In recent workshops, seminars, audit committee meetings and general meetings with clients, we have discussed many varied aspects of dealing with related party transactions and fielded many questions. As a result we resolved to prepare this short paper to provide additional guidance and share the responses to queries received.

One of the first critical steps all entities need to complete is devising a policy by which members of Key Management Personnel (KMP) must adhere. In the local government sector, a draft policy was developed through a working group comprising representatives from the Local Government Division of the Department of Premier and Cabinet, Clarence City Council, the Local Government Association of Tasmania and the Tasmanian Audit Office. This Policy can be found at: [Local Government Association Tasmania – Example Related Party Disclosure Policy](http://www.lgat.tas.gov.au/page.aspx?u=646&c=6026)

The policy outlines what is expected of elected members and staff of Council in relation to Australian Accounting Standard AASB *124 Related Party Disclosures* (AASB 124). Specifically, it outlines the disclosure requirements KMP, which includes elected members. It also outlines the procedures Council should follow to collect, store, manage and report on related party relationships, transactions and commitments.

Within the General Government Sector, the Department of Treasury and Finance distributed guidance outlining application to all Agencies/ Departments directly in June 2017.

Questions of a similar nature have been grouped.

| Question | Answer |
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| Who are KMP? |  |
| Related parties – is there a definition of spouse? What about de-facto opposed to friend? | AASB 124.9 defines 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) *that person’s children and spouse or domestic partner*  This would indicate a de-facto partner meets the definition.  In relation to de-facto opposed to friend, it will mainly be up to the employee or councillor to determine and declare the status of the relationship. |
| View that councillors don’t directly purchase or approve purchases and therefore are not KMP. | **ALL** Councillors, Board members, Departmental secretaries and key executives are considered KMP as they are 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.  The ability to approve payments is not a factor, such powers are often delegated. |
| In the example related to Mayor Shelley and her cousin Mavis (slide 22 of the LGAT related party presentation). Mavis is considered related party. What if Mavis was only a friend? | Friends are not a related party. |
| GM has relatives in same town that he catches up with probably quarterly – is this a close relationship? | The same basis as in the example for Mayor Shelley applies. If they are close and regularly socialise together then yes, the relative would be considered a close family member of the GM, because they would be expected to influence, or be influenced by, that person in the GM’s dealings with Council.  Whilst the relative maybe considered a related party, there still needs to be transactions with council. |
| What about where the Mayor is the president of a local club in the municipality? | No – While the club may be overseen by a committee, the Mayor would only be one of many on it. Most committees are also usually appointed by voting club members. Assuming that the members on the committee are not related, the Mayor would not control or jointly control the club so it will not be a related party of Council. |
| If you have a councillor you suspect may have related parties that haven’t been declared. Can you do searches? | Absolutely! (And we’re assuming that there are concerns that there may transactions not considered)  The standard requires the entity to identify, assess and disclose related party transactions. It is the entity/council that assesses appropriate disclosure, not the individual.  Searches could include company searches (e.g. ASIC) or enquires within council of staff (e.g. planning or other operational areas) and systems (e.g. the payments system).  Should you find anything, there could also be serious implications under breach of Code of Conduct. |
| How does a council identify councillor or KMP ownership of shares in various companies? | Ownership of shares is a good guide but it is control that matters. For example if a member of KMP held only 30% of a company, control may not be likely. However if their spouse owned another 30% it would need to be declared. The declaration of control is key to gaining knowledge of such arrangements. Councils need to implement a policy and procedures to ensure KMP information related to such relationship, is declared.  The impost is on member of KMP (councillors) to make the appropriate disclosures in their declarations. That said, should you have concerns you may wish to ask for clarification and/or do some additional searches. (refer to previous question on searches) |
| Three Aldermen are members of a company – does this make a related party? | If the three Aldermen have joint control it over the company, it would be a related party. It will depend on level of “control” of the company. |
| Joint control. What about where the general manager owns 40% of a road construction company, the remaining 60% is owned by his brother. Is it a related party? | As the brother is close family member and controls the company, it would be captured as a related party entity.  If the brother was instead the General Manager’s best friend, it would not be captured. |
| What about when a councillor owns a business, but the General Manager (or another staff member) authorises the transaction with that business? | As the councillor owns the business he would have control so it is considered a related party entity. Irrespective of who authorises the transaction with the entity, it would be a related party transaction that requires capture and disclosure.  Should any matter relating to the transaction go to council or any other committee on which the councillor is a member they must declare a “pecuniary interest” under the LGA and must leave the room in which the meeting is being held when that matter is being discussed. Within seven days of declaring an interest the councillor must advise the general manager in writing of the details of the interest declared. |
| The Related party (by control) isn’t involved in a particular transaction executed by others. | The transaction is still captured as he has control of the other entity. It does not matter if he was not involved in a particular transaction. |
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| Ordinary Citizen Transactions |  |
| Are citizen transactions included in disclosure? | These are transactions that the ordinary citizen would undertake with council (Ordinary Citizen Transactions, OCT) such as transactions on normal terms available to the general public in the course of carrying out council’s functions and activities.  For example, rates paid on the principle residence of the member of KMP with in the municipality on the same terms as the general public. These are unlikely to be material as users of the financial statements would not be interested in such a transaction.  These are not captured. |
| Treatment of a community grant given to the daughter of KMP/Councillor? | The grant may well be considered an OCT if the term and conditions were the same as what is available to the general public. Judgement would be required if situation is different, that is not through same process or not available to the general public, or the grant is of some significance, e.g. above that normally given. |
| If a KMP’s child applied to do school based work experience with the council, does this need to be disclosed?  Internship – paid or volunteer basis. | No, assuming that the terms and conditions of the work experience is the same as what is available to the general public. However, if the council made a decision to pay for the work experience or internship when others had not been paid for the same work, then it may require disclosure. |
| The remission of a development fee – in line with council policy. | The nature of the development application will determine whether the transaction is a usual ordinary citizen transaction on not. If the transaction is more significant than normal citizen transaction then it will need to be captured and assessed for disclosed. |
| What about payments for a development application – normal structure e.g. Their residential house. | Assuming it has gone through the normal application process in-line with council normal terms and conditions no different to those offered to the general public, then it meets the requirements of being considered as an ordinary citizen transaction. If the development were not for their main residence like an ordinary citizen and more business oriented, then it should be declared and assessed by council for disclosure. (see next question) |
| Councillors – where they are involved in a significant development project – treatment of building and planning fees? | Being a significant development project it is not one that would be carried out by an ordinary citizen. Transactions and any outstanding balances should be captured and disclosed. Narrations need to accompany the disclosure outlining the terms and conditions. |
| A Councillor is one of largest ratepayers in the council – e.g. rates represent 5% of rates base. | This would need to be captured and disclosed with items of a similar nature. Given the size involved separate disclosure, naming the councillor and amount with in the aggregated amount, would appear warranted for an understanding of the effects of the transaction. |
| A Councillor is one of largest ratepayers but sells properties before 30 June 2017 | The same principles as noted in the previous question also apply here. Rate transactions would still need to be captured during the year for rates paid by the Councillor before their sale. |
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| Allowances, balances and other benefits |  |
| Are councillor allowances included as part of KMP disclosure? | Yes as it constitutes a benefit. KMP compensation includes the total amount included as part of the Income Statement – employee expenses, plus elected member’s remuneration disclosed in the annual financial statement.  There is also a disclosure requirement to present allowances separately under the *Local* *Government Act 1993*:  *72(cb) a statement of the total allowances and expenses paid to the mayor, deputy mayor and councillors*  Within the sample local government financial statements, provision has been made to provide a suggested method of presentation to meet both requirements of AASB 124 and the LGA. |
| 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. |
| 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’. In such cases a fair value for the use of Council’s asses would need to be determined. |
| If the Mayor has outstanding rates, would this be disclosed? | Possibly, since it was not paid on normal terms it is no longer considered exempt as being an ordinary citizen transaction. The standard requires council to collect and assess for disclosure outstanding balances of KMP. Such disclosures are made in aggregate. It would be a matter of judgement.  However, if the Mayor (or any other member of KMP) had a rates balance; or any other charge such as parking fines for example, that was outstanding for a lengthy period this would need to be disclosed. Such information would be useful to users to know. Especially if an election were imminent, users could very well be influenced. |
| If debt is current and within terms does it need to be disclosed as a balance owing at 30 June? | While the standard requires the disclosure of outstanding balances owed by KMP, it would depend upon the nature of the transaction and the amount outstanding. A final rate instalment on a single property, that is current, may be considered a usual ordinary citizen transaction. If the member of KMP is involved in development activity then this should be disclosed in aggregate with other similar outstanding KMP balances at year end.  The standard also requires the disclosure for KMP of any provision for doubtful debts allocated to the outstanding amount and any expenses written-off during the year. |
| We have the situation where KMP are in a defined benefits fund. What gets disclosed in KMP remuneration note? | Superannuation expenses relating to defined benefit schemes are based on the required contribution rate for a particular fund. While the contribution is paid directly to the fund, a notional contribution for the employees who are members should be included in their superannuation amount (Column).  Within the sample local government financial statements, note 47, provision has been made for such situations. Footnote 1 to the table provides introductory commentary which councils will need to complete for their particular situation:  1 Superannuation means the contribution to the superannuation fund of the individual. Superannuation benefits for members of a defined benefit scheme were calculated using a notional cost based on ….... [Specify]  Agencies with in the general government sector already report this way.  Actuarial gain/losses on superannuation defined benefit plans do not form part of salary on-costs and must be disclosed in other comprehensive income. |
| Benefits in FBT return – are these the ones included in KMP? | Reportable benefit – grossed up can be used as the amount to include for these benefits. Additional benefits may also exist which are not in FBT calculations that may also need to be added.  Within the sample local government financial statements, note 47, provision has been made for FBT relating to “Vehicles” and is noted in footnote 3. Other FBT benefits should be included in “Other allowances and benefits” with suitable comments added to footnote 4. |
| Does a council need to check all credit card statements for transactions? | Do you believe it to be a risk with KMP?  Hopefully council have a robust credit card policy with monthly sign-off by the cardholder and review of statements and costings by an independent officer, who completes or reviews a reconciliation and does the posting, or something similar. Ensuring that reviewing officers have an understanding of related party transactions could be beneficial though.  It may be difficult to link the other party to whom payment is made as a related party, but you may pick up other benefits received; which is a different problem.  This should be more of a normal expenditure controls operating procedure per-se than a check for related party transactions. |
| De we need to disclose Long Service Leave and Annual Leave balances? | Amounts charged for annual leave and long service leave as part of AASB 119 expense would be included in Salary. Balances do not need to be disclosed. |
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| Who is included in KMP? |  |
| Are people acting in senior executive management positions captured in KMP? What timeframe should be captured? | Yes, the period/s they are acting needs to be captured. This may also depend upon the timeframe. Council may decide that, for example, that an acting role in excess of four consecutive weeks would be captured within KMP disclosure. The disclosure would only include the period that the employee acted in the position. |
| Remuneration disclosure- if a council employee was only a KMP for half the year, do you gross-up the remuneration for the full year? | No – put them in where they fall in bandings for the remuneration they were paid during their period as a member of KMP. You could also include a footnote to indicate that an employee in the particular banding was only a member of KMP for part of the year. |
| Where councils share a general manager, the council that employ the general manager - do they disclose KMP on the gross salary or do they offset recovery from the other council? | The employing council discloses the full amount and includes a narration to draw attention to the reimbursement from the hiring council.  The receiving council discloses the amount paid for services received to the hiring council.  There is specific Australian guidance for this in AASB 124.17A & 18A of AASB 124.  For the hiring council that obtains key management personnel services from the employing council (the ‘management entity’), the hiring council is not required to apply the KMP compensation requirements in AASB 124.17 for the compensation paid or payable by the management entity to the management entity’s employees or directors. (17A)  Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed. (18A) |
| Resource sharing management between two councils.  What are the links between councils/KMPs and entities for the purposes of the standard? | If a person is a KMP of council and has significant influence of another entity – that other entity would not be a related entity of council and transaction between the two would not be related party transactions. |
| Under the Local Government Act the only staff member 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? | This would be very unusual, but could apply where a council has a Commissioner appointed.  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 staff are able to take part in decision making processes affecting council (directly and indirectly).  This includes any acting positions, even if only for a short period of time, e.g. over 4 weeks. |
| Council has a senior leadership team / table that meet and discuss matters. The General Manager seeks advice and discusses topics, but makes the final decision.  He has a view that these people aren’t KMP, they are people he canvasses before he makes an independent decision. They are no more KMP than other people he discusses topics with like community members. | Assuming the senior leadership team consist of the same core group of employees that always attend these meetings, they would be considered part of KMP as they indirectly influence the General Manager’s decisions.  Where staff members are only brought in on an ‘ad-hoc’ basis for specific topics, they would not be considered part of KMP. The community members argument holds no weight as they are not related to the entity preparing the financial statements. |
| 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. |
| Works superintendent – has flexibility over purchases and engagement of suppliers. Over the year, the total dollar amount can be significant. They can make a lot of decisions and spend money. Are they KMP? | Similar to the previous question.  In this case, the employee has a financial delegation to spend money. It does not necessarily follow that the employee has responsibility to plan, direct or control. A delegation to spend does not automatically make them part of KMP.  You would need to assess the works superintendent’s role at council. If they were part of the executive team that met regularly and made decision, then yes they would be KMP. |
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| Other questions |  |
| What do you do if all KMP and councillors refuse to sign related party declarations?  What if you cannot get appropriate declarations from relevant staff or councillors? For example, they refuse or are no longer an employee or councillor.  The disclosure relates to all councillor and executive employees for the full twelve months. How do you obtain information on related party relationships from people no longer engaged with council? | The impost is on council to seek the information and if it is not readily given to seek it by other means of enquiry. Council needs to be satisfied that any related party relationships and transactions have been captured and that sufficient research and enquiry has been done that would have identified those not disclosed.  Council needs to assess what can be located from other sources of knowledge of the employee or councillor. This may include their employee file, the pecuniary interest register or declarations of interest in minutes etc.  Council should also conduct searches such as company searches for directorships (eg. ASIC) or enquires within council of other staff (eg planning or other operational areas) and systems (eg the payments system, planning, rates, records management…).  Ideally council should seek declarations at the beginning of each year and update as necessary. For example if an election was pending or as part of employee departure procedures. Under the *Local Government Act 1993*, where a councillor has a “pecuniary interest” in a matter before council or any other committee it is mandatory for the councillor to declare the interest and advise the GM. This could also be a trigger where not previously declared.  Council should ensure a formal policy is adopted so that the completion of related party declarations is a mandatory requirement. A failure to comply with these requirements should be a breach of conduct.  Where you have such situations please talk through your approach with your audit team. |
| Would updating the related party declaration quarterly would be sufficient? | See previous – beginning and end of year as a minimum. More regularly cannot hurt and highlights the topic for those involved to keep it in mind as they go about their work. |
| 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.  It could be a probity issue, although this is not the point of the related party disclosures. |
| Is there a related party relationship where a councillor or senior executive are directors of subsidiaries.  What is the position where a director of the subsidiary is not directly associated with Council. | For a related party relationship to exist, the councillor or senior executive would need to have ‘control or joint control’.  Not a related party – unless the director is a family member of a councillor or a senior executive and the director has ‘control or joint control’. |
| Does the consolidation of the subsidiary information impact the AASB 124 requirements? | No, these are two separate standards. Whether subsidiary information is consolidated or not, related party relationships and transaction will be assessed on the specific circumstances. |
| Privacy and right to information. Confidentiality of information. Conflict between *Personal Information Protection Act 2004* and *Right to Information 2009*. Will disclosed information be accessible under RTI or exempt – public interest test? | Where a person was 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. All councils would already have a privacy policy for the assessment of any requests received. In accordance with the PIP Act, Council cannot use personal information for purposes other than the reason it is collected.  Where a member of KMP has any concerns about making a disclosure they should be encouraged to talk to an officer at council co-ordinating the collection of related party material for clarification before finalising their submission. Just because something is sensitive, does not mean it should not be collected. Indeed if it is significant then separate disclosures may be warranted, if relevant to users of the financial statements. Where collected and not disclosed or disclosed in aggregate, council’s assessment and determined outcome should be documented. |

Should you have any further queries please discuss them with your audit team.

# References and useful links

## Tasmanian Audit Office

Client Seminar- May 2017: [AASB 124 Disclosure of Related Party Transactions – Slides](http://www.audit.tas.gov.au/wp-content/uploads/AASB-124-Dislclosure-of-Related-Party-Transactions-Slides.pdf)

Disclosure of Related Party Transactions for Local Government - February 2017: [AASB 124 Related Parties for Councils February 2017](http://www.audit.tas.gov.au/wp-content/uploads/AASB-124-Related-Parties-for-Councils-February-2017.pdf)

## Australian Accounting Standards

[AASB 124 Related Party Disclosures](http://www.aasb.gov.au/admin/file/content105/c9/AASB124_07-15.pdf).

[AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector](http://www.aasb.gov.au/admin/file/content105/c9/AASB2015-6_03-15.pdf)

[AASB 10 Consolidated Financial Statements](http://www.aasb.gov.au/admin/file/content105/c9/AASB10_08-11.pdf), [AASB 11 Joint Arrangements](http://www.aasb.gov.au/admin/file/content105/c9/AASB11_08-11.pdf) and [AASB 128 Investments in Associates and Joint Ventures](http://www.aasb.gov.au/admin/file/content105/c9/AASB128_08-11.pdf).

## Other References

[Local Government Association Tasmania – Example Related Party Disclosure Policy](http://www.lgat.tas.gov.au/page.aspx?u=646&c=6026)

[CPA AASB 124 Related Party Disclosures Public Sector Not-For-Profit Entities](https://www.cpaaustralia.com.au/~/media/corporate/allfiles/document/professional-resources/reporting/aasb-124-related-party-disclosure.pdf?la=en)

[The NSW Office of Local Government – Code of Account Practice and Financial Reports](http://www.olg.nsw.gov.au/sites/default/files/OLG%20-%20Code%20of%20Accounting%20Practice%20and%20Financial%20Reporting%20-%20Update%2025%20-%20General%20Purpose%20Financial%20Statements.pdf)

Queensland Department of Infrastructure, Local Government and [Planning](https://www.dilgp.qld.gov.au/resources/publication/local-government/appendices-1-8-related-party-disclosure-bulletin.pdf)– [Related Party Disclosure Bulletin](http://www.dilgp.qld.gov.au/resources/publication/local-government/appendices-1-8-related-party-disclosure-bulletin.pdf)

[The WA Department of Local Government and Communities – Related Party Disclosures – Implementation Guide](https://www.dlgc.wa.gov.au/Publications/Documents/AASB124-Related-Party-Disclosures-Guide.DOCX#sthash.u5usKEuJ.dpuf)