

COUNCIL POLICY



| | |
|--------------------|----------------------------------|
| Policy name | Related Party Disclosures |
|--------------------|----------------------------------|

Abstract

This Policy outlines defines the parameters for Related Party Transactions and the level of disclosure and reporting required for Council to achieve compliance with the Accounting Standard AASB 124 – *Related Party Disclosures*.

| | | |
|----------------------------|---|---|
| Dates | Policy or amendment approved Policy or amendment takes effect Policy is due for review (up to 4 years) | 15 Mar 2017 15 Mar 2017 15 Mar 2021 |
| Endorsed by | [Endorsing body and date endorsed] | |
| Approved by | Gunnedah Shire Council at its Ordinary Meeting of Council held 15 Mar 2017. Resolution number: 7.03/17 | |
| Policy Custodian | Executive Manager Business Systems & Governance | |
| Relevant to | All Councillors, Executive Management and Council's Governance and Finance teams and Auditors | |
| Superseded Policies | Nil | |
| Related Documents | Code of Conduct Privacy Management Plan Councillors and Mayor – Payment of Expenses and Provision of Facilities Policy | |
| Related Legislation | Local Government Act 1993 Local Government (General) Regulations 2005 Accounting Standard AASB 124 (July 2015) - Related Party Disclosures Accounting Standards AASB 10, 11 & 128 Privacy and Personal Information Protection Act 1998, Government Information (Public Access) Act 2009. | |

Contents

1. Purpose
2. Scope
3. Definitions
4. Policy Principles
5. Policy Statement
6. Accountability, Roles and Responsibilities
7. Acknowledgements
8. Version Control and Change History
9. Annexure

1. Purpose

The purpose of this Policy is to define the parameters for Related Party Transactions and the level of disclosure and reporting required for Gunnedah Shire Council ("Council") to achieve compliance with the Accounting Standard AASB 124 - *Related Party Disclosures*.

2. Scope

2.1 This Policy applies to employees of Gunnedah Shire Council, particularly those who hold key management positions within the organisation, together with staff in Council's Governance and Finance Departments.

2.2 This Policy is to be applied in:

- (a) Identifying and recording related parties and related party relationships;
- (b) Identifying and recording related party transactions and their terms and conditions;
- (c) Assessing materiality/significance of these transactions;
- (d) Identifying the circumstances in which disclosure of (a) and (b) is required;
- (e) Determining the disclosures to be made about (a) and (b); and
- (f) Disclosing relevant information in the financial statements.

2.3 This Policy is to be read and used in conjunction with all applicable legislation and relevant Accounting Standards.

2.4 A Guidance Document has been developed to assist Council's Key Management Personnel in completing related party disclosure requirements and is attached to this Policy as 'Annexure A'.

3. Definitions

| | |
|--------------------|--|
| AASB 124 | Related Party Disclosures Standard issued by the Australian Accounting Standards Board. |
| Act | Local Government Act 1993 |
| Arm's length terms | Terms between parties that are reasonable in the circumstances of the transaction that would result from: (a) Neither party bearing the other any special duty or obligation; and (b) The parties being unrelated and uninfluenced by the other; and |

| | |
|---|--|
| | Each party having acted in its own interest. |
| Close family members or close members of the family | In relation to a KMP, family members who may be expected to influence, or be influenced by that KMP in their dealings with Council will 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. For the purpose of AASB 124, close family members could include extended members of a family (such as, without limitation, parents, siblings, grandparents, uncles/aunts or cousins) if they could be expected to influence, or be influenced by, the KMP in their dealings with Council |
| Control | The exposure, right or ability to affect variable returns through the exercise of power. |
| Entity | Can include companies, trusts, joint ventures, partnerships, incorporated association or unincorporated group or body and non-profit associations such as sporting clubs. |
| Joint control | 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. |
| Joint venture | An arrangement of which two or more parties have joint control and have right to the net assets of the arrangement. |
| Key Management Personnel (KMP) | Those persons having authority and responsibility for planning, directing and controlling the activities of Council, directly or indirectly, including any director (whether executive or otherwise) of Council. |
| KMP Compensation | Means all forms of consideration paid, payable or provided in exchange of services provided, and may include: <ul style="list-style-type: none"> • 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 (12) 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 • Post-employment benefits – such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care • 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 (12) months after the end of the period, profit sharing, bonuses and deferred compensation • 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 of Council's financial statements. |
| Normal terms and conditions | The standard rules governing transactions between Council and all external bodies. These can be governed by policies, legislation or accepted business practices. |
| Ordinary Citizen Transactions | Transactions that an ordinary citizen would undertake with Council, which is undertaken on arm's length terms and in the |

| | |
|---------------------------|--|
| | <p>ordinary course of carrying out Council's functions and activities. Examples of ordinary citizen transactions assessed not to be material in nature are:</p> <p>(a) paying rates and utility charges;</p> <p>(b) using Council's public facilities after paying the corresponding fees.</p> |
| Regulations | Local Government (General) Regulation 2005 |
| Related entity | A subsidiary, associate or joint venture or any other entity that is controlled or jointly controlled by related persons. |
| Related party | <p>A person or entity that is related to the entity that is preparing its financial statements ('reporting entity').</p> <p>(a) A <u>person or a close member of that person's family</u> is related to a reporting entity if that person:</p> <ul style="list-style-type: none"> • has control or joint control over the reporting entity • has significant influence over the reporting entity • is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. <p>(b) An <u>entity</u> is related to a reporting entity if any of the following conditions apply:</p> <ul style="list-style-type: none"> • 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 a 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 <i>close or possibly close member of the family of a person</i> with significant influence over Council or a <i>close or possibly close member of the family of a person</i> who is a KMP of Council. |
| Related party transaction | <p>A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. Examples of related party transactions are:</p> <ul style="list-style-type: none"> • purchases or sales of goods • purchases or sales of property and other assets • rendering or receiving of services • leases • transfers under licence agreements • transfers under finance agreement (eg loans) • provision of guarantees (given or received) • commitments to do something if a particular event occurs or does not occur in the future • settlement of liabilities on behalf of Council or by Council on behalf of that related party. |
| Significant influence | The power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. |

4. Policy Principles

- 4.1 Council is committed to responsible corporate governance, including compliance with laws and regulations governing related party transactions.
- 4.2 Related party relationships are a normal feature of commerce and business but have the potential to have an effect on the profit or loss and financial position of Council.

For this reason, knowledge of Council's transactions, outstanding balances, including commitments and relationships with related parties may affect assessments of its operations by users of financial statements, including in the assessment of the risks and opportunities facing Council.

- 4.3 This Policy aims to ensure that:
 - (a) the existence of certain related party relationships, related party transactions and information about the transactions necessary for users to understand the potential effects on the Council's financial statements are properly identified, recorded in Council's systems and disclosed in Council's General Purpose Financial Statements in compliance with AASB 124, the *Privacy and Personal Information Protection Act 1998* and the *Government Information (Public Access) Act 2009*; and
 - (b) the approach taken by Council in its collection of such data is sensible, efficient and practical in order to meet the objectives of AASB 124 and achieve transparency in dealings with related parties and their effect on Council's financial reports but without incurring unnecessary costs in collecting data that is immaterial for disclosure.
- 4.4 This Policy is to be used as a guide for Council staff implementing the Related Parties Disclosure Standard and will assist Council in mitigating the risk of non-compliance.

5. Policy Statement

5.1 Background

- 5.1.1 Per Section 413(3) of the Local Government Act 1993, Council's financial reports must be prepared in accordance with the Act and regulations and the requirements of:
 - (a) The publications issued by the Australian Accounting Standards Board, as in force for the time being, subject to the regulations; and
 - (b) Such other standards as may be prescribed by the regulations.
- 5.1.2 The Australian Accounting Standards Board has determined that from 1 July 2016, the Accounting Standard AASB 124 - *Related Party Disclosures* will apply to government entities, including local governments.
- 5.1.3 Hence, for 30 June 2017 financial statements onwards, Council must disclose related party relationships, transactions and outstanding

balances, including commitments. This information will be audited as part of the annual external audit.

5.2 Council's Related Parties

A person or entity that is related to Council is defined in Section 3 of this Policy pursuant to AASB 124, Paragraph 9.

The purposes of this Policy, related parties of Council are:

- (a) Entities related to Council;
- (b) KMP of Council;
- (c) Close family members of KMP;
- (d) Entities that are controlled or jointly controlled by KMP or their close family members.

5.3 Identification of entities related to the Council

Council will ensure that entities related to the Council are correctly identified through the following means:

- (a) Any Council subsidiaries, associates and/or joint ventures from the Related Entities Register, a document prepared to substantiate Note 19 of the Financial Statements "Interests in Other Entities";
- (b) Whether Council has control or joint control of any entities, by applying the Australian Accounting Standards AASB 10 – Consolidated Financial Statements and AASB 11 – Joint Arrangements.
- (c) Whether an entity is an associate of, or in a joint venture with, Council or a Council subsidiary, by applying AASB 128 – Investments in Associates and Joint Ventures.

5.4 Identification of KMP of Council

A KMP of Council is defined in Section 3 of this Policy pursuant to AASB 124, Paragraph 9.

Council's KMP are considered to include:

- The Mayor
- Councillors
- General Manager
- Members of Council's Executive Management Team

and extends to staff members acting in any of these roles.

5.5 Identification of close family members of KMP (and possible close family members) and their associated entities

Identification of these related parties will primarily be by KMP self-assessment. See Section 5.7 to this Policy.

The information gathered through the self-assessment process will then be reviewed and used as a baseline for further investigation.

5.6 Identification of Related Party Transactions with Council's related entities

Identification of related party transactions with Council's related entities will be achieved through electronic investigations within Council's business systems to identify whether any of Council's identified related entities have existing related party transactions with Council, as well as through manual investigation of any transactional documentation not captured by Council's business systems.

5.7 Identification of Related Party Transactions with KMPs and their close family members and associated entities

5.7.1 Council's KMP will periodically be requested to complete a Related Party Disclosure Form (Annexure B), which asks KMP to disclose their close family members along with entities that are controlled, jointly controlled or significantly influenced by either them or their close family members. The Form also requires a KMP to give notification of any existing or potential related party transactions between Council and either themselves, their close family members or entities controlled or jointly controlled by them or any of their close family members (subject to Section 5.8).

5.7.2 The said Form is to be completed and lodged with Council's Governance Department, by no later than the following periods during a financial year:

- (a) 30 days after the commencement of the application of this Policy;
- (b) 30 days after a KMP commences their term or employment with Council;
- (c) 30 November each year; and
- (d) 30 June each year.

5.7.3 Additional notification is also required during the financial year, if a KMP knows of:

- (a) Any new or potential related party transaction that is required or likely to be required to be disclosed in Council's Financial Statements; or
- (b) Any change to a previously notified related party transaction (including a change to a related party relationship).

In these instances, KMP are required to provide such additional notifications to Council's Governance Department, by no later than 30 days after the KMP becomes aware of the transaction or change.

5.7.4 A Guidance Document (Annexure A) has been developed and will be made available to all of Council's KMP to assist them in making their disclosures.

5.7.5 If a KMP has any uncertainty as to whether a transaction may constitute a related party transaction, the KMP should contact Council's Executive Manager Business Systems and Governance for clarification.

5.8 Exclusions

The notification requirements in Section 5.7 do not apply to:

- (a) Related party transactions that are ordinary citizen transactions not assessed as being material as determined under Section 5.9; and
- (b) Expenses incurred by, and facilities provided to, the Mayor and Councillors during the financial year under Council's *Councillors and Mayor – Payment of Expenses and Provision of Facilities Policy*, the particulars of which are contained in Council's Annual Report pursuant to the Clause 217 of the *Local Government (General) Regulation 2005*.

5.9 Ordinary Citizen Transactions

Ordinary Citizen Transactions ("OCT") are transactions with related parties of Council which are of a nature that any ordinary citizen would undertake. These will not be captured and reported. If an OCT occurs on terms and conditions that are different to those offered to the general public, however, then the transaction will be captured and if required, reported in the financial statements.

Refer to Annexure A – Guidance Document for further clarification on OCTs.

5.10 Investigation, capture and recording of information

Information specified in Section 5.13.2 against each notified related party transaction is to be identified and extracted from Council's business system(s) for the purpose of recording the related party transactions and associated information in a Register of Related Party Transactions (see Section 5.11).

For notified related party transactions that are not captured by Council's business system(s), transactional documentation is to be manually reviewed and the information specified in Section 5.13.2 for the subject transaction, recorded in the Register of Related Party Transactions.

To ensure all related party transactions are captured and recorded, a review of other sources of information held by Council, including but not limited to the following may be performed if required:

- (a) A register of interests of a KMP and of persons related to the KMP;
- (b) Minutes of Council and Committee meetings; and
- (c) Council's Contracts Register.

5.11 Register of Related Party Transactions

Council will create and maintain a centralised Register of Related Party Transactions that captures and records the information specified in Section 5.13.2 for each existing or potential related party transaction (including ordinary citizen transactions assessed as being material in nature) during a financial year.

The Register is to retain the following details for each related party transaction:

- (a) The description of the related party transaction;
- (b) The name of the related party;
- (c) The nature of the related party's relationship with Council;
- (d) Whether the notified related party transaction is existing or potential;
- (e) A description of the transactional documents the subject of the related party transaction;
- (f) The information specified in Section 5.13.2.

5.12 Assessment of materiality of the captured Related Party Transactions

Prior preparing the disclosure in Council's Financial Statements, the information recorded within the Register of Related Party Transactions will be assessed for materiality giving consideration to the factors outlined in Section 5.13.3, as transactions that are not considered material do not need to be disclosed. Judgment is required as to when transactions are material, especially when qualitative assessments are made about the nature of transactions. When considering whether a related party transaction is material, the financial amount of the transaction will not be the sole determining factor, but rather, whether the user of the financial statements would be impacted by the information in making decisions.

5.13 Disclosure in Council's Annual Financial Statements

5.13.1 AASB 124 Disclosure Requirements

In order to comply with AASB 124, for annual periods beginning on or after 1 July 2016, Council will make the following disclosures in its General Purpose Financial Statements:

- (a) Relationships between Council and its subsidiaries, irrespective of whether there have been transactions between them ;
- (b) Key Management Personnel (KMP) compensation in total for each of the following categories:
 - (i) Short-term benefits;
 - (ii) Post-employment benefits;
 - (iii) Other long term benefits; and
 - (iv) Termination benefits.
- (c) Amounts incurred by Council for the provision of KMP services that are provided by a separate management entity;
- (d) The information specified in Section 5.13.2 for related party transactions with the following related parties, during the periods covered by the Financial Statement:
 - (i) Council subsidiaries;
 - (ii) Entities who are associates of Council or of a Council subsidiary;
 - (iii) Joint ventures in which Council or a Council subsidiary is a joint venture;
 - (iv) Council's KMP;
 - (v) Other related parties, including:
 - A close family member of a KMP of Council;
 - Entities controlled or jointly controlled by a KMP of Council; and

- Entities controlled or jointly controlled by a close family member of a KMP of Council.

5.13.2 Disclosed Information

For each category of related party transactions specified in 5.13.1(d), Council will disclose the following information in Council's General Purpose Financial Statements:

- (a) The nature of the related party relationship;
- (b) The amount of the transactions;
- (c) The amount of outstanding balances, including commitments, and:
 - (i) Their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement; and
 - (ii) Details of any guarantees given or received;
- (d) Provisions for doubtful debts related to the amount of the outstanding balances; and
- (e) The expense recognised during the period in respect of bad or doubtful debts due from related parties.

5.13.3 Disclosed in Aggregate or Separate

For each related party category specified in Section 5.13.1(d), Council will disclose information specified in Section 5.13.2 for related party transactions of a similar nature in aggregate or general description, except where separate disclosure is necessary for an understanding of the effects of related party transactions on the Financial Statements of Council, having regard to the following criteria:

- (a) The nature of the related party relationship;
- (b) The significance of the transaction (individually or collectively) in terms of size or value (including where the materiality arises due to the fact that no consideration for the transaction is given or received by Council);
- (c) Whether the transaction is carried out on non-arm's length terms;
- (d) Whether the nature of the transaction is outside normal day-to-day business operations,

based on the factors and thresholds under the direction of the Responsible Accounting Officer in consultation with Council's external auditor.

5.14 Information Privacy and Freedom of Information

Collection and storage of personal information is governed by Council's Privacy Management Plan, the Personal Information Protection Act 1988 and the Government Information Public Access Act 2009. Information provided by Council's KMP and other related parties shall be held for the purpose of compliance with Council's legal obligations and shall be disclosed where required for compliance or legal reasons only.

5.14.1 Confidential

The following information is classified as confidential and is not available for inspection by or disclosure to the public, including through a GIPAA application:

- (a) Information (including personal information) provided by a KMP in related party disclosure; and
- (b) Personal information contained in a Register of Related Party Transactions.

A GIPAA application seeking to access any such document/information will be refused on the grounds that the document or information comprises information for which there is an overriding public interest against disclosure pursuant to Section 14 of the GIPAA.

A GIPAA application seeking access to and release of transactional information and documentation the subject of a related party transaction with Council will be considered, assessed and decided in accordance with Council's usual procedure regarding applications made under GIPAA.

5.14.2 When consent is required

Except as specified in this Policy, Council and other permitted recipients will not use or disclose personal information provided in a related party disclosure by a KMP or contained in a Register of Related Party Transactions for any other purpose or to any other person except with the prior written consent of the subject KMP.

5.14.3 Permitted Recipients

The following persons are permitted to access, use and disclose the information (including personal information) provided in a related party disclosure or contained in a Register of Related Party Transactions for the purposes specified in Section 5.14.4 below:

- (a) General Manager
- (b) The Responsible Accounting Officer
- (c) Executive Manager Business Systems & Governance
- (d) Financial Accountant
- (e) Members of Council's Governance and Finance Departments
- (f) Internal/External Auditors of Council (and their agents)
- (g) Other officers as delegated by the General Manager.

5.14.4 Permitted Purposes

A person specified in Section 5.14.3 above, may access, use and disclose information (including personal information) in a related party disclosure or contained in a Register of Related Party Transactions for the following purposes:

- (a) To assess and verify a related party transaction;
- (b) To reconcile identified related party transactions against those notified in a related party disclosure or contained in a Register of Related Party Transactions;
- (c) To comply with the disclosure requirements of AASB 124;

- (d) To verify compliance with the disclosure requirements of AASB 124.

An individual may access their own personal information provided by a KMP in a related party disclosure or contained in a Register of Related Party Transactions in accordance with Council's Privacy Management Plan.

5.15 Compliance

Councillors and other relevant Council staff are expected to read this Policy carefully so as to ensure that they are well aware of their responsibilities and the actions required of them under this Policy.

Non-compliance with this Policy may result in disciplinary action being taken.

5.16 Training and Communication

This Policy will be provided to KMP in the initial awareness raising and data collection and will also form part of Council's Councillor Induction Program. It will also be regularly communicated to KMP prior to each notification interval falling due.

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

6. Accountability, Roles and Responsibilities

6.1 Policy Custodian

Council's Executive Manager, Business Systems & Governance is Custodian of this Policy.

6.2 Roles and Responsibilities

6.2.1 General Manager

It is the responsibility of the General Manager to ensure that Council complies with the requirements of AASB 124.

6.2.2 Responsible Accounting Officer and Financial Accountant

Council's Responsible Accounting Officer, in conjunction with Council's Financial Accountant, is responsible for:

- (a) Identifying Council's related entities per the methods outlined in Section 5.3;
- (b) Investigating, through Council's business system(s) whether any identified related entities have an existing related party transaction with Council;
- (c) Identifying and extracting information specified in Section 5.13.2 against each existing related party transaction in Council's business system(s) for the purpose of recording the related party transactions and associated information in a Register of Related Party Transactions;
- (d) For manually reviewing transactional documentation for related party transactions not captured in Council's business systems, and recording the information specified in Section 5.13.2 for the subject transaction in the Register of Related Party Transactions.

- (e) Managing Council's Register of Related Party Transactions; and
- (f) Ensuring that the information specified in Sections 5.13.1 and 5.13.2 is disclosed in Council's Financial Statements to the extent, and in the manner stipulated by AASB 124, subject to Section 5.13.3.

6.2.3 Key Management Personnel

Responsibilities include:

- (a) Completing and lodging Related Party Disclosure by KMP Forms within the timeframes stipulated in Section 5.7.2.
- (b) KMP have an ongoing responsibility to advise Council within 30 days of awareness of any additional transactions/changes per Section 5.7.3.

6.2.4 Nominated members of Council's Governance and Finance Departments

Responsibilities include:

- (a) The timely distribution and collection of Related Party Disclosure by KMP Forms.
- (b) Providing guidance and clarification to Council staff and Councillors in relation to transactions that need to be disclosed.

7. Acknowledgements

The following acknowledgements are made recognising organisations or documents that have provided a basis, instructive comment or templates that have been used to develop this Policy:

- (a) Lismore City Council's Related Party Disclosure Policy;
- (b) Clarence Valley Council's Related Party Disclosures Policy;
- (c) Wollongong City Council's Related Party Disclosure Policy;
- (d) McKinlay Shire Council Related Party Disclosures Policy;
- (e) Tablelands Regional Council Related Party Disclosures Policy;
- (f) Webinar 'Understanding and implementing AASB 124 Related Party Transactions' issued by NSW Office of Local Government.
- (g) Local Government Bulletin 'Disclosure of related party transactions' issued by Department of Infrastructure, Local Government and Planning, QLD;
- (h) Publication 'KMP Related Party Transactions' issued by Audit Office of NSW 16.12.16; and
- (i) AASB 124 – Related Party Disclosures.

8. Version Control and Change History

| Date | Version | Approved by | and | Amendment |
|----------|---------|---------------|-----|-----------|
| | | Resolution No | | |
| Feb 2017 | 1.0 | | | |
| | | | | |
| | | | | |

9. Annexures

Annexure A – Guidance Document on Related Party Disclosures.

Annexure B – Related Party Disclosure by Key Management Personnel Form.