


# Related Party Disclosures Policy

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## **1 OUTCOMES**

- 1.1 To ensure that QPRC's financial statements contain disclosures necessary to draw attention to Council's related parties, transactions and outstanding balances, including commitments, with such parties.
- 1.2 To comply with Australian Accounting Standard AASB 124 – Related Party Disclosures.

## **2 POLICY**

- 2.1 Council will provide a framework to define, identify and report on Related Party Transactions within its annual financial statements.
- 2.2 Key Management Personnel have an obligation to report related party transactions in accordance with the definitions and explanations provided within this policy.
- 2.3 QPRC complies with its obligations under Section 413 of the Local Government Act 1993, which requires compliance with the Australian Accounting Standards.

## **3 SCOPE OF THE POLICY**

- 3.1 This policy applies to related parties (Key Management Personnel) of QPRC, and related parties of Key Management Personnel of QPRC and their close family members.
- 3.2 This Policy assists with:
  - a) Identifying related parties and relevant transactions; Related Party Transactions, and ordinary citizen transactions concerning Key Management Personnel, their close family members and entities controlled or jointly controlled by any of them.
  - b) Identifying outstanding balances, including commitments, between QPRC and its related parties.
  - c) Establishing systems to capture and record Related Party Transactions and information about those transactions.
  - d) Identifying the circumstances in which disclosure of the items in 3(a) and 3(b) are required.
  - e) Determining the disclosures to be made about those items in the General Purpose Financial Statements for the purpose of complying with AASB 124.

## **4 DEFINITIONS**

- 4.1 AASB 10 – the Australian Accounting Standards Board – Consolidated Financial Statements – details the criteria for determining whether Council has significant influence over an entity.
- 4.2 AASB 11 – the Australian Accounting Standards Board – Joint Arrangements – details the criteria for determining whether Council has significant influence over an entity.
- 4.3 AASB 124 – the Australian Accounting Standards Board – Related Party Disclosures Standard under Section 334 of the Corporations Act 2001.
- 4.4 AASB 128 – the Australian Accounting Standards Board – Investments in Associates and Joint Ventures – details the criteria for determining whether Council has significant influence over an entity.
- 4.5 Control – is defined by AASB 10 as the exposure, right or ability to affect variable returns through the exercise of power.

- 4.6 Joint Control – means the contractually agreed sharing of control of an arrangement, which exist only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- 4.7 Key Management Personnel – means those persons having the authority and responsibility for planning, directing, and controlling activities of the entity, directly or indirectly, including any PGM of the entity (specifically listed at clause 6.5).
- 4.8 Material (materiality) – means the assessment of whether the transaction, either individually or in aggregate with other transactions, by omitting it or misstating it, could influence decisions that users make based on an entity’s financial statements. For the purpose of this Policy, it is not considered appropriate to set a dollar value or a percentage value to determine materiality.
- 4.9 Ordinary Citizen Transaction – means a transaction that an ordinary citizen of the community would undertake on an arm’s length basis and in the ordinary course of business with Council.
- 4.10 Related Party – means any person or entity that is related to the entity that is preparing its financial statements (reporting entity).
- 4.11 Related Party Transaction – means a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.
- 4.12 Remuneration - means remuneration package and includes any money, consideration or benefit received or receivable by the person but excludes reimbursement of out-of-pocket expenses, including any amount received or receivable from a Related Party Transaction.
- 4.13 Significant (significance) – means likely to influence the decisions that users of the Council’s financial statements make having regard to both the extent (value and frequency) of the transactions, and that the transactions have occurred between the Council and related party outside a public service provider/taxpayer relationship.

## 5 LEGISLATIVE OBLIGATIONS AND/OR RELEVANT STANDARDS

- 5.1 AASB 124 – Related Party Disclosures (July 2015)
- 5.2 Australian Accounting Standards
- 5.3 The Local Government Act 1993
- 5.4 The Local Government (General) Regulation 2005
- 5.5 Government Information (Public Access) Act 2009
- 5.6 Corporations Act 2001
- 5.7 The following Council Policies or Directives:
- a) Code of Conduct
  - b) Statement of Business Ethics
  - c) Probity Policy
  - d) Legislative Compliance Policy
  - e) Decision-Making Framework Policy

## 6 CONTENT

### 6.1 Background

- 6.1.1 The Australian Accounting Standards require not-for-profit entities (including local government) to disclose related party relationships and transactions in their annual general purpose financial statements.
- 6.1.2 AASB 124 is a disclosure standard which contains a number of disclosure requirements with the objective of ensuring 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 related party transactions.

## 6.2 Policy Statement

- 6.2.1 QPRC is committed to responsible corporate governance, including compliance with laws and regulations governing Related Party Transactions.
- 6.2.2 Related Party Relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures, and associates. In those circumstances, there is the possibility of the entity having the ability to affect the financial and operating policies of QPRC through the presence of control, joint control, or significant influence.
- 6.2.3 A Related Party Relationship could influence the normal business operations of QPRC even if related Party Transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of QPRC with other parties.
- 6.2.4 For these reasons, knowledge of QPRC's transactions and outstanding balances (including commitments and relationships with related Parties) may affect assessments of QPRC's operations.
- 6.2.5 AASB 124 provides that Council must disclose all material and significant Related Party Transactions and outstanding balances, including commitments, in its Annual Financial Statements. Generally, disclosure will only be made where a transaction has occurred between Council and a related party of Council. In addition, the transaction must be material in nature or size when considered individually or collectively.
- 6.2.6 When assessing whether such transactions are significant the following factors will be taken into consideration:
- a) Significance in terms of size (by reference to materiality levels set by external auditors each year).
  - b) Was it carried out on non-market terms.
  - c) Is it outside normal day-to-day Council operations.
  - d) Was it subject to Council approval.
  - e) Did it provide a financial benefit not available to the general public.
  - f) Was the transaction likely to influence decisions of users of the Annual Financial Statements.
- 6.2.7 To enable QPRC to comply with AASB 124, QPRC's KMP are required to declare details of any Related Parties and Related Party Transactions. Such information will be retained and reported, where necessary, in QPRC's Annual Financial Statements.

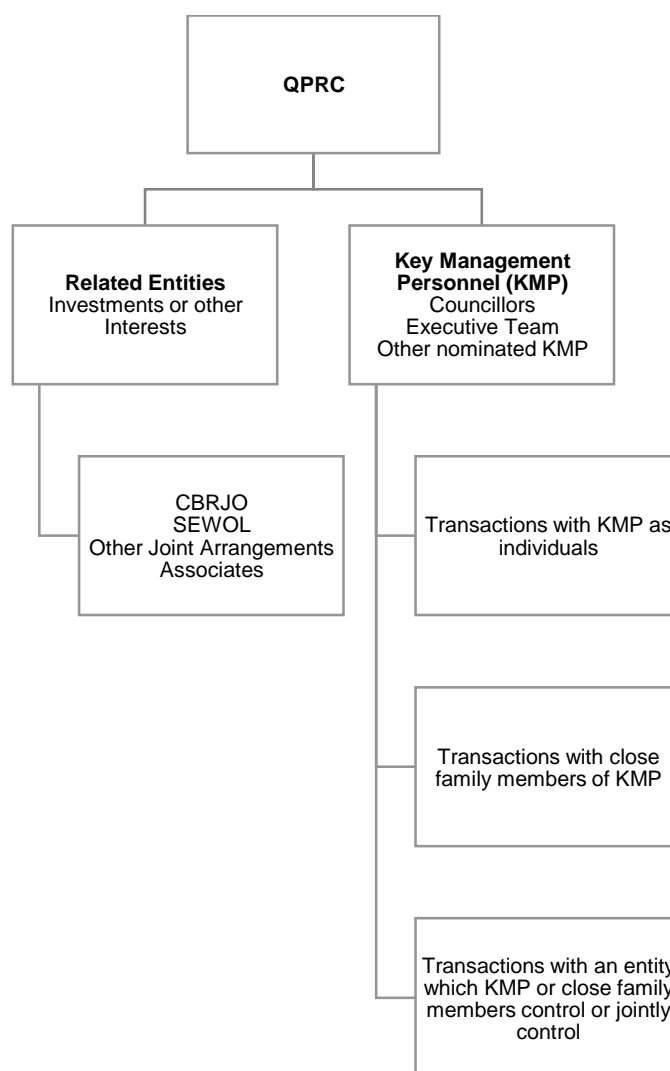
## 6.3 Related Parties

- 6.3.1 A person or a close member of that person's family is related to a reporting entity if that person:
- a) Has control or joint control over the reporting entity.
  - b) Has significant influence over the reporting entity.
  - c) Is a member of the KMP of the reporting entity or of a parent of the reporting entity.
- 6.3.2 An entity is related to a reporting entity if any of the following conditions are satisfied:
- a) The entity and the reporting entity are members of the same group.
  - b) One entity is an associate or joint venture of the other entity.
  - c) Both entities are joint ventures of the same third party.

- d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- e) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- f) The entity is controlled or jointly controlled by a person identified in clause 6.3.1.
- g) A person identified in clause 6.3.1a) has significant influence over the entity or is a member of the KMP of the entity (or of a parent of the entity).
- h) The entity, or any member of a group of which it is a part of, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

6.3.3 Related Parties of QPRC are as follows:

- a) Entities Related to Council.
- b) Key Management Personnel (KMP) of QPRC.
- c) Close Family Members of KMP.
- d) Entities that are controlled or jointly controlled by KMP, or their close family members.



**6.4 Entities Related to Council**

- 6.4.1 Entities controlled by QPRC, jointly controlled by QPRC or over which QPRC has significant influence are related parties of QPRC. QPRC will identify transactions with these entities and may need to make extra disclosure about them in QPRC’s financial statements. When assessing whether QPRC has joint control over an entity QPRC will consider AASB 10 and AASB 11. AASB 128 details the criteria for determining whether Council has significant influence over an entity.
- 6.4.2 QPRC’s Contract’s Register, Leases and License Register and the Schedule of Debts Written Off will be reviewed to identify Related Transactions/Parties. This information will be included in the Related Party Register which will include all joint arrangements and updated on a quarterly basis.

**6.5 Key Management Personnel (KMP)**

- 6.5.1 KMP of an entity have been defined by AASB 24 as individuals who have authority and responsibility for planning, directing, and controlling the activities of the entity directly or indirectly. As per this definition, the list of KMP’s of QPRC are:
  - a) Mayor
  - b) Councillors
  - c) CEO
  - d) Portfolio General Managers
- 6.5.2 There are times in which individuals within QPRC may be required to temporarily act in a KMP role and subsequently may be subject to the disclosure requirements presented in AASB 124.
- 6.5.3 For appointments of less than three months, the assessment is a matter of judgement of facts, such as that person’s participation in key decisions made in that period. In such instances responsibility of that assessment will lie with the Service Manager Finance (CFO).

**6.6 Entities that are Controlled or Jointly Controlled by KMP or their Close Family Members**

- 6.6.1 Entities include companies, trusts, joint ventures, partnerships, and non-profit associations such as sporting clubs.
- 6.6.2 Close Family Members are family members who may be expected to influence, or be influenced by, that person in their dealings with QPRC, defined as follows:

Definitely a close family member	Maybe a close family member
Your spouse or domestic partner	Your brothers and sisters, if they could be expected to influence, or be influenced by, you in their dealings with QPRC
Your children	Your aunts, uncles, and cousins, if they could be expected to influence, or be influenced by, you in their dealings with QPRC
Your dependents	Your parents and grandparents, if they could be expected to influence, or be influenced by, you in their dealings with QPRC

Definitely a close family member	Maybe a close family member
Children of your spouse or domestic partner	Your nieces and nephews, if they could be expected to influence, or be influenced by, you in their dealings with QPRC
Dependents of your spouse or domestic partner	Any other member of your family if they could be expected to influence, or be influenced by, you in their dealings with QPRC

## 6.7 Disclosure

- 6.7.1 AASB 124 provides that Council must disclose all material and significant Related Party Transactions in its Annual Financial Statements by aggregate or general description and include the following details:
- a) The nature of the Related Party Relationship.
  - b) Relevant information about the transaction including:
    - i) The amount of the transaction.
    - ii) The amount of outstanding balances, including commitments.
    - iii) Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in the settlement.
    - iv) Details of any guarantee given or received.
    - v) Provision for doubtful debts related to the amount of outstanding balances.
    - vi) The expense recognised during the period in respect of bad or doubtful debts due from related parties.
- 6.7.2 All transactions involving Related Parties will be captured and reviewed to determine materiality or otherwise of such transactions, if the transactions are Ordinary Citizen Transactions, and to determine the significance of each of the transactions.
- 6.7.3 The key assessment is whether knowledge of the relationship and significance of terms and conditions of the transaction would influence a user's understanding of the impact on the financial statements. Where the impact on the financial statements is not material the transaction is not required to be disclosed.
- 6.7.4 Generally, transactions with amounts receivable from and payable to KMP's or their related parties which occur within normal employee, customer, or supplier relationships and at arm's length are not significant and shall be excluded from detailed disclosures.

## 6.8 Notifications by Key Management Personnel

- 6.8.1 In order to comply with AASB 124, all KMP are required to periodically provide notifications to the Service Manager Finance (CFO) of any existing or potential Related Party Transactions between QPRC and any other of their related parties during a financial year, and any changes to previously notified Related Party Relationships and transactions.
- 6.8.2 KMPs must notify Council of any existing or potential related party relationships between QPRC and any related parties of the KMP annually, by 31 July.
- 6.8.3 All notifications can be made by completing and submitting the *Related Parties Disclosure Form* (Appendix A).



- 6.8.4 Related Transaction Notification requirements are in addition to the pecuniary interests and conflicts of interest obligations in the Local Government Act 1993 and Code of Conduct.
- 6.8.5 The New South Wales Auditor General Office may audit related party information as part of the annual external audit.

## **6.9 Related Party Transactions**

- 6.9.1 Related Party Transactions are required to be disclosed, regardless of whether a price is charged. Such transactions may include:
- a) Purchase or sale of goods (finished or unfinished)
  - b) Purchase or sale of property and other assets
  - c) Rendering or receiving 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 in kind)
  - h) Provision of guarantees or collateral
  - i) Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised)
  - j) Quotations and/or tenders
  - k) Settlement of liabilities on behalf of QPRC or by QPRC on behalf of the related party
  - l) Expense recognised during the period in respect of bad debts
  - m) Provision for doubtful debts relating to outstanding balances
- 6.9.2 Should a KMP have any uncertainty as to whether a transaction may constitute a Related Party Transaction, they should contact the Service Manager Finance (CFO) who will, in consultation with the NSW Audit Office, make a determination.

## **6.10 Privacy and Access to Government Information (Public Access) Act 2009 (GIPA) Act**

- 6.10.1 Information provided by KMP's and other related parties shall be held by QPRC for the purpose of compliance with Council's legal obligation and shall be disclosed where required for compliance or legal reasons only.
- 6.10.2 Disclosures, Notifications and the Register are not available for public access under the GIPA Act.

## **7 REVIEW**

- 7.1 This policy will be reviewed every four years or earlier as necessary if:
- a) legislation requires it, or
  - b) Council's functions, structure or activities change.



**Appendix A: Related Parties Disclosure Form**

**PRIVATE AND CONFIDENTIAL**

**Name of Key Management Person (KMP):** \_\_\_\_\_

**Date:** \_\_\_\_\_

Name of related person or entity	Relationship with KMP (may be KMP themself)	Nature of transactions with Council	Estimated value of transactions with Council (please aggregate similar types of transactions, eg property rates)
Please add more lines or provide additional information, as required.			

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

## **Appendix B: Examples of Related Party Transactions**

Some specific examples of related party transactions may include:

- paying rates and utility charges in accordance with Council's Schedule of Fees and Charges
- using council's public facilities after paying the corresponding fees
- using the Council's public swimming pool after paying the normal fee
- parking fees at rates available to the general public
- attending Council functions that are open to the public
- fines on normal terms and conditions
- entering into leases with Council or Council owned properties
- entering into contracts to provide/receive goods/services to/from Council
- use of Council assets free of charge (e.g. office space (for personal reasons))
- writing off debts due to/by related parties

### ***Example 1 - Company that is a Related Party of Council***

QPRC owns 90% of the shares in Regional Development Pty Ltd (the Company).

QPRC has assessed that it has control over the company. The company is therefore a Related Party of QPRC because QPRC controls it.

QPRC produces consolidated financial statements which include both a parent entity column and consolidated entity column. In the statements all individually significant transactions between QPRC and the company will need to be disclosed. For other transactions that are collectively, but not individually, significant QPRC will need to disclose a qualitative and quantitative indication of their extent.

### ***Example 2 -Key Management Personnel – Close Family Members***

QPRC has recently employed Greg's son (Richard) in the Council's Works and Service area. Greg is Council's Chief Financial Officer but was not involved in hiring Richard. This process was managed by the Service Manager Culture and Performance and included an independent assessment process. Greg did not have any influence in Richard securing the job.

Greg has been identified as a KMP of Council, which makes him a Related Party.

Richard will also be a Related Party of Council because he is a close family member of Greg. The recruitment process that was undertaken for Richard's position is irrelevant when assessing whether Richard is a Related Party.

**Example 3 – Key Management Personnel – Close Family Members**

The Mayor of QPRC (Matilda) has lived in the Local Government Area her whole life. In fact her family has been in the area for over three generations.

Matilda's cousin Sally, owns and operates a local newsagent through a company Today's News Pty Ltd, of which she is 100% owner. Matilda and Sally have always been close and regularly socialise.

Matilda has been identified as a KMP of the Council. Sally is classified as a Close Family Member of Matilda because she would be able to influence, or be influenced by, that person with her dealings with Council.

Both Sally and the Company she controls, Today's New Pty Ltd would be Related Parties of the Council. Any transactions that the Council makes with the newsagent would need to be separately identified and need to be disclosed.

**Example 4 - Entities that are Controlled or Jointly Controlled by KMP or their Close Family Members**

The Mayor of QPRC (Matilda) is the President of Googong Football League Inc, the local soccer club. The club is overseen by a committee which comprises the President and five 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 850 members that each have a vote in electing the committee members at the club's annual general meeting.

The Mayor does not control or jointly control the football club so it will not be a Related Party of Council just because the Mayor is the President of the club.

However, an entity where Matilda has a Close Family Member who has a voting right they would be considered as a Related Party.

**Example 5 - Different Party Transactions that may occur between Related Parties**

The Council's functions include raising revenue to fund its functions and activities, and planning for and providing services and facilities (including infrastructure) for the local community. In carrying out its functions, the Council undertakes a wide range of activities including the imposition of rates and charges upon constituents, and the provision without charge of services such as parks and roads.

Councillor Paul is a ratepayer residing within the Council's constituency. As such, Councillor Paul takes advantage of the availability of free public access to local parks and libraries. Councillor Paul also used the swimming pool at the Council's Recreation Centre twice during the financial year, paying the casual entry fee applicable to the general public each time. The recreation centre has approximately 20,000 visitors each financial year.

All of the transactions described above between the Council and Councillor Paul are related party transactions of the Council considered for disclosure in the Council's general purpose financial statements. Based on the facts and circumstances described, the Council may determine that these transactions are unlikely to influence the decisions that users of the Council's financial statements make having regard

to both the extent of the transactions, and that the transactions have occurred between the Council and Councillor Paul within a public service provider/taxpayer relationship.

***Contentious Issues***

Note: where there are contentious issues in the determination of Related Party Disclosures Council should seek advice from the External Auditor.

When assessing whether a KMP or Close Family Member controls, or jointly controls, an entity Council will need to refer to AASB 10 and AASB 11.