

RELATED PARTY DISCLOSURES POLICY

Responsible Department:	Financial Services
Responsible Section:	Financial Services
Responsible Officer:	Chief Financial Officer

Objective

The purpose of this policy is to:

- Define the parameters for Related Party Relationships and the level of disclosure and reporting required for Council to achieve compliance with the Australian Accounting Standard AASB 124;
- Ensure that Council's Related Party Relationships are disclosed, irrespective of whether there have been transactions between them.

Introduction

Council is required to disclose Related Party Relationships and Transactions, as well as Key Management Personnel (KMP) compensation in its Annual Financial Statements in accordance with the Accounting Standard AASB 124.

The objective of this policy is to ensure that Narrabri Shire Council's financial statements contain the necessary related party disclosures, 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.

Policy

1. Definitions

Term	Meaning
AASB 10	The Australian Accounting Standards Board - Consolidated Financial Statements – details the criteria for determining whether Council has significant influence over an entity.
AASB 11	The Australian Accounting Standards Board - Joint Arrangements - details the criteria for determining whether Council has significant influence over an entity.
AASB 121	The Australian Accounting Standards Board - Related Party Disclosures Standard under Section 334 of the <i>Corporations Act 2001</i> .
AASB 128	The Australian Accounting Standards Board - Investments in Associates and Joint Ventures - details the criteria for determining whether Council has significant influence over an entity.
The Act	<i>The Local Government Act 1993</i> (NSW).
The Regulation	<i>the Local Government (General) Regulation 2021</i> (NSW).

Term	Meaning
Key Management Personnel (KMP)	<p>Are those persons having the 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.</p> <p>In the case of Narrabri Shire Council, KMPs are:</p> <ul style="list-style-type: none"> • The Mayor • Councillors • The General Manager • Directors or other personnel identified as senior staff within the meaning of the <i>Local Government Act 1993</i> (NSW) • Chief Financial officer or other personnel at the manager level or above with functions responsible for the overall management and reporting of Council's financial affairs • Manager Governance and Risk
Material (materiality)	<p>Means the assessment of whether the transaction, either individually or in aggregate with other transactions, by omitting it or misstating it could influence decisions that users make on the basis of an entity's financial statements. For the purpose of this policy, it is not considered appropriate to set either a dollar value or a percentage value to determine materiality.</p>
Ordinary Citizen Transaction	<p>Means a transaction that an ordinary citizen of the community would undertake in the ordinary course of business with Council.</p>
Related Party	<p>A person or entity that is related to the entity preparing its financial statements (reporting entity).</p>
Significant (significance)	<p>Means likely to influence the decisions that users of the Council's financial statements make having regard to both the extent (value and frequency) of the transactions, and that the transactions have occurred between the Council and related party outside a public service provider/taxpayer relationship.</p>
Remuneration	<p>Means remuneration package and includes any money, consideration or benefit received or receivable by the person but excludes reimbursement of out-of-pocket expenses, including any amount received or receivable from a Related Party Transaction.</p>
Close family members or close members of the family	<p>In relation to a KMP, family members who may be expected to influence, or be influenced by that KMP in their dealings with Council will include:</p> <ol style="list-style-type: none"> 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. <p>Close family members could include extended members of a family (such as, without limitation, parents, siblings, grandparents, uncles/aunts or cousins) if they could be expected to influence, or be influenced by, the KMP in their dealings with Council.</p>

2. Policy Statement

- 2.1. Council is committed to responsible corporate governance, including compliance with laws and regulations governing related party transactions.
- 2.2. Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In those circumstances, there is the possibility of the entity having the ability to affect the financial and operating policies of Council through the presence of control, joint control or significant influence.
- 2.3. A related party relationship could influence the normal business operations of Council even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the Council with other parties.
- 2.4. For these reasons, knowledge of Council's transactions and outstanding balances (including commitments and relationships with related parties) may affect assessments of Council's operations.
- 2.5. AASB 124 provides that Council must disclose all material and significant related party transactions and outstanding balances, including commitments, in its Annual Financial Statements.
- 2.6. Generally, disclosure will only be made where:
 - (a) a transaction has occurred between Council and a related party of Council; and
 - (b) the transaction must be material in nature or size when considered individually or collectively.
- 2.7. To enable Council to comply with AASB 124, Council's KMP are required to declare full details of any Related Parties and Related Party Transactions. Such information will be retained and reported, where necessary, in Council's Annual Financial Statements.

3. Key Management Personnel

- 3.1. KMP are persons having the authority and responsibility for planning, directing and controlling the activities of the entity (voting powers), directly or indirectly, including any director (whether executive or otherwise) of the entity.
- 3.2. Key Management Personnel in Narrabri Shire Council are:
 - (a) The Mayor;
 - (b) Councillors;
 - (c) The General Manager;
 - (d) The Directors or other senior staff under the *Local Government Act 1993* (NSW) however titled.
 - (e) The Chief Financial Officer or other personnel at manager or above level responsible for the administration of Council's financial services.
 - (f) Manager Governance and Risk or other personnel at manager or above level responsible for the governance of Council, complaints coordinator, and/or Public Interest Disclosures coordination.
- 3.3. Where any person is appointed to a role that fits the definition of KMP in the Standard, they shall be deemed to be KMP under this policy.

4. Related Parties

Overview

4.1. Related parties of Council are as follows:

- (a) Key Management Personnel (KMP) of Council;
- (b) Close family members of KMP;
- (c) entities that are controlled or jointly controlled by Council, KMP, or their close family members.

Entities Related to Council;

- 4.2. Entities controlled by Council, jointly controlled by Council or over which Council has significant influence are related parties of Council.
- 4.3. Council will need to identify transactions with these entities and may need to make extra disclosure about them in Council's financial statements.
- 4.4. When assessing whether Council has control or joint control over an entity Council must consider AASB 10 and AASB 11. AASB 128 details the criteria for determining whether Council has significant influence over an entity.
- 4.5. Council's Contracts Register, Leases and License Register and the Schedule of Debts Written Off will be reviewed to identify related party transactions/parties. This information will be included in the related party register which will include all joint arrangements and updated on a quarterly basis.

Close Family Members of KMP

- 4.6. Close Family Members of a KMP are family members who may be expected to influence, or be influenced by, that person in their dealings with Council.
- 4.7. In the context of related party disclosures, close family members could include extended members of a family. See the below table for guidance.

Definitely a close family member	Maybe 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

Entities that are Controlled or Jointly Controlled by KMP or their Close Family Members.

4.8. Entities that are controlled or jointly controlled by KMP or their close family members are related parties.

4.9. This includes:

- (a) Companies;
- (b) Trusts;
- (c) Joint ventures;
- (d) Partnerships; and
- (e) And non-profit associations such as sporting clubs.

5. Related Party Transactions

General

5.1. The following are related party transactions:

- (a) Transactions between Council and its related entities (ie subsidiaries or investments)
- (b) Transactions between Council and KMP;
- (c) Transactions between Council and Close Family Members of KMP;
- (d) Transactions between Council and entities wholly or partially controlled by KMP and/or their Close Family Members.

5.2. Transactions that are classed as “ordinary citizen transactions” are not related party transactions for the purpose of this Policy unless they are significant and material.

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

- (a) Purchase or sale of goods (finished or unfinished);
- (b) Purchase or sale of property and other assets;
- (c) Rendering or receiving services;
- (d) Leases;
- (e) Transfers of research and development;
- (f) Transfers under licence agreements;
- (g) Transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- (h) Provision of guarantees or collateral;
- (i) Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised);
- (j) Quotations and/or tenders;
- (k) Settlements of liabilities on behalf of Council or by Council on behalf of the related party;
- (l) Expense recognised during the period in respect of bad debts;
- (m) Provision for doubtful debts relating to outstanding balances.

6. Disclosure

Notifications by Key Management Personnel

- 6.1. KMP are required to periodically provide notifications to the Financial Services Manager of:
- (a) Any existing or potential related party transactions between Council and any of their related parties during a financial year, and
 - (b) Any changes to previously notified related party relationships and transactions relevant to the subject financial year.
- 6.2. KMPs must complete the related party relationships notification using the Key Management Personnel Form (see Appendix B), notifying any existing or potential related party relationships between Council and any related parties of the KMP, to the Financial Services Manager by no later than the following periods during a financial year:
- (a) 30 days after the commencement of the application of this policy;
 - (b) 30 days after a KMP commences their term or employment with Council;
- 6.3. During the financial year, a KMP must proactively notify of any new or potential related party relationships that the person knows of, or any changes to previously notified related party relationships to the Financial Services Manager by no later than 30 days after the person knows of the transaction or change.

Related Party and KMP Disclosure

- 6.4. The types of disclosure that are required are as follows:
- (a) Relationships between a parent and its subsidiaries, irrespective of whether there have been transactions between them;
 - (b) KMP Compensation (remuneration) relate to all forms of consideration paid, payable, or provided in exchange for services provided in total and for each of the following categories:
 - (i) Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free and subsidised goods or services) for current employees
 - (ii) Post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
 - (iii) Other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit sharing, bonuses and deferred compensation;
 - (iv) Termination benefits;
- 6.5. Where related party transactions have occurred KMP are required to disclose:
- (a) The nature of the related party relationship (**Annexure B**);
 - (b) Information about the transactions, outstanding balances and commitments, including terms and conditions (**Annexure A**);
 - (c) Separate disclosure for each category of the related party;

Note: For the types of transactions to be disclosed refer to Related Party Transactions section above.

- 6.6. Should a KMP have any uncertainty as to whether a transaction may constitute a related party transaction they should contact the Financial Services Manager who can provide information and limited advice. Otherwise, KMP should seek their own advice in relation to the matter.
- 6.7. The New South Wales Auditor General Office may audit related party information as part of the annual external audit.

Assessment for Disclosure by Council

- 6.8. When assessing whether such transactions are material and significant the following factors will be taken into consideration:
- (a) Significance in terms of size;
 - (b) Was it carried out on non-market terms?
 - (c) Was it conducted at arm's length?
 - (d) Is it outside normal day-to-day Council operations?
 - (e) Was it subject to Council approval?
 - (f) Did it provide a financial benefit not available to the general public?
 - (g) Was the transaction likely to influence decisions of users of the Annual Financial Statements?
- 6.9. Regard must also be given to transactions that are collectively but not individually significant.

Council Disclosure

- 6.10. AASB 124 provides that Council must disclose all material and significant related party transactions in its Annual Financial Statements by aggregate or general description and include the following details:
- (a) The nature of the related party relationship;
 - (b) Relevant information about the transactions including:
 - (v) The amount of the transaction;
 - (vi) The amount of outstanding balances, including commitments;
 - (vii) Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in the settlement;
 - (viii) Details of any guarantee given or received;
 - (ix) Provision for doubtful debts related to the amount of outstanding balances;
 - (x) The expense recognised during the period in respect of bad or doubtful debts due from related parties;
- 6.11. All transactions involving related parties will be captured and reviewed to determine materiality or otherwise of such transactions, if the transactions are ordinary citizen transactions, and to determine the significance of each of the transactions.
- 6.12. Generally, transactions with amounts receivable from and payable to KMP or their related parties which:
- (a) Occur within normal employee, customer or supplier relationships and at arm's length; and
 - (b) Are not material or significant.

shall be excluded from detailed disclosures. However they will be disclosed in the financial statements by general description. Disclosures that Related Party Transactions were made on terms equivalent to an arms-length transaction can only be made if such terms can be substantiated.

6.13. Information provided will be reviewed in accordance with the Council's operational requirements and held on a centralised register stored in Council's document management system.

7. Privacy

7.1. Information provided by KMPs and other related parties shall be held for the purpose of compliance with Council's legal obligation and shall be disclosed where required for compliance or as otherwise required by law.

8. Nature of Policy

8.1. Unlike other Council Policies, this is a joint policy of both the governing body of Council and General Manager.

8.2. Where this policy directs Council Staff, that direction is on the authority of the General Manager. Those clauses will have no effect until this policy is signed by the General Manager and will cease to have effect when the General Manager revokes them in writing.

9. Review

9.1. This policy will be reviewed within 12 months of an Ordinary Council Election or such other time as is required on an as-needs basis.

References

- AASB 124 – Related Party Disclosures (July 2015)
- Australian Accounting Standards
- *Local Government Act 1993* (NSW).
- *Local Government (General) Regulation 2021* (NSW)
- *Government Information (Public Access) Act 2009* (NSW).
- *Corporations Act 2001* (NSW).
- Code of Conduct

Annexures

- A. KMP Related Party Transactions Disclosure
- B. KMP Related Party Relationship Disclosure

History

Minute Number	Meeting Date	Description of Change
112/217	June 27, 2017	Adopted
	July 31, 2020	Rebranded
336/2022	October 18, 2022	Adopted