

F11. Related Party Disclosures Policy

Policy Objective

The objective of this policy is to ensure that Council's financial statements comply with the disclosure requirements under the Australian Accounting Standard AASB 124 Related Party Disclosures. These disclosures draw attention to the possibility that Councils' financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and financial performance may have been affected by related party transactions.

Definitions

Related party - is a person or entity that is related to the entity that is preparing its financial statements.

Related entity - a subsidiary, associate or joint venture or any other entity that is controlled or jointly controlled by related persons.

Related person - includes key management personnel (KMP) and close family members of KMPs.

Related party transaction - is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family - are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(I) A person or close member of that person's family is related to a reporting entity if that person:

(I) has control or joint control over the reporting entity;

(II) has significant influence over the reporting entity; or

(III) is a member of the key management personnel of the reporting entity.

Control - the power to govern the financial and operating policies of any entity so as to obtain benefits from its activities.

Significant influence - the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

Key management personnel (KMP) - 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.

Background

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 Dundas 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 procedure 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 Dundas will be required to disclose in its Financial Statements, related party relationships, transactions and outstanding balances.

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For the purposes of determining the application of the standard, the Shire of Dundas has identified the following persons as meeting the definition of *Related Party*:

- An elected Council member
- a person employed under section 5.36 of the Local Government Act 1995 in the capacity of Chief Executive Officer and other Executive Management staff (KMP);
- Close members of the family of any person listed above, including that person's child, spouse or domestic partner, dependents of that person or person's spouse or domestic partner
- Entities that are controlled or jointly controlled by any person listed above. (Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs).

The Shire of Dundas will therefore be required to assess all transactions made with these persons or entities.

2. Identification of related party transactions

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

2.1 Ordinary citizen transactions (OCT):

These related party transactions occur during the course of council delivering its public service objectives and occur on no different terms to those for the general public. Where the Shire of Dundas 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. eg

- Paying rates and utility charges
- Fines on normal terms and conditions
- Using a council's public swimming pool after paying the normal fee
- Attending council functions that are open to the public
- Dog registration

2.2 Related party transactions will include,

- Purchases or sales of goods (finished/unfinished)
- Purchases or sales of property and other assets
- Rendering or receiving of services
- Lease agreements for housing rental
- Lease agreements for commercial properties
- Contracts and agreements for construction, consultancy or service

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3. Disclosure requirements

3.1 Materiality

The Manager Finance & Administration is responsible for reviewing and assessing the materiality of related party transactions to determine whether the disclosure of such transactions is necessary for an understanding of the effects of the related party transactions on the Financial Statements.

Establishing the level of significance (materiality) of the transaction consider whether it is:

- 1) significant in terms of size
- 2) carried out on non-market terms / at different terms to those for the general public
- 3) outside normal day-to-day business operations, such as the purchase and sale of businesses
- 4) disclosed to regulatory or supervisory authorities

As a general rule, Council will utilise \$2,500 as the threshold for materiality. However, transactions even below this threshold could be material.

3.2 Disclosure in financial statements

- Nature of the related party relationship;
- Amount of the transactions;
- Amount of outstanding balances, including commitments;
- Terms and conditions;
- Provisions for doubtful / expense recognised during the period in respect of bad or doubtful debts due from related parties; and
- Key management personnel compensation or amounts incurred for the provision of key management services.

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

4. Process of capturing related party transactions

4.1 Related Party Disclosures – Declaration form

For the purposes of determining relevant transactions in point 2 above, elected Council members and key management personnel as identified above, will be required to complete a “Related Party Disclosures – Declaration form”.

Frequency of disclosures

Elected Council members and KMP will be required to complete a *Related Party Disclosures – Declaration* form each year.

Disclosures must be made by all Councillors immediately after to any ordinary or extraordinary election.

Elected Council members and KMP will be required to complete a *Related Party Disclosures – Declaration* form immediately after change in circumstances which arise new related party relationships.

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Disclosures must be made immediately prior to the termination of employment of/by a KMP.

Confidentiality

All information contained in a disclosure return, will be treated in confidence. 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.

Associated Regulatory Framework

AASB 124 Related Party Disclosures

Local Government Act 1996

Local Government (Financial Management) Regulations 1996

Policy Reviewed October 2020