

RELATED PARTY DISCLOSURES

Previous policy number: 1.5.2

Policy Statement

Related party disclosures are required under Australian Accounting Standard AASB 124 *Related Party Disclosures July 2015*. The Town of Mosman Park aims to ensure transparency and accountability of related party transactions through this Policy.

Objective

To engender a co-ordinated and consistent approach to the assessment of requests for financial support received from applicants to ensure that support is allocated in a way that is equitable, accountable and provides long term community benefit.

Policy Details

Background

The scope of AASB 124 *Related Party Disclosures* was extended in July 2015 to include application by 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 year ended 30 June 2017. This procedure outlines required mechanisms to meet the disclosure requirements of AASB 124.

Objective

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

Policy Principles

The disclosure requirements apply to the existence of relationships regardless of whether a transaction has occurred or not. For each financial year, the Town of Mosman Park (Town) 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.

Policy Guidance

Identification of Related Parties

AASB 124 provides that the Town will be required to disclose in its Annual Financial reports, related party relationships, transactions and outstanding balances.

Related parties includes a person who has significant influence over the reporting entity, a member of the key management personnel (KMP) of the entity, or a close family member of that person who may be expected to influence that person.

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

Identification of Related Party Transactions

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 Community Centres, library, parks, ovals and other public open spaces.
- 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.
- 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.
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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 armslength, 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.

Disclosure Requirements

For the purposes of determining relevant transactions in section 6.2 above, elected Council members and key management personnel as defined above, will be required to complete a *Related Party Disclosures - Declaration* form for submission to financial services.

For each category of related party transactions defined as a related party above, Council will disclose the following information in Council's Financial Statements:

- The nature of the related party relationship;
- The amount of the transactions;
- The amount of outstanding balances, including commitments, and:
 - their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - details of any guarantees given or received;

- provisions for doubtful debts related to the amount of outstanding balances; and
- The expense recognised during the period in respect of bad or doubtful debts due from related parties.

For each related party category, Council will disclose information specified for related party transactions of a similar nature in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the Financial Statements of Council, having regard to the following criteria:

- The nature of the related party relationship;
- The significance of the transaction (individually or collectively) in terms of size or value (including where the materiality arises due to the fact that no consideration for the transaction is given or received by Council);
- Whether the transaction is carried out on non-arm's length terms;
- Whether the nature of the transaction is outside normal day-to-day business operations, based on the factors and thresholds under the direction of the Responsible Accounting Officer in consultation with Council's external auditor.

Ordinary Citizen Transactions (OCTs)

Management will put forward a draft resolution to Council annually, declaring that in its opinion, based on the facts and circumstances, the following OCT that are provided on terms and conditions no different to those applying to the general public and which have been provided in the course of delivering public service objectives, are unlikely to influence the decisions that users of the Council's financial statements make. As such no disclosure in the quarterly *Related Party Disclosures - Declaration* form will be required.

- Paying rates.
- Fines.
- Use of Town owned facilities such as Community Centres, 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 arms-length and under the same terms and conditions applying to the general public, elected Council 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.

All other transactions

For all other transactions listed in section 6.2 above, elected Council members and KMP will be required to make a declaration in the *Related Party Disclosures - Declaration* form.

Frequency of disclosures

Elected Council members and KMP will be required to complete a *Related Party Disclosures - Declaration* form on an annual basis.

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

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

Materiality

Management will apply professional judgement to assess the materiality of transactions disclosed by related parties and their subsequent inclusion in the financial statements.

In assessing materiality, management will consider both the size and nature of the transaction, individually and collectively.

Definitions

Control: Control of an entity is present when there is:

- (a) power over the entity
- (b) exposure, or rights, to variable returns from its involvement with the entity; and
- (c) the ability to use its power over the entity to affect the amount of the entity's returns.

Joint Control: The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint Venture: A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Key Management Personnel: are defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. Specifically, KMP of Council are the: Mayor; Councillors; Chief Executive Officer and Executive Managers.

Power: When the investee has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee's returns.

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

- An elected Council member.
- Key management personnel (KMP) being a person employed under section 5.36 of the Local Government Act 1995 in the capacity of Chief Executive Officer or Executive Manager.
- Close members of the family of any person listed above, including that person's child, spouse or domestic partner, children of a spouse or domestic partner,

dependents of that person or person's spouse or domestic partner.

- Entities that are controlled or jointly controlled by a Council member, KMP or their close family members. (Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs).

Related Party Transaction: A transfer of resources, services or obligations between the Town (reporting entity) and the related party, regardless of whether a price is charged.

Significant influence: The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

Governance References

Statutory Compliance	AASB 124 Related Party Disclosures <i>Local Government Act 1995</i> Local Government (Financial Management) Regulations 1996
Organisational Compliance	Code of Conduct Council Procedure - Related Party Disclosures

Policy Administration

Directorate:		Officer title:
Corporate Services		Executive Manager
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1	26 September 2017	OCM-150-2017
2		
3		