

## RELATED PARTY DISCLOSURES COUNCIL POLICY

### POLICY STATEMENT

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To define the parameters for Related Party Relationships and the level of disclosure and reporting required for the City to achieve compliance with the Australian Accounting Standard AASB 124 – Related Party Disclosures

### POLICY SCOPE

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Under the *Local Government Act 1995* and *Local Government (Financial Management) Regulations 1996*, all local governments in Western Australia must produce annual financial statements that comply with Australian Accounting Standards.

The Australian Accounting Standards Board has determined that from 1 July 2016, AASB 124 (Related Party Disclosures) will apply to government entities, including local governments. The City is now required to disclose Related Party Relationships and Key Management Personnel compensation in its Annual Financial Statements.

This Policy provides guidance on:

- the identification of the City's related parties;
- management of related party transactions;
- recording such transactions; and
- disclosure of the transactions in the City of Bunbury annual financial statements in accordance with AASB 124;

And addresses the four (4) different types of related party that must be considered by the City:

1. Entities related to the City;
2. Key Management Personnel;
3. Close family members of Key Management Personnel; and
4. Entities that are controlled or jointly controlled by either 2 or 3 above.

#### *Entity*

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

#### *Entity Related to a KMP*

Related Entities to Key Management Personnel are entities that are:

- \*controlled or jointly controlled by a KMP;
- apart from Council, where a KMP has significant influence over, or is a member of the key management personnel of the entity or parent of the entity; or
- controlled or jointly controlled by a close family member of a KMP of the City.

\*A person or entity is deemed to have *control* if they have:

- power over the entity;
- exposure, or rights, to variable returns from involvement with the entity; or
- the ability to use power over the entity to affect the amount of returns.

To jointly control, a person or entity must have contractual rights or 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.

#### *Entity Related to the City*

This includes any entity that is either controlled, jointly controlled or over which the City has a significant influence. A person or entity is a Related Party of the City if any of the following apply:

- 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 the City is part of;
- they and the City are joint ventures of the same third party;
- they are part of a joint venture of a third party and the City is an associate of the third party;
- they are a post-employment benefit plan for the benefit of employees of either the City or an entity related to the City;
- they are controlled or jointly controlled by close family members of the family of a KMP;
- they are identified as a close or possibly close member of the family of a person with significant influence over Council or a close or possibly close member of the family of a person who is a KMP of the City; or
- they, or any member of a group of which they are a part, provide KMP services to the City.

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

AASB 124 defines KMP 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”.

Key Management Personnel for the City of Bunbury are:

- Elected Members; and
- persons employed under s5.36 of the *Local Government Act 1995* in the capacity of Chief Executive Officer or Director.

#### **DEFINITIONS:**

Australian Accounting Standards Board, Related Party Disclosures Standard 124

#### *Close family members of Key Management Personnel (KMP)*

Those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the City of Bunbury and include:

- the KMP’s children, and spouse or domestic partner;
- children of that KMP’s spouse or domestic partner; and
- dependants of the KMP or the KMP’s spouse or domestic partner.

#### *Material (materiality)*

Means the assessment of whether a 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 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*

A transaction that an ordinary member of the community would undertake in the ordinary course of business with the City of Bunbury.

#### *Related Party*

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

#### *Related Party Transaction*

A transfer of resources, services or obligations between the City of Bunbury and a related party, regardless of whether a price is charged.

#### *Significant (significance)*

Likely to influence the decisions that users of the City's financial statements make having regard to both the extent (value and frequency) of the transactions, and that the transactions have occurred between the City and related party outside a public service provider/ taxpayer relationship.

## **POLICY DETAILS**

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

All Key Management Personnel (KMP) are responsible for assessing and disclosing their own, their close family members' and their related entities' relationship with the City. All related parties must be included in the self-assessment. A disclosure form is provided on the 'attain' website for electronic lodgement.

### **2. Related Party Transactions**

#### **2.1 Ordinary Citizen Transaction**

For the purpose of this Policy, an Ordinary Citizen Transaction is one that occurs between the City and KMP and/or related parties which satisfy the following criteria. The transaction must:

- occur during the normal course of the City delivering its public service goals;
- be under the same terms that would be available to a member of the community; and
- belong to a class of transaction that an ordinary member of the community would normally transact with the City.

This includes for example facility hire, and the payment of rates and dog registrations.

There is no obligation to disclose Ordinary Citizen Transactions.

Transactions between the City and Related Parties that would normally be considered Ordinary Citizen Transactions but where the terms and conditions differ from normal practice however, must be disclosed.

#### **2.2 Non-ordinary Citizen Transactions**

All related party transactions that do not satisfy the definition of an Ordinary Citizen Transaction (as per 2.1) must be disclosed in accordance with AASB 124.

The following are examples of transactions that must be disclosed if they are with a related party and are not an Ordinary Citizen Transaction:

- purchases of sales or goods (finished or unfinished);
- purchases or sales of property or other assets;
- rendering or receiving services;
- leases;
- transfers of research and development;
- transfers under licence agreements;
- transfers under finance arrangements (including loans and equity contributions in cash or kind);
- provisions of guarantees or collateral;
- commitments to do something if a particular event occurs or does not occur in the future, including execution of contracts (recognised or unrecognised); and
- settlement of liabilities on behalf of the City or by the City on behalf of the related party.

### 3. Disclosure of Information

#### 3.1 City disclosure

AASB 124 provides that the City must disclose the following financial information in its financial statements for each financial year period:

- the nature of any related party relationships;
- the amount of the transactions;
- the amount of outstanding balances, including commitments, including:
  - (i) their terms and conditions, whether they are secured, and the nature of the consideration to be provided in settlement; and
  - (ii) details of any guarantees given or received;
- provisions for doubtful debts related to the amount of outstanding balances; and
- the expense recognised during the period in respect of bad or doubtful debts due from related parties.

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.

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.

### **3.2 Key Management Personnel disclosure**

In accordance with this Policy, KMP must provide a Related Party Disclosure in the form set out on the 'attain' website each year, no later than 31 July for the previous financial year.

## **4. Review of Related Parties**

A review of KMP's and their related parties will be completed every year. Particular events, such as a change of Elected Members, Chief Executive Officer or Directors or a corporate restructure will also trigger a review of the City's related parties immediately following such an event.

The Chief Executive Officer shall implement a suitable system to identify related parties. The primary identification method of close family members and associated entities of Key Management Personnel shall be by (but not limited to) KMP self-assessment. KMP have a responsibility to identify and report any changes to their related parties as they occur.

The Chief Executive Officer shall identify suitable methodology and procedures for identifying and reporting on related party transactions such that accurate data will be collated from 01 July 2017. Identification and reporting methods shall consider:

- transactions occurring via the City's accounting and electronic records management systems;
- other transactions not passing through the City's electronic accounting / management systems;
- the identification of the associated terms and conditions of the related party transactions;
- declarations in the Financial Interests Register; and
- information provided in Primary and Annual Returns.

If any elected member or employee believes a transaction may constitute a related party transaction they must notify the Chief Executive Officer who will, in consultation with the Director Strategy and Organisational Performance, make a determination on the matter.

## **5. Privacy & Confidentiality**

### **5.1 Access to information**

The following persons are permitted to access, use and disclose the information provided in a related party disclosure or contained in a register of related party transactions for the purposes of 5.2.

- the Chief Executive Officer;
- Director Strategy and Organisational Performance;
- Manager Finance;
- An Auditor from the WA Auditor General's Office or appointed representative; and
- other officers as determined by the Chief Executive Officer.

### **5.2 Permitted purposes**

Persons specified in 5.1 may access, use and disclose information in a related party disclosure or contained in a register of related party transactions for the following purposes:

- assess and verify the disclosed related party transaction;
- reconcile identified related party transactions against those disclosed in the related party disclosure or contained in a register of related party transactions;
- comply with the disclosure requirements of AASB 124; or
- verify compliance with the disclosure requirements of AASB 124.

### 5.3 Confidentiality

The following information is classified as confidential and is not available for inspection by or disclosure to the public:

- information (including personal information) provided by a KMP in a related party disclosure; and
- personal information contained in a register of related party transactions.

## COMPLIANCE REQUIREMENTS

### LEGISLATION

- *Local Government Act 1995*
- *Australian Accounting Standards*

### INDUSTRY

- *AASB 124 Related Party Disclosures*
- *AASB 10 Consolidated Financial Statement*
- *AASB 11 Joint Arrangements*
- *AASB 128 Investments in Associates and Joint Ventures*

### ORGANISATIONAL

- *City of Bunbury Employee Code of Conduct*

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