

**1/028    Related Party Disclosures****Objective**

The scope of Australian Accounting Standard Board 124 ('AASB 124') *Related Party Disclosures* was extended in July 2015 for application to not-for-profit entities, including local governments. The operative date for Local Government is 1 July 2016, with the first disclosures to be made in the Financial Statements for the financial year ending 30 June 2017. Disclosures to be recorded in its Annual Financial reports, related party relationships, transactions and outstanding balances. This procedure outlines required mechanisms to meet the disclosure requirements of AASB 124.

**Content*****1. Background***

The objective of the standard is to ensure that an entity's financial statements contain disclosures necessary to draw attention to the possibility its financial position and profit or loss may have been affected by the existence of related parties and transactions.

Related party disclosure differs from a conflict of interest in that a conflict need not exist for a related party relationship to be present. That is, the presence of the relationship alone warrants its disclosure and is regardless of whether a transaction has occurred or not. This is to foster transparency and accountability.

For each financial year, the Town must make an informed judgement to identify who it considers to be key management personnel. It is these personnel who are then required to complete the disclosure of related parties and transactions.

The purpose of this procedure is to identify key management personnel, related parties and transactions in the assessment process of AASB 124.

***2. Identification of Key Management Personnel***

The Western Australian Department of Local Government and Communities define Key Management Personnel ('KMP') as personnel who have the authority and responsibility to plan, direct, control and influence the activities of Council, either directly or indirectly. The KMP need not necessarily be a member of the executive team of Council.



The Town of Port Hedland has identified the following persons as meeting the definition of a KMP:

- An elected member of Council or a Committee; and
- Persons employed under section 5.36 of the *Local Government Act 1995* in the capacity of the Chief Executive Officer or a Director of the Town of Port Hedland.

All local government entities are required to capture the related party disclosure of all identifiable KMPs for the previous financial year reporting period. This is irrespective if the personnel are no longer a current employee or elected member.

### ***3. Identification of Related Parties***

The KMP must identify related parties with whom their relationship may have an element of significant influence that may impact the reporting entity (Council), a KMP, or a close friend or family member of the KMP. The impact may be real, perceived or potential. The extent of the influence must be significant and not minor.

The Town of Port Hedland has identified the following parties as meeting the definition of a related party:

- Close members of family include the person's child, spouse or domestic partner and the children or dependents of a spouse or domestic partner.
- Entities that are controlled or jointly controlled by an elected member of a Committee or Council, KMP or their close family members, such as companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs.

Any declarations involving these related parties will have any associated transactions assessed.

### ***4. Identification of Transactions***

#### ***Related Party Transactions***

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

For the purposes of determining whether a related party transaction has occurred, the following transactions or provision of services have been identified as meeting this criteria:

- Paying rates
- Fines
- Use of Town owned facilities such as [Recreation Centre, Civic Centre, library, 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 Town for licences, approvals or permits
- Lease agreements for housing rental (whether for a Town owned property or property sub-leased by the Town through a Real Estate Agent)
- Lease agreements for commercial properties
- Monetary and non-monetary transactions between the Town 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 Town (trading arrangement)
- Sale or purchase of any property owned by the Town, to a person identified above.
- Sale or purchase of any property owned by a person identified above, to the Town
- Loan Arrangements
- Contracts and agreements for construction, consultancy or services

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 the Town 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.

#### *Ordinary Citizen Transactions (OCTs)*

Transactions with related parties of Council which are of a nature that any ordinary citizen would undertake will not be captured and reported. These transactions are not material transactions because of their nature. However, if the OCT occurs on terms and conditions that are different to those offered to the general public the transaction may become material and subsequently disclosed.

Ordinary Citizen Transactions shall include:

- Paying rates
- Fines
- Use of Town owned facilities such as Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)
- Attending council functions that are open to the public

Where these services were not provided at arm's length and under the same terms and conditions applying to the general public, Elected Members and KMP will be required to make a declaration in the Related Party Disclosures - Declaration form about the nature of any discount or special terms received.

## **5. Disclosure Requirements**

KMPs are required to complete the 'AASB Related Party Disclosures Declaration form' at the end of each financial year, commencing for the 2016/2017 financial year. KMPs may additionally be required to complete the declaration form at other intervals, such as elections coinciding with a change in elected members and the employment cessation of senior management.

The form will be assessed by the financial services business unit of the Town of Port Hedland.

OCT transactions involving a related party and all non-OCT transactions must be specified on the declaration form.

### *Confidentiality*

All information contained in a disclosure form will be treated in confidence. All data stated in the annual financial reports will be described in an aggregate, non-identifiable manner. Management has discretion to request additional information from a KMP in regards to the disclosure of a transaction to determine materiality.

## **6. Materiality**

The financial services business unit of the Town of Port Hedland will determine the materiality of disclosed transactions. Consideration will be given to both the size and nature of the transaction, individually and collectively. Assessing materiality of transactions as OCT are to be completed in consultation with the Audit, Risk and Governance Committee.

### Definitions

Nil.

Relevant legislation	Australian Accounting Standard Board 124 (AASB 124)
Delegated authority	Nil
Business unit	Financial Services
Directorate	Corporate and Performance



*Governance to complete this section*

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