

# Related Party Disclosures

**Appendices 1 through to 8**

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## Appendix 1

### Who and What are Related Parties of council?

People and entities, such as companies, trusts and associations, can be related parties of council.

This appendix identifies most common related parties that a council will have, however councils must consider the detail contained in AASB 124 to ensure all related parties are identified.

The most common related parties of a council will be

1. Entities related to council
2. Key Management Personnel (KMP) of council
3. Close family members of KMP; and
4. Entities that are controlled or jointly controlled by KMP or their close family members.

#### Entities related to council

Entities controlled by council, jointly controlled by council or over which council has significant influence are related parties of council. Council will need to identify transactions with these entities and may need to make extra disclosure about them in council's financial statements.

When assessing whether council has control or joint control over an entity council will need to consider AASB 10 and AASB 11. AASB 128 details the criteria for determining whether council has significant influence over an entity.

#### **Example 1 (Company that is a related party of council)**

Sunny Regional Council (SRC) owns 90% of the shares in Sunny Regional Development Pty Ltd (the company).

SRC has assessed that it has control over the company. The company is therefore a related party of SRC because SRC controls it.

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

SRC must also disclose the nature of its relationship with the company.

## Key Management Personnel

Key management personnel (KMP), close family members of each KMP and entities that are related to KMP or their close family members are also related parties.

KMP are defined as

- **persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly**

It is likely that all Mayors, Councillors and Chief Executive Officers will be KMP of their councils. Other senior executives are also likely to be KMP, depending upon the council's structure, delegations and position descriptions. Each council will need to use judgement to decide which individuals meet the definition of KMP.

### Example 2 (Audit committee member)

Sunny Shire Council's audit committee comprises two Councillors and a local retired accountant, Fred. Fred has no other connection with the council.

The audit committee attends to the functions as required under the *Local Government Regulation 2012*. It does not make any decisions on behalf of the council but simply provides reports, with recommendations, for the Mayor and councillors to consider.

Based on the facts outlined Fred would not be a KMP of council.

## Close family members of KMP

Close family members are defined as:

- **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) **dependants of that person or that person's spouse or domestic partner.**

### Example 3 (Son of CFO employed by council)

Sunny Shire Council has recently employed Paul's son (George) in the Council's parks and garden's area. Paul is Council's Chief Financial Officer but was not involved in hiring George. This process was managed by the Director of Parks and Gardens and included an independent assessment process. Paul did not have any influence in George securing the job.

Paul has been identified as a KMP of council, which makes him a related party.

George will also be a related party of Council because he is a close family member of Paul. The recruitment process that was undertaken for George's position is irrelevant when assessing whether George is a related party.

**Example 4 (Cousin of Mayor)**

The Mayor of Happy Shire Council (Shelley) has lived in the Shire her whole life. In fact her family has been in the area for over five generations.

Shelley's cousin Mavis, owns and operates the local newsagent through a company Happy News Pty Ltd, in which she owns 100% of the shares. Shelley and Mavis have always been close and regularly socialise together.

Shelley has been identified as a KMP of council. From these facts it would appear that Mavis is a close family member of Shelley because she would be expected to influence, or be influenced by, that person in her dealings with Council

Both Mavis and the company she controls, Happy News Pty Ltd would therefore be related parties of Council. Any transactions that the Council makes with the newsagent would need to be separately identified and may need to be disclosed.

**Register of Interests and Related Parties**

*The Local Government Regulation 2010* requires a register of interests to be kept for Councillors, Chief Executive Officers, senior executive employees and people related to those Councillors, Chief Executive Officers and senior executive employees.

Council's related parties may be different to the people for whom these registers are kept.

*For example*, a senior employee may be considered to meet the definition of KMP when council's structure, delegations and that person's duties are considered. However that person may not meet the definition of senior executive employee in the *Local Government Act 2009*. In this case the senior employee would not need to record details in a register of interests, but that person would be considered a related party for disclosure under AASB 124.

*Another example* of differences between these requirements relates to the children of KMP. All children of KMP are related parties of council, however only children that are totally or substantially dependent on that person (if identified as requiring a register of interests) would be required to have a register of interests maintained.

## Entities that are controlled or jointly controlled by KMP or their close family members

Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs.

When assessing whether a KMP or close member of their family controls, or jointly controls, an entity council will need to refer to AASB 10 and AASB 11.

### **Example 5 (Mayor is the President of a local football club)**

The Mayor of Sunny Shire Council is the President of League Heroes Inc, the local football club. This club is overseen by a committee which comprises the President and four 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 100 members that each have a vote in electing the committee members at the club's annual general meeting.

From these facts it would appear that 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.

Councils will need to exercise judgement to identify related parties and should discuss any contentious issues and uncertainties with the external auditor as early as possible.

*Appendix 2 contains a table that lists common related parties of councils.*

## Appendix 2

### Common Related Parties of councils

| Likely to be a Related Party of council   | May be a Related Party of council  |
|---|--|
| Councillors (including the Mayor)   | Senior staff (if they are KMP they are a related party)  |
| Chief Executive Officer (CEO)   | Other family members of the Councillors, CEO and senior staff that are KMP (if the family member may be expected to influence, or be influenced by, that person in their dealings with Council, then they are a related party) |
| Children of the Mayor, Councillors and the CEO  |  |
| Spouse/Domestic Partners of the Mayor, Councillors and the CEO                            |  |
| Dependents of the Mayor, Councillors and the CEO  |  |
| Dependents of a Spouse/Domestic partner of the Mayor, a Councillor or the CEO             |  |
| Children of a senior staff member that is a KMP   |  |
| Spouse/Domestic partners of a senior staff member that is a KMP                           |  |
| Dependents of a senior staff member that is a KMP   |  |
| Dependents of a Spouse/Domestic partner of a senior staff member that is a KMP            |  |
| Entities that are controlled or jointly controlled by a KMP or their close family member. |  |

***Disclaimer: This list identifies common related parties that a council will have, however councils must consider the detail contained in AASB 124 to ensure all related parties are identified.***

***There may be relationships that a council has which are not identified in this bulletin but still meet the definition of a related party.***



## Appendix 3

### Example of related party disclosures by a council

#### Note 103: Related party transactions

##### **(a) Subsidiaries**

The group consists of Sunny Shire Council and its wholly owned entities. Details of subsidiaries are disclosed in Note 21.

The following transactions occurred with subsidiaries:

During the year, Sunny Shire Council provided grants and subsidies to Subsidiary One Pty Ltd with a total value of \$24,358,736.

In addition, the amounts for goods and/or services supplied by Sunny Shire Council and, based on normal commercial terms and conditions to Subsidiary One Pty Ltd were as follows:

|                      |             |
|----------------------|-------------|
| Rental accommodation | \$1,956,333 |
| Refuse fees          | \$1,320,012 |

The Council also provides some free rental accommodation and administration services to Subsidiary One Pty Ltd.

Subsidiary One Pty Ltd is dependent on funding provided by Council. Funding support has been agreed to by the Council for the 2016-2017 financial year.

##### **(b) Key management personnel compensation**

|                              | 2017             |
|------------------------------|------------------|
|                              | \$               |
| Short-term employee benefits | 3,000,000        |
| Post-employment benefits     | 375,000          |
| Long-term benefits           | 300,000          |
| Termination benefits         | 0                |
| <b>Total</b>                 | <b>3,675,000</b> |

Detailed remuneration disclosures are provided in the annual report on pages 43 to 51.

## **(c) Transactions with other related parties**

Details of transactions between council and other related parties are disclosed below:

|   |    | <b>2017</b> |
|---|----|-------------|
|   |    | <b>\$</b>   |
| Fees and charges charged to associates  | #  | 986,225     |
| Fees and charges charged to entities controlled by key management personnel             | #  | 2,400,350   |
| Infrastructure contributions from entities controlled by key management personnel       | ## | 3,245,678   |
| Employee expenses for close family members of key management personnel                  | *  | 453,000     |
| Purchase of materials and services from entities controlled by key management personnel | ** | 5,230,012   |

Note Transactions that are individually significant, either because of their amount or nature, are included in the aggregate disclosure contained in this table but also need to be disclosed separately as illustrated in #,##,\* & \*\*below.

#The fees and charges charged to associates and entities controlled by key management personnel were in accordance with the schedule of fees and charges adopted by council. The total disclosed includes:

- infrastructure charges totalling \$1,230,000 paid by Progressive Development Company Pty Ltd, a company controlled by a close family member of Councillor Rosalind Jones. The company's development projects were assessed and approved in accordance with council's normal terms and conditions. Councillor Rosalind Jones declared her conflict of interest in this matter and did not participate in any decisions related to the company's application.
- an application fee for Boundary Realignment and another for material change of use. These applications were made by Better Homes Pty Ltd, a company controlled by the Mayor, Councillor David Dean. The applications relate to parcels of land in Taylor St, Bedford and Main St, Sofaville. These applications are currently being assessed by council.

## Green Developments Pty Ltd, a company jointly controlled by Councillor Fred Smith and a close family member during 2016-17, completed a new subdivision "Avondale Heights" in 2016-17. In accordance with the infrastructure agreement water and sewerage infrastructure, roads and some parks within the development were handed over to council. The fair value of this infrastructure at the hand over date was \$3,245,678.

\* All close family members of key management personnel were employed through an arm's length process. They are paid in accordance with the Award for the job they perform. The council employs 452 staff of which only 4 are close family members of key management personnel.

The Chief Executive Officer, Ms Doris Dean, is a close family member of the Mayor, Councillor David Dean. Ms Dean's compensation package has not been included in

this disclosure because it has been disclosed at b) Key Management Personnel compensation. Ms Dean was employed through an arm's length process and is compensated at a market salary that was determined by Salary Consultants Pty Ltd, an independent agent based in Cairns.

\*\*The consolidated entity purchased the following material and services from entities that are controlled by members of key management personnel. All purchases were at arm's length and were in the normal course of council operations:

- Rental of an office building
- Petrol. and
- Consultancy services

Included in the above are services purchased from Bright Water Pty Ltd amounting to \$520,000 during 2016-17. During this time Councillor Roger Jacobs was the owner of this business. All purchases were at arm's length, on normal terms and conditions and were in the normal course of council's operations. As at 30 June 2017 there were no amounts owed by council to the company.

### **(d) Outstanding balances**

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

|  |           |
|--|-----------|
| Employee expenses for close family members of key management personnel | \$7,323   |
| Entities controlled by key management personnel                        | \$753,000 |

No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

### **(e) Loans and guarantees to/from related parties**

Council does not make loans to or receive loans from related parties. No guarantees have been provided.

### **(f) Commitments to/from other related parties**

Council has no outstanding commitments to/from other related parties.

## Appendix 4

### Checklist for Related Party Disclosure Policy

*The Department suggests that councils adopt a policy about related party disclosure. This policy is not required by legislation and councils are free to choose what to include in such a policy, if one is adopted. The following checklist is provided to assist councils in considering what to include in their policy.*

#### **Identifying related parties**

Does the policy state how council staff will identify and capture changes in

**Tick**

1. Entities that are related to council?
2. Key management personnel (KMP)?
3. Close family members of KMP?
4. Entities that are controlled or jointly controlled by KMP or their close family members?
5. Does the policy consider how Councillors and staff will be kept informed if they are affected by the related party disclosure requirements, *for example*, will they be given a copy of intended disclosure for comment?

*Note: It is important to consider how changes in KMP, their close family members and related entities will be recorded. For example, how KMP advise council about changes to close family members or entities controlled by them.*

#### **Ordinary citizen transactions (OCTs)**

**Tick**

6. Will council capture OCTs with related parties (see process for capturing transactions with related parties below)?
7. Will council disclose OCTs with related parties above a certain threshold, or where terms and conditions differ from normal practice, or not at all? (Note: OCTs that are on different terms and conditions from normal could be material in nature and give rise to an audit issue if not disclosed)

#### **Does the policy**

**Tick**

8. Specify how council staff will identify OCTs (if not captured)?
9. Give examples of OCTs for council staff to follow?
10. Identify a process for regularly reviewing OCTs?

#### **Process to capture and record transactions with related parties**

**Tick**

11. Has the policy considered how council will capture related party transactions and determine their arm's length status (i.e. terms and conditions)?
12. In the accounting system?
13. Outside the accounting system (non-monetary transactions, contracts, service level agreements)?
14. Record keeping requirements?

#### **Privacy and Freedom of Information**

**Tick**

15. Does the policy consider privacy issues?
16. Has the council sought advice about freedom of information and other legal obligations?

## Appendix 5

### Suggested Steps to implement the related parties requirements

#### 1. Establish a system to identify and record related parties and related party relationships

Each council will need to establish a system to identify related parties and monitor changes on an on-going basis. This system will need to identify:

- a. Entities related to council
- b. KMP
- c. Close family members of KMP and their related entities

Council may wish to outline the system that will be used in the related party disclosure policy that is adopted. Alternatively, council's policy could simply specify that management are to implement a suitable system to identify related parties.

Initial identification of related parties should be done prior to 1 July 2016. It is important to document the process council uses to identify related parties and to provide this information to council's external auditors.

A review of related parties will then need to be made at regular intervals, preferably at least once every six months.

Sometimes a particular event, such as a change of Councillors, Chief Executive Officer or senior management or a corporate restructure, will trigger a change to council's related parties. It is appropriate to conduct a review of related parties immediately following such an event to identify the change to council's related parties.

The best way to identify the close family members and associated entities of KMP may be by KMP self-assessment.

*For example*, each KMP could make a regular declaration (Appendix 6). This declaration could also be used immediately following an event that triggers a change in KMP (for example, when a new Chief Executive Officer is appointed or following a council election where new Councillors are elected).

Appendix 7 contains an example fact sheet for KMP, which may assist them with making this declaration.

While a regular declaration form provides a system for identifying the close family members and controlled/jointly controlled entities of KMP, it should not be relied upon in isolation, as illustrated in example 6.

**Example 6 (Cousin of Mayor – related party commonly known but omitted from declaration)**

Shelley, the Mayor of Sunny Shire Council (from example 4) forgets to include her cousin Mavis, and Mavis' company, when she completes her KMP declaration.

It is commonly known in the community that Shelley and Mavis are close and that Shelley would be expected to influence, or be influenced by, Mavis in her dealings with Council and vice versa.

Mavis and her company are related parties of Council, even though Shelley omitted them from her declaration.

Each council needs to identify the most effective and appropriate way to determine council's related parties and for this information to be accurate and complete for financial reporting purposes. This could include consideration of the materiality of transactions that are likely to occur. Please note however that asking KMP to identify material transactions with their close relatives and related entities, at year end, will **NOT** be sufficient to meet audit requirements.

## 2. Identify ordinary citizen transactions, that will not be disclosed by council

Council may decide, in council's related party disclosure policy, that there are some transactions with related parties that do not need to be captured and reported. These transactions are those that an ordinary citizen would undertake with council (OCTs).

For example, if a Councillor were to walk their dog in a council owned park that would be a related party transaction. However, it is unlikely that users of the financial statements would be interested in this transaction. It is a taxpayer/government entity transaction that may be undertaken by any ordinary citizen.

OCTs are not material transactions because of their nature, and therefore council may wish to identify them upfront and exclude them from being recorded as a related party transaction (step 3). Note, however, that if the OCT were to occur on terms and conditions that are different to those offered to the general public the transaction may become material. Care needs to be taken in identifying these types of transactions.

If council decides to identify and exclude them up front, then council's policy will need to specify this. In addition the policy needs to either identify them or provide a framework so that management can identify them.

| <b>Examples of OCTs</b>  |
|--|
| 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                                 |
| Visiting a council art gallery                                       |
| Paying rates and utility charges                                     |

| Examples of transactions that are NOT OCTs  |
|---|
| Infrastructure charges                      |
| Purchase of goods, regardless of conditions |

### 3. Establish a system to identify and record related party transactions and related terms and conditions

The next step is to establish, or change existing systems so that related party transactions can be separately identified and reported.

This may be as simple as identifying related party transactions with a special code in council's accounting system.

Council will also need a system to:

- identify transactions that do not pass through council's accounting system
- identify the associated terms and conditions of the related party transactions.

### 4. Assess materiality of the related party transactions that have been captured

Prior to preparing the disclosure in the council's financial statements related party transactions should be assessed for materiality. Transactions that are not considered material do not need to be disclosed.

Assessing materiality requires judgement and should be done in consultation with council's external auditor and audit committee.

When assessing materiality, councils need to consider both the size and nature of the transaction, individually and collectively.

The term "material" is defined in AASB 101 *Presentation of Financial Statements* (AASB 101.7) and further guidance can be found in AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108.5) and the *Framework for the Preparation and Presentation of Financial Statements* (paragraph QC11). The International Accounting Standards Board has also recently released some guidance on materiality.

### 5. Make disclosure

The final step is to make the necessary disclosures in council's annual financial statements. *Appendix 3* provides example disclosures for a council.

Disclosures that councils will need to make include:

- 1) Relationships between a parent and its subsidiaries, irrespective of whether there have been transactions between them
- 2) KMP compensation in total and for each of the following categories:
  - Short-term employee benefits
  - post-employment benefits;
  - other long-term benefits; and
  - termination benefits
- 3) Where related party transactions have occurred:
  - The nature of the related party relationship
  - Information about the transactions, outstanding balances and commitments, including terms and conditions
- 4) Separate disclosure for each category of related party

- 5) The types of transactions disclosed such as:
- purchases or sales of goods
  - purchases or sales of property and other assets
  - rendering or receiving property and other assets
  - rendering or receiving goods
  - rendering or receiving of services
  - Leases
  - Guarantees given or received
  - Commitments
  - Loans and Settlements of liabilities
  - Expense recognised during the period in respect of bad debts
  - Provision for doubtful debts relating to outstanding balances



## Appendix 6

### Example declaration by Key Management Personnel

**Private and Confidential  
Related Party Declaration by Key Management Personnel**

Name of Key Management Person: *(insert name)*

Position of Key Management Person: *(insert name)*

*(List details of known close family members, entities that are controlled/jointly controlled by KMP and entities that are controlled/jointly controlled by the close family members of KMP)*

| Name person or entity | Relationship |
|-----------------------|--------------|
|-----------------------|--------------|

I *(insert full name)*, *(insert position)* declare that the above list includes all my close family members and the entities controlled, or jointly controlled, by myself or my close family members. I make this declaration after reading the fact sheet supplied by council which details the meaning of the words "close family members" and "entities controlled, or jointly controlled, by myself or my close family members".

Declared at *(insert place)* on the *(insert date)*

Signature of KMP:

Name of KMP

Date:

## Appendix 7

### Example Fact Sheet – Related Party Disclosures for Key Management Personnel

From 1 July 2016 local governments (councils) must disclose related party relationships, transactions and outstanding balances, including commitments, in the annual financial statements.

Related parties include Key Management Personnel (KMP), their close family members and any entities that they control or jointly control. Any transactions with these parties, whether monetary or not, will need to be identified and may need to be disclosed. Disclosure will only be made if a transaction has occurred and the disclosure may be in aggregate. An example of the type of disclosure council may make can be found [<here>](#).

In order to meet this requirement council has adopted a policy that requires all KMP to provide a six monthly declaration identifying:-

- o their close family members;
- o entities that they control or are associated with; and
- o entities that their close family members control or jointly control.

This information will be audited as part of the annual external audit by Queensland Audit Office. Council's policy on the privacy of this information can [be found <here>](#).

#### Who are KMP?

KMP are **persons having authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.**

#### Who are close family members of KMP?

These are **family members who may be expected to influence, or be influenced by, that person in their dealings with council and include:**

- (a) that person's children and spouse or domestic partner;**
- (b) children of that person's spouse or domestic partner; and**
- (c) dependants of that person or that person's spouse or domestic partner.**

The following table may assist you in identifying your close family members:

| Definitely a close family member         | May be a close family member  |
|--|---|
| Your spouse/domestic partner             | Your brothers and sisters, if they could be expected to influence or be influenced by you in their dealings with council      |
| Your children                            | Your aunts, uncles and cousins, if they could be expected to influence or be influenced by you in their dealings with council |
| Your dependants                          | Your parents and grandparents, if they could be expected to influence or be influenced by you in their dealings with council  |
| Children of your spouse/domestic partner | Your nieces and nephews, if they could be expected to influence or be influenced by you in their dealings with council        |

| Definitely a close family member           | May be a close family member  |
|--|---|
| Dependants of your spouse/domestic partner | Any other member of your family if they could be expected to influence or be influenced by you in their dealings with council |

## What is an entity that I, or my close family member, control or jointly control?

Entities include companies, trusts, incorporated and unincorporated associations such as clubs and charities, joint ventures and partnerships.

You control an entity if you have

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

### Example of control

Fred is the Mayor of Sunny Shire Council and owns 100% of the ordinary shares in Sunny Development Company Pty Ltd (the company). The ordinary shares are the only shares in the company that have voting rights.

Fred controls the company because he has the power to affect the company's decisions and the return that he will get from the company.

Fred will need to include the company on his related party declaration.

To jointly control an entity there must be contractually agreed sharing of control of the entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

### Example of joint control

Fred is the Mayor of Sunny Shire Council and owns 50% of the ordinary shares in Sunny Development Company Pty Ltd (the company). Fred's brother Stan owns the other 50% of ordinary shares. Fred and Stan are the only Directors of the company and have equal voting rights on the board.

Fred and Stan have joint control of the company because any decisions require the unanimous consent of them both.

Fred will need to include the company on his related party declaration.

In some cases it will be obvious that you or a family member control or have joint control over an entity. In other cases it will be less clear.

If you are unsure whether you, or a close family member, has control or joint control of an entity then you should contact (insert name and phone number of contact) for a confidential discussion.

## Appendix 8

### Example Form – Related Party Register

| Name | Relationship | Nature of transactions | Terms and conditions | Reference to supporting evidence.<br>Wp ref |
|------|--------------|------------------------|----------------------|---|
|      |              |                        |                      |   |
|      |              |                        |                      |   |
|      |              |                        |                      |   |
|      |              |                        |                      |   |
|      |              |                        |                      |   |
|      |              |                        |                      |   |

This is an example of how council might collate the related party information for audit.