Policy – AASB 124
Related Party Disclosure

CITY OF Armadale

Policy - AASB 124 Related Party Disclosures

Objective

To provide clear direction on the interpretation and application of AASB 124 – Related Party Disclosures, so that the City's annual financial report contains the disclosures necessary to draw attention to the possibility that its financial position and financial performance may have been affected by related party relationships and/or transactions and outstanding balances, including commitments.

Note:

- The disclosure requirements under AASB 124 are additional and separate to the disclosure requirements under *Division 6 – Disclosure of financial interests - of the Local Government Act 1995.*
- AASB 124 is not designed to detect and report on fraud or misconduct. It is more so to enhance transparency and accountability of Council transactions

Scope

To identify related parties and transactions, outstanding balances and the disclosure requirements in line with AASB 124 – Related Party Disclosures.

Policy

Background

The objective of AASB 124 is to ensure that an entity's financial statements contain the 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 by transactions and outstanding balances, including commitments, with such parties.

Related Party Disclosures

The City must undertake the following:

(a) Identification of Related Party relationships;
(b) Identification of transactions and outstanding balances/commitments with Related Parties;
(c) Assessment of materiality of the transactions and outstanding balances/commitments; and
(d) Determine the level of disclosure required.

Identification of Related Parties

<u>Related parties</u>

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

Related parties to the City include:

(a) Entities where the entity is set up, controlled or is significantly influenced by the City;
(b) Key Management Personnel (KMP) of the City;
(c) Close family members of KMP; and
(d) Entities that are controlled or jointly controlled by KMP or their close family members.

Entities

When determining whether an entity is a related party, consideration needs to be given to the position of the KMP, close family members or the City in respect of control and influence. The following definitions apply:

(a) Joint Control – 'is 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'.
(b) Significant influence – 'is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies'.

Key Management Personnel

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

The following persons are defined as being KMP:

(a) All Elected Members
(b) Chief Executive Officer
(c) All Executive Directors

Close Family Members

Close family members of a KMP are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) That person's children and spouse or domestic partner;
(b) Children of that person's spouse or domestic partner; and
(c) Dependents of that person or that person's spouse or domestic partner.

Entities and KMP

Entities (including companies, trusts, joint ventures, partnerships and not-for-profit associations) controlled or jointly controlled by KMP or their close family members are also considered related parties.

Related party transactions

Related party transactions

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.

Related party transactions that are to be disclosed are business transactions with the City by:

(a) KMP;
(b) Close family members of KMP, or
(c) Entities either controlled or jointly controlled by KMP or their close family members, where the dollar value of the transaction(s) with the City during the disclosure period is $10,000 or more.

The following are examples of related party transactions:

(a) Paying rates.
(b) Fines.
(c) Use of City of Armadale owned facilities such as [Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)].
(d) Attending council functions that are open to the public.
(e) Employee compensation whether it is for KMP or close family members of KMP.
(f) Application fees paid to the City of Armadale for licences, approvals or permits.
(g) Lease agreements for housing rental (whether for a City of Armadale owned property or property sub-leased by the City of Armadale through a Real Estate Agent).
(h) Lease agreements for commercial properties.
(i) Monetary and non-monetary transactions between the City of Armadale 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 City of Armadale (trading arrangement).
(j) Sale or purchase of any motor vehicles, buildings or land owned by the City of Armadale, to a person identified above.
(k) Sale or purchase of any motor vehicles, buildings or land owned by a person identified above, to the City of Armadale.
(l) Loan Arrangements.
(m) Contracts and agreements for construction, consultancy or services.

<u>Ordinary Citizen Transactions</u>

The City acknowledges that there are related party transactions that also satisfy the definition of an Ordinary Citizen Transaction (OCT). An OCT is a transaction that occurs on terms and conditions no different to those applying to the general public, and has been provided in the course of delivering the City's services. The City will not disclose such related party transactions in the financial statements.

The following transactions with related parties are OCT's and do not need to be disclosed:

(a) Payment of rates, Emergency Services Levy, refuse collection fees, and any other charges which may be levied on all or part of the community.
(b) Fines and infringements.
(c) Use of City owned facilities (e.g. recreation facilities, libraries, waste transfer station, parks and open spaces).
(d) Attending Council functions that are open to the public.
(e) Application fees paid to the City for licences, approvals or permits.

Declarations

KMP will be required to complete a 'Related Party Disclosure Declaration' form and is to be lodged with the Chief Executive Officer by the 31st July immediately following the last completed financial year ended 30 June to which the disclosure relates.

This is subject to the following:

(a) Elected Members whose term of office is expiring must make a declaration immediately prior to the election.
(b) KMP who are leaving the organisation must make a declaration prior to the cessation of employment.

The onus for lodging by the due date each year an accurate and complete Related Party Disclosure Declaration Form rests with each KMP.

Materiality

Management will apply professional judgement to assess the materiality of transactions disclosed by related parties and their subsequent inclusion/exclusion in the financial statements. In assessing materiality consideration will be given the size and nature of the transaction or a combination of both.

Transactions which are subjected to materiality decisions will be discussed with the Audit and Risk Committee.

Discretionary Disclosures

Are those where there is no dollar transaction value or the transaction dollar value is less than $10,000. KMP should consider not just the financial amount, but whether knowledge of the transaction could influence a user's understanding of the impact on the financial report. The 'press test' may be a form of assessment/judgement exercised, ie. if not disclosed, would it be news worthy?

Compensation Reporting in the Annual Financial Report

The 'compensation' either paid or provided to KMP such as the CEO and Executive Directors both in total and for each of the following (4) categories will be reported in the annual financial report, i.e.

(a) Short-term employee benefits;
(b) Post-employment benefits;
(c) Other long term benefits;
(d) Termination benefits;

and there is no 'compensation' reporting for KMP that are Elected Members, as elected members are not employees of the City and the fees, allowances and reimbursements made to elected members are already shown as a note in the annual financial report.

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 the materiality. Individuals may be specifically identified, if the disclosure requirements of AASB 124 so demands.

Applicable legislation

Act	*Local Government Act 1995* section 2.7 – The Role of Council
Regulation	*Local Government (Financial Management) Regulations 1996* Australian Accounting Standard – AASB 124
Local law	
Related Policy	

Delegation of Power

Nil

Link to influencing strategies or plans

Corporate Business Plan

Outcome 4.3 Financial sustainability

Outcome 4.1 Visionary civic leadership and sound governance

Link to procedure

Nil

Other implications

Financial/Budget Implications

Nil

Asset Management Implications

Nil

Environmental Implications

Nil

Occupational Safety and Health Implications

Administrative information

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Reviewed or amended	
Responsible department	Finance