

Policy P696 Related Party Transactions

Responsible Business Unit/s	Financial Services
Responsible Officer	Director Corporate Services and Manager Finance
Affected Business Unit/s	All Business Units

Policy Objectives

This Policy objective is to ensure that the City of South Perth's financial statements contain disclosures necessary to comply with the Australian Accounting Standard AASB 124 – Related Party Disclosures, which draw attention to the possibility that the City's financial position may have been affected by the existence of transactions with related parties and outstanding balances and commitments with such parties.

Policy Scope

This policy is to be applied in:

- a) Identifying related parties and their responsibilities;
- b) Identifying related party transactions;
- c) Identifying the circumstances in which disclosure is required;
- d) Identifying ordinary citizen transactions (OCT);
- e) Systems to capture and record related party transactions and their terms and conditions;
- f) Determining the disclosures to be made about those items in the general purpose financial statements for the purpose of complying with the AASB 124.

Policy Statement

AASB 124 is the Australian Accounting Standard that provides '*a framework for reporting relationships between the key decision makers in a reporting entity and the reporting entity. This relationship is commonly described as "related Party".*'

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's transactions, outstanding balances (including commitments) and relationships with related parties may affect assessments of its operations by users of the financial statements.

This Policy aims to enhance transparency and accountability, rather than detect fraud or misconduct and defines the parameters and level of disclosure and reporting required in order for the City to achieve compliance with the Australian Accounting Standard AASB 124 – Related Party Disclosures.

Definitions and Requirements

a) Identifying related Parties

- Key Management Personnel (KMP) is defined in AASB 124 as persons having the authority and responsibility for planning, directing and controlling the activities of the City, directly or indirectly. At the City of South Perth, this would be the Mayor and Councillors and the Executive Team (Chief Executive Officer and Directors);
- Entities related to City of South Perth where the City has control or joint control, with significance influence (regional Council such as Rivers Regional Council etc.);
- Close family members of KMP who may be expected to influence, or be influenced by the KMP, in their dealings with the City, and even wider if there is a strong personal connection, examples include;
 - a) That person's children and spouse or domestic partner;
 - b) Children of that person's spouse or domestic partner;
 - c) Dependants of that person or that persons spouse or domestic partner
- Entities that are controlled or jointly controlled by KMP or their close family members.

b) Identifying related party transactions

A related Party Transaction is a transfer of resources, services or obligations between the City of South Perth and a related party, regardless of whether a price is charged.

c) Identifying the circumstances in which disclosure is required

AASB 124 contains disclosure requirements to enable users of financial statements to understand the potential effect of the relationship on the financial statement.

Key requirements are detailed below.

1. KMP Compensation in aggregate and for each of the following categories:
 - a) Short-term employee benefits, such as wages, salaries, paid annual leave, paid sick leave, bonuses, non-monetary benefits, such as use of motor vehicles and free and/or subsidized goods or services;
 - b) Post-employment benefits, including superannuation, pensions, other retirement benefits,
 - c) Other long-term employee benefits, including long service leave
 - d) Termination benefits
2. Relationships between council and its subsidiaries, irrespective of whether there have been transactions between them.
3. Amounts incurred by council for the provision of KMP services that are provided by a separate management entity.
4. Where related party transaction have occurred (this is for all categories of related parties including related entities, KMPs, KMPs' close family member/controlled entities and any other related parties council has identified):
 - a) The nature of the related party relationship;
 - b) Information about the transactions, outstanding balances and commitments including terms and conditions;

The types of transactions to be disclosed include but are not limited to:

- Purchase/sales and lease of goods, property and other assets
- Rendering or receiving of goods, services, property and other assets.
- Guarantees given or received
- Commitments
- Loans and settlements of liabilities
- Expense recognised during the period in respect of bad debts
- Provisions for doubtful debts relating to outstanding balances.

At a minimum, disclosures shall include:

- a) The amount of the transactions, including transactions with no value (e.g. Pro bono work);
- b) The amount of outstanding balances, including commitments, and:
 - i. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - ii. details of any guarantees given or received;
- c) Amounts written off during the period with respect to bad or doubtful debts due from related parties

5. Separate disclosure for each category of related party.

d) Ordinary Citizen Transactions (OCT)

These transactions are those that an ordinary citizen would undertake with Council (Ordinary Citizen Transaction OCT), such as immaterial transactions undertaken on arm's length terms and in the ordinary course of carrying out Council's functions and activities, in similar terms and conditions to other members of the public.

OCTs are not material transactions because of their nature, and therefore they will be excluded from being recorded as a related party transaction. However, if the OCTs were to occur on terms and conditions that are different to those offered to the general public, then the transaction may become material.

Ordinary Citizen Transactions include but are not limited to the following:

- Use of Council's facilities such as George Burnett Leisure Centre, halls and venues, libraries, parks, ovals and other public open spaces after paying the normal user charges in accordance with the City's schedule of Fees and Charges (including any bonds or deposits associated with the hire and use of the facility);
- Access for information after paying the normal fee in accordance with the City's schedule of Fees and Charges;
- Lodgement of statutory forms and applications after paying the normal fee in accordance with the City's schedule of Fees and Charges;
- Infringements subject to the normal City of South Perth terms and conditions;
- Rates, rubbish services levies and services charges paid subject to the normal City of South Perth conditions;
- Attending City functions that are open to the public

e) Systems to capture and record related party transactions;

The attached Related Party Disclosure declaration forms must be completed by all Council members, the Chief Executive Office and Directors of the City who were elected or employed at any time during the financial year.

Declarations will be required:

- a) Annually, by no later than 30 August and
- b) At points of resignation or appointment of a Key Management Person e.g. prior to any ordinary or extraordinary election

f) Determining the disclosures to be made about those items in the general purpose financial statements for the purpose of complying with the AASB 124.

Generally, related party disclosures in the annual financial reports are reported in aggregate and as such, individuals are not specifically identified nor a specific transaction. Management is required to exercise judgement in determining the level of detail to be disclosed based on the nature of a transaction or collective transactions and materiality.

Individuals may be specifically identified and separate disclosure may be necessary for an understanding of the effects of related party transactions on the financial statements, if the disclosure requirements of AASB 124 – Related Party Disclosures so demands.

As the disclosures will form part of the financial statements, they will be subject to audit by the external auditors.

Legislation / Local Law Requirements

Australian Accounting Standard AASB 124 – Related Party Disclosures

Other Relevant Policies / Key Documents

Related Party Disclosures (Department of Local Government and Communities)