

RELATED PARTY TRANSACTIONS POLICY

QUALITY CONTROL			
TRIM REFERENCES	D17/19541		
RESPONSIBLE POSITION	Manager Finance		
APPROVED BY	Council		
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1. INTRODUCTION

From 1 July 2016, the Australian Accounting Standards Board has determined that AASB 124 Related Party Disclosures will apply to government entities, including local governments.

The objective of the accounting standard is to ensure that annual financial statements contain disclosures necessary for stakeholders to draw attention to the possibility that the financial position and financial performance may have been affected by transactions and outstanding balances with related parties.

Council recognises that Related Party transactions can present potential or actual conflicts of interest and may raise questions about whether they are in the best interests of the organisation.

It is therefore important that Key Management Personnel act honestly and with reasonable care and diligence whilst avoiding improper use of their position and information. It is equally important that Key Management Personnel of the Council are subject to a high level of accountability, including appropriate disclosure of their transactions with the Council in the annual financial statements.

2. POLICY OBJECTIVE

The purpose of this policy is to define the parameters for Related Party Relationships and the level of disclosure and reporting required for Council to achieve compliance with the Australian Accounting Standard AASB 124 - Related Party Disclosures.

3. POLICY SCOPE

This policy applies to all Key Management Personnel and is in accordance with legislation and guidelines.

4. POLICY STATEMENT

Related Party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. 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 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. Alternatively, one party may refrain from trading with Council because of the significant influence of another—for example, a local supplier may be instructed by its parent not to engage in supplying goods to Council.

For these reasons, knowledge of Council's transactions and outstanding balances (including commitments and relationships with Related Parties) may affect assessments of Council's operations.

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, disclosure will only be made where a transaction has occurred between council and a related party of council. In addition the transaction must be material in nature or size, when considered individually or collectively.

When assessing whether such transactions are significant the following factors will be taken into consideration:

- significance in terms of size;
- was it carried out on non-market terms;
- is it outside normal day-to-day council operations;
- was it subject to council approval;
- did it provide a financial benefit not available to the general public;
- was the transaction likely to influence decisions of users of the Annual Financial Statements.

Regard must also be given for transactions that are collectively, but not individually significant.

To enable Council to comply with AASB 124 Council's KMP, as defined in Section 4.1 of this Policy, are required to declare full details of any Related Parties and Related Party Transactions. Such information will be retained and reported, where necessary, in Council's Annual Financial Statements.

4.1. Key Management Personnel

AASB 124 defines KMP's as "those persons having authority and responsibility, either directly or indirectly, for planning, directing and controlling the activities of the entity."

KMP's for the Council are considered to include:

- Councillors (including the Mayor);
- General Manager;
- Senior Executive Officers (including Directors and the General Manager)
- Public Officer; and
- Responsible Accounting Officer.

4.2. Identification of Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

For the purposes of this Policy, related parties of Council are:

- Entities related to Council;
- Key Management Personnel (KMP) of Council
- Close family members of KMP;
- Possible close family members of KMP's; and
- Entities or persons that are controlled or jointly controlled by KMP, or their close family members, or their possible close family members.

Also a person or entity is a related party of Council if any of the following apply:

- they are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- they are an associate or belong to a joint venture of which Council is part of;
- they and Council are joint ventures of the same third party;
- they are part of a joint venture of a third party and council is an associate of the third party;
- they are a post-employment benefit plan for the benefit of employees of either Council or an entity related to Council;
- they are controlled or jointly controlled by Close members of the family of a person;
- they are identified as a close or possibly close member of the family of a person with significant influence over Council or a close or possibly close member of the family of a person who is a KMP of Council; or
- they or any member of a group of which they are a part, provide KMP services to Council.

4.3. Related party Transactions

Related Party Transactions are required to be disclosed, regardless of whether 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;

- 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; and
- settlements of liabilities on behalf of Council or by Council on behalf of the related party.

4.4. Materiality & Significance

Materiality thresholds are reviewed annually as part of the audit process and reported related party disclosures will be in compliance with the framework of the Australian Accounting Standard AASB124 and other relevant standards, as required.

The following matters must be considered in determining the materiality and significance of any related party transactions:

- significance of transaction in terms of size;
- whether the transaction was carried out on non-market terms;
- whether the transaction is outside normal day-to-day business operations, such as the purchase and sale of assets;
- whether the transaction is disclosed to regulatory or supervisory authorities;
- whether the transaction has been reported to senior management; and
- whether the transaction was subject to Council approval.

Regard must also be given for transactions that are collectively, but not individually significant.

4.5. Discloser

Council must disclose all material and significant Related Party Transactions in its annual financial statements 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
 - provision for doubtful debts related to the amount of outstanding balances; and
 - the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Related party transactions excluded from disclosure requirements on the basis of Ordinary Citizen Transactions are;

- any valid discounts and fee waivers that are available to the party as an ordinary citizen and is available to any ordinary citizen in the same circumstance, and
- any service or benefit occurring within normal employee, customer or supplier relationships and at arm's length; and
- are not material or significant;

4.6. Procedures

The method for identifying the close family members and associated entities of KMP will be by KMP self-assessment. KMP have an ongoing responsibility to advise Council immediately of any Related Party Transactions.

The preferred method of reporting is for KMP to provide details of Related Parties and Related Party Transactions to the Governance Officer.

Information provided will be reviewed in accordance with the Council's operational requirements and held on a centralised register.

Should a KMP have any uncertainty as to whether a transaction may constitute a related party transaction they should contact the Governance Officer for clarification.

4.7. Privacy

Information provided by KMP and other related parties shall be held for the purpose of compliance with Council's legal obligation and shall be disclosed where required for compliance or legal reasons only.

4.8. Review

A review of KMP's and their related parties will be completed on adoption of this policy and then at intervals not exceeding twelve months.

This policy will also be reviewed when any of the following occur:

- a change of Councillors, Chief Executive Officer or other KMP;
- corporate restructure;
- the related legislation/documents are amended or replaced;
- other circumstances as determined from time to time by a resolution of Council; and
- as a result of changes to the OLG Local Government Code of Accounting Practice and Financial Reporting.

4.9. Training and Communication

This policy will be provided to KMP in the initial awareness raising and data collection and as part of Councillor inductions.

Internal training on supporting this policy shall be scheduled as required.

5. IMPLEMENTATION

5.1. Roles and Responsibilities

The following Council officers are responsible for the implementation and the adherence to this policy:

- Councillors (including the Mayor);
- General Manager;
- Senior Executive Officers (including Directors and the General Manager)
- Public Officer; and
- Responsible Accounting Officer.

5.2. Communication

This Policy will be communicated to the community and staff in accordance with Council's Policy, Procedure and Process Framework and Council's Business Paper process. Following adoption by Council the Policy will be made available on Council's website.

5.3. Associated Documents

The following documentation is to be read in conjunction with this policy.

- Council Code of Conduct Policy

6. REVIEW

Review of this policy will incorporate relevant legislation, documentation released from relevant state agencies and best practice guidelines.

The standard review period will be every two years from the effective date. The responsible Council officer will be notified of the review requirements three (3) months prior to the expiry of this policy.

The Manager Finance is responsible for the review of this policy.

7. LEGISLATIVE AND LEGAL FRAMEWORK

This policy is to be read in conjunction with the following:

- *Australian Accounting Standard AASB124 related party disclosures (AASB124)*
- *Australian Accounting Standard AASB10 consolidated financial statements (AASB10)*
- *Local Government Act 1993*
- *Local Government (General) Regulation 2005*

Council employees shall refrain from personal activities that would conflict with proper execution and management of Council's Related Party Transactions policy. Council's Code of Conduct provides guidance for recognising and disclosing any conflicts of interest.

8. DEFINITIONS

- **AASB 124:** means the Australian Accounting Standards Board, Related Party Disclosures Standard.
- **Act:** means the Local Government Act 1993.
- **Close members of the family of a person:** are those family members who may be expected to influence, or be influenced by, that person in their dealings with the Council and include:
 - a. that person's children and spouse or domestic partner;
 - b. children of that person's spouse or domestic partner; and
 - c. dependants of that person or that person's spouse or domestic partner.
- **Entity:** can include a body corporate, a partnership or a trust, incorporated association, or unincorporated group or body.
- **Key Management Personnel (KMP):** - as defined in Section 4.1 of this Policy.
- **KMP Compensation:** means all forms of consideration paid, payable, or provided in exchange for services provided, and may include:
 - a. Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free and subsidised goods or services) for current employees;
 - b. Post-employment benefits such as pensions, other retirement benefits, postemployment life insurance and post-employment medical care;
 - c. Other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit sharing, bonuses and deferred compensation; and
 - d. Termination benefits
- **Material:** (materiality) means the assessment of whether the transaction, either individually or in aggregate with other transactions, by omitting it or misstating it could influence decisions that users make on the basis an entity's financial statements. For the purpose of this policy, it is not considered appropriate to set either a dollar value or a percentage value to determine materiality.
- **Ordinary Citizen Transaction:** means a transaction that an ordinary citizen of the community would undertake in the ordinary course of business with Council.
- **Possible (Possibly) Close members of the family of a person:** are those family members who could be expected to influence, or be influenced by, that person in their dealings with the Council and include:
 - a. that person's brothers' and sisters';
 - b. aunts', uncles', and cousins' of that person's spouse or domestic partner;

- c. dependants of those persons' or that person's spouse or domestic partner as stated in b.; and
- d. that person's or that person's spouse or domestic partners', parents' and grandparents'.

- **Related Party:** defined in Section 4.2 of this Policy.
- **Related Party Transaction:** - is a transfer of resources, services or obligations between Council and a related party, regardless of whether a price is charged.
- **Regulation:** - means the Local Government (General) Regulation 2005
- **Senior Executive:** means an employee of the Council who reports directly to the General Manager and whose position would be considered to be a senior position in the Council's corporate structure.
- **Significant:** (significance) means likely to influence the decisions that users of the Council's financial statements make having regard to both the extent (value and frequency) of the transactions, and that the transactions have occurred between the Council and related party outside a public service provider/ taxpayer relationship.
- **Remuneration:** means remuneration package and includes any money. Consideration or benefit received or receivable by the person but excludes reimbursement of out-of-pocket expenses, including any amount received or receivable from a related party transaction.