB 124.

AASB 124 requires that Council must disclose the following financial information in its annual Financial Statements:

- disclosure of any Related Party relationships outlining the relationship with any Related Parties or subsidiaries (where applicable), <u>whether or not</u> there have been transactions within the relevant reporting period
- Key Management Personnel (KMP) Compensation Disclosures

The disclosure of Related Parties information requirements under AASB 124 are additional to those in place under Section 449 of the Local Government Act 1993 regarding the annual returns disclosing interests of Councillors and designated persons. Additionally, the requirements under this Policy do not supplant the responsibilities to declare conflicts of interest as identified in the Council's Code of Conduct.

In the preparation of the annual Financial Statements, an assessment of the materiality and significance of the Related Party Transactions will be made to determine the level of disclosure.

AASB 124 identifies that the purpose of disclosing Related Parties is to assess where transactions or relationships could impact on the profit and loss of an entity. This may be because a Related Party may enter into transactions in a manner that other parties may not due to the relationship with the Council or Key Management Personnel. Alternatively, there may be a personal relationship between a Key Management Personnel and their relatives or other persons that could influence the transactions of the Council with another party.

Key Management Personnel are responsible for planning, directing and controlling the Council.

STRATEGIC POLICY

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Key Management Personnel are required to identify Related Parties and Related Transactions that they expect will or do occur between those Related Parties and Council. Council will itself have Related Parties and Related Transactions which similarly need to be identified.

The Policy identifies the requirement to capture disclosures of Related Parties and Transactions between those Parties and Council and the need to collate the disclosures in a Register. The Register will be used to prepare the required components for inclusion in the annual Financial Statements.

Related Parties Identification and Disclosure timetable

Disclosures of Related Parties and Transactions will be required of Key Management Personnel at least twice annually.

The due dates for Disclosures will be 15 January and 15 June annually.

Key Management Personnel should provide updates on Related Parties and Transactions as issues arise by submitting an updated Related Parties Disclosure Form at times other than the two collection dates listed above if their situation changes.

The Council will also disclose any Related Parties and Related Transactions for inclusion in the Related Parties Disclosures register by 15 January and 15 June annually.

Related Parties Disclosure Register

Information collected on the Related Parties Disclosure Form (attached) will be securely stored in Council's Related Parties Disclosure Register.

Access to the Related Parties Disclosure Register will be available only to those who may lawfully be granted access after consideration of matters of privacy and other legislative requirements.

The Related Parties Disclosures Register will be used as the basis for the information included in the annual Financial Statements to satisfy the Related Party reporting requirements.

The Manager Financial Services is responsible for the updating and maintenance of the Related Parties Disclosures Register.

KEY MANAGEMENT PERSONNEL (KMP)

Key Management Personnel are identified as those persons having authority and responsibility, either directly or indirectly, for planning, directing and controlling the activities of the entity.

Orange City Council has identified as Key Management Personnel:
- Councillors
- Administrators
- General Manager
- Directors

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Compensation Disclosure requirements

KMP Compensation Disclosures require that information on all forms of paid, payable, or provided in exchange for services provided must be disclosed.

This information may include:
- *Short-term employee benefits* - such as:
  o wages, salaries and social security contributions
  o paid annual leave and paid sick leave
  o profit sharing and bonuses (if payable within twelve months of the end of the period
  o non-monetary benefits (such as medical care, housing, cars and free and subsidised goods or services) for current employees.
- *Post-employment benefits* such as:
  o pensions, other retirement benefits
  o post employment life insurance
  o post-employment medical care
- *Other long-term employee benefits*, including:
  o long-service leave or sabbatical leave
  o jubilee or other long-service benefits
  o long-term disability benefits
  o and, if they are not payable wholly within twelve months after the end of the period, profit sharing, bonuses and deferred compensation
- *Termination benefits*.

Close members of the family of KMP

The method for identifying the close family members and associated entities of KMP will be by KMP self-assessment with details to be submitted on the Related Parties Disclosure form.

KMP have an ongoing responsibility to advise Council immediately of any changes to Related Parties and associated Transactions.

Close family members of the KMP are those family members who may be expected to influence, or be influenced by, that person in their dealings with the Council, and include:
- that person's children
- that person's spouse/domestic partner
- children of that person's spouse/domestic partner
- dependants of that person or that person's spouse/domestic partner.

In addition to those family member identified above as close family members, a KMP may have other members of their extended family who they should identify as close family members if these family members could be expected to influence, or be influenced by, that person in their dealings with Council. This could include:
- that person's brothers and sisters
- that person's spouse/domestic partner's brothers and sisters
- aunts, uncles, and cousins of that person's or that person's spouse/domestic partner
- dependants of those person's or that person's spouse/domestic partner
- that person's or that person's spouse/domestic partners', parents and grandparents.

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It is the responsibility of KMP to assess and report all related parties that they know do, or expect are likely to, have transactions with Council.

RELATED PARTIES AND RELATED PARTY RELATIONSHIPS

Related Party

A Related Party is:

a) a person who is a close family member of a KMP where that person has control or joint control of the reporting entity or has significant influence over, or could be influenced by any nominated person in the key management personnel.

b) an entity related to the Council if the entity is the member of the same group of companies (e.g. parent company or one of its subsidiaries), is part of arrangements such as joint ventures or is an associate of the reporting entity, is a post employment benefit plan, is an entity controlled, jointly controlled or is significantly influenced by a person identified in (a), is an entity that a person identified in (a) is a key management personnel of, as a related party.

Entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. Entities may also include companies, trusts, partnerships, incorporated association or unincorporated groups or bodies and non-profit associations such as sporting clubs. In those circumstances, there is the possibility of the entity having the ability to affect the financial and operating policies of Council through the presence of control, joint control or significant influence.

A KMP and the Council needs to consider what associated entities exist when compiling their Related Parties Disclosures form.

Related Party Relationships
Related Party relationships are a normal feature of commerce and business.

A Related Party relationship could influence the normal business operations of Council even if Related Party Transactions do not occur.

The mere existence of the relationship may be sufficient to affect the transactions of the Council with other parties.

Related Party Transactions
Related Party Transactions are the transfer of resources, services or obligations between Council and a related party. They are considered to be transactions whether or not a price is charged.

Such transactions may include:
- purchase or sale of goods (finished or unfinished)
- purchase or sale of property and other assets
- rendering or receiving services
- leases
- transfers of research and development
- transfers under licence agreements

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- transfers under finance arrangements (including loans and equity contributions in cash or in kind)
- provision of guarantees or collateral
- commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised)
- quotations and/or tenders
- commitments
- settlements of liabilities on behalf of Council or by Council on behalf of the related party.

Regard must also be given if transactions that are collectively or individually significant.

ISSUES THAT WILL BE ASSESSED IN CONSIDERING RELATED PARTY TRANSCTIONS

The Disclosure process will consider all transactions between Council and persons and entities the Council or KMPs have named as related parties.

Collations of the disclosures may be made in some circumstances. AASB 124 provides that Council must disclose all material and significant Related Party Transactions and outstanding balances, including commitments, in its annual Financial Statements. Generally, reporting will be made where a transaction has occurred between Council and a related party of Council where the transaction is material and/or significant in nature or size when considered individually or collectively.

For the purpose of this policy, it is not considered appropriate to set either a dollar value or a percentage value to determine materiality. In preparing the information for the annual Financial Statements, the Council will consider the information in the Related Parties Disclosures Register on the basis of materiality and significance.

Ordinary citizen transactions

Ordinary citizen transactions do not need to be disclosed on the basis of services being available to all citizens at the same fee or level of service. Examples include:
- paying rates and charges
- paying normal entry fee for use of the Council's swimming pool
- attending the theatre when tickets have been bought at prices other patrons would pay
- fines on normal terms and conditions

DISCLOSURES

AASB 124 provides that Council must disclose all material and significant Related Party Transactions in its annual Financial Statements by aggregate or general description and include the following detail:
- the nature of the Related Party Relationship, and
- relevant information about the transactions including:
  - the amount of the transaction;
  - the amount of outstanding balances, including commitments, and
    - their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in the settlement; and
    - details of any guarantee given or received;
  - provision for doubtful debts related to the amount of outstanding balances; and

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- the expense recognised during the period in respect of bad or doubtful debts due from Related Parties.

Generally, transactions with amounts receivable from and payable to KMP or their Related Parties which occur within normal employee, customer or supplier relationships and at arm's length and are not material or significant, shall be excluded from detailed disclosures, but they will be disclosed in the financial statements by general description.

Disclosures that Related Party Transactions were made on terms equivalent to an arm's length transaction can only be made if such terms can be substantiated.

Review of this policy

This policy will be reviewed annually but may also be reviewed if any of the following occur:

- corporate restructure that impacts on the KMPs,
- legislative, accounting standard or Local Government Code of Accounting Practice change that impacts on the application of the Policy, or
- other circumstances as determined from time to time by a resolution of Council

RELATED POLICIES/DOCUMENTS

Related Party Disclosure form (attached)
Local Government Act 1993
Australian Accounting Board Standard – Related Parties Disclosures AASB 124
Council's Code of Conduct
Related Parties Operational Policy

Responsible Area – Corporate and Commercial Services

REVISION					
	DATE	**RESOLUTION**		**DATE**	**RESOLUTION**
1	December 2017 – New policy	17/037	**6**		
2			**7**		
3			**8**		
4			**9**		
5					
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SUMMARY OF AMENDMENTS

Amendment Date	Section/Reference and Amendment
Dec 2017	New Policy

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Related Parties - Disclosure Form

NAME OF KEY MANAGEMENT PERSONNEL (KMP)
DATE

Name of related person or entity	Relationship of KMP with the person or entity	Nature of transaction(s)