



POLICY NO:-
<b>CP1-016 – RELATED PARTY DISCLOSURES</b>

GOVERNANCE INFORMATION			
<b>Procedure Link:</b>	N/A	<b>Administrative Policy Link:</b>	

ADMINISTRATION INFORMATION							
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<b>Version:</b>	2						

**1. RESPONSIBLE DIRECTORATE**

Chief Executive Officer

**2. PURPOSE OR OBJECTIVE**

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 the Australian Accounting Standards (AASB).

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 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 and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties*”.

This policy provides a framework for the identification of related party relationships and the disclosure of related party transactions with Council.

The objective of this policy is to provide guidance on:

- The identification of Council’s related parties;
- Management of Related Party transactions;
- Recording such transactions; and
- Disclosure of the transactions in the Shire of Collie Annual Financial Statements in accordance with AASB 124.

**3. DEFINITIONS**

In the context of this policy, the following terms shall be used.

TERM	DEFINED AS:
<b>AASB 124</b>	Australian Accounting Standards Board, Related Party Disclosures Standard 124.
<b>Close family members of Key Management Personnel (KMP)</b>	<p>Those family members who maybe expected to influence, or be influenced by, that person in their dealings with Council and include:</p> <ul style="list-style-type: none"> <li>• the KMP’s children, and spouse or domestic partner;</li> <li>• children of that KMP’s spouse or domestic partner; and</li> <li>• dependents of the KMP or the KMP’s spouse or domestic partner.</li> </ul>
<b>Compensation</b>	To include all employee benefits in the form of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity Refer AASB 119 Employee Benefits.
<b>Entity</b>	Includes a body corporate, a partnership or a trust, incorporated, or unincorporated group or body.
<b>Entity Related to Council</b>	<p>An entity that is either controlled, or jointly controlled, or over which Council has significant influence. A person or entity is that is a Related Party of Council if any of the following apply:</p> <ul style="list-style-type: none"> <li>• They are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);</li> <li>• They are an associate or belong to a joint venture of which Council is part of;</li> <li>• They and Council are joint ventures of the same third party;</li> <li>• They are part of a joint venture of a third party and Council is an associate of the third party;</li> <li>• They are a post-employment benefit plan for the benefit of employees of either Council or an entity related to Council</li> <li>• They are controlled or jointly controlled by close family members of the family of a KMP;</li> <li>• They are identified as a close or possible close family member of the family of a person with significant influence over Council or a close possibly close member of the family of a person who is a KMP of Council;</li> <li>• Or, they, or any member of a group of which they are part of, provide KMP services to Council.</li> </ul>
<b>Entity Related to Key Management Personnel (KMP)</b>	<p>An entity that is related to key management personnel and includes entities that are:</p> <ul style="list-style-type: none"> <li>• Controlled, or jointly controlled by a KMP;</li> <li>• Apart from Council, where a KMP has significance influence over, or is a member of the key management personnel of the entity or parent of the entity; or</li> <li>• Controlled or jointly controlled by a close family member of a KMP of Council.</li> </ul>

TERM	DEFINED AS:
	<p>A person or entity is deemed to have control if they have:</p> <ul style="list-style-type: none"> <li>• Power over the entity;</li> <li>• Exposure, or rights, to variable returns from involvement with the entity; or</li> <li>• The ability to use power over the entity to affect the amount of returns.</li> </ul> <p>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.</p>
<b>Key Management Personnel (KMP)</b>	<p>Those persons having authority and responsibility for planning, directing and controlling the activities of Council or Council entities, directly or indirectly. Key Management Personnel for the Shire of Collie are:</p> <ul style="list-style-type: none"> <li>• Elected Members (including the President);</li> <li>• Persons employed under section 5.36 of the <i>Local Government Act 1995</i> in the capacity of Chief Executive Officer or Director or Manager.</li> </ul>
<b>Materiality</b>	<p>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.</p>
<b>Ordinary Citizens Transaction (OCT)</b>	<p>A transaction that an ordinary member of the community would undertake in the ordinary course of business with the Shire of Collie.</p>
<b>Related Party</b>	<p>A person or entity that is related to the local government that is preparing its financial statements.</p> <p>A person or close member of that person's family is related if that person:</p> <ul style="list-style-type: none"> <li>• Has significant influence over the reporting entity; or</li> <li>• Is a member of the key management personnel of the reporting entity.</li> </ul> <p>An entity is related if any of the following conditions apply:</p> <ul style="list-style-type: none"> <li>• 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); or</li> <li>• a person is a member of the key management personnel of the entity.</li> </ul>

TERM	DEFINED AS:
<b>Related Party Transaction</b>	The transfer of resources, services or obligations between the Shire of Collie and a related party, regardless of whether a price is charged.

#### 4. POLICY

The Related Party Disclosure Policy seeks to reduce the risk that the Shire of Collie's transactions may be influenced by the interests of parties related to the transaction. This occurs where the parties are in a position to influence the decision of whether a benefit is provided to them, and the terms of the provision of that benefit. It is therefore important that Key Management Personnel act honestly and with reasonable care and diligence whilst avoiding improper use of their position and information. It is equally important that Key Management Personnel of the Shire of Collie are subject to a high level of accountability, including appropriate disclosure of their transactions with the Council in the annual financial statements.

##### 4.1 Identification of Related Parties

AASB 124 provides that the Shire of Collie is required to disclose in its Annual Financial reports Related Party relationships, transactions and outstanding balances. For the purpose of determining application of the standard, the Shire of Collie has identified the following persons as meeting the definition of Related Party:

- Elected Members (including the President);
- 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 or Manager, with purchasing limits of \$20,000 or greater;
- 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 of Collie will therefore be required to assess all transactions made with these persons or entities. Other parties may be assessed to be related parties from time to time depending upon Council's structure and delegations or in accordance with the requirements of AASB 124.

##### 4.2 Key Management Personnel

All Key Management Personnel are responsible for assessing and disclosing their own, their close family members', and their related entities' relationship with Council. All related parties must be included in the self-assessment. A *Related Party Disclosures Declaration* form provided through the reporting system.

###### 4.2.1 KMP Compensation

Council is required to disclose KMP compensation in total and for each of the following categories:

- (a) Short-term employee benefits (e.g. salary, motor vehicle benefits, fringe benefits)
- (b) Post-employment benefits (e.g. superannuation)

- (c) Other long-term benefits (e.g. annual leave and long service leave)
- (d) Termination benefits (N/A, unless the recipient of voluntary severance)
- (e) Share-based payments (NA).

### **4.3 Related Party Transactions**

KMP must provide a *Related Party Disclosures Declaration Form* through the reporting system, notifying of any existing or potential related party transactions between Council and either themselves, their close family members or entities controlled or jointly controlled by them or any of their close family members.

#### **4.3.1 Ordinary Citizen Transactions (OCTs)**

Ordinary Citizen Transactions are transactions with a Related Party that are made on terms that are considered reasonable if the parties were dealing at 'arm's length'. Related Party transactions excluded from disclosure requirements on the basis of classification as Ordinary Citizen Transactions are transactions that:

- occur during the normal course of Council delivering its public service goals;
- are 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 Council.

Examples of Ordinary Citizen Transactions include:

- facility hire;
- use of Council owned facilities such as Recreation Centre, libraries, parks, ovals and other open public spaces (whether charged a fee or not);
- payment of rates, dog registrations, or fines;
- any valid discounts or fee waivers that are available to the party as an ordinary citizen and is available to any ordinary citizen in the same circumstance;
- any service or benefit provided as part of the normal Council business operation to the party as an ordinary citizen and is available to any ordinary citizen in the same circumstance.

Transactions between Council 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.

#### **4.3.2 Non-Ordinary Citizen Transactions**

All related party transactions that do not satisfy the definition of Ordinary Citizen Transaction must be disclosed in accordance with AASB 124.

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

- Purchase 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 (recognized or unrecognized); and
- Settlement of liabilities on behalf of Council or by Council on behalf of the related liability.

#### **4.4 Disclosure Requirements**

##### **4.4.1 Council Disclosure**

Transactions between Council and related parties, whether monetary or not, are required to be identified. Disclosure of these transactions within the annual financial statements will be determined in accordance with materiality by assessment against the nature and size when considered individually and collectively.

AASB 124 provides that Council 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 transactions;
- The amount of outstanding balances, including commitments, including:
  - i. 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 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 of 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.

##### **4.4.2 Key Management Personnel Disclosure**

For the purposes of determining relevant transactions, elected members and key management personnel will be required to complete a *Related Party Disclosures Declaration Form* through the reporting system twice yearly, and no later than the following dates each financial year:

- 31 January each year; (Reporting period of 1 July to 31 December) and
- 31-July each year (Reporting period of 1 January to 30 June).

A review of KMP's and their related parties will be completed every 6 months. Particular events such as change of Councillors, Chief Executive Officer or Executive Managers or a corporate restructure will also trigger a review of Council'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.

#### **4.5 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.

Materiality thresholds are reviewed annually as part of the audit process and reported related party disclosures will be in compliance with the framework of the Australian Accounting Standard AASB 124 and other relevant standards, as required.

#### **4.6 Register of Related Party Transactions**

Council will maintain and keep up to date a register of related party transactions that captures and records information required for disclosure purposes for each existing or potential related party transaction (including ordinary citizen transactions assess as being material in nature) during a financial year.

#### **4.7 Information Privacy**

The following information is classified as confidential, and is not available for inspection by or disclosure to the public, including through a Freedom of Information Application:

- i. information (including personal information) provided by a key management person in a Related Party Transaction Notification; and
- ii. personal information contained in a register of related party transactions.

##### **4.7.1 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 section 4 are:

- The Chief Executive Officer;
- Director Corporate Services;
- Manager Financial Services;
- An auditor of Council including an auditor from the WA Auditor General's Office; and
- Other officers as determined by the Chief Executive Officer.

#### 4.7.2 Permitted Purposes

Persons specified in section 4.7.1 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 the register of Related Party transactions;
- Comply with the disclosure requirements of AASB 124; or
- Verify compliance with the disclosure requirements of AASB 124.

### **5. REFERENCE DOCUMENTS**

*Local Government Act 1995*

*Local Government (Financial Management) Regulations 1996*

Australian Accounting Standards – AASB 124 Related Party Transactions, AASB 2015-6

Relevant Shire of Collie Codes of Conduct