



3.09 – RELATED PARTIES DISCLOSURE POLICY

1. INTRODUCTION

The purpose of this policy is to ensure that Council meets all requirements regarding the disclosure of related party transactions.

2. POLICY OBJECTIVE

The objective of this policy is to ensure that Council's transactions with related parties are disclosed, thereby ensuring transparency in dealings and their effect on Council's financial reports. These disclosures draw attention to the possibility that Council's financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

It is to ensure that Norfolk Island Regional Council financial statements comply with disclosure requirements under Australian Accounting Standard *AASB 124 Related Party Disclosures*; and also for key management personnel to be aware of their responsibilities in relation to reporting related parties and the disclosures that may be made in the annual financial statements.

3. POLICY SCOPE

This Policy shall be applied in:

- (a) identifying related parties and relevant transactions;
- (b) identifying outstanding balances, including commitments, between Council and its related parties;
- (c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- (d) determining the disclosures to be made about those items.

This policy applies to elected members of Council, to executive staff and those relieving in their roles, and to all consultants and contractors engaged by Council who are determined to be key management personnel.

This policy applies to all transactions of Council from 1 July 2016.

4. DEFINITIONS

Close family members - family members who may be expected to influence, or be influenced by, the key management personnel in their dealings with Council, and includes spouse / partner, children and dependents, as well as children and dependents of spouse / partner. It can potentially also include grandparents, grandchildren, or siblings

Control - an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee

Council – Norfolk Island Regional Council

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

Key management personnel (KMP) - persons having authority and responsibility for planning, directing and controlling the activities of Council, directly or indirectly, being the Mayor, Councillors and Executive Management Team

Material - information is material to financial statements if omitting it or misstating it could influence decisions that users make on the basis of financial information

Ordinary citizen transactions - transactions that an ordinary citizen would undertake with Council, which is undertaken on arm's length terms and in the ordinary course of carrying out Council's functions and activities

Related parties - entities and persons related to Council

Related entities - entities controlled or jointly controlled by Council, entities over which Council has significant influence and any entities that are controlled or jointly controlled by KMP or their close family members

Related persons - Council's key management personnel and close family members of KMP

Related party transaction - a transfer of resources, services or obligations between Council and a related party, regardless of whether a financial transaction occurs

5. LEGAL AND POLICY FRAMEWORK

Australian Accounting Standard *AASB 124 Related Party Disclosures*.

6. POLICY

Effective from the 2016-17 financial year, Council must disclose certain related party relationships and related party transactions together with information associated with those transactions in its general purpose financial statements in order to comply with Australian Accounting Standard *AASB 124 Related Party Disclosures*.

Council's related parties include:

- (a) key management personnel (KMP) of Council
- (b) close family members of KMP
- (c) entities related to Council, such as subsidiaries, joint ventures and associates
- (d) entities controlled or jointly controlled by KMP or their close family members.

Attachment A provides further information on Council's related parties.

A related party transaction is any transaction between Council and the above related parties, whether monetary or not. For Council purposes, ordinary citizen transactions are excluded. Attachment B provides further information on related party transactions.

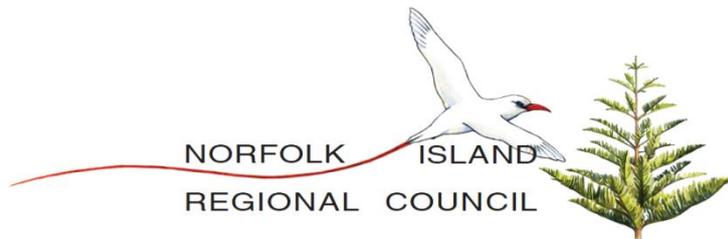
Disclosure in Council's annual financial statements will only be made where a transaction has occurred between Council and a related party of Council, and the transaction is material in nature or size, when considered individually or collectively. Attachment C provides further information on disclosure requirements and materiality.

In order to meet the disclosure requirements, all KMP must periodically provide a related party declaration identifying any close family members and entities controlled or jointly controlled by KMP or their close family members. Related party declarations will be requested by Finance at least once each year, with the last update as at 30 June each year also including a list of any related party transactions for review and confirmation.

The information collected in the declarations will be used for the purposes of preparing Council's financial statement note disclosures. Finance will maintain a register to record and assess the related parties and related party transactions. The declarations and related party register will be audited as part of the annual external audit.

7. REVIEW AND VERSION CONTROL

Policy Number	3.09		Responsible Officer	Chief Financial Officer
Effective Date	20 September 2017		Next Review Date	2020
Version Number	Version	Resolution No.	Effective Date	Version description
	V1	2017/151	20 September 2017	Developed and Adopted



ATTACHMENT A

This attachment considers who and what are related parties of Council.

A related party can be a person or an entity. An entity can be a company, trust, joint venture, partnership or association.

Council's related parties include:

- (a) key management personnel (KMP) of Council
- (b) close family members of KMP
- (c) entities related to Council, such as subsidiaries, joint ventures and associates
- (d) entities controlled or jointly controlled by KMP or their close family members.

Key Management Personnel (KMP)

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

Taking into account the guidance and examples provided in *AASB 124 Related Party Disclosures*, it has been determined that the following are KMP of Council:

- (a) Mayor
- (b) Councillors
- (c) Executive Management Team (EMT), comprising the General Manager, the Group Managers and Executive Manager.

If a person is acting in a position that would normally be considered a KMP role, that person is only a KMP if they have the same authority and responsibility for planning, directing and controlling the activities of Council. For example, if a person is acting in a KMP position while a KMP is on annual leave, and that person's participation in key decisions is limited during that period, the person would not be considered a KMP. Alternatively, if a person is acting in a vacant position and they participate in key decisions, then that person would be considered a KMP.

A KMP of a parent entity is also a related party to the parent entity's controlled entities.

Close Family Members of KMP

Close family members are defined as those family members who may be expected to influence, or be influenced by, the KMP in their dealings with Council, and includes:

- (a) spouse or partner
- (b) children and dependents of KMP
- (c) children and dependents of spouse or partner.

Dependent on the circumstances, it could also extend to other family members if the family member may be expected to influence, or be influenced by, the KMP in their dealings with Council.

Entities Related to Council

Entities controlled by Council, jointly controlled by Council or over which Council has significant influence are related parties of Council.

The terms "control", "jointly controlled" and "significant influence" are used in this policy with the meanings specified in Australian Accounting Standards.

When assessing whether Council has control or joint control over an entity, *AASB 10 Consolidated Financial Statements* and *AASB 11 Joint Arrangements* need to be considered. AASB 10 states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Joint control is defined in AASB 11 as 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.

AASB 128 Investments in Associates and Joint Ventures details the criteria for determining whether Council has significant influence over an entity, where significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Entities Controlled or Jointly Controlled by KMP or their Close Family Members

Entities controlled or jointly controlled by KMP, or close family members of KMP, are related parties of Council. The terms “control” and “jointly controlled” are used in this policy with the meanings specified in Australian Accounting Standards.

Identification of Related Parties

Compliance with AASB 124 requires more detailed personal information than what is currently covered in existing declarations and registers. As a result, Council requires all KMP to also provide regular related party declarations identifying:

- (a) close family members;
- (b) entities that are controlled or jointly controlled by KMP;
- (c) entities that are controlled or jointly controlled by close family members;
- (d) ABN or ACN of controlled / jointly controlled entities; and
- (e) start and end dates where there have been changes to related party relationships during the year.

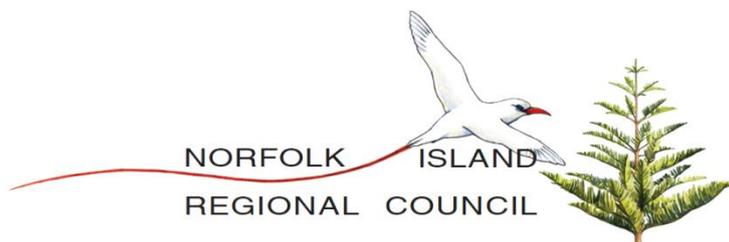
Related party declarations will be requested by Finance at least once each year, with the last update as at 30 June each year also including a list of any related party transactions identified by Finance for review and comment by KMP. Declarations may also be requested when events trigger a change in KMP, for example following a council election.

Other sources, such as the register of interests and conflict of interest register, may also be reviewed by Finance to ensure that related party information is accurate and complete for financial reporting purposes.

The related parties identified will be recorded in a register (related party register) maintained by Finance and will be used for the purposes of identifying transactions between Council and its related parties.

Summary of Council’s Related Parties

Related Party	Category	Who?
Person	Key management personnel	Mayor, Councillors, EMT
Person	Close family members of KMP	Per related party declarations by KMP
Entity	Entities controlled / jointly controlled by a related person	Per related party declarations by KMP
Entity	Controlled entities	None at present



ATTACHMENT B

Once related parties have been identified, the next step is the identification of related party transactions.

“A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.” (AASB 124.9)

Ordinary Citizen Transactions

In accordance with guidance provided in AASB 124, “a not-for-profit public sector 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 and accordingly need not be disclosed.” These transactions are referred to as ordinary citizen transactions (OCTs).

OCTs are not material transactions because of their nature. These transactions are unlikely to influence the decisions that users of Council’s financial statements make, having regard to both the extent of the transactions, and that the transactions have occurred within a public service provider / taxpayer relationship.

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

Unless there are indications that such transactions have occurred on terms and conditions significantly different to those offered to the general public, OCTs will be excluded from being captured and reported as related party transactions at Council.

Examples of OCTs at Council include:

- (a) rates and utility charges
- (b) use of Council facilities, equipment and services in accordance with Council’s fees, charges and policies (e.g. visiting a Council park, library)
- (c) fines and other penalties on normal terms and conditions
- (d) attendance at a Council function or activity open to the public
- (e) any other transaction occurring during the course of delivering Council’s public service objectives and which occur on no different terms to that of the general public.

Examples of transactions that are not considered OCTs for Council purposes include:

- (a) procurement related transactions (e.g. KMP’s company supplies materials/services to Council)
- (b) infrastructure charges (e.g. KMP’s company pays an infrastructure charge to Council).

Identification of Related Party Transactions

Related party transactions will be identified by Finance via the following high-level process:

- (a) collate information from Council’s financial systems
- (b) review conflict of interest register and other relevant documentation
- (c) obtain declarations from KMP that identified related party transactions are complete and accurate, including confirmation of terms and conditions of transactions.

Related party transactions (excluding OCTs) will be recorded in the related party register for the purposes of assessment and may be disclosed in Council’s annual financial statements, depending on materiality.



ATTACHMENT C

Materiality

Prior to preparing Council's financial statement disclosures, related party transactions will be assessed by Finance for materiality. Transactions that are not considered material do not need to be disclosed. When assessing materiality, both the size and nature of the transaction will be considered, individually and collectively.

Assessing materiality requires judgement and the following factors may indicate a material related party transaction:

- (a) significance in terms of size (by reference to materiality levels set by external auditors each year)
- (b) carried out on non-market terms
- (c) outside normal operations
- (d) subject to Council approval
- (e) provide a financial benefit not available to the general public
- (f) transaction likely to influence decisions of users of financial statements.

Financial Statement Disclosures

Effective from the 2016-17 financial year, Council must disclose the following information in its annual financial statements:

- (a) relationships between Council and its controlled entities (irrespective of whether there have been transactions between them)
- (b) key management personnel compensation in total and for each of the following categories:
 - short-term employee benefits (wages, allowances, annual leave, bonuses)
 - post-employment benefits (superannuation)
 - other long-term benefits (long service leave)
 - termination benefits
- (c) where related party transactions have occurred:
 - the nature of the related party relationship
 - information about the transactions, outstanding balances and commitments, including terms and conditions
- (d) separate disclosure of related party transactions for each category of related party.

The types of transactions that may be disclosed if they are with a related party include:

- (a) purchases or sales of goods / services / property / other assets
- (b) leases
- (c) guarantees given or received
- (d) commitments
- (e) loans and settlements of liabilities
- (f) bad and doubtful debts.