

(REVIEW)

POLICY NAME: RELATED PARTY DISCLOSURES
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TABLE OF CONTENTS

OBJECTIVE..... 1
POLICY..... 1
BACKGROUND..... 2
DEFINITIONS 3
SCOPE OF POLICY 4
RELATED DOCUMENTATION..... 4
REVIEW 4
Attachment A..... 5
Attachment B..... 6
Attachment C 8

OBJECTIVE

The Related Party Disclosures Policy aims to assist Council in complying with disclosure requirements concerning Key Management Personnel (KMP), their close family members, and entities controlled or jointly controlled by any of them stipulated under the *Australian Accounting Standard AASB 124 Related Party Disclosures*.

POLICY

Related Party Disclosures

In accordance with *AASB 124 Related Party Disclosures* 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 transaction including:
 - a) the amount of the transaction;
 - b) the amount of the outstanding balances, including commitments and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlements and details of any guarantee given or received;
 - c) provision for doubtful debts related to the amount of outstanding balances; and
 - d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Related party transactions are required to be disclosed, regardless of whether a price is charged. Such transactions may include:

- purchase or sale of goods;
- purchase or sale of property and other assets;
- rendering or receiving services;
- leases;
- quotations and/or tenders;
- commitments; and
- settlements of liabilities on behalf of Council or by Council on behalf of the related party.

Identification of Related Parties and Related Party Relationships

Council management shall implement a suitable system to identify related parties. The primary identification method of close family members and associated entities of KMP shall be by (but not limited to) KMP self-assessment.

At 12 month intervals an initial identification or confirmation process will be undertaken and recorded, utilising the Related Party Identification Form set out in Attachment A. KMP have a responsibility to identify and report any changes to their related parties as they occur.

Identification and Recording of Related Party Transactions

Council management shall identify suitable methodology and procedures for identifying and reporting on related party transactions such that accurate data will be collated.

The collation and recording of transactions will be completed at the end of each financial year, or sooner in the case where the elected member leaves office or the employee leaves the employment of Council. This process will be undertaken utilising the Related Party Transactions Notification (RPT) Form, or similar, set out in Attachment B, and Privacy Collection Notice Attachment C.

All identified transactions will be reviewed by the General Manager and Manager Financial Services, to determine materiality or otherwise of such transactions, if the transactions are ordinary citizen transactions, and to determine the significance of each of the transactions.

If any elected member or employee believes a transaction may constitute a related party transaction they must notify the General Manager who will, in consultation with the Manager Financial Services, make a determination on the matter.

Register of Related Party Transactions

The Manager Financial Services, must maintain and keep up to date a register of related parties and transactions that captures and records the information specified above and to ensure that the information is disclosed in Council's financial statements to the extent, and in the manner, stipulated by *AASB 124*.

Privacy

Information provided by 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.

BACKGROUND

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. In some instances, Council may enter into transactions with a related party that unrelated parties would not. For example, goods may be supplied to Council on terms that might not be offered to other customers. Also, transactions between related parties may not be made on the same terms as between unrelated parties.

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 by users of financial statements, including assessments of the risks and opportunities facing the Council.

DEFINITIONS

“AASB 124” – means the Australian Accounting Standards Board, Related Party Disclosures Standard.

“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.

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

“Key management personnel (KMP)” - person(s) having authority and responsibility for planning, directing and controlling the activities of Council. KMP for the Ballina Shire Council are considered to include:

- (a) Councillors (including the Mayor);
- (b) General Manager; and
- (c) ~~Group Managers.~~ **Directors**

This also includes any and all people acting in the above positions during the financial year for a reasonable period of time.

“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 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” – a person or entity is a related party of Council if any of the following apply:

- (a) entities related to Council;
- (b) KMP of Council;
- (c) close family members of KMP;
- (d) possible close family members of KMP’s; and

- (e) entities or persons that are controlled or jointly controlled by KMP, or their close family members, or their possible close family members.

“Related Party Transaction” – is a transfer of resources, services or obligations between Council and a related party, regardless of whether a price is charged.

“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.

SCOPE OF POLICY

This policy shall be applied in:

- (a) identifying related parties and relevant transactions;
- (b) identifying outstanding balances, including commitments, between Council and its related parties;
- (c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- (d) determining the disclosures to be made about those items.

This policy applies to:

- Councillors;
- Council employees; and
- Consultants/Contractors engaged by Council.

RELATED DOCUMENTATION

Related documents, policies and legislation:

- AASB 124 Related Party Disclosures
- AASB 10 Consolidated Financial Statements
- Local Government Act 1993
- Code of Conduct

REVIEW

The **Related Party Disclosures** Policy is to be reviewed every four years or as required in the event of legislation changes.

Notification

I, notify that, to the best of my knowledge, information and belief, as at the date of this notification, the above list includes all related party transactions with Council involving myself, close members of my family, or entities controlled or jointly controlled by me or close members of my family, relevant to the 20../. financial year.

I make this notification after reading the Privacy Collection Notice provided by Ballina Shire Council, which details the meaning of the words “related party”, “related party transaction”, “close members of the family of a person” and, in relation to an entity, “control” or “joint control”, and the purposes for which this information will be used and disclosed.

I permit the General Manager and the Manager Financial Services, to access the register of interests of me and persons related to me and to use the information for the purposes specified in Council’s Related Party Disclosures Policy.

Signature of named Key Management Person: Dated:

Attachment C

BALLINA SHIRE COUNCIL

PRIVACY COLLECTION NOTICE RELATED PARTY TRANSACTION DISCLOSURES BY KEY MANAGEMENT PERSONNEL

Purpose of Collection, Use and Disclosure

Effective for annual periods beginning on or after 1 July 2016, Council must disclose certain related party relationships and related party transactions together with information associated with those transactions in its general purpose financial statements, in order to comply with *Australian Accounting Standard AASB 124 Related Party Disclosures (AASB 124)*.

Related parties include Council's Key Management Personnel (KMP), their close family members, and any entities that they or any of their close family members control or jointly control.

A related party transaction is any transaction (whether a transfer of resources, services or obligations) between the reporting local government and any of the related parties, whether monetary or not.

If there is a related party transaction with Council applicable to a reporting financial year, *AASB 124* requires Council to disclose in the financial statements the nature of the related party relationship and information about the transaction, including outstanding balances and commitments associated with the transaction. In accordance with *AASB 124* an exemption applies to disclosing related party transactions that occurred at arm's length between the KMP and Council as part of Council delivering a public service objective. For example: Access to libraries and swimming pools by KMP. These are not disclosed in the financial statements.

For more information about Council's disclosure requirements under *AASB 124*, please refer to Council's Related Party Disclosures Policy.

Example of related party transactions

- Paying rates
- Use of Council owned facilities such as swimming pools, libraries, parks, sporting fields 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 Council for licences, approvals or permits
- Lease agreements for housing rental (whether for a Council owned property or a property sub-leased by Council)
- Lease agreements for commercial properties
- Monetary and non-monetary transactions between Council 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 Council (trading relationship)
- Sale or purchase of any property owned by Council, to a person identified above
- Sale or purchase of any property owned by a person identified above, to Council
- Loan arrangements
- Contracts and agreements for construction, consultancy, or services

Notifications by Key Management Personnel

In order to comply with *AASB 124*, Council has adopted a policy that requires all members of its KMP to periodically provide notifications to the General Manager of any existing or potential related party transactions between Council and any of their related parties during a financial year, and any changes to previously notified related party relationships and transactions relevant to the subject financial year.

To this end, each KMP must provide a Related Party Transactions Notification, in the approved form, notifying any existing or potential related party transactions between Council and any related parties of the KMP, to the General Manager by no later than the following periods during a financial year:

- 30 days after a KMP commences their term or employment with Council;
- 30 days after 30 June.

Also, during a financial year, a KMP must proactively notify of any new or potential related party transactions that the person knows of, or any changes to previously notified related party relationships or transactions, relevant to the subject financial year by providing to the General Manager, additional Related Party Transaction Notifications by no later than 30 days after the person knows of the transaction or change.

Note, these related party transaction notification requirements are in addition to the notifications KMPs are required to make to comply with:

- for councillors, the material personal interests and conflicts of interest obligations in the *Local Government Act 1993* and the Code of Conduct; and
- for other KMPs, the Code of Conduct; and
- the notification of interests for the register of interests required to be kept under the *Local Government Regulation 2005*.

The NSW Audit Office may audit related party information as part of the annual external audit.

Who are KMPs?

KMPs are persons having authority and responsibility for planning, directing and controlling the activities of Council, directly or indirectly.

For Ballina Shire Council, KMPs include:

- the Mayor
- Councillors
- the General Manager
- ~~Group Managers~~ Directors

This also includes any and all people acting in the above positions during the financial year for a reasonable period of time. The General Manager will make the final assessment as to whether the period and tasks undertaken were of a nature to be considered to have been a KMP.

Who are close family members of a KMP Person?

Close family members, or close members of the family, of a KMP are family members who may be expected to influence, or be influenced by, that person in their dealings with 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.

The definition of close members of the family of a person for the purposes of AASB 124 is broader than the definition of "related" in relation to a person for the purpose of a register of interests under the *Local Government Regulation*. For AASB 124, close family members could include extended members of a family (such as, without limitation, a parent, grandparent, siblings, etc) *if* they could be expected to influence, or be influenced by, the KMP in their dealings with Council.

For a related party transaction, unlike a register of interests, the related party and relationship must be disclosed for both the KMP and their close family member even if the same related party entity is held jointly or in common by them.

The following table may assist you in identifying your close family members:

| Definitely a close family member | Maybe a close family member |
|--|--|
| Your spouse/domestic partner | Your brothers and sisters, if they could be expected to influence, or be influenced by, you in their dealings with Council. |
| Your children | Your aunts, uncles and cousins, if they could be expected to influence, or be influenced by, you in their dealings with Council. |
| Your dependants | Your parents and grandparents, if they could be expected to influence, or be influenced by, you in their dealings with Council. |
| Children of your spouse/domestic partner | Your nieces and nephews, if they could be expected to influence, or be influenced by, you in their dealings with Council. |
| Dependants of your spouse/domestic partner | Any other member of your family if they could be expected to influence, or be influenced by, you in their dealings with Council. |

What is an entity that I, or my close family member, control or jointly control?

Entities include companies, trusts, incorporated and unincorporated associations such as clubs and charities, joint ventures and partnerships.

You control an entity if you have:

- (a) power over the entity;
- (b) exposure, or rights, to variable returns from your involvement with the entity; and
- (c) the ability to use your power over the entity to affect the amount of your returns.

Example of control

Mary is the Mayor of Seahorse Shire Council and owns 100% of the ordinary shares in Seahorse Development Company Pty Ltd (the company). The ordinary shares are the only shares in the company that have voting rights.

Mary controls the company because she has the power to affect the company's decisions and the return that she will get from the company.

Mary will need to include the company on her related party transaction notification.

Joint control

To jointly control an entity there must be contractually agreed sharing of control of the entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Example of joint control

Mary is the Mayor of Seahorse Shire Council and owns 50% of the ordinary shares in Seahorse Development Company Pty Ltd (the company). Mary's brother, Bob owns the other 50% of the ordinary shares. Mary and Bob are the only directors of the company and have equal voting rights on the board.

Mary and Bob have joint control of the company because any decisions require the unanimous consent of them both.

Mary will need to include the company on her related party transaction notification and the entity's related party relationship with Mary and Bob.

In some cases it will be obvious that you or a family member control or have joint control over an entity. In other cases it will be less clear.

If you are unsure whether you, or a close family member, has control or joint control of an entity then you should contact the General Manager for a confidential discussion.