

2.12 RELATED PARTY TRANSACTIONS AND DISCLOSURE

Responsible Directorate	Corporate Services	
Responsible Service Area	Finance	
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Procedure Ref	N/A	

1. PURPOSE

To ensure that Shire of Mundaring's (the Shire's) financial statements contain disclosures necessary to comply with the Australian Accounting, Related Party Disclosures (AASB 124), which draws attention to the possibility that the Shire's financial position and profit or loss may have been affected by the existence of transactions with a related party and outstanding balances and commitments with such parties.

This policy aims to assist Council in complying with the disclosure requirements and the level of reporting within the financial statements as per AASB 124. It aims to define the parameters for related party transactions and the level of disclosure and reporting. It is important to emphasise that AASB 124 is not designed to detect and report fraud.

2. SCOPE

This policy applies to all key management personnel of the Shire including council members, the Chief Executive Officer and senior employees.

3. DEFINITIONS

Act *Local Government Act 1995*

close members of the family family members who may be expected to influence or be influenced by those individuals' dealings with the Shire and include:

- children and spouse or domestic partner;
- children of that person's spouse or domestic partner; and
- dependents of that person or that persons spouse or domestic partner.

Under AASB 124, close members of the family could also include extended members of the family such as parents, siblings, grandparents, uncles/aunts or cousins if they could be expected to have influence or be influenced by the KMP in their dealings with the Shire.

entity	can include a body corporate, a partnership or a trust, incorporated association, or unincorporated group or body.
Key Management Personnel (KMP)	a person or persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly, including any director (executive or otherwise) of that entity.
related party	a person or an entity that is related to the Shire, referred to as the “reporting entity”.
	Examples of related parties of the Shire are:
	<ul style="list-style-type: none"> • Council subsidiaries; • Key Management Personnel (KMP); • close family members of KMP; and • entities that are controlled or jointly controlled by KMP or their close family members.
related party transactions	these are a transfer of resources, services or obligations between the Shire and a related party, regardless of whether there is a cost involved.
ordinary citizen transaction	a transaction that an ordinary citizen would undertake in the ordinary course of carrying out business with the Shire
significant influence	the power to participate in the financial and operating policy decision of an entity but not to control those policies.

4. POLICY

Related party transactions are a normal feature of commerce. However they can affect the profit or loss, financial position, and cash flows of an entity. Related parties may transact with an entity on terms that would not be available to an unrelated party. Therefore, knowledge of an entity's transactions, outstanding balances (including commitments), and relationships with related parties may affect assessments of its operations by users of the financial statements.

4.1. Identifying Related Parties

The most common related parties of the Shire includes, but is not limited to:

- Council members (KMP).
- A person employed under section 5.36 of the Act in the capacity of Chief Executive Officer or Director (KMP).
- Close members of the family of any person listed above, including that person's child, spouse or domestic partner, children of a spouse or

domestic partner, dependents of that person or person's spouse or domestic partner.

- Entities that are controlled or jointly controlled by a KMP or their close family members. Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs.

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

4.2. Identification of Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between the Shire (reporting entity) and the related party, regardless of whether a price is charged (AASB 124, paragraph 9).

For the purposes of determining whether a related party transaction has occurred, the following transactions or provision of services have been identified as meeting this criteria, this list is not exhaustive:

- paying rates
- infringements
- use of Shire owned facilities such as libraries, parks, ovals and other public open spaces (whether charged a fee or not)
- employee compensation whether it is for KMP or close family members of KMP
- application fees paid to the Shire for licences, approvals or permits
- lease agreements for housing rental (whether for a Shire owned property or property sub-leased by the Shire through a Real Estate Agent)
- lease agreements for commercial properties
- monetary and non-monetary transactions between the Shire and any business or associated entity owned or controlled by the related party (including family) in exchange for goods and/or services provided by/to the Shire (trading arrangement)
- sale or purchase of any motor vehicles, buildings or land owned by Shire, to a person identified above
- sale or purchase of any motor vehicles, buildings or land owned by a person identified above, to the Shire
- loan arrangements
- contracts and agreements for construction, consultancy or services

Some of the transactions listed above, occur on terms and conditions no different to those applying to the general public and have been provided in the course of delivering public service objectives. These transactions are those that an ordinary citizen would undertake with Council and are referred to as an ordinary citizen transaction.

Where the Shire can determine that an ordinary citizen transaction was provided at arm's length, and in similar terms and conditions to other members of the public and, that the nature of the transaction is immaterial, no disclosure in the annual financial report will be required.

Examples of ordinary citizen transactions include:

- paying rates
- infringements
- use of Shire owned facilities such as libraries, parks, ovals and other public open spaces (whether charged a fee or not)]
- disposal charges at Shire facilities
- purchase of saleable products from Shire facilities

4.3. Identifying Circumstances in which Disclosure is Required

In assessing materiality (quantitative and qualitative), consideration is to be given to both the size and nature of the transaction, individually and collectively in accordance with AASB 124, paragraph 17.

4.4. Identifying Information about the Related Parties And Related Party Transactions

KMP will be identified and the position they hold with the Shire disclosed. KMP will be required to complete the Related Party Disclosures Declaration Form (Appendix 1), which at minimum will require details of the related party, (family members and/or entities) that may have existing transaction potential with the Shire and the relationship to the KMP.

KMP are to complete a Related Party Disclosure Declaration Form:

- annually; and
- immediately prior to the end of a council member term (as applicable) or;
- immediately prior to the termination of an employee who is a KMP (as applicable).

KMP who no longer hold that role with the Shire will still be subject to disclosure requirements up until their status as KMP is no longer applicable. The same will apply for KMP who acquire the role in that year.

Completed forms are to be submitted to the Manager Finance and Governance. The Finance Department will be responsible for the maintenance of a register that captures all related party transactions of KMP.

4.5. Privacy

Disclosures form part of the Shire's financial statements, therefore, they are subject to audit by independent external auditors.

It should be noted it is only the transactions (if any) that have occurred between a related party and the Shire during the financial year that are disclosed in the annual financial report.

The Shire will endeavour to ensure that only those staff and the external auditors who are involved in the preparation of the related party disclosures will have access to the related party declarations.

5. APPENDICES

Appendix 1 Related Party Disclosures Declaration Form

6. RELATED LEGISLATION

Not Applicable

7. RELATED DOCUMENTS

Australian Accounting Standard, Related Party Disclosures (AASB 124)