

5.3. RELATED PARTY GENERAL POLICY

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DEPARTMENT: Finance, Procurement and ICT

RECOMMENDATION

That Council adopts the Related Party General Policy.

EXECUTIVE SUMMARY

The attached policy sets out the framework for Council compliance with related party disclosure requirements under legislation and relevant Australian Accounting Standards. Section 4 of the Policy has been amended to reflect the new organisation structure. No other changes have been made since the Policy was originally adopted in September 2016.

BACKGROUND

Under the provisions of the *Local Government Act 2009* and the *Local Government Regulation 2012* Council must produce annual financial statements that comply with Australian Accounting Standards. From 1 July 2016 the Australian Accounting Standards Board determined that AASB 124 "Related Party Disclosures" will apply to government entities, including local governments.

COMMENT

Related parties include government-related entities, key management personnel (KMP), their close family members and any entities that they control or jointly control. In accordance with paragraph 14 of AASB 124, to enable users of financial statements to form a view about the effects of related party relationships on an entity it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties. Any transactions with these parties, whether monetary or not, need to be identified for inclusion in Council's annual financial statements.

Key management personnel include the Mayor and Councillors, CEO, Executive Managers and Managers reporting directly to the CEO and any person acting in one of these aforementioned roles for a period of over one month. KMPs will be required to provide an annual declaration identifying:

- a. their close family members; and
- b. entities that they control or are associated with; and
- c. entities that their close family members control or jointly control.

Close family members of KMPs are family members who may be expected to influence, or be influenced by, that person in their dealings with Council.

Related party transactions will be collated in a Related Party Register for audit and reporting purposes.

It is important to note that the policy identifies the following types of transactions as "Ordinary Citizen Transactions (OCTs)". These are transactions that an ordinary citizen

would undertake with Council and as such do not need to be captured and reported for disclosure.

- a. Paying Council fees, rates or charges
- b. Attending Council functions that are open to the public
- c. Payment for goods or services from Council at rates published in Council's Register of Fees and Charges.

In the event that an OCT transaction was to occur on terms and conditions that are different to those offered to the general public then the transaction may need to be disclosed.

KMPs will be provided with a Related Party Declaration form for completion and return to Council within thirty days. Any subsequent changes to a KMP's related parties will need to be notified to Council within thirty days of those changes occurring.

PROPOSAL

That Council adopts the Related Party General Policy.

FINANCIAL/RESOURCE IMPLICATIONS

The Related Party transactions will form part of Council's standard annual reporting and therefore no financial implications will arise.

RISK MANAGEMENT IMPLICATIONS

It is important that Council provides accurate, unbiased and factual reporting and the inclusion of related party disclosures in Council's annual financial statements will enable users of the financial statements to form a view about the effects of related party relationships.

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE

This report has been prepared in accordance with the following:

Corporate Plan 2014-2019 Initiatives:

Theme 5 Governance

5.2.1 "Provide Councillors and community with accurate, unbiased and factual reporting to enable accountable and transparent decision-making".

ATTACHMENTS

1. Related Party General Policy **[5.3.1]**

RELATED PARTY GENERAL POLICY

Intent

The intent of this policy is to:

- a) record Council's commitment to complying with all related party transaction requirements under AASB 124 Related Party Disclosures; and
- b) establish a system for identifying and recording related parties and related party relationships; and
- c) identify ordinary citizen transactions that will not be disclosed by Council.

Scope

This policy applies to all related parties of the Douglas Shire Council.

Reference

Legislation *Local Government Act 2009*
Local Government Regulation 2012

Other

Australian Accounting Standards Board (AASB):
AASB 124 Related Party Disclosures
AASB 10 Consolidated Financial Statements
AASB 11 Joint Arrangements
AASB 128 Investments in Associates and Joint Ventures

Provisions

The following sets out the framework for Council compliance with related party disclosure requirements under legislation and relevant Australian Accounting Standards.

Definitions

An **arm's length transaction** is a transaction in which all parties act freely and independently and have no relationship to each other.

Close Family Members of Key Management Personnel (KMP) are family members who may be expected to influence, or be influenced by, that person in their dealings with Council.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Ordinary Citizen Transactions (OCTs) are transactions that an ordinary citizen would undertake with Council, that do not need to be captured and reported for disclosure.

Joint control is the contractually agreed sharing of control over an economic activity.

Key Management Personnel (KMP) are persons having authority and responsibility for planning, directing and controlling the activities of the Council, directly or indirectly.

A **related party** is a person or entity that is related to Council. The following persons are considered related parties of Council:

- a) a member of the KMP and close family members of the KMP
- b) entities controlled or jointly controlled by a member of the KMP or their close family members

- c) any person who has significant influence over the reporting entity.

A **related party transaction** is a transfer of resources, services or obligation between the entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Principles

1. Legislative requirement

Under the provisions of the Act and Regulation Council must produce annual financial statements that comply with Australian Accounting Standards. From 1 July 2016, the Australian Accounting Standards Board has determined that AASB 124 will apply to government entities, including local governments.

2. Identifying related parties

Related parties include government-related entities, key management personnel (KMP), their close family members and any entities that they control or jointly control. In accordance with paragraph 14 of AASB 124, to enable users of financial statements to form a view about the effects of related party relationships on an entity it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties. Any transactions with these parties, whether monetary or not, need to be identified for inclusion in Council's annual financial statements.

3. Government Related Entities

In accordance with AASB 10, AASB11 and AASB 128, Council will need to determine if there are any entities that are controlled by Council, jointly controlled by Council or over which Council has significant influence. Any transactions with these parties, whether monetary or not, need to be identified for inclusion in Council's annual financial statements.

Under paragraph 25 of AASB 124 Council is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with government entities that have control, joint control or significant influence over Council.

4. Key Management Personnel (KMP)

Council has determined in accordance with AASB 124, that the following positions meet the definition of KMP:

- a) Minister for Infrastructure, Local Government and Planning
- b) Mayor
- c) Councillors
- d) Chief Executive Officer (CEO)
- e) Executive Managers and Managers reporting directly to the CEO
- f) Any person acting in one of the above roles for a period of over one month

KMP (excluding the Minister for Infrastructure, Local Government and Planning) are to provide an annual declaration identifying:

- a) their close family members; and
- b) entities that they control or jointly control; and
- c) entities that their close family members control or jointly control.

Related parties for the Minister for Infrastructure, Local Government and Planning will be determined by the parliamentary Register of Interests.

5. Close Family Members of KMP

The following will be considered as close family members of KMP:

- a) Children and dependents of the Mayor, Councillors and the CEO
- b) Spouse/domestic partner of the Mayor, Councillors and the CEO
- c) Children and dependents of a spouse/domestic partner of the Mayor, Councillors and the CEO
- d) Children and dependents of a senior staff member that is a KMP
- e) Spouse/domestic partner of a senior staff member that is a KMP
- f) Children and dependents of a spouse/domestic partner of a senior staff member that is a KMP
- g) Other Family Members of a KMP that may be expected to influence, or be influenced by, that person in their dealings with Council.

Close family members will be identified in the Related Party Declaration made by a KMP.

6. Entities that are controlled or jointly controlled by KMP or their close family members

Entities include companies, trusts, joint ventures, partnerships and non-profit associations.

7. Review

A review of all related parties (KMP, close family members and related entities) will be conducted annually, or in the event of one or more of the following triggers:

- a) Change of Councillor/s or CEO;
- b) Change in Senior Executive Employees;
- c) Corporate restructure;
- d) Change in family structure of KMP.

8. Identifying ordinary citizen transactions (OCTs)

Council has determined that the following transactions constitute an OCT and are therefore not material for disclosure. All other transactions above Council's external audit materiality limit will be disclosed.

- a) Paying Council fees, rates or charges
- b) Attending Council functions that are open to the public
- c) Payment for goods or services from Council at rates published in Council's Register of Fees and Charges.

In the event that the transaction was to occur on terms and conditions that are different to those offered to the general public, then the transaction may become material.

9. Related Party Register

Related Party Transactions will be collated in a Related Party Register for audit and reporting purposes.

10. Disclosing Related Party Transactions

Council will disclose KMP compensation in accordance with the requirements of paragraph 17 of AASB 124.

In accordance with paragraph 18 of AASB 124 Council is also required to disclose information about transactions that have occurred between Council and its related parties, including transactions between Council and its KMPs, that is necessary for users to understand the potential effect of the relationship on the financial statements.

This policy is to remain in force until otherwise determined by Council.

Manager Responsible for Review:

Chief Financial Officer

ORIGINALLY ADOPTED: 20/09/2016

CURRENT ADOPTION: 22/01/2019

DUE FOR REVISION: 22/01/2022

REVOKED/SUPERSEDED: