

1.35 RELATED PARTY DISCLOSURES

OBJECTIVE

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

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 will apply to government entities, including local governments. The Shire is now required to disclose Related Party Relationships and Key Management Personnel compensation in its Annual Financial Statements.

This Policy provides guidance on:

1. The identification of the Shire's related parties;
2. Management of related party transactions;
3. Recording of such transactions; and
4. Disclosure of the transactions in the Shire of Gingin annual financial statements in accordance with AASB 124.

The Policy also addresses the four different types of related party that must be considered by the Shire, being:

1. Entities related to the Shire;
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.

DEFINITIONS

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 Shire of Gingin, including:

1. The KMP's children and spouse or domestic partner;
2. Children of the KMP's spouse or domestic partner; and
3. Dependants of the KMP or the KMP's spouse or domestic partner.

Entity

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

Entity Related to a KMP

Entities related to KMPs are entities that are:

1. *Controlled or jointly controlled by a KMP;
2. **Controlled or jointly controlled by a close family member of a KMP; or
3. Apart from Council, are entities where a KMP has significant influence over, or is a member of the KMP of the entity or parent of the entity.

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

- *Power/influence over the entity;*
- *Exposure or rights to variable returns from the involvement with the entity; or*
- *The ability to use power over the entity to affect the amount of returns.*

***A person or entity is deemed to have joint control where they 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 Shire

Includes any entity that is either controlled or jointly controlled by the Shire, or over which the Shire has a significant influence.

A person or entity is a Related Party of the Shire if any of the following apply:

1. They are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
2. They are an associate or belong to a joint venture of which the Shire is a part;
3. They and the Shire are joint ventures of the same third party;
4. They are part of a joint venture of a third party and the Shire is an associate of the third party;
5. They are a post-employment benefit plan for the benefit of employees of either the Shire or an entity related to the Shire;
6. They are controlled or jointly controlled by close family members of the family of a KMP;
7. They are identified as a close, or possibly close, family member of a person with significant influence over Council, or a close, or possibly close, family member of the family of a person who is a KMP of the Shire; or
8. They, or any member of a group of which they are a part, provide KMP services to the Shire.

Key Management Personnel (KMP)

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Key Management Personnel for the Shire of Gingin are:

1. Councillors;
2. Chief Executive Officer;
3. Executive Managers; and
4. Other parties as determined by the Chief Executive Officer.

Material (Materiality)

Means the assessment of whether the omission or misstatement of a transaction, either individually or in aggregate with other transactions, could influence decisions that users make on the basis of an entity's financial statements.

For the purposes 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 Shire of Gingin.

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 Shire of Gingin and a related party, regardless of whether a financial transaction takes place.

Significant (significance)

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

POLICY

1. Key Management Personnel (KMP)

All KMP are responsible for assessing and disclosing the relationships with the Shire of themselves, their close family members and their related entities. All related parties must be included in the self-assessment. Disclosures must be made using the format as determined from time to time by the CEO.

KMP have a responsibility to identify and report any changes to their related parties as they occur.

2. Related Party Transactions

2.1 Ordinary Citizen Transactions

For the purposes of this Policy, an Ordinary Citizen Transaction is one that occurs between the Shire and KMP and/or related parties which satisfies the following criteria.

The transaction must:

- a. Occur during the normal course of the Shire delivering its public service goals;
- b. Be under the same terms as those available to members of the community; and
- c. Belong to a class of transaction that an ordinary member of the community would normally transact with the Shire.

The following transactions have been identified by the Shire of Gingin as Ordinary Citizen Transactions:

- a. Paying rates;
- b. Fines;
- c. Use of Shire of Gingin-owned facilities such as recreation centres, civic centres, libraries, parks, ovals and other public open spaces (whether charged a fee or not); and
- d. Attending Council functions that are open to the public.

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 deemed to be Non-Ordinary Citizen Transactions:

- a. Purchases or sale of goods (finished or unfinished);
- b. Purchase or sale of property or other assets;
- c. Rendering or receiving of services;
- d. Leases;
- e. Transfers of research and development;
- f. Transfers under licence agreements;
- g. Transfers under finance arrangements (including loans and equity contributions in cash or kind);
- h. Provisions of guarantees or collateral;
- i. Commitments to do something if a particular event occurs or does not occur in the future, including execution of contracts (recognised or unrecognised); and
- j. Settlement of liabilities on behalf of the Shire or by the Shire on behalf of the related party.

3. Disclosure of Information

3.1 Disclosure by the Shire

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

- a. The nature of any related party relationships;
- b. The amount of the transactions;
- c. The amount of outstanding balances, including commitments, together with:
 - 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;
- d. Provisions for doubtful debts related to the amount of outstanding balances; and
- e. 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:

- a. significance of transaction in terms of size;
- b. whether the transaction was carried out on non-market terms;

- c. whether the transaction is outside normal day-to-day business operations, such as the purchase and sale of assets;
- d. whether the transaction is disclosed to regulatory or supervisory authorities;
- e. whether the transaction has been reported to senior management; and
- f. whether the transaction was subject to Council approval.

Regard must also be given for transactions that are collectively, but not individually, significant.

All related party transactions captured by the Shire will be reviewed to determine materiality or otherwise, whether the transactions are Ordinary Citizen Transactions, and the significance of each transaction.

3.2 Disclosure by KMP

In accordance with this Policy, KMP must provide a Related Party Disclosure in the format as determined from time to time by the Chief Executive Officer for the periods 1 January to 30 June (to be submitted by 31 July) and 1 July to 31 December (to be submitted by 31 January) in each financial year.

Additional disclosures are required as follows:

- a. All Councillors are required to make a disclosure immediately prior to any election at which their term ends; and
- b. Employees who are KMP are required to make a disclosure immediately prior to cessation of employment with the Shire of Gingin.

4. Review of Related Parties

A review of KMPs and their related parties will be completed after each disclosure date referenced in 3.2 above.

The primary method of identifying related parties shall be KMP self-assessment. However, the Shire will also implement a suitable system to capture transactions made with related parties through its accounts payable, accounts receivable, applications, payroll and document management systems, declarations in the Financial Interests Register and information provided in Primary and Annual Returns.

If any Councillor or employee believes that a transaction may constitute a related party transaction, then they must notify the Chief Executive Officer who will, in consultation with the Executive Manager Corporate and Community Services, make a determination on the matter.

5. Privacy and 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:

- a. The Chief Executive Officer;
- b. The Executive Manager Corporate and Community Services;
- c. The Coordinator Corporate Services;
- d. An Auditor of the Shire (including an Auditor from the WA Auditor General's Office); and
- e. 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:

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

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

GOVERNANCE REFERENCES

Statutory Compliance	Local Government Act 1995 Local Government (Financial Management) Regulations 1996 AASB 124 - Related Party Disclosures AASB 10 - Consolidated Financial Statement AASB 11 - Joint Arrangements AASB 128 Investments in Associates and Joint Ventures
Industry Compliance	N/A
Organisational Compliance	Nil

POLICY ADMINISTRATION

Review Cycle	With review of Policy Manual	Next Review	
Department	Corporate and Community Services		
Version	Decision Reference	Synopsis	
1.	19/09/2017 - Item 11.1.2	Policy adopted	
2.	21/01/2020 - Item 11.1.2	Policy reviewed and amended	