



8. FINANCE

Policy 8.8

RELATED PARTIES
DISCLOSURE

Version 1

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8.8 RELATED PARTIES DISCLOSURE POLICY

1. Objective

The objective of the Policy is to ensure that the existence of certain related party relationships, related party transactions and information about the transactions, necessary for users to understand the potential effects on the Financial Statements are properly identified, recorded in Council's systems, and disclosed in Council's General Purpose Financial Statements to achieve legislative compliance.

2. Legislative and Regulatory Requirements

- Local Government Act 1993 and Local Government (General) Regulation 2005
- Accounting Standard AASB 124 Related Party Disclosures
- Accounting Standard AASB 10 Consolidated Financial Statements
- Accounting Standard AASB 11 Joint Arrangements
- Privacy and Personal Information Protection Act 1998 (PPIPA)
- Government Information (Public Access) Act 2009 (GIPA Act)

3. Related policies and plans

- Policy 9.6 - Provision of information to and Interaction between Councillors and Staff
- Code of Conduct
- Policy 9.8 - Records Management
- Policy 9.11 - Access to Information Held

4. Definitions

Related Parties

A person or entity that is related to the entity that is preparing its financial statements i.e. a related party is a party that exhibits control or joint control, or significant influence over the reporting entity or key management personnel of the reporting entity.

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.

Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. Council's KMP would include the Mayor, Councillors, General Manager and Group Managers or any personnel who act in a KMP role for three months consecutively or more.

Close Family Members

Close family members are people who can be expected to influence or be influenced by key management personnel and include that person's children and spouse or domestic

partner; children of that person's spouse or domestic partner; and dependants of that person or that person's spouse or domestic partner.

KMP Compensation

Compensation includes all employee benefits (as defined in AASB 119 Employee Benefits) and include all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. They include short term employment benefits e.g. wages etc; post employment benefits e.g. pensions; other long term benefits e.g. long service leave; and termination benefits.

Arm's length transaction

Is a transaction between two related parties that is conducted as if they were unrelated, so that there is no question of conflict of interest.

Control

Is the power to govern the financial and operating policies of an entity so as to obtain benefits from it's activities.

Joint control

Is the contractually agreed sharing of control over an economic activity

Significant influence

Is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

Responsible Accounting Officer

A position of Council that has legislative responsibilities under the Local Government (General) Regulation 2005.

Material transaction

Transactions assessed as material based on some or all of the following criteria

- Significance in terms of size
- Carried out on non-market terms
- Outside normal day to day business operations
- Disclosed to regulatory or supervisory authorities
- Reported to senior management

5. Policy Statement

Related Party relationships are a normal feature of business. Related parties may enter into transactions that unrelated parties would not. Therefore a related party relationship has potential to have an effect on the profit or loss and financial position of Council.

In addition, the profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties.

For these reasons, knowledge of Council's transactions and outstanding balances (including commitments and relationships with Related Parties) may affect the assessment of Council's operations by users of Financial Statements, including assessments of the risks and opportunities facing the Council.

This policy aims to achieve compliance with the disclosures requirements of AASB 124 by executing the following steps:

- (a) Identifying related party relationships and transactions.
- (b) Identifying outstanding balances, including commitments between an entity and its related parties.
- (c) Identifying the circumstances in which disclosure of the items in (a) and (b) is required.
- (d) Determining the disclosures to be made about those items.

6. Related Parties

6.1 Identification of Key Management Personnel (KMP)

KMP for Lithgow City Council are considered to include:

- The Mayor
- Councillors
- General Manager
- Group Managers

6.2 Identification of Related Parties

A person or entity is considered a related party of Council if any of the following conditions apply:

- (a) They are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (b) They are an associate or belong to a joint venture which Council is part of.
- (c) They and Council are joint ventures of the same third party.

- (d) They are part of a joint venture of a third party and Council is an associate of the third party.
- (e) They are a post-employment benefit plan for the benefit of employees of either Council or an entity related to Council.
- (f) They are controlled or jointly controlled by close or possibly close members of the family of a person with significant influence over Council or a close or possibly close member of the family of a person who is a KMP of Council.
- (g) They are identified as a close or possibly close member of the family of a person with significant influence over Council or a close or possibly close member of the family of a person who is a KMP of Council.
- (h) They, or any member of a group which they are a part, provide KMP services to Council.

For the purposes of this Policy, related parties of Council are:

- (a) Entities related to Council.
- (b) KMP of Council.
- (c) Close family members of KMP.
- (d) Possible close family members of KMP.
- (e) Entities or persons that are controlled or jointly controlled by KMP, or their close family members, or their possible close family members.

Please see Appendix 1 for examples of common related parties of Council.

KMP will identify all entities that are controlled or jointly controlled by close family members through the self-assessment process. Should uncertainties or any other contentious issues arise during this process the KMP are responsible for discussing this with Council's Responsible Accounting Officer who can consult Council's external auditor for clarification if necessary.

6.3 Annual Review of Related Parties

A review of KMP and their related parties will be completed at the beginning of each Financial Year. Whereby the identified KMP will be required to complete the Related Party Declaration (See Appendix 2) by 31 July and present this to Council's Financial Services Manager.

The method of identifying the close family members and associated entities of KMP will be by KMP self-assessment. KMP are responsible for keeping the Financial Services Manager updated when any changes to those related parties occur outside of those times.

Particular events, such as a change in Councillors, General Manager, or Group Managers will also trigger a review of Council's related parties immediately following such an event. Council's Responsible Accounting Officer will be responsible for identifying Council subsidiaries, associates and joint ventures.

Council's Financial Services Manager will maintain a register of all declared and identified related parties.

7. Related Party Transactions

7.1 Types of Transactions

The following are examples of transactions that are disclosed if they are transacted with a related party:

- Purchase or sale of goods
- Purchase or sale of property and other assets
- Rendering or receiving services
- Leases
- Quotations and/or tenders
- Commitments
- Settlements of liabilities on behalf of Council or by Council on behalf of the related party
- Grants and subsidy payments made to associated entities of Council
- Non-monetary transactions
- Compensation made to key management personnel and their close family members.

7.2 Materiality of Transactions

AASB 124 grants Council discretion to use their judgement when determining the level of detail to be disclosed in the financial statements. It should be noted that Materiality is not simply determined by the value of a transaction, many other factors are considered. As well as considering the closeness of the related party relationship other factors to be considered when assessing related party transactions are:

- Significant in terms of size
- Carried out on non-market terms
- Outside normal day-to-day business operations, such as the purchase and sale of businesses
- Disclosed to regulatory or supervisory authorities
- Reported to senior management
- Subject to shareholder approval

7.3 Ordinary Citizen Transactions

Ordinary citizen transactions are those transactions that are made on an arm's length basis between Council and related parties that an ordinary citizen of the community would transact with the Council.

Examples of these are rates payments for properties owned by the related party and dog registration payments.

Council will identify all transactions between Council and related parties. Any that are deemed to be ordinary citizen transactions will not typically be required to be disclosed in the annual financial report.

Transactions between Council and related parties that would normally be considered to be ordinary citizen transactions where the terms and conditions differ from normal practice will not

be considered to be an ordinary citizen transaction for the purposes of this policy. These will be disclosed in Council's annual financial statements in the related party disclosure.

Please note that KMP are still required to notify the Financial Services Manager of these transactions via the process outlined below and the determination of whether or not disclosure is required is vested with the Group Manager Community and Corporate, Responsible Accounting Officer and Financial Services Manager. Should uncertainties or any other contentious issues arise during the process the KMP's are responsible for discussing this with Council's Responsible Accounting Officer who can consult Council's external auditor for clarification if necessary.

7.4 Identification of all Related Party Transactions

All related party transactions will be captured to allow a full assessment of transactions that are to be included in the related party disclosure per the disclosure requirements contained in AASB 124.

This will also allow Council's external auditors to perform a full analysis of the entire process that results in the related party transaction disclosure.

All KMP will be required to complete and submit a Related Party Transaction Declaration (Appendix 3) to the Financial Services Manager, a notification advising of any known related party transactions that have occurred in the past 6 month period and any related party transactions that have the potential of occurring in the next 6 month period. A Nil notification will be required to be submitted to the Manager Financial Services if no transactions are required to be reported.

These notifications will be due to the Financial Services Manager by 31 January and 31 July covering the reporting periods from 1 July to 31 December and 1 January to 30 June respectively.

To ensure all related party transactions are captured and recorded, the Manager Financial Services is responsible for reviewing, if required, other sources of information held by Council including without limitation:

- A register of related parties or KMP and of persons related to the KMP
- Council's pecuniary interest returns
- Minutes of Council and Committee meetings
- Council's Contracts Register

Council's Financial Services Manager will maintain a register of all declared and independently identified related party transactions.

8. Required Disclosures and Reporting

AASB124 provides that Council must disclose the following financial information in its financial statements for each financial year period.

1. *Disclosure of any material related party transactions* – if there have been material transactions between related parties, Council must disclose the nature of the relationship with the related party, as well as sufficient information about the transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

2. *KMP Compensation Disclosures* – must disclose in the financial statement KMP compensation in total for each of the categories.

If an elected member or staff member is affected by the related party disclosure they will be given a copy of the disclosure to comment before the external audit is finalised. All comments will be considered, however, any deviations from the standard policy will not be included in the final disclosure. The General Manager will give the final approval of what will be contained in the disclosure.

9. Information Privacy

9.1 Confidentiality

The following information is classified as confidential and is not available for inspection by or disclosure to the public, including through a GIPA Act application.

- (a) Information (including personal information) provided by a KMP in a related party disclosure.
- (b) Personal information contained in a register of related party transactions.

9.2 Storage of information

Declarations and registers pertaining to the Council's related parties and related party transactions will be maintained within a secure and confidential location of Council's records management system.

9.3 When consent is required

Except as specified in this Policy, Council and other permitted recipients will not use or disclose personal information provided in a related party disclosure by a KMP or contained in a register of related party transactions for any other purpose or to any other person except with the prior written consent of the subject KMP.

9.4 Permitted Recipients and Permitted Purposes

For the purpose of this policy the following persons are permitted to access, use and disclose the information (including personal information) provided in a related party disclosure or contained in a register of declared related parties and/or related party transactions.

- (a) The General Manager
- (b) The Group Manager Corporate & Community and the Financial Services Manager
- (c) Public Officer
- (d) An Auditor of Council (including an Auditor from the NSW Auditor General's Office).

For the purpose of this policy any person specified above may access, use and disclose information (including personal information) in a related party disclosure or contained in a register of declared related parties and/or related party transactions for the following purposes.

- (a) To access and verify a notified related party transaction.

- (b) To reconcile identified related party transactions against those notified in a related party disclosure or contained in a register of related party transactions.
- (c) To comply with the disclosure requirements of AASB124.
- (d) To verify compliance with the disclosure requirement of AASB124.

9.5 Government Information (Public Access) Act Status

The following documents are not open to or available for inspection by the public:

- (a) Related party disclosures provided by a KMP.
- (b) A register of related party transactions.

A GIPA Act application seeking access to:

- (a) A document or information (including personal information) provided by a KMP in a related party disclosure.
- (b) Personal information contained in a register of related party transactions.

will be refused on the grounds that the documents or information comprises information for which there is an overriding public interest against disclosure pursuant to Section 14 of GIPA Act.

A GIPA Act application seeking access to, and release of, transactional information and documentation about the subject of a related party transaction with Council will be considered assessed and decided in accordance with Council's usual procedures regarding applications made under the GIPA Act.

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