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# Related Party Disclosure Policy

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**CONTROL:**

Policy Type:	Financial
Authorised by:	Council
Head of Power:	Local Government Regulation 2012 AASB 124 'Related Party Disclosures'
Responsible Officer:	Chief Executive Officer
Adopted / Approved:	July 19 2021, Minute No. 2021.07.19-OM-10
Last Reviewed:	July 2021
Review:	May 2022
Version	6

## 1. INTRODUCTION

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**1.1 PURPOSE:**

The purpose of this Policy is to provide guidance to Councillors and Key Management Personnel (KMP) to ensure Council's compliance with AASB 124 'Related Party Disclosures'

**1.2 POLICY OBJECTIVES:**

The AASB provides that the objective of AASB 124 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

**1.3 COMMENCEMENT OF POLICY:**

This Policy will commence on adoption.

**1.4 SCOPE:**

This Policy will provide for a systematic approach to discern related parties, for approved related party transactions and for proper identification, recording and reporting of such transactions.

This Policy will be applied in:

- Identifying Key Management Personnel (KMP);
- Keeping a register of existing declarations;
- Identifying related party relationships and transactions;
- Identifying outstanding balances, including commitments, between Council and its related parties;
- Identifying the circumstances in which disclosure is required; and
- Determining the specific disclosures to be made.

## 2. POLICY

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### 2.1 CONTEXT:

Pursuant to section 177 of the *Local Government Regulation 2012*, a local government's general purpose financial statements must be prepared in compliance with the following documents (each a prescribed accounting standard) published by the Australian Accounting Standards Board (**AASB**):

1. Australian Accounting Standards;
2. Statements of Accounting Concepts;
3. Interpretations; and
4. Framework for the preparation and presentation of financial statements.

The AASB has confirmed that the requirements of AASB 124 'Related Party Disclosures' will apply to local government annual reporting periods beginning 1 July 2016.

The AASB provides that the objective of AASB 124 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

### 2.2 POLICY STATEMENT:

Council will meet its disclosure obligations as provided for in AASB 124 Related Party Disclosures.

Council will follow a procedure to manage its related party disclosure obligations which will include:

- Identifying KMP;
- Identifying related party relationships;
- Identifying ordinary citizen transactions (OCTs);
- Identifying and recording transactions, outstanding balances, including commitments, between Council and its related parties;
- Identifying the circumstances in which disclosure is required; and
- Making the disclosures.

## 3. STANDARDS AND PROCEDURES

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### 3.1 IDENTIFYING KMP

KMP are defined in AASB 124 as 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.

For the purposes of disclosure requirements, the following persons are considered to be Key Management Personnel (KMP).

- Councillors (including the Mayor)
- Chief Executive Officer
- Deputy Chief Executive Officer
- Infrastructure Manager
- Community Sustainability Manager
- Governance and Environment Manager

For the purposes of disclosure requirements, there are no entities related to Council.

### 3.2 IDENTIFYING RELATED PARTY RELATIONSHIPS

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

- (i) Has control or joint control of Council;
- (ii) Has significant influence over Council; or
- (iii) Is a member of the **KMP** of Council.

A close member of the family of a person, are those family members who may be expected to influence, or be influenced by, that relevant person in their dealings with Council and include:

- (i) That person's children and spouse or domestic partner;
- (ii) Children of that person's spouse or domestic partner; and
- (iii) Dependants of that person or that person's spouse or domestic partner.

#### Practical Examples of Related Persons

Below are some practical examples of possible related persons to Council:

- The children of a member of Council's KMP.
- The spouse or domestic partner of a member of Council's KMP.
- The children of a spouse or domestic partner of a member of Council's KMP

### 3.3 IDENTIFYING ORDINARY CITIZEN TRANSACTIONS

There are some transactions with related parties that do not need to be captured and reported. These transactions are those that an ordinary citizen would undertake with council (OCTs).

For example, if a Councillor were to walk their dog in a council owned park that would be a related party transaction. However, it is unlikely that users of the financial statements would be interested in this transaction. It is a taxpayer/government entity transaction that may be undertaken by any ordinary citizen.

OCTs are or may not be deemed material because of their nature, and therefore Council may wish to identify them upfront and exclude them from being recorded as a related party transaction. However, if the OCT were to occur on terms and conditions that are different to those offered to the general public the transaction may become material.

Examples of OCTs

- Using the council's public swimming pool after paying the normal fee
- Parking fees at rates available to the general public
- Attending council functions that are open to the public
- Fines on normal terms and conditions
- Visiting a council art gallery
- Paying rates and utility charges

There will be some transactions that are or will not be classed as an OCTs, regardless of the materiality. These will include:

- Infrastructure charges
- Purchase of goods, regardless of conditions

### 3.4 IDENTIFYING AND RECORDING TRANSACTIONS

Once a KMP's related party declaration has been received, Council's accounting system will be modified to capture all transactions incurred by the related party if possible and feasible. This will be done by amending the related parties' details in the Accounts Payable system to show that they are a related party.

The financial system will be inspected on a regular basis to monitor related party transactions, with the following aims:

- identify transactions passing through council's accounting system
- identify the related party transactions that will require further investigation into the associated terms and conditions.

- assist with reviewing materiality of the related party transactions that have been captured

Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions can only be made if such terms can be substantiated.

All non-exempt transactions involving related parties will be captured and reviewed to determine materiality or otherwise of such transactions, and to determine the significance of such transactions.

A **related party transaction** is a transfer of resources, services or obligations between Council and a **related party**, 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.

### **Practical Examples of Transactions to be disclosed**

Below are some practical examples of transactions, which may be considered to be disclosed:

- A KMP of Council is the Director of a company, which provided services to Council during the relevant period.
- A KMP of Council is a Director of an entity, which Council paid a membership fee to for the relevant period.

### **3.5 IDENTIFYING THE CIRCUMSTANCES IN WHICH A DISCLOSURE IS REQUIRED**

Prior to preparing the disclosure in the council's financial statements all related party transactions should be assessed for materiality. Transactions that are not considered material do not need to be disclosed.

Assessing materiality requires judgement and should be done in consultation with Council's auditors.

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.

### **3.6 MAKING THE DISCLOSURE**

Once Council has identified all related parties and any related party transactions, disclosure in council's annual financial statements via a note must be made in relation to:

- KMP Compensation
- Transactions with other Related Parties
- Outstanding Balances
- Loans and Guarantees to/from Related Parties
- Commitments to/from Related Parties

Council must disclose all **material** and **significant** related party transactions in the annual financial statements and include the following detail:

- (i) The nature of the related party relationship; and
- (ii) Relevant information about the transactions including:
  - a) The amount of the transaction;
  - b) 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 the settlement; and
    - (ii) 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.

### 3.6.1 Disclosure of relationship between Council and its subsidiaries

Council must disclose in the annual financial statements its relationship with any subsidiaries (where applicable), whether or not there have been transactions within the relevant reporting period.

### 3.6.2 KMP Compensation Disclosures

Council must disclose in the annual financial statements **KMP compensation** (as defined in definitions) in total and for each of the following categories:

- Short-term employee benefits;
- Post-employment benefits;
- Other long-term benefits; and
- Termination benefits.

## 3.7 AUTHORITIES AND RESPONSIBILITIES

### 3.7.1 KMP Responsibilities

**KMP** will disclose all related parties in accordance with this guideline and AAS124.

### 3.7.2 Chief Executive Officer

The CEO is responsible for ensuring that systems are established that will identify transactions within Council's finance system for all advised **KMP** and **related parties**; and provide summary reports quarterly.

Annually, the CEO will oversee a review of all related party transactions to determine materiality and significance for the purpose of drafting the required disclosures in Council's annual financial statements.

The CEO will also provide guidance to Council's KMP in terms of this Policy and required disclosures.

The CEO will provide KMP compensation details for inclusion in Council's annual financial statements.

## 4. REFERENCE AND SUPPORTING INFORMATION

### 4.1 DEFINITIONS:

To assist in interpretation, the following definitions shall apply:

Word / Term	Definition
Council	means Diamantina Shire Council.
Close family member	<b>Close family members</b> of a person (see IAS 24 Related Party Disclosures, paragraph 9) are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include: (a) the person's children and spouse or domestic partner; (b) children of the person's spouse or domestic partner; and (c) dependants of the person or the person's spouse or domestic partner
Entity	Entity can include a body corporate, a partnership or a trust, incorporated association, or unincorporated group or body.
Key management personnel (KMP)	<b>Key management personnel (KMP)</b> is defined in the <i>Local Government Regulation 2012</i> to include Councillors, the Chief Executive Officer and Senior Executive Employees. Further defined in AASB 124 – Related Party Disclosures as “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”. For the purpose of this procedure, key management personnel are specified in the related parties disclosure policy.
KMP Compensation	<b>KMP Compensation</b> includes all forms of consideration paid, payable or provided by Council in exchange for services provided, and includes: <ul style="list-style-type: none"> <li>• 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;</li> <li>• Post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;</li> <li>• 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</li> <li>• Termination benefits;</li> </ul>
Material (materiality)	<b>Material (materiality)</b> 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.
Related party	<b>Related party</b> – The IFRS Foundation: Training Material for the IFRS for SME defines a related party as a person or entity that is related to the entity that is preparing its financial statements (the reporting entity). (a) A person or a close member of that person's family is related to a reporting entity if that person: <ul style="list-style-type: none"> <li>(i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;</li> <li>(ii) has control over the reporting entity; or</li> <li>(iii) has joint control or significant influence over the reporting entity or has significant voting power in it.</li> </ul> (b) An entity is related to a reporting entity if any of the following conditions applies:

Word / Term	Definition
	<ul style="list-style-type: none"> <li>(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).</li> <li>(ii) either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member).</li> <li>(iii) both entities are joint ventures of a third entity.</li> <li>(iv) either entity is a joint venture of a third entity and the other entity is an associate of the third entity.</li> <li>(v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.</li> <li>(vi) the entity is controlled or jointly controlled by a person identified in (a).</li> <li>(vii) a person identified in (a)(i) has significant voting power in the entity.</li> <li>(viii) a person identified in (a)(ii) has significant influence over the entity or significant voting power in it.</li> <li>(ix) a person or a close member of that person's family has both significant influence over the entity or significant voting power in it and joint control over the reporting entity.</li> <li>(x) a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.</li> </ul>
Related party transaction	<b>Related party transaction</b> is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.
Significant (significance)	<b>Significant (significance)</b> 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.

#### 4.2 RELATED POLICIES, LEGISLATION AND DOCUMENTS:

Links to supporting documentation
Local Government Act 2009
AASB 124 'Related Party Disclosures'
DSC Form – Related Party Disclosures

#### 4.3 VERSION CONTROL:

Previous Version Number	Adopted/Approved Date
Version 1 (Original)	May 9 2016; Minute No. 2016.05.09-OM-11
2	June 26 2017; Minute No. 2017.06.26-OM-13
3	June 25 2018; Minute No. 2018.06.25-OM-9
4	June 24 2019; Minute No. 2019.06.24-OM-6
5	June 22 2020; Minute No. 2020.06.22-OM-4