



Tasmanian
Audit Office

Disclosure of Related Party Transactions for Local Government

February 2017

Program

Topic	Presenter
Welcome	LGAT
Disclosure of related party transactions	TAO
Break	
Current disclosures and privacy	TAO
Audit of related party transaction	TAO
Practical examples	TAO
Questions and answer session	All
Close	LGAT

Objectives

- Understanding AASB 124 *Related Party Disclosures*
- Understanding how information will be gathered to facilitate AASB 124 requirements

AASB Standard

AASB 124
July 2015

Related Party Disclosures



Extending Related Party Disclosures to Not-for-Profit Public Sector Entities

- AASB extended scope of AASB 124 to include Not-For-Profit Public Sector Entities (AASB 2015-6 issued 31 March 2015)
- Prospective from 1 July 2016 (i.e. 30 June 2017)
- Comparatives not required on initial application
- Early adoption permitted
- Need to know what disclosures are in order to capture the required information

Background

- Councils required to prepare statements in accordance with Australian Accounting Standards
- Accounting Standards are issued by the AASB
- Auditor-General has no power to exempt councils from the application of standards



Background

- Standard while quite short, effectively presents a series of principles which must be followed.
- Therefore:
 - application of this standard requires judgment
 - interpretation of particular facts and circumstances will be required.
- Answers may not always be clear cut.
- As auditors of councils we will endeavour to ensure consistency as far as possible.

Objective of AASB 124

The objective of AASB 124 is to ensure that an entity's financial statements contain the disclosures necessary to **draw attention** to the **possibility** that its financial position and financial performance **may have been affected** by related party transactions.



AASB 124 *Related party transactions*

A photograph of a cracked walnut shell, showing the dark, textured interior. The shell is positioned centrally on the slide. Overlaid on the shell are four lines of yellow text. The background of the slide features a light yellow hexagonal pattern on the top left and a light grey hexagonal pattern on the bottom right.

Defines related parties

Defines key management personnel (KMP)

Requires disclosure of related party transactions and relationships

Specific disclosures for KMP compensation

AASB 124 – main steps

Step 1: Identify related parties

Step 2: Identify transactions and outstanding balances with related parties

Step 3: Determine materiality

Step 4: Disclose material related party transactions, outstanding balances and KMP compensation

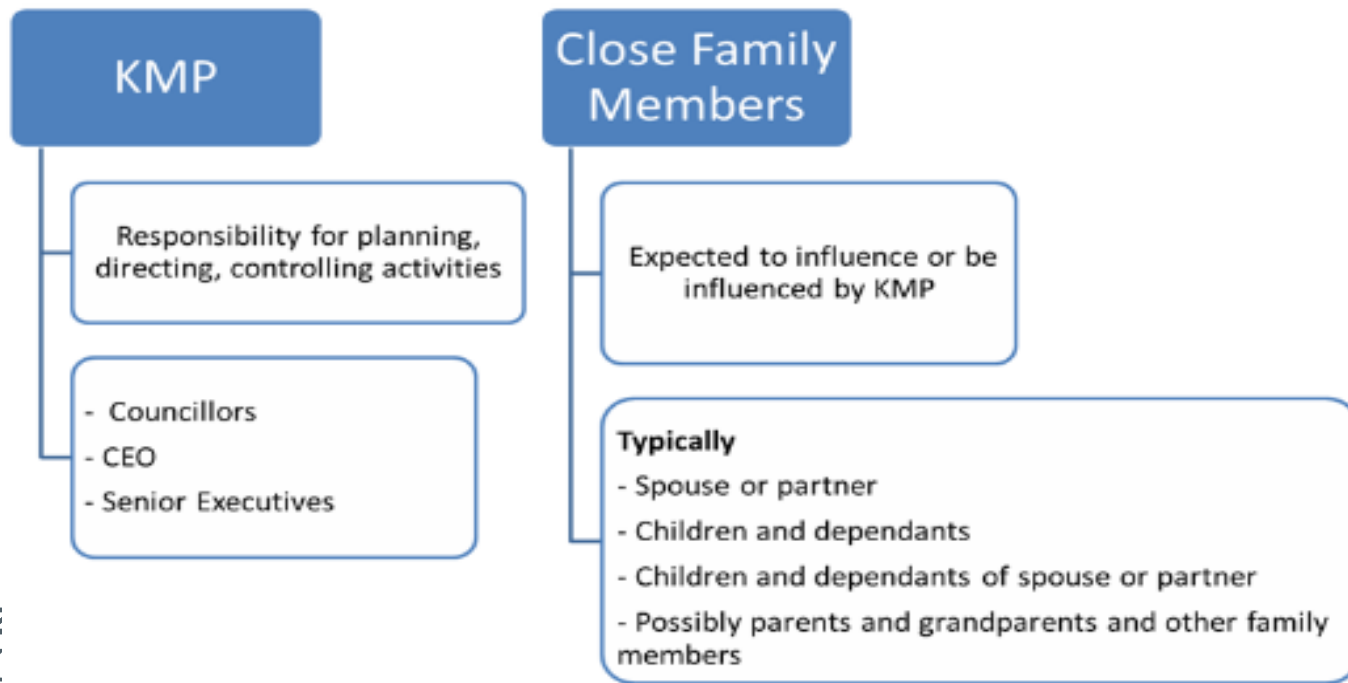
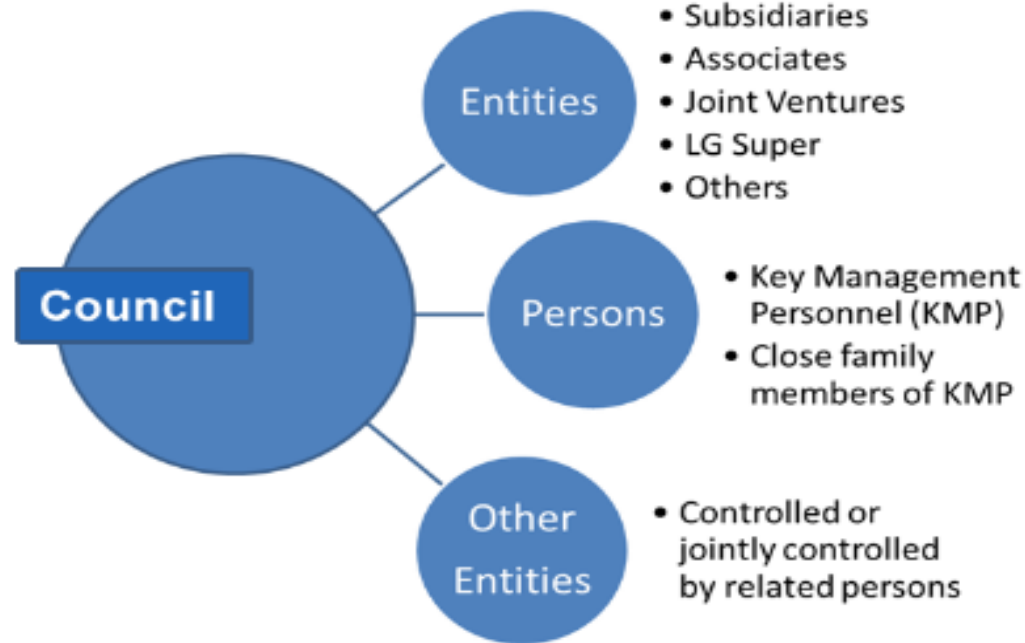




IDENTIFYING RELATED PARTIES



Who are Related Parties

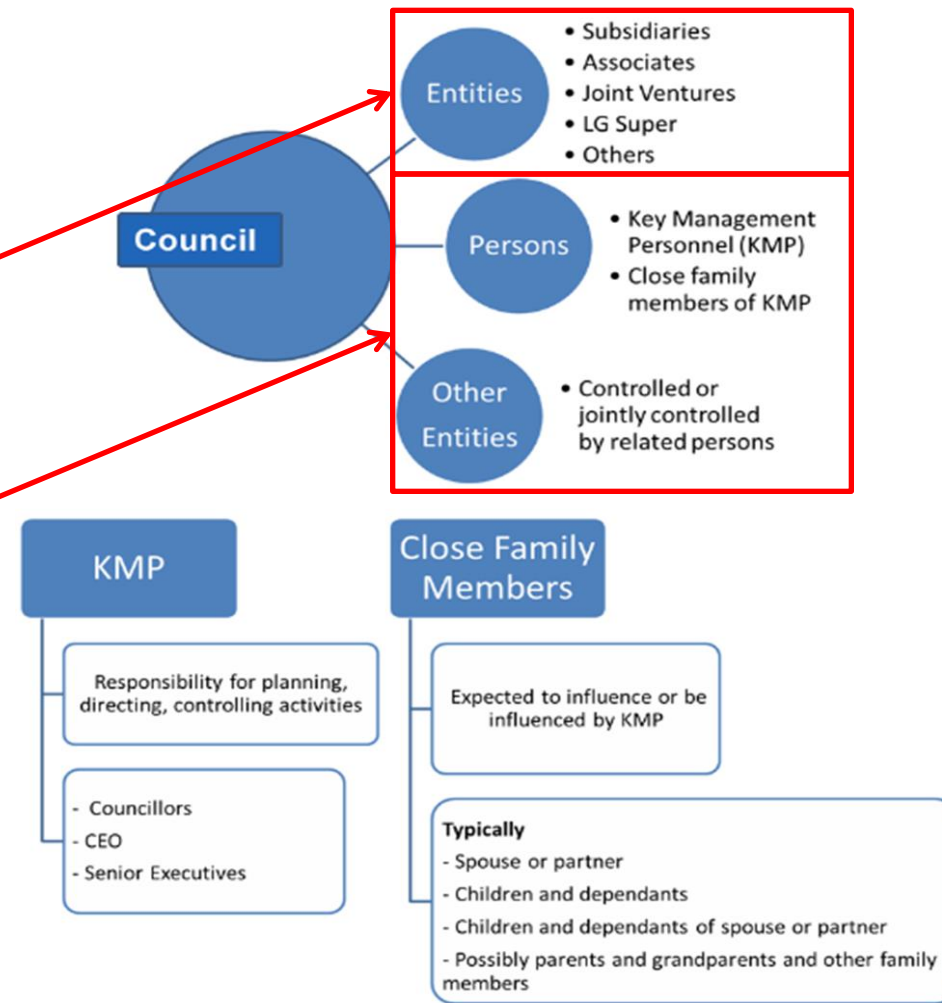


Source: Queensland Department of Infrastructure, Local Government and Planning

Types of related parties

- Related entities

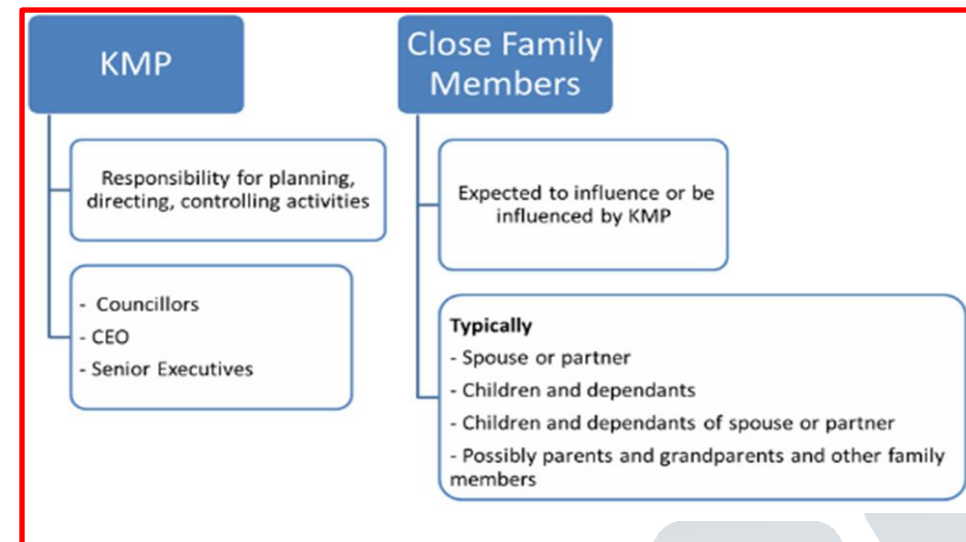
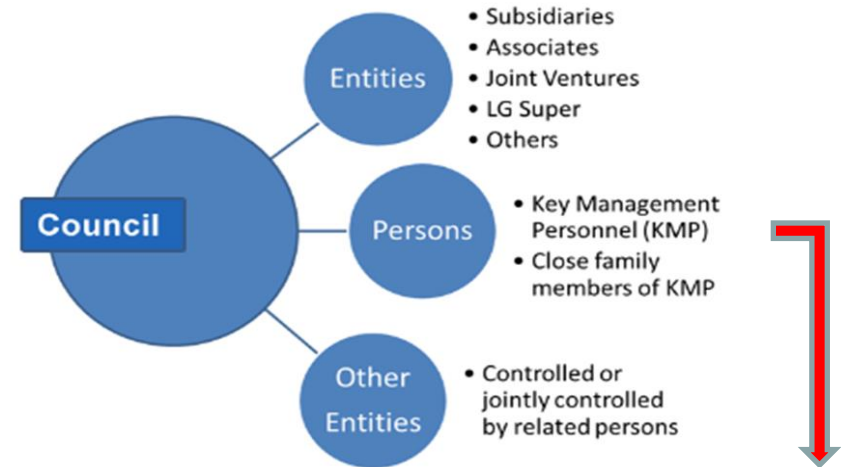
- Related people
– and their interests



- Substance of relationship, not just legal form

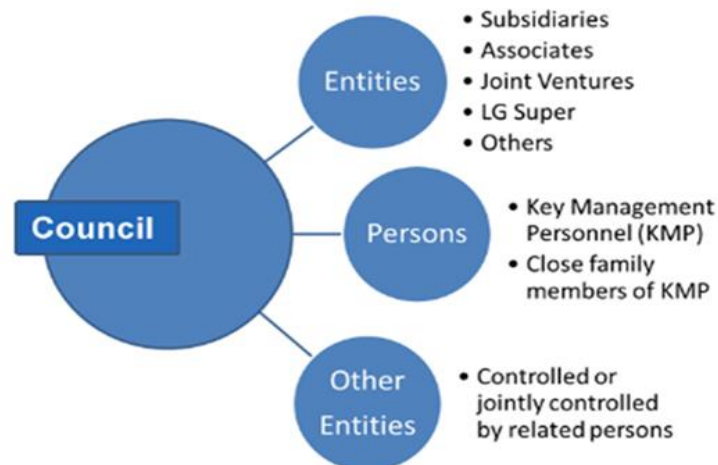
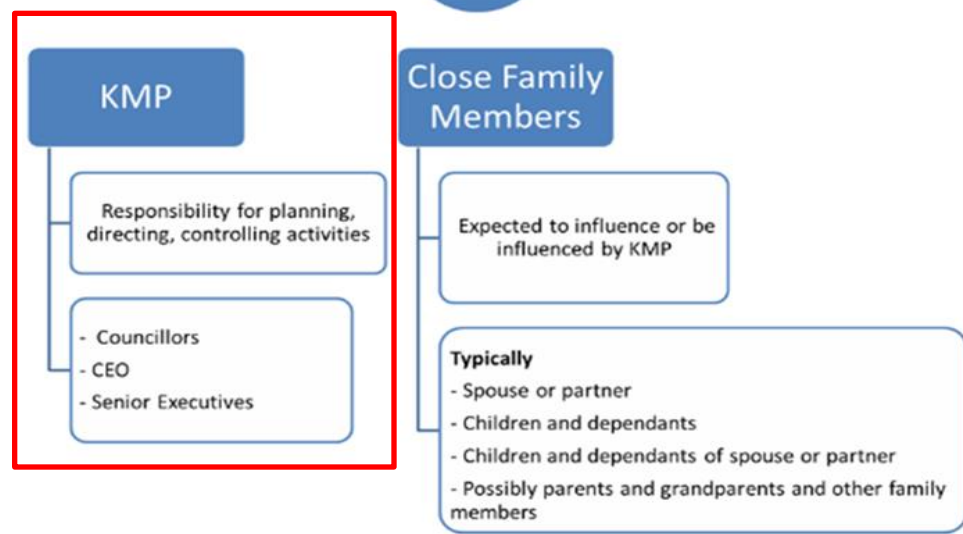
Who are related people?

Key management personnel and their close family members



Who are KMP?

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.



Who are KMP?

Director means:

- a person who is a director under the Corporations Act; and
- in the case of entities governed by bodies not called a board of directors, a person who, regardless of the name that is given to the position, is appointed to the position of **member** of the governing body, **council**, commission or authority.

Who are KMP - Council?

Similar to directors in companies, in a local government context KMP will include:

- Mayors
- Councillors
- Aldermen
- Commissioners



Who are KMP - Management?

- Depends on the organisation structure, delegations and position descriptions.
- Likely to be :
 - Chief Executive/General Manager
 - Senior executives
- We would consider KMP include senior executives who meet with the CEO/GM as a group to make decisions about the council's operations.
- Consider at the highest level
(ie not at a divisional or branch level)
- Need to use judgement to determine who are KMP

Example

- Under the Local Government Act the only staff members of Council who has any level of authority is the GM. All other authority is delegated by the GM.
- As such, wouldn't only the GM count as Key Management Personnel?

To determine who is a KMP of Council, identify who has authority and responsibility to plan, direct and control the activities of the Council, either directly or indirectly.

By way of delegation, the General Manager permits others to exercise his power (directly).

Also, by virtue of being part of an executive management team others able to take part in decision making processes affecting council (indirectly).



Includes any acting positions even if for a short period of time, eg. over 4 weeks.

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Example

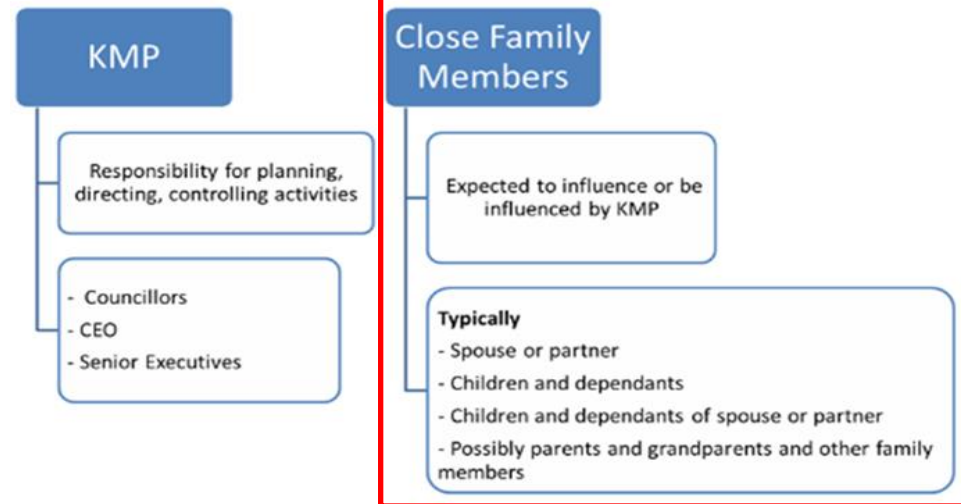
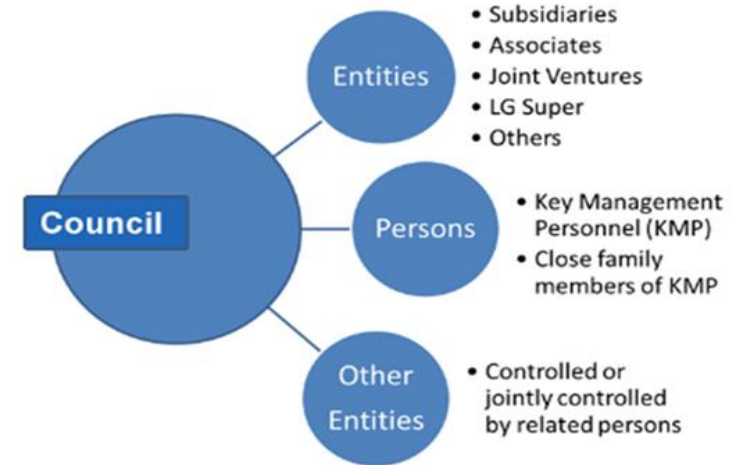
- Doesn't any staff member with a purchasing delegation have the ability to influence/control?

No, the fact that they can exercise a financial delegation to purchase goods and services on behalf of the council does not make them a KMP as they do not have the responsibility to plan direct or control the activities of the council.



Related people

- Close family members of KMP also related parties of the entity



Close family members

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

- a) spouse or domestic partner
- b) children*, including those of spouse or domestic partner
- c) dependants*, including those of spouse or domestic partner.

* generally over the age of 16



Close family members

- Can be broader than spouse and children
- Depends on level of influence
- Could include:
 - Parents
 - Siblings
 - Extended family, eg cousins, grandparents
 - In-laws
- Friends – not included



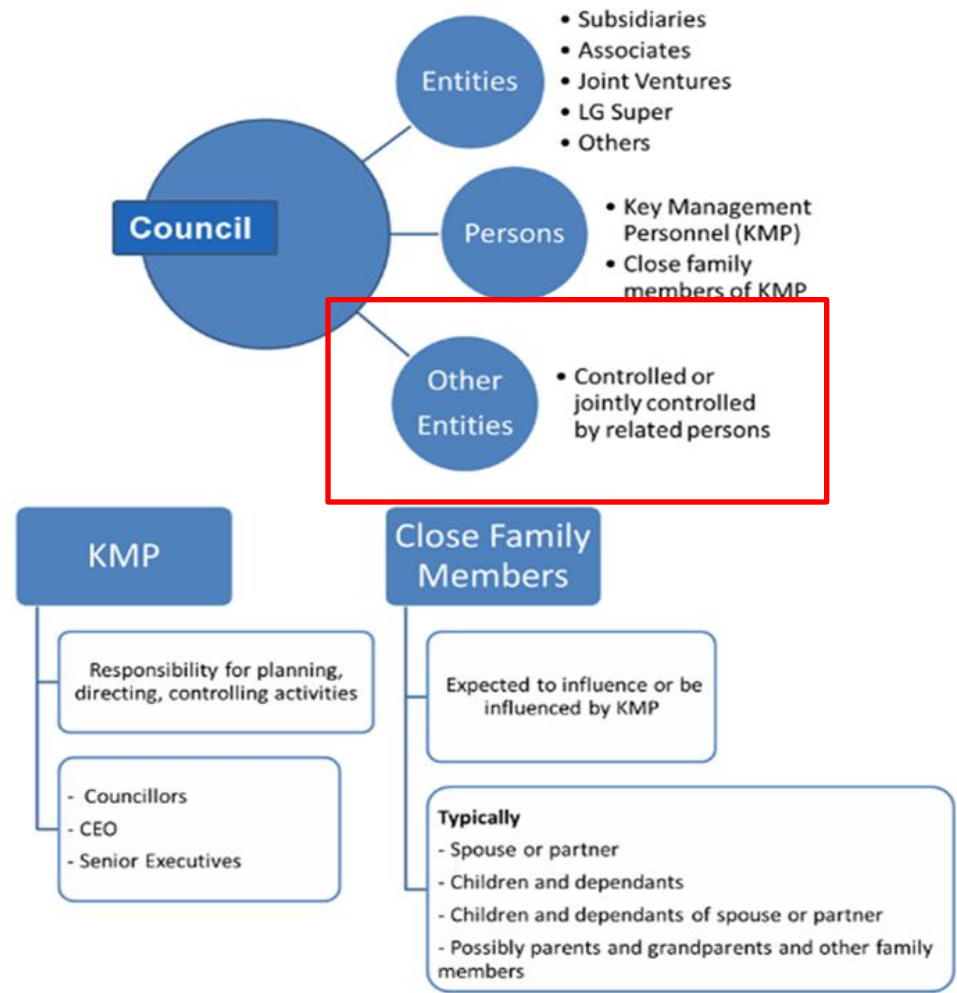
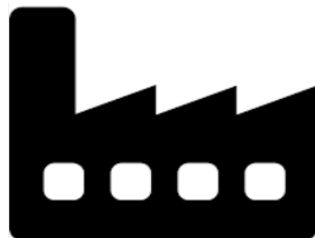
Example: Cousin of Mayor

- The Mayor of Happy Shire Council (Shelley) has lived in the Shire her whole life. In fact her family has been in the area for over five generations.
- Shelley's cousin Mavis, owns and operates the local newsagent through a company Happy News Pty Ltd, in which she owns 100% of the shares. Shelley and Mavis have always been close and regularly socialise together.
- *Shelley has been identified as a KMP of council. From these facts it would appear that Mavis is a close family member of Shelley because she would be expected to influence, or be influenced by, that person in her dealings with Council.*
- *Both Mavis and the company she controls, Happy News 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.*



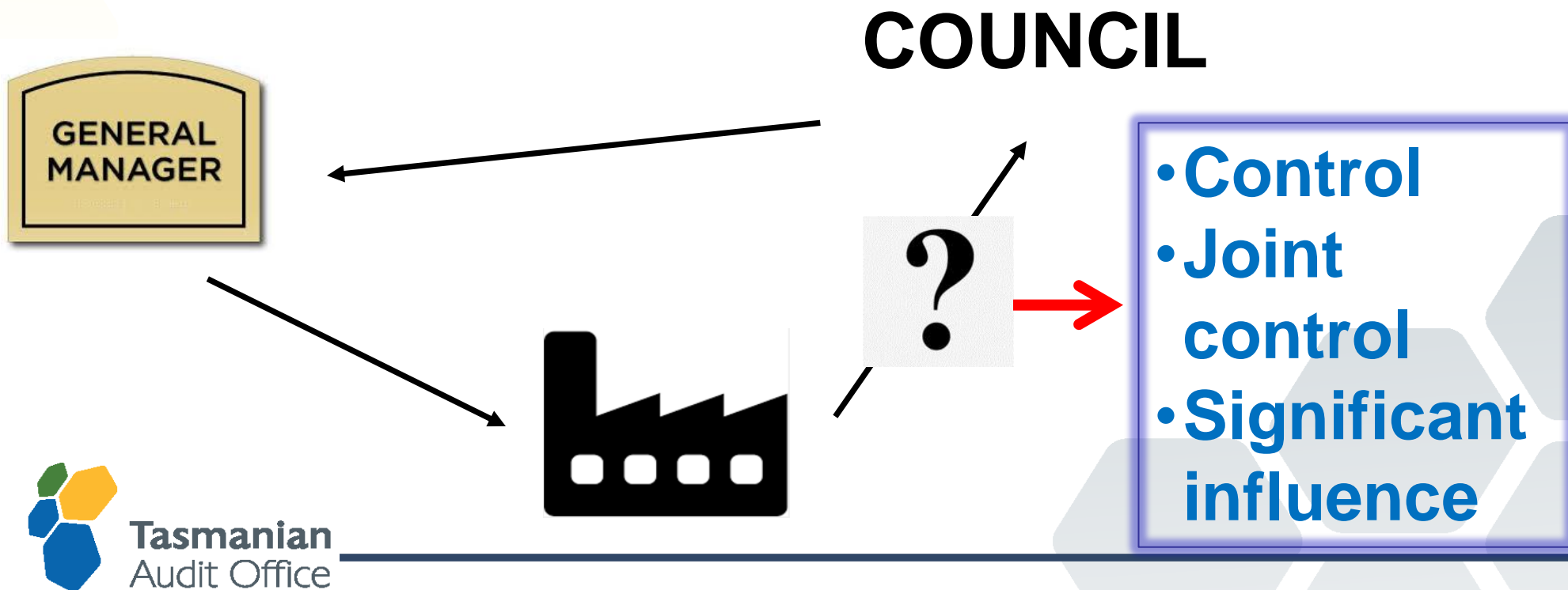
Related people - interests

- Interests of KMP and their close family



Related people - interests

- Certain business interests of KMP and close family members are related parties of the entity



Control

- 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.
- Thus, an investor controls an investee if and only if the investor **has all** the following:
 - a) **power** over the investee;
 - b) **exposure, or rights, to variable returns** from its involvement with the investee; and
 - c) the **ability to use its power** over the investee to **affect** the amount of the investor's returns.

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 - c) the **ability to use its power** over the investee to **affect** the amount of the investor's **returns**.

Power

- An investor has power over an investee when the investor has **existing rights** that give it the current **ability to direct the *relevant activities***, ie the activities that significantly affect the investee's returns.
- **Power arises from rights.**
- Sometimes assessing power is straightforward, such as when power over an investee is **obtained directly and solely from the voting rights** granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings.
- In other cases, the assessment will be more complex and **require more than one factor to be considered**, for example when power results from one or more contractual arrangements.

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Joint Control

- 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.

Significant influence

- *Significant influence* is the **power to participate** in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Related entities

		Other Entity		
		Control or joint control	Significant influence	KMP
Council	Control or joint control	✓	✓	✓
	Significant influence	✓	✗	✗
	KMP	✓	✗	✗

Example of control

- Fred is the Mayor of Sunny Shire Council and owns 100% of the ordinary shares in Sunny 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.

Example of joint control

- Fred is the Mayor of Sunny Shire Council and owns 50% of the ordinary shares in Sunny 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.



Example of related entities and control

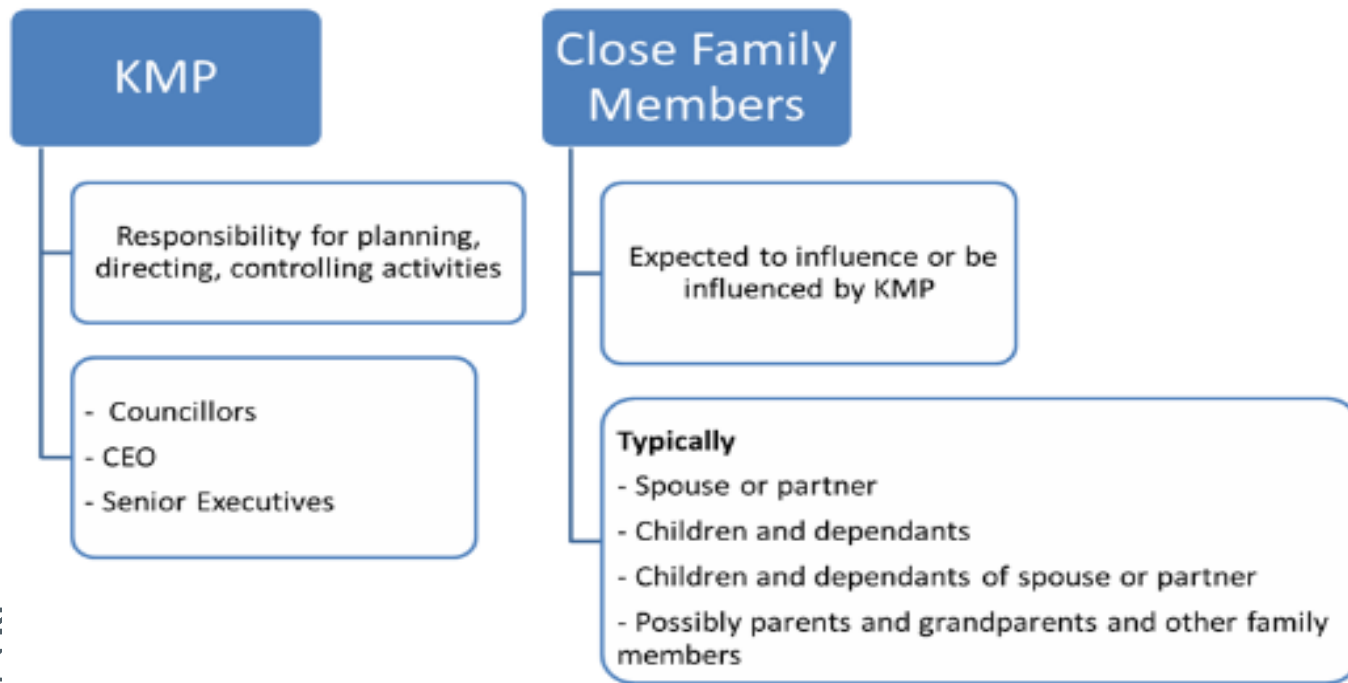
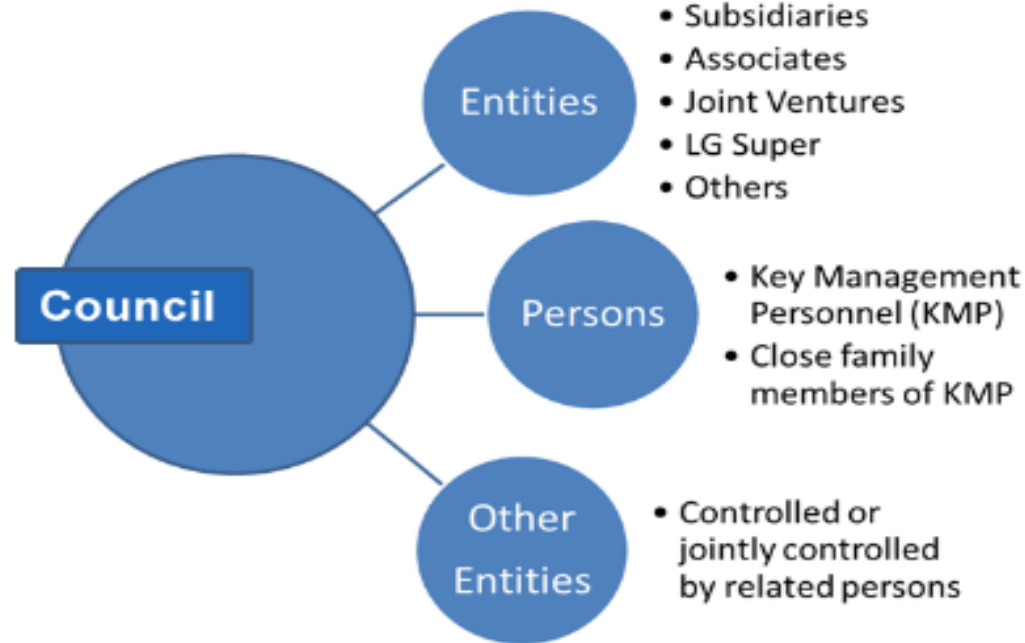
- A commissioner has been appointed to a council by the Minister?

As the commissioner controls council, any entity over which they, or their close family member, has:

- ***control or joint control,***
- ***significant influence or***
- ***is a member of the key management personnel***
will be related to council.



Who are Related Parties



Source: Queensland Department of Infrastructure, Local Government and Planning

AASB 124 – main steps

Step 1: Identify related parties



Step 2: Identify transactions and outstanding balances with related parties

Step 3: Determine materiality

Step 4: Disclose material related party transactions, outstanding balances and KMP compensation





IDENTIFY RELATED PARTY TRANSACTIONS



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Related Party Transactions

Recall the objective of AASB 124 – possible effect on financial position and profit and loss (income statement)

NOT

Probity/control issues

RP Transactions (people)

- Includes both transfer of resources **from** and **to** the council:
 - Employment
 - Contracts or other transactions with KMP related business interests
 - Personal KMP and close family member transactions or contracts

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**.

Example: use of assets

- Are "use of Council assets" also included in related party transactions not just dollars?



Just because it is not a financial transaction does not mean it does not need to be disclosed. e.g. if Council allows a Councillor to use office space (for personal reasons), this would be considered a transaction even though it is not a financial transaction.

Remember that in the Standards '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'.



Ordinary citizen transactions

- These related party transactions occur during the course of council delivering its public service objectives and occur on no different terms to those for the general public.
- Council usually wouldn't disclose these in the financial statements as they would be deemed not material.

Example: KMP OCTs

- Paying rates and utility charges
- Fines on normal terms and conditions
- Using a council's public swimming pool after paying the normal fee
- Attending council functions that are open to the public
- Visiting a council art gallery
- Dog registration

Example: payment of rates

- Is payment of rates a related party transaction?



- Does it need to be disclosed?



Related Party Transactions

Will include:

- purchases or sales of goods (finished/unfinished)
- purchases or sales of property and other assets
- rendering or receiving of services
- leases
- transfers of research and development
- transfers under licence agreements
- transfers under finance arrangements (including loans & equity contributions in cash or in kind)

Related Party Transactions (cont'd)

- provision of guarantees or collateral
- commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised)
- settlement of liabilities on behalf of the entity or by the entity on behalf of that related party
- participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties

Related Party Transactions

- Judgement required if the transactions are material for collection and disclosure:
 - business transactions
 - sensitive transactions with KMP exercising judgement on the sensitivity and materiality of the transaction
 - ordinary citizen transactions are excluded.

EXERCISING JUDGEMENT

- KMP should exercise judgement when assessing if there are persons in their lives, or transactions that should be declared with regard to the intent of the Standard.
- If in doubt, declare this doesn't automatically mean it will end up being disclosed ...

COLLECTING INFORMATION ON RELATED PARTY TRANSACTIONS

- Councillors and Senior Officers to complete declaration form:
 - **by 1 July** for the **forthcoming financial year**
 - updated **during year** and at **year end**
- to provide:
 - details of their close family members and any controlled (or jointly controlled) businesses
 - details of any likely transactions, to the best of their knowledge, between themselves or their related parties and

Policy Template – Declaration Form

I *(insert full name)*, *(insert position)* declare that the above list includes all my **close family members** and the **entities controlled, or jointly controlled**, by myself or my close family members **having had**, or **likely to have**, **transactions with Council**. I make this declaration after reading Council's policy which details the meaning of the words "close family members" and "entities controlled, or jointly controlled, by myself or my close family members".



Policy Template – Declaration Form

I acknowledge that the General Manager has access to the register of interests of me and persons related to me and will use the information for the purposes specified in Council's Related Party Disclosures Policy.

In accordance with Council's *Privacy Policy*, your information, and the information of others, is protected by law, including the *Privacy Act 1988* and the *Personal Information Act 2004*.



Declarations

- Usually wouldn't include ordinary citizen transactions unless they are significant
- Insufficient information – e.g.
 - 'employed by'
 - 'involved in'
 - 'family member'



AASB 124 – main steps

Step 1: Identify related parties



Step 2: Identify transactions and outstanding balances with related parties



Step 3: Determine materiality

Step 4: Disclose material related party transactions, outstanding balances and KMP compensation





DETERMINING MATERIALITY OF TRANSACTIONS



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Materiality

Basis of conclusions states:

- *“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**.”*
- *“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.”*

Materiality – practical application

- *“appropriate criteria to be identified so that information about transactions that are possibly material (for example, transactions that have occurred at a different price or volume to that applying to the general public) is captured for assessment.”*

Materiality

- Guidance relevant to an entity's assessment of the materiality of a disclosure to its general purpose financial statements is included in AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- Ordinary citizen transactions unlikely to be material.
- Series of factors described in AASB 124 may also assist in making this determination.

Factors to consider

Establishing the level of significance of the transaction consider whether it is:

- a) significant in terms of size
- b) carried out on non-market terms
- c) outside normal day-to-day business operations, such as the purchase and sale of businesses
- d) disclosed to regulatory or supervisory authorities
- e) reported to senior management
- f) subject to shareholder approval.

DISCLOSING RELATED PARTY TRANSACTIONS

- Not all related party transactions provided by Councillors and Senior Officers would be disclosed in the financial statements.
- General Manager through the Chief Finance Officer of council should exercise their professional judgement on whether a related party transaction is material for disclosure.

AASB 124 – main steps

Step 1: Identify related parties

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Step Four

DISCLOSE TRANSACTIONS AND KMP COMPENSATION



Disclosure requirements



- Nature of the related party relationship
- Amount of the transactions
- Amount of outstanding balances, including commitments
- Terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement

Disclosure requirements



- Details of any guarantees given or received
- Provisions for doubtful debts related to the amount of outstanding balances; and
- Expense recognised during the period in respect of bad or doubtful debts due from related parties.

Also:

- Key management personnel compensation or amounts incurred for the provision of key management services.

Disclosure requirements

- ***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 entity.***
- Can be in total for similar transactions and type of related party
- Use judgement to determine individually significant transactions that would be separately disclosed – where it's necessary to understand the impact of the transaction.

Disclosure example

(c) Transactions with other related parties

Details of transactions between council and other related parties are disclosed below:

		2017
		\$
Fees and charges charged to associates	#	986,225
Fees and charges charged to entities controlled by key management personnel	#	2,400,350
Infrastructure contributions from entities controlled by key management personnel	##	3,245,678
Employee expenses for close family members of key management personnel	*	453,000
Purchase of materials and services from entities controlled by key management personnel	**	5,230,012

Disclosure example (cont'd)

The fees and charges charged to associates and entities controlled by key management personnel were in accordance with the schedule of fees and charges adopted by council. The total disclosed includes:

- infrastructure charges totalling \$1,230,000 paid by Progressive Development Company Pty Ltd, a company controlled by a close family member of Councillor Rosalind Jones. The company's development projects were assessed and approved in accordance with council's normal terms and conditions. Councillor Rosalind Jones declared her conflict of interest in this matter and did not participate in any decisions related to the company's application.
- an application fee for Boundary Realignment and another for material change of use. These applications were made by Better Homes Pty Ltd, a company controlled by the Mayor, Councillor David Dean. The applications relate to parcels of land in Taylor St, Bedford and Main St, Sofaville. These applications are currently being assessed by council.

Disclosure example (cont'd)

Green Developments Pty Ltd, a company jointly controlled by Councillor Fred Smith and a close family member during 2016-17, completed a new subdivision “Avondale Heights” in 2016-17. In accordance with the infrastructure agreement water and sewerage infrastructure, roads and some parks within the development were handed over to council. The fair value of this infrastructure at the hand over date was \$3,245,678.

Disclosure example (cont'd)

- * All close family members of key management personnel were employed through an arm's length process. They are paid in accordance with the Award for the job they perform. The council employs 452 staff of which only 4 are close family members of key management personnel.

The Chief Executive Officer, Ms Doris Dean, is a close family member of the Mayor, Councillor David Dean. Ms Dean's compensation package has not been included in this disclosure because it has been disclosed at b) Key Management Personnel compensation. Ms Dean was employed through an arm's length process and is compensated at a market salary that was determined by Salary Consultants Pty Ltd, an independent agent based in Cairns.

Disclosure example (cont'd)

****** Council purchased the following material and services from entities that are controlled by members of key management personnel. All purchases were at arm's length and were in the normal course of council operations:

- Rental of an office building
- Petrol
- Consultancy services.

Included in the above are services purchased from Bright Water Pty Ltd amounting to \$520,000 during 2016-17. During this time Councillor Roger Jacobs was the owner of this business. All purchases were at arm's length, on normal terms and conditions and were in the normal course of council's operations. As at 30 June 2017 there were no amounts owed by council to the company.

Disclosure example

(d) Outstanding balances

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

- Employee expenses for close family members of key management personnel \$7,323
- Entities controlled by key management personnel \$753,000

No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

KMP compensation



An entity shall disclose KMP compensation in total and for each categories

a) short-term employee benefits	e.g. salary, motor vehicle benefits, district and travel allowances, housing and utilities,
(b) post-employment benefits	superannuation entitlements
(c) other long-term benefits	e.g. annual leave and long service leave
(d) termination benefits	N/A, unless the recipients of voluntary severance
(e) share-based payments	N/A

Disclosure example

(b) Key management personnel compensation

	2017
	\$
Short-term employee benefits	3,000,000
Post-employment benefits	375,000
Long-term benefits	300,000
Termination benefits	0
Total	3,675,000



Example: Compensation

- Does the disclosure of KMP compensation include remuneration paid during the year or accrued during the year?

It includes the aggregate amount of KMP compensation included in the income statement so would be on an accrual basis.

KMP compensation provided by management entity

- Where KMP is **provided by a management entity** disclosure by category is not required

BUT

- **Amounts incurred** for the provision of KMP services provided by a management entity shall be disclosed.

BREAK



CURRENT DISCLOSURES AND PRIVACY



Interests – Part 5 of the LGA 1993

48. Declaration of interest by councillor

- 1) A councillor must **not participate at any meeting** of a council, council committee, special committee, controlling authority, single authority or joint authority in any discussion, nor vote on any matter, in respect of which the councillor–
 - a) has an interest; or
 - b) is aware or ought to be aware that a close associate has an interest.
- 2) A councillor must **declare any interest** that the councillor has in a matter **before any discussion** on that matter commences.
- 3) On declaring that he or she has an interest, the councillor is to leave the room in which the meeting is being held.
- 4) The councillor, by notice in writing, is to advise the general manager of the details of any interest that the councillor has declared under this section within 7 days of so declaring.

Interests – Part 5 of the LGA 1993

49. Having an interest

- 1) A councillor or member has an interest in a matter if the councillor or member or a close associate would, if the matter were decided in a particular manner, receive, have an expectation of receiving or be likely to receive a **pecuniary benefit or pecuniary detriment**.

Interests – Part 5 of the LGA 1993

51. Close associate

For the purposes of this Part, a person is a **close associate** of a councillor or member if that person is—

- a) a **body corporate** of which the councillor or member is a director or a member of the governing body;
or
- b) a **proprietary company** in which the councillor or member is a shareholder; or
- c) a **public company** in which the councillor or member is directly or indirectly a substantial shareholder;
or
- d) a beneficiary under a trust or an object of a discretionary trust of which the councillor or member is a trustee; or
- e) a business partner of the councillor or member; or
- f) the employer or an employee of the councillor or member; or
- g) a person from whom the councillor or member has received, or might reasonably be expected to receive, a fee, commission or other reward for providing professional or other services in relation to a matter being dealt with or to be dealt with by the council, council committee, special committee, controlling authority, single authority or joint authority; or
- h) **the spouse or partner of the councillor, member, councillor's son or daughter or member's son or daughter; or**
- i) **the son, daughter, brother, sister, mother or father of the councillor or member or of their spouse or partner.**

Interests – Part 5 of the LGA 1993

55. Interests of employees and general manager

- 1) An employee of a council must **notify the general manager**, or in the case of the general manager the mayor, in writing **of having an interest** as referred to in section 49 in any matter in respect of which he or she—
 - a) provides **advice to the council** or council committee; or
 - b) makes a **decision or determination**; or
 - c) makes a **recommendation** to the council or council committee.
- 1A) Section 51 applies as if a reference to a councillor were a reference to an employee or a general manager.
- 2) The general manager is to –
 - a) advise the council of the existence of any interest notified under subsection (1); and
 - b) keep a register of any such interest.

Interests – Part 5 of the LGA 1993

- AASB 124 declarations cannot replace requirements to declare interests under Part 5
- Councils may be able to utilise declarations made for AASB 124 purposes to update register of interests and vice versa

Remuneration - Section 72 Annual report

- (1) A council must prepare an annual report containing all of the following: ...
 - (cb) a statement of the total allowances and expenses paid to the mayor, deputy mayor and councillors; ...
 - (cd) a statement in accordance with [subsection \(4\)](#) relating to the total annual remuneration paid to employees of the council who hold positions designated by the council as being **senior positions**
- (4) A statement under [subsection \(1\)\(cd\)](#) is to list the number of employees in groups according to the **total annual remuneration** as specified in [subsection \(5\)](#) where each group has a maximum of **\$20 000 between the highest and lowest** total annual remuneration.
- (5) The total annual remuneration of an employee means the total of the following for the financial year:
 - a) the **salary payable** to the employee;
 - b) the amount of **employer contribution** to the employee's **superannuation**;
 - c) the value of the use of any **motor vehicle** provided to the employee;
 - d) the value of **any other allowances or benefits paid or payable** to, or **provided** for the benefit of, the employee.

Remuneration disclosure example - employees

2016										
Remuneration band	Number of employees	Short term employee benefits			Post employment benefits				Other non-monetary benefits ⁸	Total Compensation
		Salary ¹	Short-term incentive payments ²	Vehicles ³	Other allowances and benefits ⁴	Super-annuation ⁵	Other long-term employee benefits ⁶	Termination ⁷		
		\$	\$	\$	\$	\$	\$	\$	\$	\$
\$120 001 - \$140 000	1	100,000	-	10,000	-	12,500	3,000	-	-	125,500
\$140 001 - \$160 000	1	125,000	-	10,000	-	15,625	3,500	-	-	154,125
\$160 001 - \$180 000	1	135,000	-	10,000	-	16,875	4,000	-	-	165,875
\$240 001 - \$260 000	1	205,000	-	12,000	-	25,625	6,000	-	-	248,625
Total		565,000	-	42,000	-	70,625	16,500	-	-	694,125

Remuneration disclosure examples - councillors

Example 1	Short term employee benefits		Post employment benefits	Total Compensation AASB 124		Total allowances and expenses section 72
	2016	Allowances	Vehicles	Superannuation	Expenses	
		\$	\$	\$	\$	\$
Total		145,000	5,000	-	150,000	13,000
Example 2	Short term employee benefits		Post employment benefits	Total Compensation AASB 124		Total allowances and expenses section 72
	2016	Allowances	Vehicles	Superannuation	Expenses	
		\$	\$	\$	\$	\$
Mayor		40,000	5,000	-	45,000	2,000
Deputy Mayor		20,000	-	-	20,000	5,000
Councillors		85,000	-	-	85,000	6,000
Total		145,000	5,000	-	150,000	13,000

Privacy and right to information

- Council must comply with the requirements of the *Archives Act 1983* (Tasmania), *Privacy Act 1988* (Commonwealth), *Personal Information Protection Act 2004* (Tasmania) and *Right to Information 2009* (Tasmania) in the collection, storage, management, disclosure and reporting of information.
- A declaration statement from KMP is incorporated into the *Declaration of Related Party Transactions Form* to enable the disclosure and reporting of information in accordance with AASB 124.
- A Related Party Information Collection Notice will be provided to KMP and included in their Declarations.



AUDIT ISSUES: RELATED PARTY DISCLOSURES



Audit approach



- Completeness
- Evaluate processes in place to capture transactions
- Substantiate disclosures - obtain sufficient appropriate audit evidence
- Audit evidence for the price or value of transactions

What do we expect from councils?



1. To have clearly considered and identified KMP
2. To have sought declarations from KMP regarding identity of close family members and business interests
3. To have made assessment of who are related parties
4. To have a mechanism for capturing changes in KMP during the year
5. To have a mechanism for capturing transactions



Information about KMP, their close family members and business interests

- Refer to guidance:
 - Queensland Department of Infrastructure, Local Government and Planning
<https://www.dilgp.qld.gov.au/newsletters-and-brochures/bulletin-02-16.html>
 - LGAT Related Party Disclosures Policy template



EXAMPLES



Example: Business interests

- The press reported that the General Manager of Council hired a media company his daughter works for.

Is the media company a related party?



The daughter was simply employed by the company. She did not have control/joint control.

Could be a probity issue which is not the point of the related party disclosures.



Example: employment

- Roscoe Dexter is a councillor of council. Roscoe's wife is employed by council as a parking meter attendant.

– Related party?



– Related party transaction?



Example: employment

- Would this example need to be disclosed?
- A KMP's son applied to do school based work experience with a different KMP section.



If for example the work experience is available to the general public and not paid work experience then it is not a transaction and would therefore not be considered for disclosure.

If Council makes a decision to pay the son of the KMP when others had not been paid for the same work experience, then it may require disclosure.



Example: elections

- What about transactions with out-going Councillors and new Councillors post elections?



From 1 July 2016 all Councils are required to capture related party transactions with KMP, this includes all Councillors before and after elections.



Example: former employee

- How do you treat former members of executive management that were part of council's KMP?



Council needs to capture information from all KMP and those acting in KMP positions that are or were in those positions any time during the financial year that is being reported on.



Example: remuneration

- Do we need to disclose Long Service Leave and Annual Leave balances?

Balances are not needed to be disclosed.



Amounts charged for annual leave and long service leave as part of employee expenses would be included – therefore includes movements in balances.



Example: remuneration

- What about items included in Fringe Benefits Tax Calculations – are these included?



Example: remuneration

- What if you have a confidentiality agreement with a past employee who has been terminated?



If they were employed during the reporting period which commenced 1 July 2016 and they are a KMP, any transactions the Council has with this KMP may need to be disclosed.

The reporting of KMP compensation is aggregated and there is no naming.



Example: Audit panel member

- Sunny Shire Council's audit panel comprises two Councillors and a local retired accountant, Fred. Fred has no other connection with the council.
- The audit panel attends to the functions as required under the LGA and Ministerial Order.
- It does not make any decisions on behalf of the council but simply provides reports, with recommendations, for the Mayor and councillors to consider.
- Is Fred a KMP of council?



Based on the facts outlined Fred would not be a KMP of council.

Example: Son of CFO employed by council

- Sunny Shire Council has recently employed Paul's son (George) in the Council's parks and garden's area. Paul is Council's CFO 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.
- Is George 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: Cousin of Mayor – related party commonly known but omitted from declaration

- Shelley, the Mayor of Sunny Shire Council (from earlier example) 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: Mayor is the President of a local football club

- The Mayor of Sunny Shire Council is the President of League Heroes 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.
- Is the club a related party of council?



From these facts it would appear that the Mayor does not control or jointly control the football club so it will not be a related party of Council just because the Mayor is the president of the club.

Example

Councillor P is a member of the key management personnel of the LMN 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, Councillor P 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 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 – Ordinary Citizen Transactions.



CLOSING COMMENTS



AASB 124 - *Consider Points...*



1. Develop policy and inform KMP of intention to collect information
2. Determine who are the related parties
3. Identify the close members of the family of the KMP
4. Identify the transactions that have occurred (incl. outstanding balances)
5. Develop a policy to determine the type of transactions and related criteria around the disclosures
 - 'Ordinary Citizen' transactions
 - close members of the family of the KMP
 - other related parties, Joint ventures, Subsidiaries etc.
6. Develop systems and processes capable of collecting information
7. Review current disclosures i.e. Pecuniary Interest Registers

Information about KMP, their close family members and business interests

- Refer to guidance:
 - Queensland Department of Infrastructure, Local Government and Planning
<https://www.dilgp.qld.gov.au/newsletters-and-brochures/bulletin-02-16.html>
 - LGAT Related Party Disclosures Policy template
 - **FAQs will also be on LGAT website with link from TAO site**



Thank you

