

# **A&RMC**

# **ATTACHMENTS**

# **ATTACHMENT NO. 1**

MACRI PARTNERS

2017 FRAUD & ERROR  
ASSESSMENT

**TOWN OF BASSENDEAN**

## Explanatory Information

The purpose of this form is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make enquiries of the Audit Committee under auditing standards.

### Background

Under the Australian Auditing Standards, auditors have specific responsibilities to communicate with the Audit Committee.

Australian Auditing Standards ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and ASA 260 *Communication with Those Charged with Governance* now make it mandatory for auditors to make enquiries of management and those charged with governance (audit committees) regarding matters that are indicated in the template form. The enquiries with those charged with governance (audit committees) are made in part to corroborate the responses to the enquiries of management.

### Respective Responsibilities

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

### Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight to address fraud risk.

This form includes a series of questions on each area with provision for responses from both management and the Audit Committee.

**We suggest that Management complete the relevant sections before submitting these responses to the Audit Committee.**

**The Audit Committee should consider whether these responses are consistent with its understanding, before completing the relevant sections applicable to them.**

# Fraud and Error Assessment – Management

## TOWN OF BASSENDEAN

FOR THE YEAR ENDING 30 JUNE 2017

1. Has management assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?

**Response:**

*An assessment of whether the annually adopted accounting policies continue to be appropriate to the Towns circumstances and if they have been consistently applied and adequately disclosed has been done; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements is undertaken on a regular monthly basis. Council also undertakes the required budget review process to ensure that the originally adopted accounting estimates are on target. These measures will assist in any misstatements in the financial statements.*

2. What processes does management have in place to identify and respond to risks of fraud?

**Response:**

*Management undertakes a rigorous internal audit program with a respected Auditing firm, not associated with the External Audit to ensure probity. Combined with the internal audit program, and internal review of processes Management has enhanced and monitors the effectiveness of internal controls. The findings of these audits are reported to the Audit and Risk Management Committee, and then to Council, so that any identified adverse trends or deficiencies are acted upon.*

*Fraud and corruption control and management is an integral component of the Towns Governance framework and Policy's which builds upon the requirement for transparent and accountable processes consistent with sound business practices and organisational standards of compliance.*

*The Town has established internal financial, information systems and management controls, which require staff to follow standard practices when conducting business, to act in accordance with best practice, and to adhere to agreed internal control systems. Applicable internal controls include:*

- *suitable recruitment procedures (e.g. contacting referees Diversified selection panels)*
- *reporting and management of conflicts of interest (As per LG.Act)*
- *appropriate procurement practices*
- *segregation of duties*
- *security of records and information systems*
- *consideration of risk and risk management strategies (Reviewed by Audit Committee)*
- *supervision and internal checks*
- *approvals within delegated authority*
- *reconciliations*
- *budget control*
- *regular review of management reports*
- *internal audit.*

- *The Towns Code of Conduct, which applies to all officers, is a reflection of the Towns commitment to create an environment and culture in which ethical conduct is expected, encouraged, supported and achieved.*
- *As stated in the Code of Conduct, staff must report suspected fraudulent and/or corrupt activity. Any staff member who suspects such activity must immediately notify his/her supervisor or those responsible for investigation. In situations where the supervisor is suspected of involvement in fraudulent and corrupt activity, the matter should be notified to the next highest level of supervision.*
- *The Town's response to fraud and corruption allegations or matters will vary, according to the nature and seriousness of the alleged conduct. A full investigative response will be undertaken where the conduct, if proved, could result in dismissal or demotion. At the other end of the spectrum are complaints best dealt with by prompt managerial action.*

**3. Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?**

*Response:*

*No specific fraud risks have been identified in the review period.*

**4. Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?**

*Response:*

*The above matters have been addressed under Q2.*

**5. Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (e.g. because of undue pressure to achieve financial targets such as a surplus position or better performance indicators)?**

*Response:*

*The financial process & outcomes of the financial position are not subject to the town having a better or worse indicator.*

**6. What arrangements are in place to report fraud issues and risks to the Audit Committee?**

*Response:*

*The Town of Bassendean Code of Conduct for Councillors Committee Members & Employees (Section 6) deals with Fraudulent or Corrupt behaviour. Appropriate arrangements where this situation arises are dealt with in this document.*

**7. How does the Council communicate and encourage ethical behaviour of its staff and contractors?**

*Response:*

*The Town has recently adopted a revised Code of Conduct (for Councillors, Committee Members & Employees which has been announced on our intranet and this will be distributed for all staff to sign and return to Human Resources.*

8. How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?

*Response:*

*The Town has recently adopted a revised Code of Conduct (for Councillors, Committee Members & Employees.*

9. Are you aware of any related party relationships or transactions that could give rise to risks of fraud?

*Response:*

*Management are not aware of any related party relationships that may lead to fraud. Related party relationships will evolve in 2017/18 once new Accounting standards requirements and Local government Department requirements move into a higher level of compliance.*

10. Are you aware of any instances of actual, suspected or alleged, fraud, within the Council since 1 July 2016? If yes, provide details of what occurred and who was involved.

*Response:*

*There was an investigation carried out in 2016/17 and whilst there were procedural matter not followed by Staff, there were no instances of fraud identified.*

11. Please advise if there have been any matters reported to the CCC (Corruption and Crimes Commission) by the Town.

*Response:*

*No matters have been referred to the CCC during the reporting period in question.*

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: CEO / Director Position

Date: \_\_\_\_\_

## Fraud and Error Assessment – Audit Committee

### TOWN OF BASSENDEAN

FOR THE YEAR ENDING 30 JUNE 2017

The Australian Auditing Standards require us to consider the risk that fraud could occur within the Council. We are preparing to perform our Interim Audit risk assessment of your Council in relation to the audit for the year ending 30 June 2017. We would appreciate if you could briefly answer the following questions in the spaces provided, and return this signed letter.

1. Has the Council's management communicated to you its processes for identifying/responding to risks of fraud?

*Response:*

*Yes. Council has adopted a new code of conduct with advice from the Public Sector Commission and which has provision for the definition of fraud and misconduct.*

2. How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?

*Response:*

*Yes. Matters relating to internal audits and investigations are referred to the Audit and Risk Management Committee.*

3. Is the Audit Committee aware of any actual, suspected or alleged fraud? If yes, please provide details.

*Response:*

*The report provided by Staff and an independent consultant in 2016/17 have been comprehensive and di not identify any actual, suspected or alleged fraud.*

Signature: \_\_\_\_\_  
 Name: \_\_\_\_\_  
 Position: CHAIRMAN / CHAIR LADY  
 Date: \_\_\_\_\_



### Examples of Circumstances that Indicate the Possibility of Fraud

The following are examples of circumstances that may indicate the possibility that the financial report may contain a material misstatement resulting from fraud.

Discrepancies in the accounting records, including:

- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
- Unsupported or unauthorised balances or transactions.
- Last-minute adjustments that significantly affect financial results.
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorised duties.
- Tips or complaints to the auditor about alleged fraud.

Conflicting or missing evidence, including:

- Missing documents.
- Documents that appear to have been altered.
- Unavailability of other than photocopied or electronically transmitted documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes or changes in trends or important financial statement ratios or relationships – for example receivables growing faster than revenues.
- Inconsistent, vague, or implausible responses from management or employees arising from enquiries or analytical procedures.
- Unusual discrepancies between the entity's records and confirmation replies.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Unexplained or inadequately explained differences between the accounts receivable sub-ledger and the control account, or between the customer statements and the accounts receivable sub-ledger.
- Missing or non-existent cancelled cheques in circumstances where cancelled cheques are ordinarily returned to the entity with the bank statement.
- Missing inventory or physical assets of significant magnitude.
- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Fewer responses to confirmations than anticipated or a greater number of responses than anticipated.
- Inability to produce evidence of key systems development and program change testing and implementation activities for current-year system changes and deployments.

Problematic or unusual relationships between the auditor and management, including:

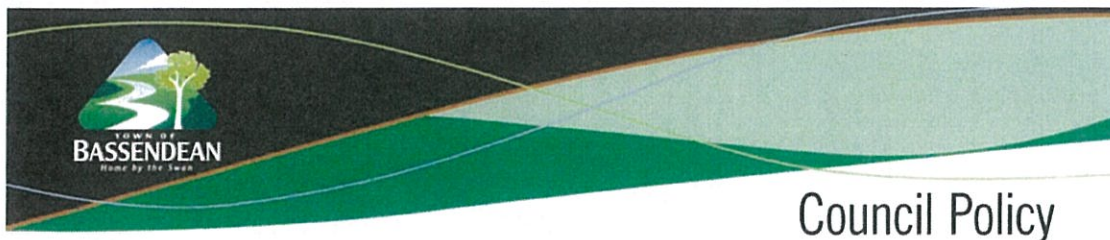
- Denial of access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence might be sought.
- Undue time pressures imposed by management to resolve complex or contentious issues.
- Complaints by management about the conduct of the audit or management intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.
- Unusual delays by the entity in providing requested information.
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of computer-assisted audit techniques.
- Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.

- An unwillingness to add or revise disclosures in the financial report to make them more complete and understandable.
- An unwillingness to address identified deficiencies in internal control on a timely basis.

Other

- Unwillingness by management to permit the auditor to meet privately with those charged with governance.
- Personal financial pressure
- Vices such as substance abuse and gambling
- Extravagant purchasing or lifestyle
- Real or imagined grievances against the organisation or management
- Increased stress, irritable, defensive and argumentative
- No vacations / sick leave / excessive overtime
- Dominant personality
- Protective of area of administration and missing documents and files from the staff's area
- Accounting policies that appear to be at variance with industry norms.
- Frequent changes in accounting estimates that do not appear to result from changed circumstances.
- Tolerance of violations of the entity's Code of Conduct.

# **ATTACHMENT NO. 2**



## 6.18 Investment Policy

### Objective

To invest funds to ensure the maximisation of returns with due consideration of the associated risks, whilst protecting the initial capital investment and future cash flows.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return of investment.

Investments are to be made in accordance with legislative requirements of the Local Government Act and the associated Regulations.

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be undertaken and in a manner that ensures security and safeguard the Town's Investment Portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- The investment portfolio will ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.
- The investment is expected to achieve a yield that takes into account the Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.
- Preference will be given to invest in financial institutions who do not invest in or finance the fossil fuel industry.

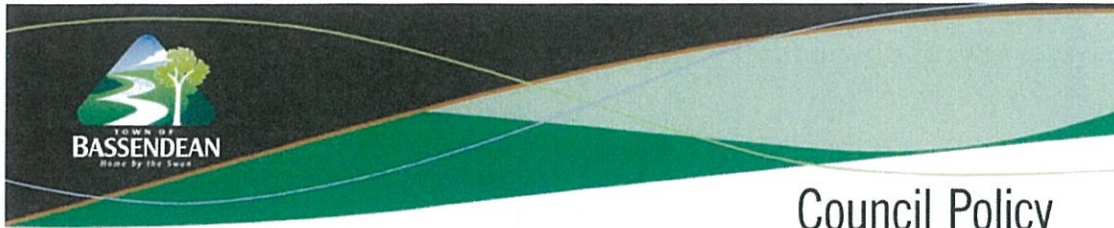
### Legislative Requirements

All investments are to comply with the following:

- Local Government Act (WA) 1995 (As Amended **as at November 2015**)
- Trustees Act (WA) 1962 (As amended as at the 16 January 2013)
- Local Government (Financial Management) Regulations 1996 (**As amended as at June 2013**)

### Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer (CEO) in accordance with the Local Government Act 1995.



(Section 6.14 of the Local Government Act 1995 & Section 19 of the Local Government (Financial Management) Regulations 1996).

### **Ethics and Conflicts of Interest**

In accordance with the Town's Code of Conduct, Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. All disclosures are to be in accordance with the Town's Code of Conduct.

A local government officer must act with the care, prudence, skill and diligence that a prudent person acting in like capacity under similar circumstances would act.

### **Authorised Institution Investments**

This policy authorises investment of the Town's funds, including surplus funds, with an Authorised Deposit-taking Institution as defined in the *Banking Act 1959* (Commonwealth) section 5.

Investments are limited in accordance with the requirements of the Local Government Act (Financial Management) Regulations 19C which provides:

#### **19C. Investment of money — Restrictions on Act S6.14(2)(a)**

(1) *In this regulation —*

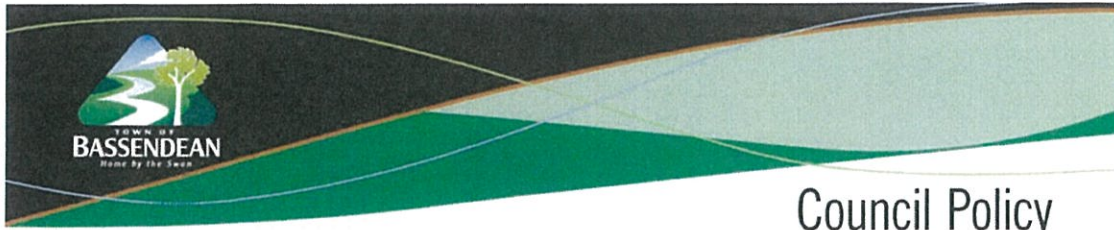
**authorised institution** means —

- (a) *an authorised deposit-taking institution as defined in the Banking Act 1959 (Commonwealth) section 5; or*
- (b) *the Western Australian Treasury Corporation established by the Western Australian Treasury Corporation Act 1986;*

**foreign currency** means a currency except the currency of Australia.

(2) *When investing money under section 6.14(1), a local government may not do any of the following —*

- (a) *deposit with an institution except an authorised institution;*
- (b) *deposit for a fixed term of more than 12 months;*
- (c) *invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;*
- (d) *invest in bonds with a term to maturity of more than 3 years;*
- (e) *invest in a foreign currency.*



### Overall Portfolio Limits

To control the Credit quality on the entire portfolio, a global credit framework will apply to limit the percentage of the portfolio exposed to any particular rating category as outlined below.

The maximum available limits in each category are as follows:

S & P Short Term Rating	Direct Investment Maximum %
A-1	100%
A-2	60%

### Counterparty Credit Limit

All investments made on behalf of the Town of Bassendean will comply where applicable, with the credit guidelines based on the S&P ratings for each institution. Exposure to an individual institution will be restricted, where applicable, by their S&P rating so that single entity exposure is limited, as detailed in the table below:

S & P Short Term Rating	Direct Investment Maximum %
A-1	50%
A-2	30%

### Investment Advisor

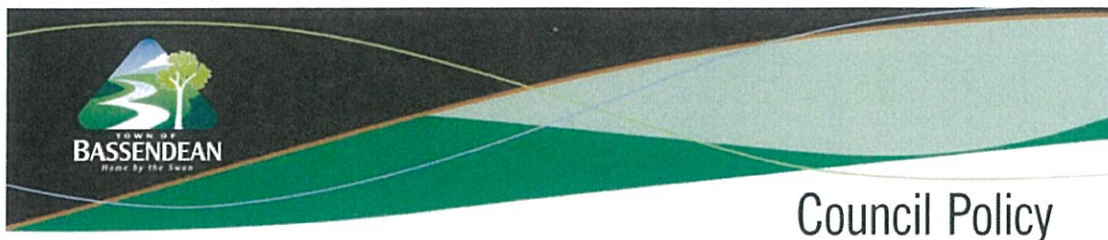
The Town may appoint an investment advisor who must be licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended in accordance with the terms and conditions of this policy.

### Reporting and Review

A monthly report will be provided to Council in support of the monthly statement of activity. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio and maturity date.

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

For Audit purposes, certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.



## **GLOSSARY OF TERMS**

### **Local Government Act 1995**

Section 6.14 of the Local Government Act 1995 provides that “subject to regulations, money held in the municipal fund or the trust fund of a local government that is not, for the time being, required by a local government for any other purpose may be invested in accordance with “Part III of the Trustees Act 1962” (Trustees Act)”

### **Local Government (Financial Management) Regulations 1996**

Regulation 19 of the Local Government (Financial Management) Regulations 1996 states a local government is to “establish and document internal control; procedures to be followed by employees to ensure control over investments”

Regulation 19C provides for the definition of the authorised institution, and the limitation of the investment funds.

Regulation 28 and 49 prescribe the disclosure requirements for investment in the Annual Budget and Annual Financial Report respectively. Additional disclosure requirements are also provided under the Australian Accounting Standards.

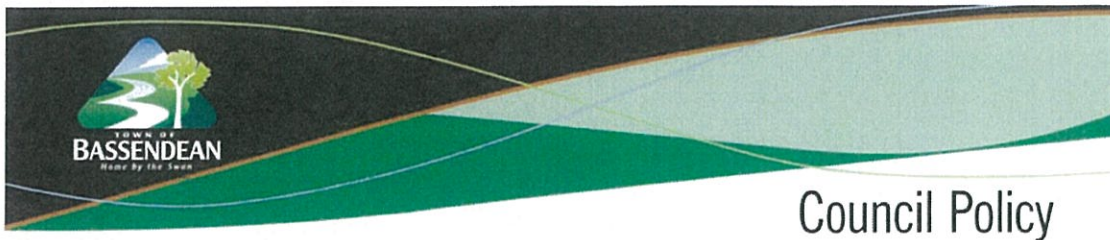
As part of the reporting requirement under Regulation 34 Financial Activity Statement Report, each local government is to include in its monthly statement of financial activity any supporting information considered relevant by the local government. This should include a monthly investment summary to ensure the performance of the investment portfolio is in accordance with anticipated returns and complies with the investment policy.

### **Preservation of Capital**

Preservation of capital refers to an investment strategy with the primary goal of preventing losses in an investment portfolio's total value.

### **Prudent Person Rule**

Investments will be managed with the care, diligence and skill that a prudent person will exercise. Delegated Officers are to manage the Investment Portfolio to safeguard the portfolios in accordance with the spirit of this investment policy, and not for speculative purposes.



## Trustees Act 1962

Section 17 of the Trustees Act 1962, states “a trustee may, unless expressly prohibited by the instrument creating the trust -

- (a) invest trust funds in any form of investment; and
- (b) at any time, vary an investment or realise an investment of trust funds and reinvest money resulting from the realisation on any form of investment”.

## INVESTMENT DEFINITIONS

**Authorised institution** means —

- (a) an authorised deposit-taking institution as defined in the *Banking Act 1959* (Commonwealth) section 5; or
- (b) the Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation Act 1986*;

**Foreign currency** means a currency except the currency of Australia.

*Reference – Local Government Act (Financial Management) Regulations*

### Bonds

Bonds are financial securities issued by the Commonwealth, State or Territory government authorities as a means of raising funds. These securities are restricted to maturity of less than 3 years.

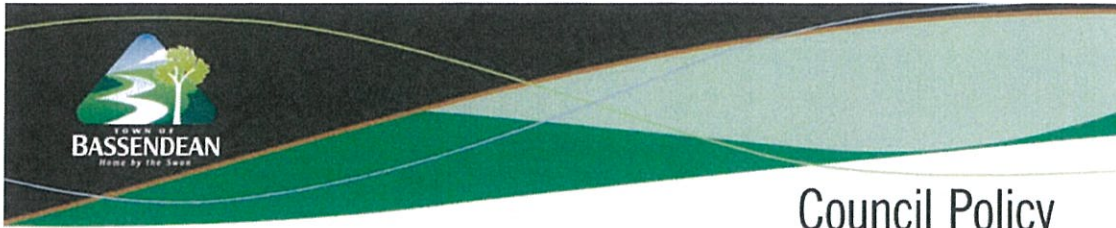
### Security investments

Security investments (also known as ‘negotiable certificates of deposit’ or ‘bills of exchange’ accepted or endorsed by Australian banks) are ‘discount securities’ because they are sold at a discount to their face value. The difference between the purchase price (amount invested) and the face value (amount at maturity) represents the interest earned.

### Term deposit

A Term Deposit is an investment where the interest rate is guaranteed not to change for the whole of the nominated term. It provides the security of knowing that interest income is protected from fluctuations in investment markets.





# Council Policy

## S&P Credit Ratings

S&P stands for Standard and Poors, which is a globally accredited professional organisation that provides analytical services. An S&P credit rating is an opinion of the general creditworthiness of an obligor with respect to particular debt security or other financial obligation based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment;
- Nature and provisions of the obligation; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

### *S&P Short Term Credit Rating A-1*

This is the highest short term category used by S&P. The institutions capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

### *S&P Short Term Credit Rating A-2*

A short term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the institutions capacity to meet its financial commitment on the obligation is satisfactory.

## Application

Responsibility for the implementation of this policy rest with the Mayor, Councillors, Council delegates and Chief Executive Officer. The Policy is to be reviewed every three years or as required in the event of legislative changes.

<p><b>Policy Type:</b> Strategic Policy</p> <p><b>Link to Strategic Community Plan:</b> Leadership and Governance</p>	<p><b>Responsible Officer:</b> Chief Executive Officer</p> <p><b>Delegated Authority:</b> Director Corporate Services Manager Corporate Services</p> <p><b>Last Review Date:</b> March 2016</p> <p><b>Next Review due by:</b> December 2016</p>
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**r. 19C**

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accompanied by a statement that interest is to accrue on money that remains owing after the due date and stating —

- (a) the date from which interest will be imposed; and
- (b) the rate of interest.

*[Regulation 19B inserted in Gazette 28 Jun 1996 p. 3169-70.]*

**19C. Investment of money, restrictions on (Act s. 6.14(2)(a))**

- (1) In this regulation —

***authorised institution*** means —

- (a) an authorised deposit-taking institution as defined in the *Banking Act 1959* (Commonwealth) section 5; or
- (b) the Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation Act 1986*;

***foreign currency*** means a currency except the currency of Australia.

- (2) When investing money under section 6.14(1), a local government may not do any of the following —

- (a) deposit with an institution except an authorised institution;
- (b) deposit for a fixed term of more than 3 years;
- (c) invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;
- (d) invest in bonds with a term to maturity of more than 3 years;
- (e) invest in a foreign currency.

*[Regulation 19C inserted in Gazette 20 Apr 2012 p. 1701; amended in Gazette 12 May 2017 p. 2469.]*



**Hon David Templeman MLA**  
**Minister for Local Government; Heritage; Culture and the Arts**

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Our Ref: 66-00803

TO ALL LOCAL GOVERNMENTS

CIRCULAR N<sup>o</sup> 04-2017

**REGULATION AMENDMENT – CHANGES TO FIXED TERM DEPOSIT INVESTMENT PERIOD**

I am pleased to advise that following feedback from the local government sector, the McGowan Government has responded to requests to change the period of time that local governments can invest in fixed term deposits.

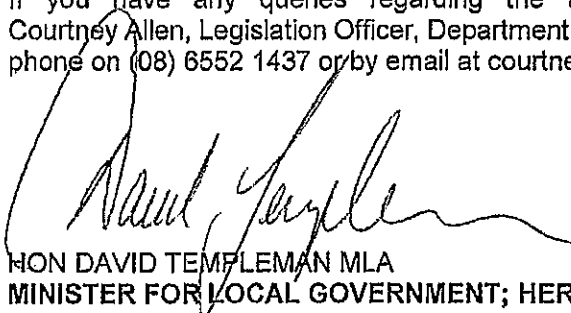
Local governments can now invest in fixed term deposits of up to three years under section 19C(2)(b) of the *Local Government (Financial Management) Amendment Regulations 2017*.

The amendment regulations came into effect on Saturday, 13 May 2017 and allow local governments to hold money in reserve for works and services planned more than one year into the future.

The amendment also allows local governments to optimise their investment returns in fixed term deposits until the funds are required.

The regulations were published in the *Government Gazette* on Friday, 12 May 2017. A copy of the *Local Government (Financial Management) Regulations 1996*, which incorporates the amendment, can be viewed on the State Law Publishers' website at [www.slp.wa.gov.au](http://www.slp.wa.gov.au).

If you have any queries regarding the amendment regulations, please contact Courtney Allen, Legislation Officer, Department of Local Government and Communities, by phone on (08) 6552 1437 or by email at [courtney.allen@dlgc.wa.gov.au](mailto:courtney.allen@dlgc.wa.gov.au).



HON DAVID TEMPLEMAN MLA  
MINISTER FOR LOCAL GOVERNMENT; HERITAGE; CULTURE AND THE ARTS

17 MAY 2017

# **ATTACHMENT NO. 3**

# AASB 124 Related Party Disclosures Procedure

## PROCEDURE FOR RELATED PARTY DISCLOSURES

The scope of AASB 124 *Related Party Disclosures* was extended in July 2015 to include application by not-for-profit entities, including local governments. The operative date for Local Government is 1 July 2016, with the first disclosures to be made in the Financial Statements for year ended 30 June 2017. This procedure outlines required mechanisms to meet the disclosure requirements of AASB 124.

## BACKGROUND

The objective of the standard is to ensure that an entity's financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and transactions.

The disclosure requirements apply to the existence of relationships regardless of whether a transaction has occurred or not. For each financial year, the Town must make an informed judgement as to who is considered to be a related party and what transactions need to be considered, when determining if disclosure is required.

The purpose of this procedure is to stipulate the information to be requested from related parties to enable an informed judgement to be made.

### 1. Identification of Related Parties

AASB 124 provides that the Town will be required to disclose in its Annual Financial reports, related party relationships, transactions and outstanding balances.

Related parties includes a person who has significant influence over the reporting entity, a member of the key management personnel (KMP) of the entity, or a close family member of that person who may be expected to influence that person.

KMP are defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. KMP of the Town include Councillors, Chief Executive Officer, Directors and any Managers reporting directly to the Chief Executive Officer.

For the purposes of determining the application of the standard, the Town has identified the following persons as meeting the definition of *Related Party*:

- An elected Council member
- Key management personnel being a person employed under section 5.36 of the Local Government Act 1995 in the capacity of Chief Executive Officer or Director and any Manager reporting directly to the CEO.
- Close members of the family of any person listed above, including that person's child, spouse or domestic partner, children of a spouse or domestic partner, dependents of that person or person's spouse or domestic partner.
- Entities that are controlled or jointly controlled by a Council member, KMP or their close family members. (Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs).

The Town will therefore be required to assess all transactions made with these persons or entities.

## AASB 124 Related Party Disclosures Procedure

### 2. Identification of related party transactions

A related party transaction is a transfer of resources, services or obligations between the Town (reporting entity) and the related party, regardless of whether a price is charged.

For the purposes of determining whether a related party transaction has occurred, the following transactions or provision of services have been identified as meeting this criteria:

- Paying rates
- Fines
- Use of Town owned facilities such as [Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)]
- Attending council functions that are open to the public
- Employee compensation whether it is for KMP or close family members of KMP
- Application fees paid to the Town for licences, approvals or permits
- Lease agreements for housing rental (whether for a Town owned property or property sub-leased by the Town through a Real Estate Agent)
- Lease agreements for commercial properties
- Monetary and non-monetary transactions between the Town and any business or associated entity owned or controlled by the related party (including family) in exchange for goods and/or services provided by/to the Town (trading arrangement)
- Sale or purchase of any property owned by the Town, to a person identified above.
- Sale or purchase of any property owned by a person identified above, to the Town
- Loan Arrangements
- Contracts and agreements for construction, consultancy or services

Some of the transactions listed above, occur on terms and conditions no different to those applying to the general public and have been provided in the course of delivering public service objectives. These transactions are those that an ordinary citizen would undertake with council and are referred to as an Ordinary Citizen Transaction (OCT). Where the Town can determine that an OCT was provided at arms length, and in similar terms and conditions to other members of the public and that the nature of the transaction is immaterial, no disclosure in the annual financial report will be required.

### 3. Disclosure Requirements

For the purposes of determining relevant transactions in point 2 above, elected Council members and key management personnel as identified above, will be required to complete a *Related Party Disclosures - Declaration* form for submission to financial services.

### Ordinary Citizen Transactions (OCTs)

Management declares that in its opinion, based on the facts and circumstances, the following OCT that are provided on terms and conditions no different to those applying to the general public and which have been provided in the course of delivering public service objectives, are unlikely to influence the decisions that users of the Council's financial statements make. As such no disclosure in the quarterly *Related Party Disclosures - Declaration* form will be required.

#### **Ordinary Citizen Transactions (OCTs)**

- Paying rates
- Fines
- Use of Town owned facilities such as Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)
- Attending council functions that are open to the public

Where these services were not provided at arms length and under the same terms and conditions applying to the general public, elected Council members and KMP will be required to make a declaration in the *Related Party Disclosures - Declaration* form about the nature of any discount or special terms received.

#### **All other transactions**

For all other transactions listed in point 2 above, elected Council members and KMP will be required to make a declaration in the *Related Party Disclosures - Declaration* form.

#### **Frequency of disclosures**

Elected Council members and KMP will be required to complete a *Related Party Disclosures - Declaration* form each quarter.

Disclosures must be made by all Councillors immediately prior to any ordinary or extraordinary election.

Disclosures must be made immediately prior to the termination of employment of/by a KMP.

#### **Confidentiality**

All information contained in a disclosure return, will be treated in confidence. Generally, related party disclosures in the annual financial reports are reported in aggregate and as such, individuals are not specifically identified. Notwithstanding, management is required to exercise judgement in determining the level of detail to be disclosed based on the nature of a transaction or collective transactions and materiality. Individuals may be specifically identified, if the disclosure requirements of AASB 124 so demands.

#### **4. Materiality**

Management will apply professional judgement to assess the materiality of transactions disclosed by related parties and their subsequent inclusion in the financial statements.

In assessing materiality, management will consider both the size and nature of the transaction, individually and collectively.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### AASB 2015-6

This Standard was issued in March 2015 and extends the Scope of AASB 124 *Related Party Disclosures* to include application by not-for-profit entities.

Operative Date for Local Government: 1 July 2016 (effectively for the year ended 30 June 2017).

Comparatives: No comparatives will be required to be presented in the period of initial implementation.

#### AASB 124

#### SUMMARY

#### APPLICATION AND SCOPE

#### AASB 124.2

This standard is applied in:

- Identifying related party transactions and relationships;
- Identifying outstanding balances including commitments between an entity and its related parties;
- Identifying circumstances in which disclosure of the above items are required;
- Determining the disclosures to be made about those items.

#### PURPOSE OF RELATED PARTY DISCLOSURES

#### AASB 124.5 TO 124.8

Knowledge of related party transactions, outstanding balances and relationships is important to understanding and assessing an entity's operations.

#### DEFINITIONS

#### AASB 124.9 TO 124.12

Definitions include related party, compensation, control, key management personnel, director and remuneration as well as some explanations and clarifications.

#### DISCLOSURE

#### AASB 124.13 TO 124.27

Includes:

- Relationships between parents and subsidiaries of the entity, regardless of whether there have been any transactions between the related parties (may be applicable to local government under new legislation);
- Information about key management personnel compensation in total and for certain categories;
- Certain information about transactions between related parties and any outstanding balances at reporting date for each type of related party; and
- Information about government-related entities.

#### ILLUSTRATIVE EXAMPLES

Includes illustrative examples – one specifically relating to a Councillor of a local government.



## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### DISCLOSURES

#### KEY REQUIREMENTS OF AASB 124

##### AASB 124.17

A local government shall disclose key management personnel compensation in total and for each of the following categories:

- a) Short-term employee benefits;
- b) Post-employment benefits;
- c) Other long-term benefits;
- d) Termination benefits; and
- e) Share-based payment.

##### AASB 124.18

If the local government has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

- a) The amount of the transactions;
- b) 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; and
  - ii. details of any guarantees given or received;
- c) Provisions for doubtful debts related to the amount of outstanding balances; and
- d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.

##### AASB 124.18A

Amounts incurred by the local government for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

##### AASB 124.19

The disclosures required by paragraph 18 should be made separately for each of the following categories:

- a) The parent;
- b) Entities with joint control or significant influence over the entity;
- c) Subsidiaries;
- d) Associates;
- e) Joint ventures in which the entity is a venturer;
- f) Key management personnel of the entity or its parent; and
- g) Other related parties.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### DISCLOSURES (CONTINUED)

##### AASB 124.21

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

- a) purchases or sales of goods (finished or unfinished);
- b) purchases or sales of property and other assets;
- c) rendering or receiving of services; and
- d) leases.

##### AASB 124.23

Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

##### AASB 124.24

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the local government.

#### RELEVANT DEFINITIONS

##### AASB 124.9

#### **Related Party:**

A person or entity that is related to the local government that is preparing its financial statements.

A person or a close member of that person's family is related if that person:

- i. (not applicable to local government);
- ii. Has significant influence over the reporting entity; or
- iii. Is a member of the key management personnel of the reporting entity.

An entity is related if any of the following conditions applies:

- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others) - may be applicable; or
- ii. A person .... is a member of the key management personnel of the entity.

**Note: Many of the other conditions listed in this paragraph do not apply and we have chosen, for the sake of clarity, not to list them here.**

#### **Related Party Transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### RELEVANT DEFINITIONS (CONTINUED)

##### Close Members of the Family of a Person:

Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- a) That person’s children and spouse or domestic partner;
- b) Children of that person’s spouse or domestic partner; and
- c) Dependants of that person or that person’s spouse or domestic partner.

##### Compensation

Includes all employee benefits – refer to content of AASA 124.9 for specific details.

##### Key Management Personnel

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.

In the case of local government will include all Councillors and Senior Staff.

Senior Staff would include the CEO, deputy CEO and any staff member at a Director or Executive Manager level.

In the case of rural/regional local governments, there would also be the need to include the works supervisor, health inspector, planning officer where they have direct responsibility for an operational area of local government.

#### SUBSTANCE OVER FORM

##### AASB 124.10

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

#### CLARIFICATIONS

##### AASB 124.11

In the context of AASB 124, the following are not related parties:

- a) Two entities simply because they have a member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
- b) Two joint ventures simply because they share joint control over a joint venture.
  - i. providers of finance,
  - ii. trade unions,
  - iii. public utilities, and
  - iv. departments and agencies of a government that does not control, jointly control or significantly influence the local government.
  - v. simply by virtue of their normal dealings with the local government (even though they may affect the freedom of action of a local government or participate in its decision-making process).
- c) A customer, supplier, franchisor, distributor or general agent with whom the local government transacts a significant volume of business.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### EXAMPLE DISCLOSURE

**NOTE: Such disclosure is not required until the year ended 30 June 2017. The City/Town/Shire of Somewhere model will be adjusted to incorporate the disclosure requirements of AASB 124 at that time.**

The purpose of this example disclosure is to provide information and guidance with respect to upcoming requirements.

They are in addition to existing disclosure requirements which will be adjusted at the time.

For example, if material, certain disclosures relating to sales of goods, assets etc are already made elsewhere in the financial report and can easily be expanded to include a line item for related parties.

We have also only provided examples of those relating to local government with a comment on their likelihood.

**Please see pages 6 and 7 for example disclosure.**

## SOMEWHERE

## AASB 124 – “RELATED PARTY DISCLOSURES”

## EXAMPLE DISCLOSURE

**Key Management Personnel Compensation Disclosure**

The totals of remuneration paid to KMP of the City/Town/Shire during the year are as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<i>AASB 124.17(a)</i> Short-term employee benefits	AAA	EEE
<i>AASB 124.17(b)</i> Post-employment benefits	BBB	FFF
<i>AASB 124.17(c)</i> Other long-term benefits	CCC	GGG
<i>AASB 124.17(d)</i> Termination benefits	DDD	HHH
Total KMP compensation	<u>ZZZ</u>	<u>XXX</u>

**Short-term employee benefits**

These amounts include all salary, paid leave benefits, fringe benefits and cash bonuses awarded to KMP.

Details in respect to fees and benefits paid to Councilors may be found at Note XX.

**Post-employment benefits**

These amounts are the current-year’s estimated cost of providing for the City/Town/Shire’s superannuation contributions made during the year.

**Other long-term benefits**

These amounts represent long service benefits accruing during the year.

**Termination benefits**

These amounts represent termination benefits paid to KMP (Note: may or may not be applicable in any given year).

## SOMEWHERE

## AASB 124 – “RELATED PARTY DISCLOSURES”

## EXAMPLE DISCLOSURE (CONTINUED)

**Related Party Transactions Detail Disclosure****Related Parties****The City/Town/Shire’s main related parties are as follows:**

- AASB 124.9, 18
- i. *Key management personnel:*  
Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Councilor, are considered key management personnel.
- AASB 124.9, 18
- ii. *Entities subject to significant influence by the City/Town/Shire*  
An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.  
For details of interests held in associated entities, refer to Note X.
- AASB 124.9, 18
- iii. *Joint venture entities accounted for under the equity method:*  
The Group has a 50% interest in Somewhere Regional Council. The interest in the joint venture entity is accounted for in these financial statements using the equity method of accounting. For details of interests held in joint venture entities, refer to Note YY.

**Transactions with related parties:**

AASB 124.23 Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

	<b>2017</b>
	<b>\$</b>
<b>Associated companies/individuals:</b>	
Sale of goods and services	Likely
Purchase of goods and services	Likely
<b>Joint venture entities:</b>	
Distributions received from joint venture entities	Possible
<b>Amounts outstanding from related parties:</b>	
Trade and other receivables	Possible
Loans to associated entities	Possible but highly unlikely
Loans to key management personnel	Possible but highly unlikely
<b>Note: If loans of this nature are provided, then details relating to terms and conditions should be disclosed in narrative form.</b>	
<b>Amounts payable to related parties:</b>	
Trade and other payables:	
Loans from associated entities	Possible

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### IMPLEMENTATION GUIDANCE

Implementation and guidance applying to public sector entities (ie local government) forms an integral part of AASB 124.

Some key paragraphs to assist with interpretation have been extended and are detailed (unaltered) as follows:

#### KEY MANAGEMENT PERSONNEL

##### AASB 2015-6. IG 3

Paragraph 9 of the Standard defines key management personnel as being 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 the entity. In a public sector context, entities should consider the facts and circumstances in assessing whether a person is a member of the key management personnel, as defined, of the entity. For example, the facts and circumstances may reflect that not all persons described as ‘senior executive staff’ or ‘Secretary’ or ‘Minister’ may be key management personnel of the entity. Similarly, in relation to a not-for-profit public sector entity, the facts and circumstances may reflect that a person’s powers do not give rise to a capacity to direct or control the activities of an entity, where the powers are only ceremonial or procedural in substance.

#### RELATED PARTY TRANSACTIONS

##### AASB 2015-6. IG 9

Paragraph 18 of the Standard requires an entity to disclose information about transactions that have occurred between the entity and its related parties, including transactions between the entity and its key management personnel or key management personnel of the entity’s parent, that is necessary for users to understand the potential effect of the relationship on the financial statements.

##### AASB 2015-6. IG 10

Ministers, councillors and other senior public servants may qualify as a related party of a public sector entity under one or more of the criteria set down in paragraph 9(a) of the definition of ‘related party’ in AASB 124. For example, a Minister who is a member of the key management personnel of his government is, under the definition of ‘related party’, a related party not only of the government but also of each controlled entity of that government. In such instances, the Standard requires the controlled government entity to disclose related party transactions with that Minister, whether or not the Minister has responsibility for the entity.

##### AASB 2015-6. IG 11

A related party transaction is a transfer of resources, services or obligations between an entity and its related party, regardless of whether a price is charged. In the not-for-profit public sector, many entities are likely to engage frequently with persons who are a related party of that entity in the course of delivering the entity’s public service objectives, including the raising of funds (for example, rates and taxes) to meet those objectives. These related party transactions often occur on terms and conditions no different to those applying to the general public (for example, the Medicare rebate or public school fees). A not-for-profit public section entity may determine that information about related party transactions occurring during the course of delivering its public service objectives and which occur on no different terms to that of the general public is not material for disclosure in its general purpose financial statements is included in AASA 101 “Presentation of Financial

Statements and AASA 108 “Accounting Policies, Changes in Accounting Estimates and Errors. The factors described in paragraph 27 of the Standard may also assist an entity in making this determination.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### IMPLEMENTATION GUIDANCE (CONTINUED)

##### AASB 2015-6. IG 12

Examples 7-8 describe different types of related party transactions that may occur between not-for-profit public sector entities and their related parties.

##### Example 7

Councillor P is a member of the key management personnel of the LMN local government (the Council). The Council’s functions include raising revenue to fund its functions and activities, and planning for and providing services and facilities (including infrastructure) for the local community. In carrying out its functions, the Council undertakes a wide range of activities including the imposition of rates and charges upon constituents, and the provision without charge of services such as parks and roads.

Councillor P is a ratepayer residing within the Council’s constituency. As such, he takes advantage of the availability of free public access to local parks and libraries. Councillor P also used the swimming pool at the Council’s Recreation Centre twice during the financial year, paying the casual entry fee applicable to the general public each time. The recreation centre has approximately 20,000 visitors each financial year.

All of the transactions described above between the Council and Councillor P are related party transactions of the Council and are considered for disclosure in the Council’s general purpose financial statements. Based on the facts and circumstances described, the Council may determine that these transactions are unlikely to influence the decisions that users of the Council’s financial statements make having regard to both the extent of the transactions, and that the transactions have occurred between the Council and Councillor P within a public service provider/taxpayer relationship.

**Note: Example 8 was not included as it does not relate to local government.**



## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### BASIS FOR CONCLUSIONS

Whilst not forming part of the standard, the AASB has provided explanations in respect to their conclusions. We have extracted (unaltered) some key bases (as they relate to local government).

#### DEFINITION OF KEY MANAGEMENT PERSONNEL

##### AASB 2015-6. BC 8

The Board considered whether an amendment of the definition of key management personnel for the not-for-profit public sector would be necessary to facilitate a decision to remove the not-for-profit public sector exemption from AASB 124, but decided that the present definition was suitable. The AASB noted that, in a public sector context, entities should consider the facts and circumstances in assessing whether a person is a member of the key management personnel, as defined, of the entity.

##### AASB 2015-6. BC 9

The Board considered that normally, the determination of key management personnel will be similar for entities in the public sector or the private sector. For example, a not-for-profit public sector entity will need to determine whether all, or only certain, of its senior executive service employees meet the definition of key management personnel. However, the Board acknowledged constituents' concerns that the determination of key management personnel may not be straightforward in the not-for-profit public sector given ministerial type roles. The Board noted that it does not regard a Minister to always be a member of the key management personnel of a not-for-profit public sector entity or of a for-profit public sector entity; rather, this is dependent on the particular circumstances of the jurisdiction and of the entity. Accordingly, the Board decided to add guidance to the Standard, in the absence of a private sector analogy, to assist public sector entities in applying the definition of key management personnel to Ministers, as ministerial-type roles do not usually arise in a private sector.

##### AASB 2015-6. BC 17

The Board noted that, as is often the case with related party transactions, judgement would be required as to when transactions are material, especially when qualitative assessments are made about the nature of transactions. The Board considered situations in which Ministers or local government councillors paid taxes, levies or other statutory charges or fees faced generally by citizens. The Board does not expect, absent unusual circumstances, that the application of materiality would result in disclosure in many of these situations. In contrast, a commercial contract entered into by a Minister or local government councillor with a related public sector entity may be relevant for disclosure, similar to a commercial contract between a member of the key management personnel of a for-profit entity and the reporting entity (for example, a contract to provide accountancy services between the entity and an entity controlled by a member of the key management personnel). Accordingly, the Board observed that a not-for-profit public sector entity would also need to apply judgement in determining the extent of information it needs to collect to meet the objective of AASB 124, as there is little value in an entity incurring significant costs to obtain data that is immaterial for disclosure. The Board noted that it would expect appropriate criteria to be identified so that information about transactions that are possible material (for example, transactions that have occurred at a different price or volume to that applying to the general public) is captured for assessment.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### DEFINITION OF KEY MANAGEMENT PERSONNEL (CONTINUED)

##### AASB 2015-6. BC 18

Having regard to the role of materiality, the Board decided that no specific exemption from disclosure of the related party transactions with key management personnel of a not-for-profit public sector entity, including any Ministers or local government councillors where so identified, was necessary. However, to respond to constituents’ requests for clarification on the extent of disclosures required of related party transactions that occur in the not-for-profit public sector, the Board decided to add implementation guidance to AASB 124 to assist not-for-profit public sector entities in this regard.

#### APPLICATION DATE AND TRANSITIONAL PROVISIONS

##### AASB 2015-6. BC 30

The Board considered the application date and transitional provisions of the amendments to extend the scope of AASB 124 to include not-for-profit public sector entities. The Board acknowledged constituent concerns about the ability of existing systems, processes and controls to capture the information required, and requests for a lengthy transition period prior to mandatory application of the amendments.

##### AASB 2015-6. BC 31

The Board was disinclined to unnecessarily further extend the period to which these amendments are on issue before mandatory application, having made its key decisions on the amendments in 2012, and as the finalised amendments are largely as were exposed. Further, the Board noted that Australian Implementation Guidance to AASB 10 Consolidated Financial Statements relating to the application of control by not-for-profit entities had been issued by the Board in October 2013. The Board also noted that the forthcoming issue of an amending standard extending the scope of AASB 124 to not-for-profit public sector entities has been signalled in its publicly available work program. Accordingly, the Board decided that the amendments should apply to annual reporting periods beginning on or after 1 July 2016.

##### AASB 2015-6. BC 32

However, having regard to constituent concerns, the Board decided not to require comparative related party disclosures to be presented in the period of initial application of the amendments.

## SOMEWHERE

## AASB 124 – “RELATED PARTY DISCLOSURES”

## BUSINESS OPERATING PROCEDURE

## Corporate Services/Governance &amp; Finance

## Procedure Number XXX

## PROCEDURE FOR RELATED PARTY DISCLOSURES

The scope of AASB 124 *Related Party Disclosures* was extended in July 2015 to include application by not-for-profit entities, including local governments. The operative date for Local Government is 1 July 2016, with the first disclosures to be made in the Financial Statements for year ended 30 June 2017. This procedure outlines required mechanisms to meet the disclosure requirements of AASB 124.

## BACKGROUND

The objective of the standard is to ensure that an entity's financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and transactions.

The disclosure requirements apply to the existence of relationships regardless of whether a transaction has occurred or not. For each financial year, the *Shire/Town/City* must make an informed judgement as to who is considered to be a related party and what transactions need to be considered, when determining if disclosure is required.

The purpose of this procedure is to stipulate the information to be requested from related parties to enable an informed judgement to be made.

## 1. Identification of Related Parties

AASB 124 provides that the *Shire/Town/City* will be required to disclose in its Annual Financial reports, related party relationships, transactions and outstanding balances.

Related parties includes a person who has significant influence over the reporting entity, a member of the key management personnel (KMP) of the entity, or a close family member of that person who may be expected to influence that person.

KMP are defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

For the purposes of determining the application of the standard, the *Shire/Town/City* has identified the following persons as meeting the definition of *Related Party*:

- An elected Council member
- Key management personnel being a person employed under section 5.36 of the Local Government Act 1995 in the capacity of Chief Executive Officer or Director
- Close members of the family of any person listed above, including that person's child, spouse or domestic partner, children of a spouse or domestic partner, dependents of that person or person's spouse or domestic partner.
- Entities that are controlled or jointly controlled by a Council member, KMP or their close family members. (Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs).

The *Shire/Town/City* will therefore be required to assess all transactions made with these persons or entities.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### 2. Identification of related party transactions

A related party transaction is a transfer of resources, services or obligations between the *Shire/Town/City* (reporting entity) and the related party, regardless of whether a price is charged.

For the purposes of determining whether a related party transaction has occurred, the following transactions or provision of services have been identified as meeting this criteria:

- Paying rates
- Fines
- Use of *Shire/Town/City* owned facilities such as [Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)]
- Attending council functions that are open to the public
- Employee compensation whether it is for KMP or close family members of KMP
- Application fees paid to the *Shire/Town/City* for licences, approvals or permits
- Lease agreements for housing rental (whether for a *Shire/Town/City* owned property or property sub-leased by the *Shire/Town/City* through a Real Estate Agent)
- Lease agreements for commercial properties
- Monetary and non-monetary transactions between the *Shire/Town/City* and any business or associated entity owned or controlled by the related party (including family) in exchange for goods and/or services provided by/to the *Shire/Town/City* (trading arrangement)
- Sale or purchase of any property owned by the *Shire/Town/City*, to a person identified above.
- Sale or purchase of any property owned by a person identified above, to the *Shire/Town/City*
- Loan Arrangements
- Contracts and agreements for construction, consultancy or services

Some of the transactions listed above, occur on terms and conditions no different to those applying to the general public and have been provided in the course of delivering public service objectives. These transactions are those that an ordinary citizen would undertake with council and are referred to as an Ordinary Citizen Transaction (OCT). Where the *Shire/Town/City* can determine that an OCT was provided at arms length, and in similar terms and conditions to other members of the public and, that the nature of the transaction is immaterial, no disclosure in the annual financial report will be required.

#### 3. Disclosure Requirements

For the purposes of determining relevant transactions in point 2 above, elected Council members and key management personnel as identified above, will be required to complete a *Related Party Disclosures - Declaration* form for submission to financial services.

##### Ordinary Citizen Transactions (OCTs)

Management will put forward a draft resolution to Council annually, declaring that in its opinion, based on the facts and circumstances, the following OCT that are provided on terms and conditions no different to those applying to the general public and which have been provided in the course of delivering public service objectives, are unlikely to influence the decisions that users of the Council's financial statements make. As such no disclosure in the quarterly *Related Party Disclosures - Declaration* form will be required.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

- Paying rates
- Fines
- Use of **Shire/Town/City** owned facilities such as Recreation Centre, Civic Centre, library, parks, ovals and other public open spaces (whether charged a fee or not)
- Attending council functions that are open to the public

Where these services were not provided at arms length and under the same terms and conditions applying to the general public, elected Council members and KMP will be required to make a declaration in the *Related Party Disclosures - Declaration* form about the nature of any discount or special terms received.

#### All other transactions

For all other transactions listed in point 2 above, elected Council members and KMP will be required to make a declaration in the *Related Party Disclosures - Declaration* form.

#### Frequency of disclosures

Elected Council members and KMP will be required to complete a *Related Party Disclosures - Declaration* form each quarter.

Disclosures must be made by all Councillors immediately prior to any ordinary or extraordinary election.

Disclosures must be made immediately prior to the termination of employment of/by a KMP.

#### Confidentiality

All information contained in a disclosure return, will be treated in confidence. Generally, related party disclosures in the annual financial reports are reported in aggregate and as such, individuals are not specifically identified. Notwithstanding, management is required to exercise judgement in determining the level of detail to be disclosed based on the nature of a transaction or collective transactions and materiality. Individuals may be specifically identified, if the disclosure requirements of AASB 124 so demands.

#### 4. Materiality

Management will apply professional judgement to assess the materiality of transactions disclosed by related parties and their subsequent inclusion in the financial statements.

In assessing materiality, management will consider both the size and nature of the transaction, individually and collectively.

#### Associated Regulatory Framework

*AASB 124 Related Party Disclosures*

*Local Government Act 1995*

*Local Government (Financial Management) Regulations 1996*

#### Associated Policies

*Include if relevant*

#### Further Information

*Related Party Disclosures - Declaration form*



## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

Review Responsibility

*Coordinator Financial Services*

Date Adopted: XX

Review Required: As Required

Review Undertaken: XX

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Date

Approved / Not Approved

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### Close Family Members

Close family members include:

- a child, spouse or domestic partner;
- children of your spouse or domestic partner;
- dependents of you or your spouse or domestic partner;
- any other close family member;

who may be expected to influence, or be influenced by, your dealings with the council.

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
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

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

#### Example: Cousin of Councillor

A Councillor for the *Shire/Town/City* has lived in the *Shire/Town/City* her whole life. In fact her family has been in the area for generations.

The Councillor’s cousin, owns and operates the local newsagent through a company ABC Pty Ltd, in which she owns 100% of the shares. The Councillor and her cousin have always been close and regularly socialise together.

From these facts it would appear that the Councillor’s cousin is a close family member of the Councillor because she would be expected to influence, or be influenced by, that person in her dealings with Council.

Both the cousin and the company she controls, ABC 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.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### Control in entities

##### 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.

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.

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.

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 the Manager Financial Services for a confidential discussion.

#### **Example: Clubs or other incorporated bodies**

(A *Shire/Town/City* Councillor is the President of a local football club)

A *Shire/Town/City* Councillor is the President of *Shire/Town/City* Football Club 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 Councillor does not control or jointly control the football club so it will not be a related party of Council just because the Councillor is the president of the club.



## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### Other examples

##### Example 1 (Audit committee member)

Shire/Town/City of Anywhere’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 *Audit Regulations*. 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.

##### Example 2 (Son of CFO employed by council)

Shire/Town/City of Anywhere has recently employed Paul's son (George) in the Council's parks and garden's area. Paul is Council's Deputy Chief Executive 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 3 (Cousin of Mayor - related party commonly known but omitted from declaration)

Shelley, the Mayor of Shire/Town/City of Nowhere 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.

##### Example 4 (Example of control)

Fred is the Mayor of Shire/Town/City of Nowhere and owns 100% of the ordinary shares in Shire/Town/City of Nowhere 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.

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### Example 5 (Example of joint control)

Fred is the Mayor of *Shire/Town/City of Nowhere* and owns 50% of the ordinary shares in *Shire/Town/City of Nowhere* 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.

SOMEWHERE

**AASB 124 – “RELATED PARTY DISCLOSURES”**

**RELATED PARTY DISCLOSURES - DECLARATION**

As per requirements of AASB 124 Related Party Disclosures, and Business Operating Procedure – Related Party Disclosures. For additional information to assist you in making a declaration, please refer to the Appendices to this form.

The following declaration must be completed by all Council members, the CEO and Directors of the Shire/Town/City who were elected or employed at any time during the financial year.

<b>Disclosure Period (Quarter Ended):</b>	
<b>Person making disclosure:</b>	
<b>Position held by person:</b> e.g. Councillor, Director	

**1. CLOSE MEMBERS OF THE FAMILY (See Appendix 1)**

<b>Name of Family Member</b>	<b>Relationship to you</b>
<i>If there has been no change since your last declaration, please complete "No Change"</i>	





## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### 3. ORDINARY CITIZEN TRANSACTIONS – NOT PROVIDED AT ARMS LENGTH

Did you or any member of your close family use facilities provided at Recreation Centre, attend any event at the Civic Centre, or use any other council provided facility AND you received a discount or special terms that would not otherwise be offered to any other member of the public?

Name of person using the facility	Service/Facility used	Nature of transaction	Nature of discount or special conditions received.

Note: Recreation Centre membership provided as part of employment has been provided under the same terms as those memberships provided to the public.

#### 4. LEASING AGREEMENTS - DOMESTIC RESIDENTIAL

Did you, a close family member or related entity, enter into a lease agreement with the **Shire/Town/City** (either as lessee or lessor) for the provision of a domestic rental property (Includes properties owned by the **Shire/Town/City** and privately owned properties sub-leased through the **Shire/Town/City** from a real estate agent)? Did you receive or provide a discount or special terms that would not otherwise be offered to any other member of the public?

Name of Person party to the lease	Property Address	Term of Lease & Weekly rent	Detail of any non-arms length conditions

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

**5. LEASING AGREEMENTS - COMMERCIAL**  
 Did you, a close family member or related entity, enter into a commercial leasing agreement with the **Shire/Town/City** for the provision of a commercial property? Did you receive a discount or special terms that would not otherwise be offered to any other member of the public?

Name of person party to the lease	Property Address	Term of Lease & Weekly rent	Detail of any non-arms length conditions

**6. TRADING ARRANGEMENTS**  
 Were you or a close family member (as defined above) the owner of any business (or in a position to substantially control the business) that provided goods or services to the **Shire/Town/City**? Were those goods or services provided on the same terms and conditions as those available to any other customer? If not, please provide details of the specific terms provided to the **Shire/Town/City**.

Business name	Goods or services provided	Approximate value for the reporting period	Terms & conditions



## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### 7. OTHER AGREEMENTS (Construction, Consultancy, Service Contracts)

Did you, a close family member or related entity, enter into any other agreements/arrangements with the **Shire/Town/City** (whether or not a price was charged)?

This may include (but is not limited to): construction contracts, consultancy services, service contracts (such as cleaning, maintenance, security).

For e.g. a company that a close family member controls, was awarded a contract with the **Shire/Town/City** for building a new office facility.

Name of person or business/company	Nature of agreement	Value of agreement	Terms & conditions

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### 8. PURCHASE OF PROPERTY

Did you, a close family member or related entity, purchase any property or other assets from the **Shire/Town/City**? (This may include vehicles or other plant items, land or buildings).

Was the purchase made at arms length (for e.g. at public auction), and on terms and conditions available to any other member of the public? If not, please provide details of the specific terms provided to you.

Name of person or entity name	Property purchased	Value of the purchase	Terms & conditions

#### 9. SALE OF PROPERTY

Did you, a close family member or related entity, sell any property or other assets to the **Shire/Town/City**? (This may include vehicles or other plant items, land or buildings).

Was the sale made at arms length, and on terms and conditions available to any other member of the public? If not, please provide details of the specific terms provided.

Name of person or entity name	Property Sold	Value of the Sale	Terms & conditions



## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

#### 10. FEES & CHARGES FOR APPLICATIONS

Did you, a close family member or related entity, make an application to Council for a trading, building, planning or development application, licence or approval, or any other type of permit or licence?

Name of person or entity name	Application type	Application and/or receipt number

#### 11. SELF SUPPORTING LOANS

Did you, a close family member or related entity, enter into a loan agreement with the **Shire/Town/City**?  
For e.g. a club for which you have control (See Appendix 2 for example)

Name of person or entity name	Loan details	Value of the loan	Terms & conditions

#### 12. OTHER AGREEMENTS

Please list any other agreement or arrangement you believe is a related party transaction and should be declared.

Name of person or business/company	Nature of agreement	Value of agreement	Terms & conditions

## SOMEWHERE

### AASB 124 – “RELATED PARTY DISCLOSURES”

I declare that all information and details provided in this form are true and correct to the best of my knowledge and belief and that no known relevant information has been omitted.

I have made this declaration after reading the information supplied by Council which details the meaning of the definitions to which this declaration relates.

SELECT OPTION 1:  Handwritten Signature

Signed: \_\_\_\_\_ Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

Once signed please provide to the **Manager Financial Services**.

OR

SELECT OPTION 2:  Electronic Signature

This form can be sent by email to the **Manager Financial Services** provided the email is sent by the person making the disclosure from their work or personal (e.g. Councillors) email account.