

CP 32 Related Party Disclosure Policy

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Policy Objective

From 1 July 2016, the *Australian Accounting Standards Board (AASB)* has determined that *AASB Standard 124: Related Party Disclosures* will apply to government entities, including local councils. As a result, the Council is required to disclose related party relationships, transactions and outstanding balances, including commitments, commencing in its annual financial statements.

The objective of *AASB 124* is to give visibility to the possibility that the Council's 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. *AASB 124* is not in place to assess Council's governance or probity issues.

The purpose of this policy is to ensure that Council complies with the disclosure requirements as prescribed in *AASB Standard 124: Related Party Disclosures*. This includes ensuring that Key Management Personnel (KMP) are aware of their responsibilities to identify and disclose related parties and transactions.

The *Benalla Rural City Council Related Party Disclosures Policy* is applicable from 26 June 2019.

Policy Statement

Council in complying with disclosure requirements in *AASB 124*, will:

- identify related party relationships, related party transactions and ordinary citizen transactions
- identify information about the related party transactions for disclosure
- establish systems to capture and record the related party transactions and information about those transactions
- identify the circumstances in which disclosure of the items is required
- determine the disclosures to be made about those items in the financial statements for the purpose of complying with *AASB 124*.

Policy Scope

The Council is committed to responsible corporate governance, including compliance with laws and regulations governing related party transactions. *AASB 124* provides that Council must disclose all material and significant related party transactions and outstanding balances, including commitments, in its annual financial statements.

Related party relationships are a normal feature of commerce and business.

A related party relationship is able to influence the normal business operations of Council even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the Council with other parties. Alternatively, one party may refrain from trading with the Council because of the significant influence of another.

A **related party** is a person or entity that is related to the entity that is preparing its financial statements.

The Council's related parties are:

- entities related to Council
- Key Management Personnel (KMP)
- close family members of key management personnel
- entities or persons that are controlled or jointly controlled by key management personnel, or their close family members.

A **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.

Examples of **related party transactions** are:

- 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.

Key Management Personnel (KMP) are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Benalla Rural City Council's KMP are identified as:

- Councillors
- Chief Executive Officer
- General Manager Corporate.

Each year, four steps need to be undertaken to ensure complete information is available in order to meet the requirements of *AASB Standard 124: Related Party Disclosures*:

1. On the prescribed form all KMP are to notify Council of their close family members and of entities that they, or their close family members, control or jointly control.
2. On the prescribed form all KMP are to provide details of their transactions with Council and Council entities, made by them, their close family members, or entities that they, or their close family members, control or jointly control.
3. Finance will conduct business system analysis to extract details of Council's transactions with Council entities (for example, subsidiaries, associates, and joint ventures).
4. Finance will review KMP's declarations and verify, where possible, in Council's business systems.

Exception

Transactions associated with Benalla Rural City Council Councillor allowances and expenses do not need to be declared as this information is reported within the Statutory Information section of the Council's Annual Report.

Following the collection of all data, Finance will assess this information and make determinations regarding disclosure. Disclosure in the Council's financial statements will only be made where a transaction has occurred between Council and a related party of Council, and this transaction is material in size or nature, when considered individually or collectively. As a guide, transactions, individually or collectively, under \$5,000 will not be disclosed.

Transactions between Council and related parties that are typical to any citizen and undertaken in the normal course of Council operations and at arm's length, such as the payment of rates or other fees and charges, do not require disclosure as related party transactions.

Higher Duties

Staff acting in KMP positions are responsible for disclosing related parties transactions for the duration of the higher duties period, including completing the Key Management Personnel (Higher Duties) Declaration Form at the end of their higher duties period.

This Policy requires staff acting in higher duties for a period of at least two weeks to comply with the Related Party Disclosures Policy by providing the information to the Governance Coordinator. Two weeks is 10 days carried out consecutively in the acting position. The declaration is for the time of the acting period only.

Register of Related Party Transactions

The Governance Coordinator will maintain a Register of Related Party Transactions.

Timelines

KMP must provide a completed and signed Key Management Personnel Declaration Form to the Governance Coordinator by 21 July each year. Declarations will be forwarded to KMP on the third Monday of June.

Information Privacy

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

Review

This policy may be reviewed at any time by the Council to accommodate changes in legislation, regulations, policy gaps, new technology or systems, as well as remain consistent with industry best practice.

Related Policies

- *Model Councillor Code of Conduct*
- *Benalla Rural City Council Staff Code of Conduct*

Related Legislation

- *AASB 10: Consolidated Financial Statement*
- *AASB 11: Joint Arrangements*
- *AASB 124: Related Party Disclosures*
- *Local Government Victoria: Local Government – Accounting for Related Party Disclosures – 2017*