

# WEBINAR

## Understanding and implementing AASB 124 *Related Party Transactions*

# Contents of this presentation

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# What your screen looks like and how it all works...

- Please enter questions at any time and we will attempt to answer them during the session.
- If we are unable to answer your questions at the time of this webinar a full list of questions and answers will later be published on the OLG website.
- At the end of the presentation there will also be question time.
- If you wish to discuss any matters, please do not hesitate to contact the relevant OLG Staff. Contact details have been provided at the end of this presentation.



**Questions can be entered here at any time**

# Background

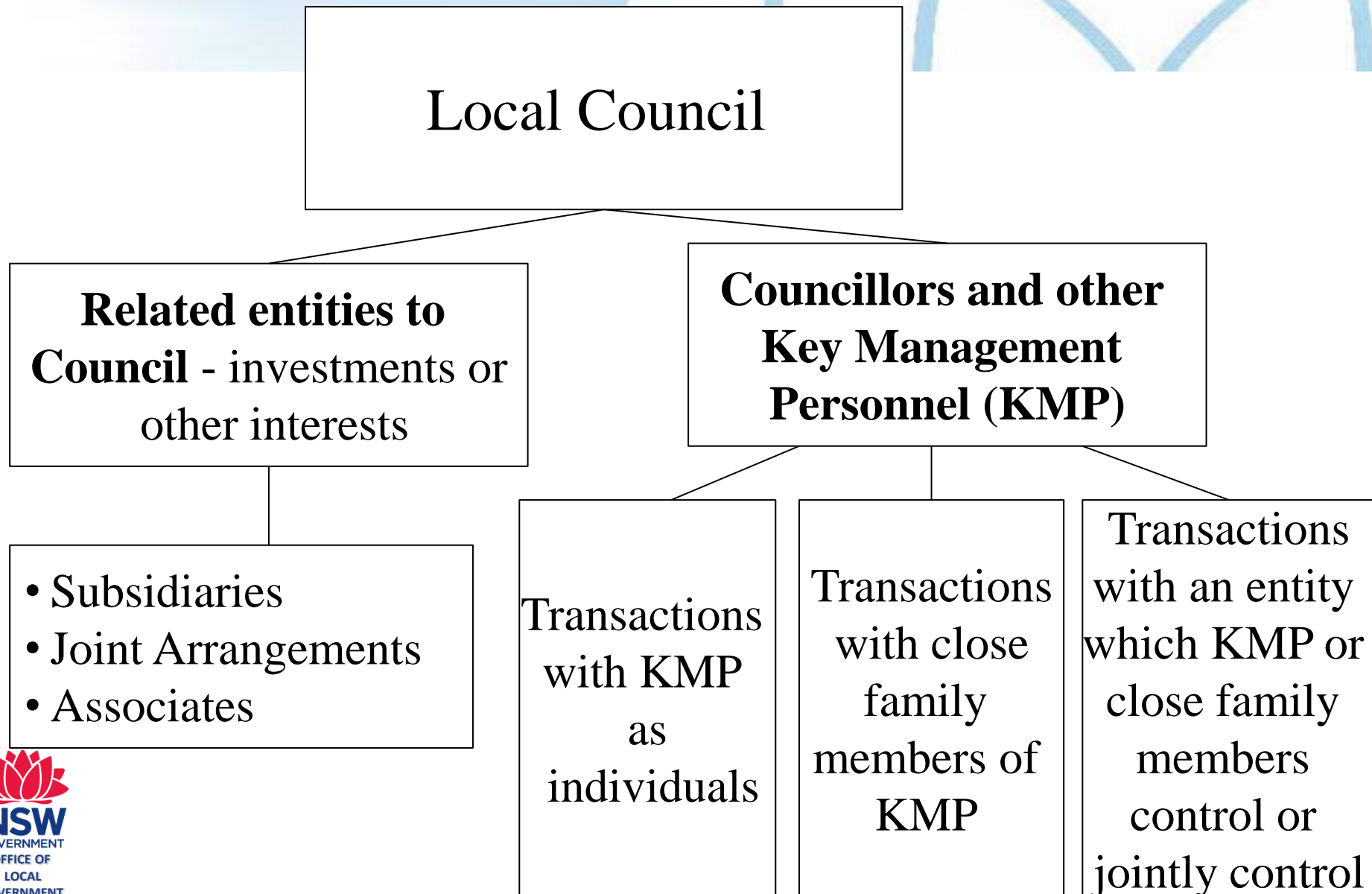
- Scope of *AASB 124 Related Party Transactions* has been expanded to cover not-for-profit public sector entities
- Effective for annual reporting periods beginning on or after 1 July 2016
  
- Why now?

# Headlines

For 30 June 2017 financial statements onwards, local governments must disclose related party relationships, transactions and outstanding balances, including commitments.

This information will be audited.

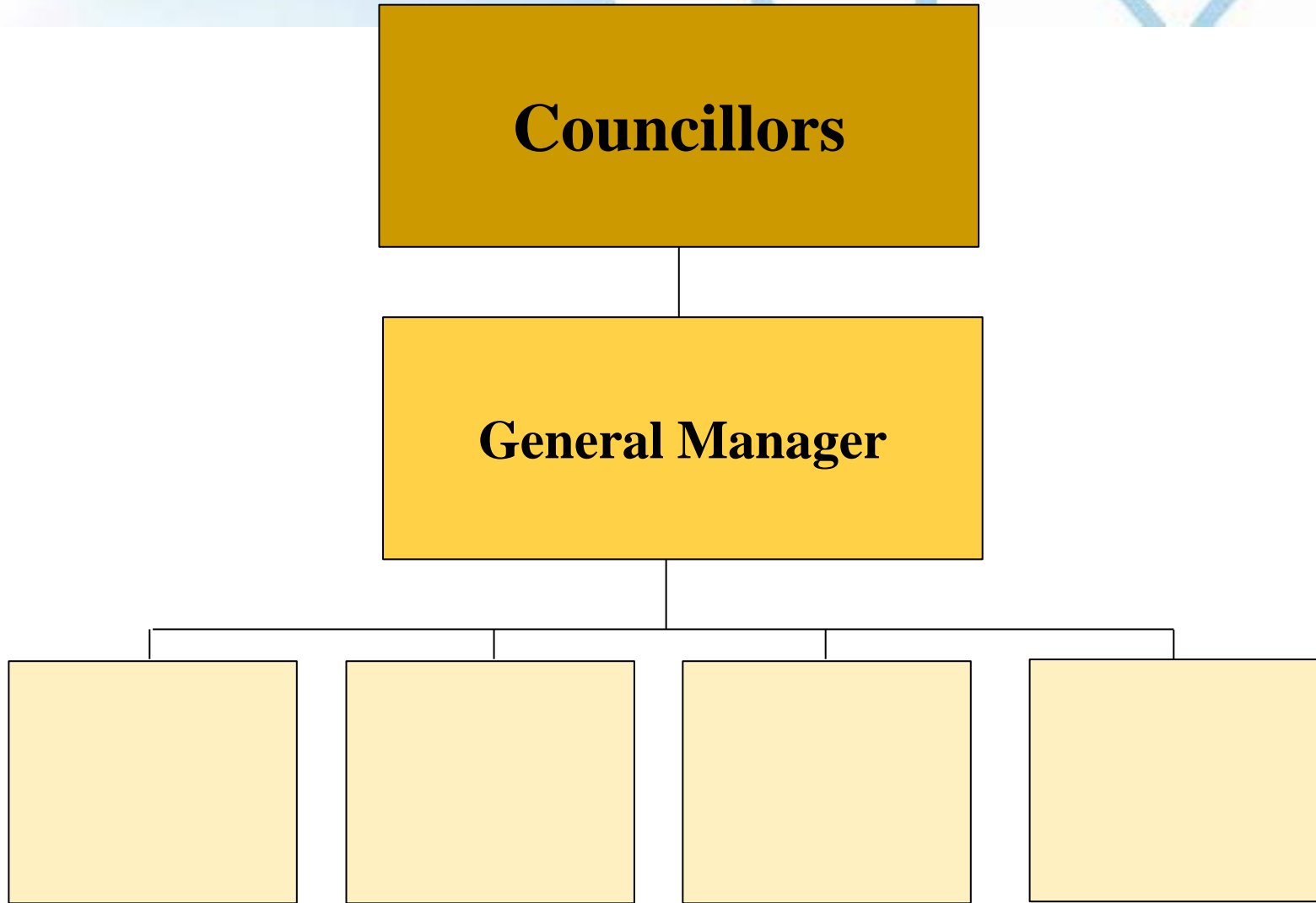
# Council's related parties



# Who are key management personnel?

Key management personnel 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.









# Structure of the entity





# Don't forget 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:

Spouse / Partner	
Children or dependents of KMP	
Children or dependents of KMP's spouse	
Others, for example:	
Grandparents	
Parents	
Siblings	
Cousins	
Aunts / Uncles	

# Examples

## **Example 3 (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 Chief Financial Officer 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.

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.

# Examples

## **Example 4 (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.

# What is a related party transaction?

- A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

# What about 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.”*

# Significance factors

- Council's need to determine whether transactions with related parties are significant and policy should state which factors to consider, for example:
  - Significance in terms of magnitude
  - Transaction conducted on non-market terms
  - Outside normal day-to-day council operations
  - Provides a financial benefit which is not available to the general public

Is the transaction likely to influence users of the financial statements? 6 o'clock news test?

## AASB 124: Implementation guidance example 7



Councillor P is a member of the key management personnel of the LMN local government (the 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, he 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.

# Required disclosures

- Key management personnel remuneration, separated into:
  - Short-term employee benefits
  - Post-employment benefits
  - Other long-term benefits
  - Termination benefits
  - Share-based payments



# Related party transactions (other than KMP remuneration)

- Disclose:
  - Nature of the related party relationship
  - Information about the transactions
  - Outstanding balances, including commitments

# Pecuniary Interest Form

Why can't Councils just use the information already reported to OLG in the Pecuniary Interest Form?

Can't the form be combined with AASB 124 requirements?

We don't need to make any changes to processes since we already report on the Pecuniary Interest form

	<b>AASB 124 disclosures in the financial statements</b>	<b>Pecuniary Interest Form (schedule 3 – form of return – disclosure of interest)</b>
<b>Purpose of the disclosure</b>	Disclose transactions between the Council and related parties of the Council to inform users of the financial statements	Disclose transactions that might result in the Councillor getting a gain or loss because of their position on the Council or conflicts of interest
<b>What is included?</b>	Transactions between the Council and related parties of the Council.	Pecuniary interest - “an interest that a person has in a matter because of a reasonable likelihood or expectation of appreciable financial gain or loss to the person”
<b>Who needs to be considered?</b>	<ul style="list-style-type: none"> <li>• Key management personnel (KMP)</li> <li>• Close family members of KMP</li> <li>• Related entities of Council</li> </ul>	<ul style="list-style-type: none"> <li>• The councillors</li> <li>• The general manager</li> <li>• Other senior staff of the Council</li> <li>• Person who holds the position of a designated person</li> <li>• Pecuniary interest may arise due to: <ul style="list-style-type: none"> <li>▪ an interest of: <ul style="list-style-type: none"> <li>▪ Spouse / de facto</li> <li>▪ Relative – your or your spouse’s parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descendent or adopted child and the spouse or de facto partner of those persons.</li> </ul> </li> <li>▪ You, a nominee, your business partner or your employer being a member of a company or other body that has a pecuniary interest.</li> </ul> </li> </ul>

	<b>AASB 124 disclosures in the financial statements</b>	<b>Pecuniary Interest Form (schedule 3 – form of return – disclosure of interest)</b>
<b>Exemptions</b>	Non-material transactions, including those transactions available to all members of the public on the same terms	<p>The following are not considered pecuniary interests:</p> <ul style="list-style-type: none"> <li>• An interest as an elector</li> <li>• Liable to pay charge such as rates</li> <li>• Provision of a service or the supply of goods or commodities also made to the general public</li> <li>• Provision of a service or the supply of goods or services to a relative but also made to the general public</li> <li>• Member of a club or other organisation or association – unless the person holds a position</li> <li>• Representative or member of a non-profit organisation or other community or special interest group chosen to represent that group on a council committee</li> <li>• an interest relating to a contract, proposed contract or other matter if the interest arises only because of a beneficial interest in shares in a company that does not exceed 10 per cent of the voting rights in the company,</li> <li>• an interest of a person arising from the proposed making by the council of an agreement between the council and a corporation, association or partnership, being a corporation, association or partnership that has more than 25 members, if the interest arises because a relative of the person is a shareholder (but not a director) of the corporation or is a member (but not a member of the committee) of the association or is a partner of the partnership,</li> <li>• an interest of a person arising from the making by the council of a contract or agreement with a relative of the person for or in relation to any of the following, but only if the proposed contract or agreement is similar in terms and conditions to such contracts and agreements as have been made, or as are proposed to be made, by the council in respect of similar matters with other residents of the area: <ul style="list-style-type: none"> <li>• the performance by the council at the expense of the relative of any work or service in connection with roads or sanitation,</li> <li>• security for damage to footpaths or roads,</li> <li>• any other service to be rendered, or act to be done, by the council by or under any Act conferring functions on the council or by or under any contract,</li> </ul> </li> <li>• an interest relating to the payment of fees to councillors (including the mayor and deputy mayor),</li> <li>• an interest relating to the payment of expenses and the provision of facilities to councillors (including the mayor and deputy mayor) in accordance with a policy under section 252,</li> <li>• an interest relating to an election to the office of mayor arising from the fact that a fee for the following 12 months has been determined for the office of mayor,</li> <li>• an interest of a person arising from the passing for payment of a regular account for wages or salary of an employee who is a relative of the person,</li> </ul>

# Steps to be put in place

1. Establish a Policy to define the parameters for Related Party Transactions and the level of disclosure and reporting required for Council to achieve compliance with AASB 124 - Related Party Disclosures.
2. The Policy should be applied in:-
  - a) identifying and recording related parties and related party relationships;
  - b) identifying and recording related party transactions and their terms and conditions;
  - c) assessing materiality / significance of these transactions;
  - d) identifying the circumstances in which disclosure of (a) and (b) is required;
  - e) determining the disclosures to be made about (a) and (b); and
  - f) disclosing relevant information in the financial statements.

# Other considerations

- An approach to the collection of data that is sensible, efficient and practical and forms part of Council's employment / procurement processes.
- Related Party Disclosure Form:
  - to be completed by the related party;
  - at the time of:
    - employment contract / agreement process
    - procurement tender process or
    - procurement contract / agreement process; and
  - containing relevant information for disclosure.

*What do you need to have to capture the relevant information each reporting period?*

# Sources of information

- Appendix J – 2015/2016 code:
  - Guidance from Accounting Standard
  - Disclosure checklist
  - To do list
  - Example note
- Queensland Government – Bulletin 02/16 – Related Party Transactions
- AASB 124 *Related Party Transactions*, including Australian Implementation Guidance for Not-for-Profit public sector entities

# Feedback And Any Further Questions

- Any further Questions?
- Additional guidance required by Councils from OLG?
  
- If you wish to discuss any issues, please do not hesitate to call OLG staff:-
  - Laura Love, Senior Policy Officer - 02 4428 4178
- Email any feedback/questions to [laura.love@olg.nsw.gov.au](mailto:laura.love@olg.nsw.gov.au)

## **Disclaimer**

*The material presented in the Code or in the webinar session, should be regarded as general advice for information purposes only. Discussions held in the webinar cannot replace specific advice that Councils should seek from their accountants and auditors.*



**Thankyou for  
your  
participation**

