

# RELATED PARTY DISCLOSURE

POLICY NUMBER CS240



**NARRANDERA SHIRE COUNCIL POLICY**

Narrandera Shire Council  
141 East Street  
NARRANDERA NSW 2700  
Tel: 02 6959 5510 Fax: 02 6959 1884  
Email: [council@narrandera.nsw.gov.au](mailto:council@narrandera.nsw.gov.au)

## POLICY NAME



<b>Policy No:</b>	<b>CS240</b>
<b>Policy Title:</b>	<b>Related Party Disclosures</b>
<b>Section Responsible:</b>	<b>Finance</b>
<b>Minute No:</b>	<b>17/106</b>
<b>File No:</b>	<b>20118</b>
<b>Next Review Date:</b>	<b>December 2019</b>

---

### **Objective**

The purpose of this policy is to define the parameters for Related Party Transactions and the level of disclosure and reporting required for Council to achieve compliance with the Australian Accounting Standard AASB 124 - Related Party Disclosures.

This policy is to provide guidance for determining who are the related parties of Council, what equates to related party transactions and how to record and report them.

### **Policy Statement**

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. Councils are required to prepare financial statements annually and these must be prepared in compliance with the Local Government Act, the Local Government Code of Accounting Practice and Financial Reporting and Australian Accounting Standards. AASB 124 – Related Party Disclosures has been amended to include Public Sector entities from 1 July 2016.

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 are 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.

The normal business operations of Council may be affected by a Related Party relationship even if Related Party Transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the Council with other parties. Alternatively, one party may refrain from trading with Council because of the significant influence of another—for example, a local supplier may be instructed by its parent not to engage in supplying goods to Council.

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.

### **Scope**

This policy shall be applied by Narrandera Shire Council and its auditors in:

- a) identifying related party relationships and transactions;
- b) identifying outstanding balances between Council and its related parties;
- c) identifying the circumstances in which disclosure of the items in paragraphs (a) and (b) are required; and
- d) determining the disclosures to be made about the items in (a) and (b).

This policy applies to all Councillors, managers, officers, employees, consultants and contractors of Narrandera Shire Council.

### **Definitions**

#### **AASB 124**

means the Australian Accounting Standards Board, Related Party Disclosures Standard.

#### ***Arms Length Transaction***

is a transaction between two related parties that is conducted as if they were unrelated, so that there is no question of conflict of interest.

#### ***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.

#### ***Entity–***

can include a body corporate, a partnership or a trust, incorporated association, or unincorporated group or body.

#### **Joint Control**

is 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.

#### ***Key Management Personnel(KMP)***

are people that have authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly (taken from AASB 124).

KMP's for the Council are considered to include:

- Councillors (including the Mayor);
- General Manager ;

- Senior Executive Officers (members of the Executive Leadership Team)

**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.

**Normal Terms and Conditions**

are standard rules governing transactions between Council and all external bodies. These can be governed by policies, legislation or accepted business practices.

**Ordinary Citizen Transaction –**

means a transaction that an ordinary citizen of the community would undertake in the ordinary course of business with Council. Transactions that are made on an arm's length basis between the Council and key management personnel and their close family members that an ordinary citizen of the community would transact with the 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 the 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 parties**

means a person or entity that is related to the entity that is preparing its financial statements (taken from AASB 124).

For the purposes of this Policy, related parties of Council are:

- a) Entities related to Council;
- b) Key Management Personnel (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 a Council and a related party, regardless of whether a price is charged.

Examples of related party transactions are:

- (a) purchases or sales of goods;
- (b) purchases or sales of property and other assets;
- (c) rendering or receiving of services;
- (d) rendering or receiving of goods;
- (e) leases;

- (f) transfers under licence agreements;
- (g) transfers under finance arrangements (example, loans);

*Note: Financial arrangements are subject to the Statutory Bodies Financial Arrangements Act 1982*

- (h) provision of guarantees (given or received);

*Note: Guarantees are financial arrangements that are subject to the Statutory Bodies Financial Arrangements Act 1982.*

- (i) commitments to do something if a particular event occurs or does not occur in the future;
- (j) settlement of liabilities on behalf of Council or by Council on behalf of that related party.

### **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.

## **Content**

### **1. Identifying related parties and transactions**

#### **1.1. Entities related to Council**

These are entities that are controlled by Council, jointly controlled by Council or over which Council has significant influence. Payments to these entities will be identified through Council's accounts payable system, with non-monetary transactions reviewed through Council's document management system.

#### **1.2. Key Management Personnel (KMP)**

Key management personnel have been defined for this policy as Councillors, the General Manager, and Executive Team members.

All key management personnel are responsible for self-assessing their own related parties and close family members on an annual basis. All related parties must be included in the self - assessment. Key management personnel are responsible for keeping the General Manager updated when any changes to those related parties occur outside of those times.

Self-assessment will be recorded on the Related Party Declaration form.

Transactions with related parties will be identified through Council's accounts payable, accounts receivable, applications, payroll and document management systems.

#### **1.3. Close family members of KMP**

Close family members are people who can be expected to influence or be influenced by key management personnel.

Key management personnel will identify close family members (see definitions) through the self-assessment process.

Transactions with those applicable close family members will be identified through Council's accounts payable, accounts receivable, applications, payroll and document management systems.

#### **1.4. Entities controlled or jointly controlled by close family members of KMP**

Key management personnel will identify all entities that are controlled or jointly controlled by close family members through the self-assessment process.

Transactions with those applicable entities will be identified through Council's accounts payable, accounts receivable, applications, payroll and document management systems.

#### **1.5. Types of related party transactions that are to be included.**

The types of transactions that need to be captured for analysis to be included in the related party disclosure are as follows:

- Grants and subsidy payments made to associated entities of Council
- Non-monetary transactions between Council and associated entities of Council
- Other goods and services provided by Council to associated entities of Council
- Compensation made to key management personnel
- Fees and charges charged to related parties
- Infrastructure contributions and application fees from related parties
- Purchase of materials and services from related parties
- Employee expenses for close family members of key management personnel

## **2. Assessment of Related Party Transactions**

### **2.1. Materiality**

Once the related party transactions have been identified they will be analyzed by Council's Finance Manager and those found to be of a material nature will be disclosed in the financial statements.

### **2.2. Ordinary Citizen Transactions**

Ordinary citizen transactions (see definitions) are those transactions that are made on an arm's length basis between Council and related parties that an ordinary citizen of the community would transact with the Council. Examples of these are rates payments for properties owned by the related party.

Council will identify all transactions between Council and related parties. Any that are deemed to be ordinary citizen transactions will not be required to be disclosed in the annual financial statement.

Transactions between Council and related parties that would normally be considered to be ordinary citizen transactions but where the terms and conditions differ from normal practice will not be considered to be an ordinary citizen transaction for the purposes of this policy. These will be disclosed in Council's annual financial statements in the related party disclosure.

### **2.3. Identification of all related party transactions**

Capture of all related party transactions will be done to allow a full assessment of related party transactions that are included in the related party disclosure. This will also allow Council's external auditors to perform a full analysis of the entire process that results in the related party transaction disclosure.

### **2.4. Privacy**

Council's Finance Manager will endeavour to ensure that only those staff and external auditors that are involved in preparing the related party disclosure will have access to the Related Party Declarations and related party transactions.

Access to information held will be determined under the Government Information (Public Access) Act 2009.

Information collected by the Auditor General in the conduct of the audit of Councils financial reports will be *excluded information* as defined in Schedule 2(2) Government Information (Public Access) Act 2009.

### **3. Related Party Transaction Disclosure**

#### **3.1. Scope**

Council must disclose all material and significant Related Party Transactions in its 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
    - Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in the settlement; 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.

#### **3.2. Materiality and Significance**

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.

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 transactions involving Related Parties will be captured and reviewed to determine materiality or otherwise of such transactions, if the transactions are Ordinary Citizen Transactions (OCTs), and to determine the significance of each of the transactions.

### **Roles and Responsibilities**

#### **Key Management Personnel**

Key Management Personnel are responsible for self-assessing their own related parties and close family members on an annual basis. All related parties must be included in the self - assessment. Key management personnel are responsible for

keeping the General Manager updated when any changes to those related parties occur outside of those times.

### **Finance Manager**

Will establish processes to identify and extract related party transactions from Councils systems.

Identify related entities such as joint ventures and maintain a register of KMP self-assessment declarations.

Apply the Materiality and Significance criteria when determining transactions to be disclosed in Councils financial statements.

### **Audit**

Will confirm Council's systems for identification, disclosure and reporting achieve compliance with the Australian Accounting Standard AASB 124 - Related Party Disclosures.

### **Related Legislation**

- Local Government Act 1993
- Local Government (General ) Regulation 2005
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards :-
  - AASB 124 Related Party Disclosures
  - AASB 10 Consolidated Financial Statements
  - AASB 11 Joint Arrangements
  - AASB 128 Investments in Associates and Joint Ventures

### **Related Council Policies**

- Code of Conduct
- Procurement
- Fraud and Corruption Prevention

### **Acknowledgements**

The development of this policy has been informed by the following:-

- AASB 124 Related Party Disclosures
- Southern Downs Regional Council – Related Party Disclosure Policy
- Gladstone Regional Council – Related Party Disclosure Policy
- Tablelands Regional Council – Related Party Disclosure Policy
- NSW Audit Office – Checklist to identify KMP Related Party Transactions

### **Variation**

Council reserves the right to vary the terms and conditions of this policy, subject to a report to Council

---

**Policy History**

Endorsed by Internal Audit, Risk & Improvement Committee 8-3-2017

Adopted by ELT 28- February -2017

Adopted by Council 21-March-2017

Endorsed by ELT 15-January -2018

Adopted by Council 20 February 2018



Signed: George Cowan, General Manager

Date: 20 February 2018