

LATE ITEM 15.3 Related Party Disclosure Policy

File Reference: ADM487
Location: Shire of Pingelly
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Date: 11 August 2017
Disclosure of Interest: Nil
Attachments: Draft Related Party Disclosure Policy and Declaration Forms

Summary:

To present to Council the new Draft Related Party Disclosure Policy for consideration of adoption.

Background:

AASB 124 was issued by Australian Accounting Standards Board (AASB) in March 2015 and extends the Scope of AASB 124 to include application to not-for-profit entities (including Local Government).

Operative Date for Local Government is from 1 July 2016 (effectively to be reported for the year ended 30 June 2017).

The objective of the standard is to ensure that an entity's financial statements contain 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 transactions.

The disclosure requirements apply to the existence of relationships regardless of whether a transaction has occurred or not. For each financial year, the Shire must make an informed judgement as to who is considered to be a related party and what transactions need to be considered, when determining if disclosure is required.

AASB 124.2

This standard is applied in:

- Identifying related party transactions and relationships;
- Identifying outstanding balances including commitments between an entity and its related parties;
- Identifying circumstances in which disclosure of the above items are required;
- Determining the disclosures to be made about those items.

Purpose of Related Party Disclosures

AASB 124.5 to 124.8

Knowledge of related party transactions, outstanding balances and relationships is important to understanding and assessing an entity's operations.

Definitions

AASB 124.9 to 124.12

Definitions include related party, compensation, control, key management personnel, director and remuneration as well as some explanations and clarifications.

Key Definitions

Related Party Transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Related Party:

A person or entity that is related to the local government that is preparing its financial statements.

A person or a close member of that person's family is related if that person:

- i. (not applicable to local government);
- ii. Has significant influence over the reporting entity; or
- iii. Is a member of the key management personnel of the reporting entity?

An entity is related if any of the following conditions applies:

- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others) - may be applicable; or
- ii. A person as identified above has significant influence ... or is a member of the key management personnel of the entity.

There are several relating to joint ventures and, in some circumstances, these may need to be considered.

Close members of the family of a person

Family members who may be expected to influence, or be influenced by, that person... and include:

- a) Children and spouse or domestic partner;
- b) Children of that person's spouse or domestic partner; and
- c) Dependents of both in a) and b).

Key Management Personnel

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.

NB: In the case of local government will include all Councillor's and Senior Staff.

Key Management Personnel (continued)

Senior Staff would include the CEO, deputy CEO and any staff member at a Director or Executive Manager Level. In the case of rural/regional local governments, there may also be the need to include the works supervisor, health inspector, planning officer where they have direct responsibility for an operational area of local government.

Substance Over Form

AASB 124.10

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Comparatives

Transitional requirements discussed in the Basis for Conclusions at AASB 2015-6 BC32:

- The AASB decided not to require comparative related party disclosures to be presented in the period of initial application.
- Will mean you need to understand and start collecting from 1 July 2016 so year ended 30 June 2017 disclosure easier to find / support.

Disclosure

AASB 124.13 to 124.27

Includes:

- Relationships between parents and subsidiaries of the entity, regardless of whether there have been any transactions between the related parties (may be applicable to local government under new Regional Subsidiaries legislation);
- Information about key management personnel compensation in total and for certain categories;

AASB 124.13 to 124.27 (continued)

- Certain information about transactions between related parties and any outstanding balances at reporting date for each type of related party; and
- Information about related entities.

Key Disclosure Requirements

AASB 124.17

A local government shall disclose key management personnel compensation in total and for each of the following categories:

- a) Short-term employee benefits
- b) Port-employment benefits
- c) Other long-term benefits
- d) Termination benefits
- e) Share-based payment

AASB 124.18

If the local government has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances.

Describes minimum disclosure inclusions.

Comment:

In accordance with the Department of Local Government's Guideline this policy is presented to Council for consideration of adoption.

Consultation:

Council, Shire President - Cr Lange,
Chief Executive Officer Gavin Pollock and
Director Technical Services – Barry Gibbs

Statutory Environment:

Nil

Policy Implications:

Yes - New Draft Policy "Related Party Disclosure"

Financial Implications:

Nil

Strategic Implications:

Nil

Voting Requirements:

Simple

Recommendation:

That Council adopts the Related Party Disclosure Policy as presented.

Moved: _____ Seconded: _____



AASB 124- "RELATED PARTY DISCLOSURES"

COUNCIL POLICY

PROCEDURE FOR RELATED PARTY DISCLOSURES

The scope of AASB 124 *Related Party Disclosures* was extended in July 2015 to include application by not-for-profit entities, including local governments. The operative date for Local Government is 1 July 2016, with the first disclosures to be made in the Financial Statements for year ended 30 June 2017. This procedure outlines required mechanisms to meet the disclosure requirements of AASB 124.

BACKGROUND

The objective of the standard is to ensure that an entity's financial statements contain 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 transactions.

The disclosure requirements apply to the existence of relationships regardless of whether a transaction has occurred or not. For each financial year, the Shire must make an informed judgement as to who is considered to be a related party and what transactions need to be considered, when determining if disclosure is required.

The purpose of this procedure is to stipulate the information to be requested from related parties to enable an informed judgement to be made.

1. Identification of Related Parties

AASB 124 provides that the Shire will be required to disclose in its Annual Financial reports, related party relationships, transactions and outstanding balances.

Related parties includes a person who has significant influence over the reporting entity, a member of the key management personnel (KMP) of the entity, or a close family member of that person who may be expected to influence that person.

KMP are defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

For the purposes of determining the application of the standard, the Shire has identified the following persons as meeting the definition of *Related Party*:

- An elected Council member
- Key management personnel being a person employed under section 5.36 of the Local Government Act 1995 in the capacity of Chief Executive Officer or Director
- Close members of the family of any person listed above, including that person's child, spouse or domestic partner, children of a spouse or domestic partner, dependents of that person or person's spouse or domestic partner.
- Entities that are controlled or jointly controlled by a Council member, KMP or their close family members. (Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs).

The Shire will therefore be required to assess all transactions made with these persons or entities.

2. Identification of related party transactions

A related party transaction is a transfer of resources, services or obligations between the Shire (reporting entity) and the related party, regardless of whether a price is charged.

For the purposes of determining whether a related party transaction has occurred, the following transactions or provision of services have been identified as meeting this criteria:

- Paying rates
- Fines
- Use of Shire owned facilities such as Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)
- Attending council functions that are open to the public
- Employee compensation whether it is for KMP or close family members of KMP
- Application fees paid to the Shire for licenses, approvals or permits
- Lease agreements for housing rental (whether for a Shire owned property or property sub-leased by the Shire through a Real Estate Agent)
- Lease agreements for commercial properties
- Monetary and non-monetary transactions between the Shire and any business or associated entity owned or controlled by the related party (including family) in exchange for goods and/or services provided by/to the Shire (trading arrangement)
- Sale or purchase of any property owned by the Shire, to a person identified above.
- Sale or purchase of any property owned by a person identified above, to the Shire
- Loan Arrangements
- Contracts and agreements for construction, consultancy or services

Some of the transactions listed above, occur on terms and conditions no different to those applying to the general public and have been provided in the course of delivering public service objectives. These transactions are those that an ordinary citizen would undertake with council and are referred to as an Ordinary Citizen Transaction (OCT). Where the Shire can determine that an OCT was provided at arm's length, and in similar terms and conditions to other members of the public and that the nature of the transaction is immaterial, no disclosure in the annual financial report will be required.

3. Disclosure Requirements

For the purposes of determining relevant transactions in point 2 above, elected Council members and key management personnel as identified above, will be required to complete a *Related Party Disclosures - Declaration* form for submission to financial services.

Ordinary Citizen Transactions (OCTs)

Management will put forward a draft resolution to Council annually, declaring that in its opinion, based on the facts and circumstances, the following OCT that are provided on terms and conditions no different to those applying to the general public and which have been provided in the course of delivering public service objectives, are unlikely to influence the decisions that users of the Council's financial statements make. As such no disclosure in the quarterly *Related Party Disclosures - Declaration* form will be required.

- Paying rates
- Fines
- Use of Shire owned facilities such as Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)
- Attending council functions that are open to the public

Where these services were not provided at arm's length and under the same terms and conditions applying to the general public, elected Council members and KMP will be required to make a declaration in the *Related Party Disclosures - Declaration* form about the nature of any discount or special terms received.

All other transactions

For all other transactions listed in point 2 above, elected Council members and KMP will be required to make a declaration in the *Related Party Disclosures - Declaration* form.

Frequency of disclosures

Elected Council members and KMP will be required to complete a *Related Party Disclosures - Declaration* form every 6 months i.e. 30 June and 31 December every year.

Disclosures must be made by all Councillors immediately prior to any ordinary or extraordinary election. Disclosures must be made immediately prior to the termination of employment of/by a KMP.

Confidentiality

All information contained in a disclosure return, will be treated in confidence. Generally, related party disclosures in the annual financial reports are reported in aggregate and as such, individuals are not specifically identified. Notwithstanding, management is required to exercise judgement in determining the level of detail to be disclosed based on the nature of a transaction or collective transactions and materiality. Individuals may be specifically identified, if the disclosure requirements of AASB 124 so demands.

4. Materiality

Management will apply professional judgement to assess the materiality of transactions disclosed by related parties and their subsequent inclusion in the financial statements. In assessing materiality, management will consider both the size and nature of the transaction, individually and collectively.

Associated Regulatory Framework

AASB 124 Related Party Disclosures Local Government Act 1995

Local Government (Financial Management) Regulations 1996

Associated Policies

Related Party Disclosures - Declaration forms (see attached)

Review Responsibility: *Director Corporate and Community Services*

Date Adopted: 16 August 2017

Review Required: As Required

Review Undertaken: N/A

Approved / Not Approved

Chief Executive Officer

Date



SHIRE OF PINGELLY

AASB 124 – “RELATED PARTY DISCLOSURES”

**2. ENTITIES THAT I, OR A CLOSE FAMILY MEMBER CONTROLS OR JOINTLY CONTROLS
(See Appendix 2)**

Name of Entity	Name of person who has control/nature of control
<i>If there has been no change since your last declaration, please complete “No Change”</i>	



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AASB 124 – “RELATED PARTY DISCLOSURES”

3. ORDINARY CITIZEN TRANSACTIONS – NOT PROVIDED AT ARMS LENGTH

Did you or any member of your close family use facilities provided at Recreation Centre, attend any event at the Civic Centre, or use any other council provided facility AND you received a discount or special terms that would not otherwise be offered to any other member of the public?

Name of person using the facility	Service/Facility used	Nature of transaction	Nature of discount or special conditions received.

Note: Recreation Centre membership provided as part of employment has been provided under the same terms as those memberships provided to the public.

4. LEASING AGREEMENTS - DOMESTIC RESIDENTIAL

Did you, a close family member or related entity, enter into a lease agreement with the Shire (either as lessee or lessor) for the provision of a domestic rental property (Includes properties owned by the Shire and privately owned properties sub-leased through the Shire from a real estate agent)? Did you receive or provide a discount or special terms that would not otherwise be offered to any other member of the public?

Name of Person party to the lease	Property Address	Term of Lease & Weekly rent	Detail of any non-arms length conditions



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AASB 124 – “RELATED PARTY DISCLOSURES”

5. LEASING AGREEMENTS - COMMERCIAL

Did you, a close family member or related entity, enter into a commercial leasing agreement with the Shire for the provision of a commercial property? Did you receive a discount or special terms that would not otherwise be offered to any other member of the public?

Name of person party to the lease	Property Address	Term of Lease & Weekly rent	Detail of any non-arms length conditions

6. TRADING ARRANGEMENTS

Were you or a close family member (as defined above) the owner of any business (or in a position to substantially control the business) that provided goods or services to the Shire? Were those goods or services provided on the same terms and conditions as those available to any other customer? If not, please provide details of the specific terms provided to the Shire.

Business name	Goods or services provided	Approximate value for the reporting period	Terms & conditions



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8. PURCHASE OF PROPERTY

Did you, a close family member or related entity, purchase any property or other assets from the Shire? (This may include vehicles or other plant items, land or buildings).

Was the purchase made at arm's length (for e.g. at public auction), and on terms and conditions available to any other member of the public? If not, please provide details of the specific terms provided to you.

Name of person or entity name	Property purchased	Value of the purchase	Terms & conditions

9. SALE OF PROPERTY

Did you, a close family member or related entity, sell any property or other assets to the Shire? (This may include vehicles or other plant items, land or buildings).

Was the sale made at arm's length, and on terms and conditions available to any other member of the public? If not, please provide details of the specific terms provided.

Name of person or entity name	Property Sold	Value of the Sale	Terms & conditions



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AASB 124 – “RELATED PARTY DISCLOSURES”

10. FEES & CHARGES FOR APPLICATIONS

Did you, a close family member or related entity, make an application to Council for a trading, building, planning or development application, licence or approval, or any other type of permit or licence?

Name of person or entity name	Application type	Application and/or receipt number

11. SELF SUPPORTING LOANS

Did you, a close family member or related entity, enter into a loan agreement with the Shire?
For e.g. a club for which you have control (See Appendix 2 for example)

Name of person or entity name	Loan details	Value of the loan	Terms & conditions

12. OTHER AGREEMENTS

Please list any other agreement or arrangement you believe is a related party transaction and should be declared.

Name of person or business/company	Nature of agreement	Value of agreement	Terms & conditions



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AASB 124 – “RELATED PARTY DISCLOSURES”

I declare that all information and details provided in this form are true and correct to the best of my knowledge and belief and that no known relevant information has been omitted.

I have made this declaration after reading the information supplied by Council which details the meaning of the definitions to which this declaration relates.

SELECT OPTION 1: Handwritten Signature

Signed: _____

Date:

_____/_____/_____

Once signed please provide to the Director Corporate & Community Services.

OR

SELECT OPTION 2: Electronic Signature

This form can be sent by email to the Director Corporate & Community Services provided the email is sent by the person making the disclosure from their work or personal (e.g. Councillors) email account.