

Related Party Disclosures

Policy Owner:	Corporate
Person Responsible:	Deputy Chief Executive Officer
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Strategic Framework Reference:	Corporate Business Plan
Applies to:	All Staff and Council

Objective

The purpose of this policy is to define the parameters for Related Party Transactions and the level of disclosure and reporting required for the Shire of Chittering (the Shire) to achieve compliance with the ***Australian Accounting Standard AASB 124 – Related Party Disclosures***.

Definitions

“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) Dependents of that person or that person’s spouse or domestic partner.

“Key Management Personnel” as defined under *“Identification of Key Management Personnel (KMP)”*. AASB 124 defines KMP’s as *“those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly”*.

KMP’s for the Council are considered to include:

- Councillors / Elected Members;
- Chief Executive Officers;
- Executive Managers.

“Related Party” defined under Identification of Related Parties.

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

Introduction

All councils in Western Australia must produce annual financial statements that comply with Australian Accounting Standards. From 1 July 2016, the Australian Accounting Standards Board determined that ***AASB 124 – Related Party Disclosures*** will apply to government entities, including local governments. The objective of the accounting standard is to ensure that annual financial

statements contain disclosures necessary for stakeholders to draw attention to the possibility that the financial position and financial performance may have been affected by transactions and outstanding balances with related parties.

Council recognises that Related Party transactions can present potential or actual conflicts of interest, and may raise questions about whether they are in the best interests of the organisation.

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 Council are subject to a high level of accountability, including appropriate disclosure of their transactions with the Council in the annual financial statements.

It is importance to note that AASB 124 is not designed to detect and report fraud or misconduct. It is more so to enhance transparency and accountability of Council transactions.

Policy

The objective of the standard is to ensure that the Shire's financial statements contain 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 in line with the requirements of AASB124 – Related Parties.

The disclosure requirements apply to the existence of relationships regardless of whether a transaction has occurred or not. For each financial year, the Shire of Chittering must make an informed judgement as to who is considered to be a related party and what transactions need to be considered, when determining if disclosure is required.

The purpose of this policy is to stipulate the information to be requested from related parties to enable an informed judgement to be made.

1. Identification of Related Parties

AASB 124 provides that the Shire of Chittering will be required to disclose in its Annual Financial reports; related party relationships, transactions and outstanding balances.

Related parties include person(s) who have significant influence over the reporting entity, a member of the key management personnel (KMP) of the entity, or a close family member of that person who may be expected to influence that person.

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

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

1. Entities related to Council;
2. Key Management Personnel (KMP) of Council;
3. Close family members of KMP;
4. Possible close family members of KMP's; and
5. Entities or persons that re controlled or jointly controlled by KMP, or their close family members, or their possible close family members.

Also, a person or entity is a related party of Council is 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 Council is part of;
- They and Council are joint ventures of the same third party;
- They are part of a joint venture of a third party and Council is an associate of that third party;
- They are a post-employment benefit plan for the benefit of employees of either Council or an entity related to Council;
- They are controlled or jointly controlled by close members of the family of a person;
- 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 Council; or
- They or any member of a group of which they are part, provide KMP services to Council.

2. Identification of Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between the Shire of Chittering (reporting entity) and the related party, regardless of whether a price is charged.

All transactions between Council and related parties, whether monetary or not, are required to be identified. Such transactions may include:

- Purchase or sale of goods;
- Purchase or sale of property and 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 in-kind);
- Provision of guarantees or collateral;
- Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised);
- Quotations and/or tenders;
- Commitments; and
- Settlements of liabilities on behalf of Council or by Council on behalf of the related party.

3. Ordinary Citizen Transactions

Ordinary Citizen Transactions are transactions provided on terms and conditions no different to those applying to the general public, and which have been provided in the course of delivering public service objectives. Related Party Transactions excluded from disclosure requirements on the basis of Ordinary Citizen Transactions are:

- Any valid transaction, rates payment, fine, use of facility, attendance of function, service, benefit, discounts and fee waivers that are available to the party as an ordinary citizen and is available to any ordinary citizen in the same circumstances; and
- Any service or benefit occurring within normal employee, customer or supplier relationships and at arm's length; and
- Are not material or significant.

4. Frequency of disclosures

The Related Party Disclosures – Declaration form must be completed by Elected Members and key management personnel prior to termination of office or termination of employment.

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 transactions including:

- a. The amount of the transaction;
- b. The amount of outstanding balances, including commitments;
- 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.

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 AASB124 and other relevant standards, as required.

5. Procedures

The method of identifying the close family members and associated entities of KMP will be by KMP self-assessment. KMP have an ongoing responsibility to advise Council immediately of any Related Party Transactions.

The preferred method of reporting is for KMP to provide details of Related Parties and Related Party Transactions as soon as is they become aware of a potentially conflicting relationship.

For Elected Members this is to be done by completing "Written Declaration of Interest in matter before Council" form.

Information provided will be reviewed in accordance with the Council's operational requirements and held on a centralised register – Financial Interest Register.

Should a KMP have any uncertainty as to whether a transaction may constitute a related party transaction, they should contact the Officer in charge of Governance or Chief Executive Officer for clarification.

6. Privacy

Information provided by KMP and other related parties shall be held for the purpose of compliance with Council's legal obligation, and shall be disclosed where required for compliance and legal reasons only.

7. Review of Related Party Transactions

A review of KMP's and their related parties will be completed on adoption of this Policy and then at intervals not exceeding 12 months.

This Policy will also be reviewed when any of the following occur:

- A change of Councillors, Chief Executive Officer or other KMP;
- Corporate restructure;
- The related legislation/documents are amended or replaced;
- Other circumstances as determined from time to time by a resolution of Council; and
- As a result of changes to the OLG Local Government Code of Accounting Practice and Financial Reporting.

8. Training and Communication

This Policy will be provided to the KMP in the initial awareness raising and data collection and as part of Councillor Inductions.

9. Disclosure Requirements

For the purposes of determining relevant transactions in point 2 above, Elected Members and key management personnel as identified above, will be required to complete Primary Returns, Annual Returns and Declaration of Interest Forms for submission to the Shire as appropriate.

10. Confidentiality

Generally, related party disclosures in the annual financial reports are reported in aggregate and as such, individuals are not specifically identified. Notwithstanding, management is required to exercise judgement in determining the level of detail to be disclosed based on the nature of a transaction or collective transactions and materiality. Individuals may be specifically identified, if the disclosure requirements of AASB 124 so demands.