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### **Objectives**

The purpose of this policy is to define the parameters for Related Party Transactions and the level of disclosure and reporting required for the Shire of Manjimup to achieve compliance with the Australian Accounting Standard AASB 124 - Related Party Disclosures.

### **Policy Statement**

This policy applies to Related Parties of the Shire of Manjimup and their Related Party Transactions with the Shire of Manjimup.

### **Policy Details**

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 the Shire of Manjimup through the presence of control, joint control or significant influence. A related Party relationship could influence the normal business operations of the Shire of Manjimup. In some instances, the Shire of Manjimup may enter into transactions with a Related Party that unrelated parties would not. For example, goods are supplied to the Shire of Manjimup 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 the Shire of Manjimup 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 Shire of Manjimup with other parties. Alternatively, one party may refrain from trading with the Shire of Manjimup 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 the Shire of Manjimup. For these reasons, knowledge of the Shire of Manjimup's transactions and outstanding balances (including commitments and relationships with Related Parties) may affect assessments of the Shire of Manjimup's operations by users of financial statements, including assessments of the risks and opportunities facing the Shire of Manjimup.

The Shire of Manjimup in complying with disclosure requirements of AASB 124, will:

- 1) Establish systems to capture and record the related party transactions and information about those transactions;
- 2) Identify key management personnel, related party relationships, related party transactions and ordinary citizen transactions;
- 3) Identify information about the related party transactions for disclosure;
- 4) Assess materiality of transactions captured;
- 5) Identify the circumstances in which disclosure of the items in (2) and (3) are required; and
- 6) Determine the disclosures to be made about those items in the General Purpose Financial Statements for the purpose of complying with AASB 124.

### **1. Identification of Key Management Personnel (KMP)**

AASB 124 defines KMP's 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 the Shire of Manjimup are considered to include:

- Councillors (including the Shire President);
- Chief Executive Officer; and
- The Senior Management Team.

### **2. Identification of Related Parties**

A person or entity is a related party of the Shire of Manjimup 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 the Shire of Manjimup is part of.
- They and the Shire of Manjimup are joint ventures of the same third party.
- They are part of a joint venture of a third party and the Shire of Manjimup is an associate of the third party.
- A post-employment benefit plan for the benefit of employees of either The Shire of Manjimup or an entity related to the Shire of Manjimup.
- 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 the Shire of Manjimup or a *close or possibly close member of the family of a person* who is a KMP of the Shire of Manjimup.

- They, or any member of a group of which they are a part, provide KMP services to the Shire of Manjimup.

For the purposes of this Policy, related parties of the Shire of Manjimup are:

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

### **3. Review of Related Parties**

A review of KMP's and their related parties will be completed every 12 months. Particular events, such as a change of the Councillors, Chief Executive Officer or Senior Executive Officers or a corporate restructure, will also trigger a review of The Shire of Manjimup's related parties immediately following such an event.

The Shire of Manjimup management shall implement a suitable system to identify related parties. The primary identification method of close family members and associated entities of Key Management Personnel shall be by (but not limited to) KMP self-assessment. KMP have a responsibility to identify and report any changes to their related parties as they occur.

Prior to the commencement of this policy taking effect an initial identification process will be undertaken and recorded.

Shire of Manjimup management shall identify suitable methodology and procedures for identifying and reporting on related party transactions such that accurate data will be collated from 01 July 2016.

Identification and reporting methods shall consider:

- Transactions occurring via the Shire of Manjimup's accounting and electronic records management systems;
- Other transactions not passing through the Shire of Manjimup's electronic accounting / management systems; and
- The identification of the associated terms and conditions of the related party transactions.

If any elected member or employee believes a transaction may constitute a related party transaction they must notify the Chief Executive Officer who will, in consultation with the Director of Business, make a determination on the matter.

### **4. Identification of Control or Joint Control**

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

- power over the entity;

- exposure, or rights, to variable returns from involvement with the entity; and
- 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.

All regional councils and regional subsidiaries meet the definition of a related entity.

## **5. Required Disclosures and Reporting**

AASB 124 states Council must disclose the following financial information in its financial statements for each financial year:

**8.1. *Disclosure of any related party relationship*** - 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.

**8.2. *KMP Compensation Disclosures*** - must disclose in the annual financial statements KMP for each of the categories of compensation (as defined in the definitions of this Policy) in total.

## **6. Related Party Transactions Disclosures**

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 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 the Shire of Manjimup or by the Shire of Manjimup on behalf of the related party;
- Guarantees given or received
- Loans and Settlements of liabilities
- Expense recognised during the period in respect of bad debts
- Provision for doubtful debts relating to outstanding balances
- Grants and subsidy payments made to associated entities of the Shire of Manjimup

- Non-monetary transactions between the Shire of Manjimup and associated entities of the Shire of Manjimup
- Other goods and services provided by the Shire of Manjimup to associated entities of the Shire of Manjimup
- Compensation made to key management personnel
- Fees and charges charged to related parties
- Infrastructure contributions and application fees from related parties
- Purchase of materials and services from related parties
- Employee expenses for close family members of key management personnel

Shire of Manjimup must disclose all **material** and **significant** Related Party Transactions in its annual financial statements and include the following detail:

- 6.1.** The nature of the related party relationship; and
- 6.2.** Relevant information about the transactions including:
  - 6.2.1.** The amount of the transaction;
  - 6.2.2.** 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 the settlement; and
    - Details of any guarantee given or received.
  - 6.2.3.** Provision for doubtful debts related to the amount of outstanding balances; and
  - 6.2.4.** The expense recognised during the period in respect of bad or doubtful debts due from related parties.

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-commercial 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 Council approval.

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

Related party transactions that are not considered to be material do not need to be disclosed. A key assessment on whether a transaction is material is whether knowledge of the relationship and terms and conditions could influence a user's understanding of the impact on the financial statements or influence their decisions (i.e. in their vote by Councillors). In determining materiality, the Shire

of Manjimup and management will consult with the Audit Committee and external auditor as required.

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.

### **7. Ordinary Citizen Transaction (OCT)**

Transactions with related parties of the Shire of Manjimup which are of a nature that any ordinary citizen would undertake will not be captured and reported. These transactions are not material transactions because of their nature. However, if the OCT occurs on terms and conditions that are different to those offered to the general public the transaction may become material and subsequently disclosed.

Ordinary Citizen Transactions shall include:

- Use of the Shire of Manjimup facilities, equipment and services in accordance with the Shire of Manjimup's fees, charges and policies;
- Payment of rates and charges;
- Attendance at the Shire of Manjimup functions and activities that are open to the public;
- Payment of fines and other penalties on normal terms and conditions; and
- Related party transactions occurring during the course of delivering the Shire of Manjimup's public service objectives and which occur on no different terms to that of the general public.

Amendments to transactions classified as Ordinary Citizen Transactions may be identified from time to time and this policy will be amended accordingly.

### **8. Review of Related Party Transactions**

A review of all Related Party Transactions will be completed every 12 months.

A Related Party Disclosures Form will be completed by Councillors, the CEO and Executive Management who were elected or employed at any time during the financial year will be completed every 12 months.

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

- A register of interests of KMP and of persons related to the KMP;
- Minutes of Council and Committee meetings;
- Shire of Manjimup's Contracts' Register.

## 9. Key Term Definitions

**AASB 124** means the Australian Accounting Standards Board, Related Party Disclosures Standard.

**Arm's length terms** – Terms between parties that are reasonable in the circumstances of the transaction that would result from:

- (a) neither party bearing the other any special duty or obligation; and
- (b) the parties being unrelated and uninfluenced by the other; and
- (c) each party having acted in its own interest.

**Asset** - A physical component of a facility which has value, enables a service to be provided and has an economic life of greater than 12 months.

**Close members of the family of a person** - are those family members who may be expected to influence, or be influenced by, that person in their dealings with the Shire of Manjimup 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.

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

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

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

**Incorporated association** means an association incorporated under the *Associations Incorporation Act 2015*.

**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** – An arrangement of which two or more parties have joint control and have right to the net assets of the arrangement.

**Key management personnel** - as defined in Section 1 of this Policy.

**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, post-employment 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
- Share-based payment.

**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 of 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 the Shire of Manjimup.

**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 Shire of Manjimup and include:

- (a) that person's brothers' and sisters';
- (b) aunts', uncles', and cousins' of that person's spouse or domestic partner;
- (c) dependants of those persons' or that person's spouse or domestic partner as stated in (b); and
- (d) that person's or that person's spouse or domestic partners', parents' and grandparents'.

**Record** means any record of information however recorded and includes anything on which there is writing, a map, plan, diagram or graph, a drawing, pictorial or graphic work, photograph; or anything from which images, sounds or writings can be reproduced.

**Related Party** – as defined in Section 2 of this Policy.



**Related Party Transaction** is a transfer of resources, services or obligations between the Shire of Manjimup and a related party, regardless of whether a price is charged.

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

#### **ROLES AND RESPONSIBILITIES**

The Director of Business is responsible for the implementation of this policy.

#### **REFERENCES**

- Local Government Act 1995
- **AASB 124** Related Party Disclosures
- **AASB 10** Consolidated Financial Statement
- **AASB 11** Joint Arrangements
- **AASB 128** Investments in Associates and Joint Ventures
- Code of Conduct for Elected Members and Committee Members
- Department of Local Government and Communities – Circular 07-2017: Changes to Accounting Standards – Implementation of Related Party Disclosures
- Queensland Department of Infrastructure, Local Government and Planning – Related Party Disclosure Bulletin

**PROPOSED ADOPTION 5 OCTOBER 2017**

**NEXT DUE FOR REVIEW OCTOBER 2022**

**The Administration of this Policy is by the Business Directorate.**