



# COUNCIL POLICY

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## Related Party Disclosures

<b>Policy Number:</b>	PO166		
<b>Strategic Plan Objective</b>	Goal 5 Responsible Governance		
<b>Policy Owner:</b>	Director of Corporate & Community services	<b>File Number:</b>	18/69276
<b>Responsible Officer:</b>	Manager Financial Services	<b>Minute Reference:</b>	059/2019 (13/03/2019)
<b>Date Adopted:</b>	13/03/2019	<b>Next Review Date:</b>	13/03/2023

### 1. POLICY OBJECTIVES

This policy aims to ensure “related party transactions” as provided for in Australian Accounting Standard AASB124 – Related Party Disclosures (AASB 124) are properly identified and appropriately disclosed in Yorke Peninsula Council’s (Council) annual General Purpose Financial Statements.

### 2. SCOPE

This policy has been developed to provide guidance in complying with the *Local Government Act 1999* and the associated Local Government (Financial Management) Regulations 2011, which collectively require Council to prepare its Annual General Purpose Financial Statements in compliance with Australian Accounting Standards and the Model Financial Statements. The policy directs appropriately authorised Council employees to ensure compliance with AASB124 and applies to all Key Management Personnel (KMP), as defined in this policy.

### 3. POLICY STATEMENT

The objective of AASB124 is to ensure that an entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and performance may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

There are four types of related parties Council must consider when seeking to ensure compliance with AASB 124:

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

For further information on Council’s related parties refer to Appendix 1.

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A related party transaction is any transaction between Council and the above related parties, whether monetary or not. For Council purposes, ordinary citizen transactions are excluded (refer to Appendix 2).

Disclosure in Council's annual financial statements will only be made where a transaction has occurred between Council and a related party of Council, and the transaction is material in nature or size, when considered individually or collectively (refer to Appendix 3).

In order to meet the disclosure requirements, all KMP must periodically provide a related party declaration identifying any close family members and entities controlled or jointly controlled by KMP or their close family members (refer to Appendix 4).

Related party declarations will be requested by appropriately authorised Council employees at least annually but may be requested more frequently depending on circumstances. An annual list of any related party transactions for review and confirmation will be forwarded to KMPs in July in relation to the prior financial year (refer to Appendix 5).

The information collected in the declarations will be used for the purposes of preparing Council's financial statement note disclosures. Appropriately authorised Council employees will maintain appropriate records to assess the related parties and related party transactions. The declarations and related party records are subject to audit as part of the annual external audit by Council's external auditors (refer to Appendix 6).

The notification requirements listed above are different from and in addition to:

- a) The notifications a Prescribed Officer must make for the purposes of Council maintaining a Register of Interests in accordance sections 112 to 115 of the Local Government Act 1999; and
- b) The notifications an elected member must make for the purposes of Council maintaining the Register of Interests in accordance with sections 64 to 67 of the Local Government Act 1999

## 4. DEFINITIONS

Control	An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
Joint control	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.
Material	Information is material to financial statements if omitting it or misstating it could influence decisions that users make on the basis of financial information.

**5. COMPLAINTS**

Complaints about this policy can be made in writing to the Director Corporate Community Services. All complaints will be managed in accordance with Council's Complaints Policy.

**6. REVIEW**

This policy will be reviewed every four (4) years and as deemed necessary in consideration of any changes to legislation and relevant standards, codes and guidelines.

**7. TRAINING**

KMP and staff are provided with appropriate training to enable them to meet the requirements of this policy.

**8. RELATED COUNCIL POLICIES AND DOCUMENTS**

- Code of Conduct for Council Members
- Code of Conduct for Council Employees
- PO091 – Risk Management
- PO156 – Internal Financial Control
- PO015 – Access to Council and Committee Meetings and Documents Code of Practice

**9. REFERENCES AND LEGISLATION**

- Local Government Act 1999
- Local Government (Financial Management) Regulations 2011
- AASB 124 Related Party Disclosures

**10. COUNCIL DELEGATION**

<b>Details of Delegation:</b>	Chief Executive Officer
<b>Delegate:</b>	Director of Corporate & Community Services Manager Financial Services

**11. VERSION HISTORY**

Archived Policy Name	Policy Number	Date Adopted	Last Reviewed

**APPENDIX 1 – RELATED PARTIES**

There are four types of related parties Council must consider when seeking to ensure compliance with AASB 124 which are elaborated on below.

**1. Entities related to council**

Entities controlled by Council, jointly controlled by Council or over which Council has significant influence are related parties of Council.

The terms "control", "joint control" and "significant influence" are defined in AASB 10, AASB 11 and AASB 128 respectively and are used in this Standard with the meanings specified in those Australian Accounting Standards.

**2. Key Management Personnel (KMP)**

KMPs are persons having authority and responsibility for planning, directing and controlling the activities of Council, directly or indirectly.

For Council, KMPs currently include the:

- Elected Members (including the Mayor);
- Chief Executive Officer; and
- Directors.

In future upon review additional persons may be identified as KMPs.

**3. Close family members of KMP**

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 entity and include:

- c) That person's children and spouse or domestic partner;
- d) Children of that person's spouse or domestic partner; and
- e) Dependents of that person or that person's spouse or domestic partner.

Under AASB 124, close family members could include extended members of a family (such as, without limitation, a parent, grandparent, siblings, etc.) if they could be expected to influence, or be influenced by, the KMP in their dealings with Council.

The following table provides assistance in identifying close family members of KMP:

<b>Definitely a close family member</b>	<b>Maybe a close family member</b>
Your spouse/domestic partner	Your brothers and sisters, if they could be expected to influence, or be influenced by you in their dealing with Council
Your children	Your aunts, uncles and cousins, if they could be expected to influence, or be influenced by you in their dealing with Council
Your dependents	Your parents and grandparents, if they could be expected to influence, or be influenced by you in their dealing with Council
Children of your spouse/domestic partner	Your nieces and nephews, if they could be expected to influence, or be influenced by you in their dealing with Council

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Dependents of your spouse/domestic partner	Any other member of your family if they could be expected to influence, or be influenced by you in their dealing with Council
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There may be relationships that a council has which are not identified in this appendix but still meet the definition of a related party.

### **Example: Cousin of Councillor**

A Councillor for the Sunny Shire Council has lived in the Shire her whole life. In fact her family has been in the area for generations.

The Councillor's cousin, owns and operates the local newsagent through a company ABC Pty Ltd, in which she owns 100% of the shares. The Councillor and her cousin have always been close and regularly socialise together.

From these facts it would appear that the Councillor's cousin is a close family member of the Councillor because she would be expected to influence, or be influenced by, that person in her dealings with Council.

Both the cousin and the company she controls, ABC Pty Ltd would therefore be related parties of Council.

Any transactions that the Council makes with the newsagent would need to be separately identified and may need to be disclosed.

#### **4. Entities that are controlled or jointly controlled by either 2 or 3 above**

Entities include companies, trusts, incorporated and unincorporated associations such as clubs and charities, joint ventures and partnerships.

You control an entity if you have:

- a) Power over the entity;
- b) Exposure, or rights, to variable returns from your involvement with the entity; and
- c) The ability to use your power over the entity to affect the amount of your returns.

### **Example of control**

Fred is the Mayor of Sunny Shire Council and owns 100% of the ordinary shares in Sunny Development Company Pty Ltd (the company). The ordinary shares are the only shares in the company that have voting rights.

Fred controls the company because he has the power to affect the company's decisions and the return that he will get from the company.

Fred will need to include the company on his related party declaration.

To jointly control an entity there must be contractually 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.

**Example of joint control**

Fred is the Mayor of Sunny Shire Council and owns 50% of the ordinary shares in Sunny Development Company Pty Ltd (the company). Fred's brother Stan owns the other 50% of ordinary shares. Fred and Stan are the only Directors of the company and have equal voting rights on the board.

Fred and Stan have joint control of the company because any decisions require the unanimous consent of them both.

Fred will need to include the company on his related party declaration.

In some cases it will be obvious that you or a family member control or have joint control over an entity. In other cases it will be less clear.

If you are unsure whether you, or a close family member, has control or joint control of an entity then you should contact the Manager Financial Services for a confidential discussion.

**Example: Clubs or other incorporated bodies**

A Sunny Shire Council Councillor is the President of Sunny Shire Football Club Inc, the local football club. This club is overseen by a committee which comprises the President and four other committee members. Each member has a single vote when making decisions at meetings. The committee members are not related and do not have agreements to vote with one another. The club has over 100 members that each have a vote in electing the committee members at the club's annual general meeting.

From these facts it would appear that the Councillor does not control or jointly control the football club so it will not be a related party of Council just because the Councillor is the president of the club.

**Example: Audit committee member**

Sunny Shire Council's audit committee comprises two Councillors and a local retired accountant, Fred. Fred has no other connection with the council.

The audit committee attends to the functions as required under the Audit Regulations. It does not make any decisions on behalf of the council but simply provides reports, with recommendations, for the Mayor and councillors to consider.

Based on the facts outlined Fred would not be a KMP of council.

**Example: Son of CFO employed by council**

Sunny Shire Council has recently employed Paul's son (George) in the Council's parks and garden's area. Paul is Council's Deputy Chief Executive Officer but was not involved in hiring George. This process was managed by the Director of Parks and Gardens and included an independent assessment process. Paul did not have any influence in George securing the job.

Paul has been identified as a KMP of council, which makes him a related party.

George will also be a related party of Council because he is a close family member of Paul. The recruitment process that was undertaken for George's position is irrelevant when assessing whether George is a related party.

**Example: Cousin of Mayor - related party commonly known but omitted from declaration**

Shelley, the Mayor of Sunny Shire Council forgets to include her cousin Mavis, and Mavis' company, when she completes her KMP declaration.

It is commonly known in the community that Shelley and Mavis are close and that Shelley would be expected to influence, or be influenced by, Mavis in her dealings with Council and vice versa.

Mavis and her company are related parties of Council, even though Shelley omitted them from her declaration.

## **APPENDIX 2 – RELATED PARTY TRANSACTIONS**

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

AASB 124 lists the following examples of related party transactions:

- 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);
- h) Provision of guarantees (given or received);
- 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.

To assist in determining whether a related party transaction with Council has occurred, the following transactions or provision of services have been identified as meeting this criteria (please note this list is not exhaustive):

- Paying rates;
- Fines;
- Use of Council owned facilities such as [town halls, libraries, parks, ovals and other public open spaces (whether charged a fee or not)];
- Attending council functions that are open to the public;
- Employee compensation whether it is for KMP or close family members of KMP;
- Application fees paid to the Council for licences, approvals or permits;
- Lease agreements for housing rental (whether for a Council owned property or property sub-leased by the Council through a Real Estate Agent);
- Lease agreements for commercial properties;
- Monetary and non-monetary transactions between the Council and any business or associated entity owned or controlled by the related party (including family) in exchange for goods and/or services provided by/to the Council (trading arrangement);
- Sale or purchase of any property owned by the Council, to a person identified above;
- Sale or purchase of any property owned by a person identified above, to the Council;
- Loan Arrangements; and
- Contracts and agreements for construction, consultancy or services.

### **Ordinary Citizen Transactions**

Some of the transactions listed above, occur on terms and conditions no different to those applying to the general public and have been provided in the course of delivering public service objectives. These transactions are those that an ordinary citizen would undertake with council and are referred to as an Ordinary Citizen Transaction (OCT).

Where Council can determine that an OCT was provided at arm's length, and in similar terms and conditions to other members of the public and that the nature of the transaction is immaterial, no disclosure in the annual financial report will be required.



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Generally OCTs are not material transactions because of their nature. These transactions are unlikely to influence the decisions that users of Council's financial statements make, having regard to both the extent of the transactions, and that the transactions have occurred within a public service provider / taxpayer relationship.

For example, if a Councillor were to walk their dog in a council owned park, then 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.

**Unless there are indications that such transactions have occurred on terms and conditions significantly different to those offered to the general public, OCTs will be excluded from being captured and reported as related party transactions at Council.**

Examples of OCTs at Council include:

- Rates and utility charges;
- Use of Council facilities, equipment and services in accordance with Council's fees, charges and policies (e.g. visiting a Council park, library or swimming pool);
- Fines and other penalties on normal terms and conditions;
- Attendance at a Council function or activity open to the public;
- Any other transaction occurring during the course of delivering Council's public service objectives and which occur on no different terms to that of the general public.

Examples of transactions that are not considered OCTs for Council purposes include:

- Procurement related transactions (e.g. KMP's company supplies materials or services to Council)
- Infrastructure charges (e.g. KMP's company pays an infrastructure charge to Council).
- Development charges (e.g. KMP and/or close family member lodge planning and building applications with Council).

### **Identification of Related Party Transactions**

Related party transactions will be identified by appropriately authorised Council employees via the following high-level process:

- Collate information from Council's financial systems;
- Review of other relevant documentation;
- Obtain declarations from KMP that identified related party transactions are complete and accurate, including confirmation of terms and conditions of transactions (refer Appendix 5).

Records of related party transactions (excluding OCTs) will be maintained by appropriately authorised Council employees for the purposes of assessment and may be disclosed in Council's annual financial statements, depending on materiality.

**APPENDIX 3 – DISCLOSURE REQUIREMENTS**

Under AASB 124, Council is required to disclose in its Annual Financial Statements compensation to KMPs in total and for each of the following categories:

- a) Short term employee benefits;
- b) Post-employment benefits;
- c) Other long term benefits;
- d) Termination benefits; and
- e) Share based payment.

The standard also requires disclosure of certain amounts received from KMPs.

If the Council has had related party transactions during the relevant period covered by the annual financial statements, it is required to disclose in those financial statements the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments. At a minimum, disclosures shall include:

- a) The value of the transaction(s);
- b) The value of outstanding balance(s), including commitments, and;
  - a. Their terms and conditions, including whether they are secured, and the nature of consideration to be provided in settlements;
  - b. Details of any guarantees given or received.
- c) Provisions 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.

Disclosures made as above shall be made separately for the following categories:

- a) Subsidiaries<sup>^</sup>;
- b) Associates<sup>^</sup>;
- c) Joint ventures in which Council is a joint venturer<sup>^</sup>;
- d) KMP; and
- e) Other related parties.

<sup>^</sup> These entities will, typically, be identified as part of the financial statement preparation process in accordance with the relevant accounting standards and will most likely be disclosed in the notes relating to interests in other entities where deemed to be material.

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### APPENDIX 4 – RELATED PARTY DECLARATION BY KEY MANAGEMENT PERSONNEL

This form is to be completed by Council's key management personnel (KMP) pursuant to PO166 - Related Party Disclosures. The information collected in this declaration will be used for the purposes of identifying related party transactions in order to ensure appropriate disclosure is made in the annual financial statements of Council and its controlled entities in accordance with Australian Accounting Standard AASB 124 Related Party Disclosures, and is subject to audit by Council's external auditor.

Please refer to Council's PO166- Related Party Disclosure when completing this form. Return completed form to the [admin@yorke.sa.gov.au](mailto:admin@yorke.sa.gov.au)

<b>Reporting Period:</b>	
<b>Your Details</b>	
<b>Full Name</b>	
<b>Position</b>	

<b>Your Close Family Members</b>	
<b>Name of Close Family</b>	<b>Relationship to You</b>

<b>Entities Controlled or Jointly Controlled by You and / or Close Family Members</b>		
<b>Name of Entity</b>	<b>ABN or ACN of Entity</b>	<b>Period Related (If not for full period)</b>

<b>Declaration</b>			
I declare that, to the best of my knowledge, the above information is a complete and accurate record of my close family members and the entities controlled, or jointly controlled, by myself or my close family members. I make this declaration after reading the PO166 - Related Party Disclosures Policy which details the purposes for which this information will be used and disclosed.			
<b>Signature</b>		<b>Date</b>	

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### APPENDIX 5 – RELATED PARTY TRANSACTIONS DECLARATION BY KEY MANAGEMENT PERSONNEL

This form has been pre-populated by appropriately authorised Council employees pursuant to PO166 - Related Party Disclosures and is based on information provided in the related party declarations by key management personnel (KMP) and information from Council's records. Related party transactions identified in this declaration may be used for the purposes of preparing Council's financial statement disclosures in accordance with Australian Accounting Standards, and are subject to audit by Council's external auditor.

KMP should review the information below for completeness and accuracy and make any necessary updates prior to signing the declaration. Please refer to PO166 - Related Party Disclosure Policy when completing this form. Return completed form to [admin@yorke.sa.gov.au](mailto:admin@yorke.sa.gov.au)

<b>Reporting Period:</b>			
<b>Your Details</b>			
<b>Full Name</b>		<b>Position</b>	

<b>Related Party Transactions with Council</b>					
<b>Details of Transaction</b>	<b>Details and Nature of Relationship</b>	<b>Total Value of Transactions for Period (GST Incl.)</b>	<b>Outstanding Balances as at Year End (30<sup>th</sup> June)</b>	<b>Commitment as at Year End (30<sup>th</sup> June)</b>	<b>Comments / Terms and Conditions of Transaction</b>
<i>e.g. Provision of electrical services</i>	<i>e.g. Sparky Pty Ltd – company wholly owned by my son &lt;name of son &gt;</i>	<i>e.g. \$25,000</i>	<i>e.g. \$7,500 receivable from Council</i>	<i>e.g. Nil</i>	<i>e.g. awarded through request for quote, standard terms and conditions</i>

<b>Declaration</b>			
I declare that, to the best of my knowledge, the above information is a complete and accurate record of related party transactions with Council involving myself, close family members or entities controlled or jointly controlled by myself or close family members. For any close family members noted above, I have informed them about the purpose of this declaration and how the information will be used and disclosed. I have also informed you of any updates to my related parties since my last declaration. I make this declaration after reading PO166 - Related Party Disclosures Policy.			
<b>Signature</b>		<b>Date</b>	

**APPENDIX 6 – CONFIDENTIALITY**

Confidentiality applies to documents and information collected for the purposes of this policy in accordance with the Local Government Act 1999.

The following persons are permitted to access, use and disclose the information for the purposes of compiling Council's financial statements:

- a) Chief Executive Officer;
- b) Executive Assistant to the CEO and Mayor
- c) Director Corporate & Community Services;
- d) Appropriately authorised Finance Services employees responsible for the preparation and review of financial statements;
- e) Governance Officer;
- f) Internal Audit Staff;
- g) Records staff;
- h) An auditor of Council; and
- i) Other officers as delegated by the Chief Executive Officer