



BUNBURY - HARVEY
Regional Council

**RELATED PARTY
DISCLOSURES**

Related Party Disclosures for Key Management Personnel

Version V1

DRAFT

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INTRODUCTION

Under the *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996*, all local governments in Western Australia must produce an Annual Financial Statement that complies with the Australian Accounting Standards.

The Australian Accounting Standards Board (AASB) has determined that from 1st July 2016 *AASB 124 Related Party Disclosures* will apply to government identities including local government.

Bunbury Harvey Regional Council (BHRC) is therefore required to disclose Related Party Relationships and Key Management Personnel (KMP) compensation in its Annual Financial Returns.

PURPOSE

The objective is to ensure that local government financial statements contain the disclosures necessary to draw attention to the possibility that its financial position may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

The purpose of this policy is to define the parameters for Related Party Relationships and the level of disclosure and reporting required for BHRC to achieve compliance with the Australia Accounting Standards AASB 124 – Related Party Disclosures.

NOTE: AASB 124 is not designed to detect and report fraud or misconduct. It is more so to enhance transparency and accountability of council transactions. This view is reiterated in AASB's April 2017 Agenda Decision that the purpose of AASB 124 is not for assessing governance or probity issues.

SCOPE

This policy provides guidance on:

- The identification of related party relationships and transactions and ordinary citizens transactions
- Management of related party transactions
- Recording such transactions
- Disclosure of the transaction in the BHRC Annual Financial Statements in accordance with AASB 124

This policy will also address the four (4) different types of related parties that must be considered,

- Entities related to the BHRC
- Key Management Personnel (KMP)
- Close family members of KMP
- Entities that are controlled or jointly controlled by KMP and their close family members.

DEFINITIONS

Australian Accounting Standards Board, Related Party Disclosures Standard 124 definitions.

Act - means the Local Government Act 1995.

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

- That person's children and spouse or domestic partner
- Children of that person's spouse or domestic partner
- Dependants of that person or that person's spouse or domestic partner.

Entity - can include a body corporate, a partnership or a trust, incorporated association, or unincorporated group or body.

A local government (council) related entity is an entity 'controlled' or 'jointly controlled' by council or over which council has 'significant influence'.

AASB definition of the following key words:

- 'Significant influence' is defined as the power to participate in the financial and operating policy decisions of the entity but is not control or joint control over those policies.
- 'Joint control' is the contractually agreed sharing of control of an arrangement, and exists only when a decision relating to the activity requires the unanimous consent of the parties sharing control.

Key Management Personnel - Key Management Personnel (KMP) are defined in AASB 124 as *"those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity"*.

KMP's for the BHRC are considered to include:

- Councillors (including the Chair Person)
- Chief Executive Officer
- Financial Advisor

KMP Compensation - means all forms of consideration paid, payable, or provided in exchange for services provided, and may include:

- Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free and subsidised goods or services) for current employees;
- Post-employment benefits such as pensions, other retirement benefits, postemployment life insurance and post-employment medical care;
- Other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit sharing, bonuses and deferred compensation;
- Termination benefits; and

Material (materiality) - means the assessment of whether the transaction, either individually or in aggregate with other transactions, by omitting it or misstating it could influence decisions that users make on the basis an entity's financial statements. For the purpose of this policy, it is not considered appropriate to set either a dollar value or a percentage value to determine materiality.

Ordinary Citizen Transaction - means a transaction that an ordinary citizen of the community would undertake in the ordinary course of business with Council.

Possible (Possibly) Close members of the family of a person - are those family members who could be expected to influence, or be influenced by, that person in their dealings with the Council and include:

- That person's brothers' and sisters'
- Aunts', uncles', and cousins' of that person's spouse or domestic partner
- Dependants of those persons' or that person's spouse or domestic partner as stated above
- That person's or that person's spouse or domestic partners', parents' and grandparents'.

Related Party - A person or entity is a related party of BHRC if any of the following apply:

- They are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- They are an associate or belong to a joint venture of which BHRC is part of.
- They and BHRC are joint ventures of the same third party.
- They are part of a joint venture of a third party and council is an associate of the third party.
- They are a post-employment benefit plan for the benefit of employees of either BHRC or an entity related to BHRC.
- They are controlled or jointly controlled by *Close members of the family of a person*.
- They are identified as a *close or possibly close member of the family of a person* with significant influence over BHRC or a *close or possibly close member of the family of a person* who is a KMP of BHRC.
- They, or any member of a group of which they are a part, provide KMP services to BHRC.

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

- Entities related to Council
- Key Management Personnel (KMP) of BHRC
- Close family members of KMP
- Possible close family members of KMP's
- Entities or persons that are controlled or jointly controlled by KMP, or their close family members, or their possible close family members.

Related Party Transaction - is a transfer of resources, services or obligations between BHRC and a related party, regardless of whether a price is charged.

Related party transactions that are not considered to be material do not need to be disclosed.

Regulation - means the Local Government Regulation 1996.

Significant (significance) - means likely to influence the decisions that users of the BHRC's financial statements make having regard to both the extent (value and frequency) of the transactions, and that the transactions have occurred between the BHRC and related party outside a public service provider/ taxpayer relationship.

POLICY

Related Party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In those circumstances, there is the possibility of the entity having the ability to affect the financial and operating policies of BHRC through the presence of control, joint control or significant influence.

A related Party relationship could influence the normal business operations of BHRC. In some instances, BHRC may enter into transactions with a Related Party that unrelated parties would not. For example, goods are supplied to BHRC on terms that might not be offered to other customers. Also, transactions between Related Parties may not be made on the same terms as between unrelated parties.

The normal business operations of BHRC 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 BHRC with other parties. Alternatively, one party may refrain from trading with BHRC because of the significant influence of another—for example, a local supplier may be instructed by its parent not to engage in supplying goods to BHRC.

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

Key Management Personnel (KMP)

All KMP are responsible for assessing and disclosing their own, their close family members and their related entities relationships with the BHRC. All related parties must be included in the Related Party Disclosure form. *(As attached)*

Identification of Control or Joint Control

A person or entity is deemed to have control if they have:

- a) Power over the entity
- b) Exposure, or rights, to variable returns from involvement with the entity
- c) The ability to use power over the entity to affect the amount of returns

To jointly control, a person or entity must have contractual rights or 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.

Required Disclosures & Reporting

AASB 124 provides that BHRC must disclose the following financial information in its financial statements for each financial year period:

1. *Disclosure of any related party relationship* – BHRC must disclose in the annual financial statements its relationship with any related parties or subsidiaries (where applicable), whether or not there have been transactions within the relevant reporting period.
2. *KMP Compensation Disclosures* - Key management personnel (KMP) compensation in total and for each of the following categories:
 - short-term employee benefits
 - post-employment benefits
 - other long term benefits
 - termination benefits

Disclosed Information

For each category of related party transactions specified above, Council will disclose the following information in Council's General Purpose Financial Statements:

- a) the nature of the related party relationship
- b) the amount of the transactions
- c) the amount of outstanding balances, including commitments, and:
 - I. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement
 - II. details of any guarantees given or received;
- d) provisions for doubtful debts related to the amount of outstanding balances
- e) the expense recognised during the period in respect of bad or doubtful debts due from related parties

Related Party Transactions Disclosures

Related Party Transactions are required to be disclosed, regardless of whether a price is charged. Such transactions may include:

- 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.

The following matters must be considered in determining the materiality and significance of any related party transactions:

- Significance of transaction in terms of size;
- Whether the transaction was carried out on non-market terms;
- Whether the transaction is outside normal day-to-day business operations, such as the purchase and sale of assets;
- Whether the transaction is disclosed to regulatory or supervisory authorities;
- Whether the transaction has been reported to senior management; and
- Whether the transaction was subject to BHRC approval.

Regard must also be given for transactions that are collectively, but not individually significant.

Disclosures that Related Party Transactions were made on terms equivalent to those that prevail in arm's length transactions can only be made if such terms can be substantiated.

All transactions involving Related Parties will be captured and reviewed to determine materiality or otherwise of such transactions, if the transactions are Ordinary Citizen Transactions (OCTs), and to determine the significance of each of the transactions.

Disclosed in Aggregate or Separate

For each related party category specified in Section **Required Disclosures & Reporting** Council will disclose information specified in Section **Disclosed Information** 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.

Information Privacy

Confidential

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

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.

Permitted Recipients

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 related party transactions for the purposes specified in Section **Permitted Purposes**:

- a) The CEO
- b) an Auditor of Council
- c) Chief Financial Advisor
- d) Other Officers as delegated by the CEO.

Permitted Purposes

A person specified in Section **Permitted Recipients** may access, use and disclose information (including personal information) in a related party disclosure or contained in a register of related party transactions for the following purposes:

- a) to assess 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 AASB 124
- d) to verify compliance with the disclosure requirements of AASB 124.

An individual may access their personal information provided by a KMP in a related party disclosure or contained in a register of related party transactions in accordance with Council's Code of Conduct

Identifying Related Party Transactions with KMP and their close family members

The Chief Executive Officer is responsible for identifying Council subsidiaries, associates and joint ventures (incorporated and unincorporated) from the Related Entities Register, a document which is prepared to substantiate Note 19 of the Financial Statements "Interests in Other Entities".

Related Party Disclosures

A review of KMP's and their related parties will be completed every 6 months.

KMP must provide a related party disclosure in the form set out in Attachment A, notifying any existing or potential related party transactions between Council and either themselves, their close family members or entities controlled or jointly controlled by them or any of their close family members to the CEO by no later than the following periods during a financial year (**specified notification period**):

- a) 30 days after the commencement of the application of this Policy

- b) 30 days after a KMP commences their term or employment with Council
- c) 30 November each year
- d) 30 June each year.

Particular events, such as a change of Councillors, Chief Executive Officer or a corporate restructure, will also trigger a review of BHRC's related parties immediately following such an event.

Related Party Disclosure Form

At least 30 days before a specified notification period, the CEO will provide KMP with a Related Party Disclosure Form and a Privacy Collection Notice (Attachment A).

Suspected Related Party Transaction

If a KMP suspects that a transaction may constitute a related party transaction, the KMP should provide a related party disclosure to the CEO for consideration and determination.

Other Notifications

The notification requirements in Section 3 are in addition to the notifications a KMP must make to comply with:

- a) for Councillors, the *Code of Conduct – Councillors*
- b) for the General Manager and other Senior Executive Officers who are KMP, the *Code of Conduct – Staff*
- c) The disclosure of interests in a written return pursuant to section 450A of the *Local Government Act 1993 and Local Government (General) Regulation 2005*.

Exclusions

The notification requirements in Section 3 do not apply to:

- a) related party transactions that are ordinary citizen transactions not assessed as being material as determined under Section 4
- b) The Lord Mayor and Councillors expenses incurred and facilities provided during the financial year under Council's *Payment of Expenses and Provision of Facilities to Lord Mayor and Councillors' Policy*, the particulars of which are contained in Council's Annual Report pursuant to the *Local Government (General) Regulation 2005*, clause 217.

Other Sources of Information

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

- a) a register of interests of a KMP and of persons related to the KMP
- b) minutes of Council and committee meetings
- c) Council's Contracts' Register.

Ordinary Citizen Transactions

A KMP is not required to notify in a related party disclosure and Council will not disclose in its Financial Statements, related party transactions that are ordinary citizen transactions assessed to be not material in nature.

OCTs are not material transactions because of their nature, and therefore BHRC will exclude them from being recorded as a related party transaction. However, if the OCTs were to occur on terms and conditions that are different to those offered to the general public, then the transaction may become material and would require reporting. Some examples of OCTs include:

- *Using the council's facilities after paying the normal fee*
- *Paying council fees and charges*

Register of Related Party Transactions

Maintain a Register

The CEO is responsible for maintaining and keeping up to date a register of related party transactions that captures and records the information specified in Section **Disclosed Information** for each existing or potential related party transaction (including ordinary citizen transactions assessed as being material in nature) during a financial year.

Contents of Register

The contents of the register of related party transactions must detail for each related party transaction:

- a) the description of the related party transaction
- b) the name of the related party
- c) the nature of the related party's relationship with Council
- d) whether the notified related party transaction is existing or potential
- e) a description of the transactional documents the subject of the related party transaction
- f) the information specified in Section **Required Disclosures & Reporting**

The CEO is responsible for ensuring that the information specified in Section **Required Disclosures & Reporting** is disclosed in Council's Financial Statements to the extent, and in the manner stipulated by AASB 124, subject to Section **Disclosed in aggregate or separate**.

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RELATED PARTY DISCLOSURE

Note: Information collected in a disclosure form should be treated in confidence and only used for meeting compliance with council's reporting obligation.

Name of Key Management Personnel: Insert Name

Position of Key Management Personnel: Insert Job Title

Please read the Privacy Collection Notice provided with this notification, which explains what a related party transaction is and the purposes for which Council is collecting and will use and disclose, the related party information provided by you in this notification.

Please complete the table below **for each related party transaction with Council** that you or a close member of your family, or an entity related to you or a close member of your family:

- a) has previously entered into **and** which will continue in the Insert Financial Year or
- b) has entered into, or is reasonably likely to enter into, in the Insert Financial Year

Description of Related Party Transaction	Is transaction Existing / potential?	Related Party's Name (Individual's or entity's name)	Related Party's Relationship/ Reasons why related	Description of Transaction Documents or Changes to the Related Party Relationship

SAMPLE ONLY



RELATED PARTY DISCLOSURE

Notification

I _____, _____ notify that, to the best of my knowledge, information
(Full name) (Position)
and belief, as at the date of this notification, the above list includes all existing and potential related party transactions with Council involving myself, close members of my family, or entities controlled or jointly controlled by me or close members of my family, relevant to the Insert Financial Year.

I make this notification after reading the Privacy Collection Notice provided by the Bunbury Harvey Regional Council, which details the meaning of the words "related party", "related party transaction", "close members of the family of a person" and, in relation to an entity, "control" or "joint control", and the purposes for which this information will be used and disclosed.

I permit the Chief Executive Officer and other permitted recipients specified in Council's Related Party Disclosure Policy to access the register of interests of me and persons related to me and to use the information for the purposes specified in that policy.

Signature of named Key Management Personnel: _____ Dated: _____

PRIVACY COLLECTION NOTICE

RELATED PARTY DISCLOSURES BY KEY MANAGEMENT PERSONNEL

Purpose of Collection, Use and Disclosure

Effective for annual periods beginning on or after 1 July 2016, Council must disclose certain related party relationships and related party transactions together with information associated with those transactions in its general purpose financial statements, in order to comply with *Australian Accounting Standard AASB 124 Related Party Disclosures July 2015 (AASB 124)*.

Related parties include Council's key management personnel (KMP), their close family members, and any entities that they or any of their close family members control or jointly control.

A related party transaction is any transaction (whether a transfer of resources, services or obligations) between the reporting local government and any of the related parties, whether monetary or not.

If there is a related party transaction with Council applicable to a reporting financial year, AASB 124 requires

Council to disclose in the financial statements the nature of the related party relationship and information about the transaction, including outstanding balances and commitments associated with the transaction. Disclosure in the financial statements may be in the aggregate and/or made separately, depending on the materiality of the transaction.

For more information about Council's disclosure requirements under AASB 124, please refer to Council's Related Party Disclosure Policy.

Notifications by Key Management Personnel

In order to comply with AASB 124, Council has adopted a policy that requires all members of its KMP to periodically provide notifications to the Chief Executive Officer (CEO) of any existing or potential related party transactions between Council and any of their related parties during a financial year, and any changes to previously notified related party relationships and transactions relevant to the subject financial year.

To this end, each KMP must provide a Related Party Disclosure, in the approved form, notifying any existing or potential related party transactions between Council and any related parties of the KMP, to the CEO by no later than the following periods during a financial year:

- a) 30 days after the commencement of the application of this policy
- b) 30 days after a KMP commences their term or employment with Council
- c) 30 November (each year); and
- d) 30 June (each year).

Note: these related party disclosure requirements are in addition to the notifications KMP's are required to make to comply with:

- a) for councillors, the Code of Conduct – Councillors
- b) for other KMPs, the Code of Conduct – Staff

This includes disclosures relating to Conflicts of Interest (Pecuniary and Non Pecuniary) and Gifts and Benefits.

Council's Auditors may audit related party information as part of the annual external audit.

For privacy and right to information status of this information, please refer to Council's Related Party Disclosure Policy.