



# Frequently Asked Questions – Tropical Workshops 2017

## Related Party Disclosures

<p>1. Does council have to collect the names of the close family members and related entities of key management personnel (KMP) from KMP? Can council just ask KMP for information on transactions with those people and entities instead?</p>	<p>Each council must decide how to identify and collect the information required to comply with AASB 124. A council may choose to adopt a process that is different to the one suggested by the department in bulletin 02/16.</p> <p>The process adopted by council must provide sufficient information to make the disclosures required by AASB 124. Both council and council's auditors need to be assured that all material transactions with related parties have been identified and disclosed.</p> <p>When choosing a process councils need to consider the annual external audit requirements that are imposed by the Local Government Regulation 2012 and the <i>Auditor-General Act 2009</i>. The audit of council's general purpose financial statements will be conducted in accordance with Australian Auditing Standards. To meet these requirements council's auditors will ask management for a list of council's related parties, including, for example, entities controlled by the close family members of KMP. In the rare circumstances, where something is particularly sensitive, the KMP could arrange to discuss with the auditor directly.</p> <p>If council's auditors are unable to identify council's related parties and related party relationships from the process that council has adopted additional audit activities may be undertaken. This may increase the cost and/or duration of council's annual audit. In addition, if the auditors are not satisfied that all of council's related parties and relationships have been identified council may receive a qualified audit opinion.</p>
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<b>Related Party Disclosures (continued)</b>	
2. Does council need to consider the <i>Information Privacy Act 2009</i> and Right to Information requirements when collecting information from KMP?	Yes council needs to consider these requirements. Councils need to obtain their own legal advice about this issue. When obtaining this advice, it is important that both the requirements of AASB 124 and council's audit obligations ( <i>Local Government Act 2009</i> , <i>Auditor-General Act 2009</i> , and Australian Auditing Standard ASA 550 <i>Related Parties</i> ) are considered. When collecting personal information from KMP, councils must inform them of the purpose of the collection and provide other details as required by the <i>Information Privacy Act 2009</i> (eg. provide them with a Privacy Collection Notice). In order to meet these requirements councils will need to provide more information than is included in the example KMP fact sheet contained in Appendix 7 of Bulletin 02/16. Councils need to obtain their own legal advice to ensure they comply with the <i>Information Privacy Act 2009</i> when collecting personal information from individuals.
3. Where a KMP, such as the Mayor, is involved with or the patron of a local charity or not for profit organisation does council need to disclose transactions with the charity or in relation to that cause?	Council will only need to disclose transactions if the KMP controls or jointly controls the charity/not for profit organisation. Council will need to consider the definition of control/joint control in AASB 10 and 11 and all supporting documentation, including any patron agreement, to determine this. In many cases the criteria for control or joint control by the KMP will not be met.  If the KMP only has significant influence over the entity it will NOT be a related party of council.
4. Do payments to KMP's Self-Managed Superannuation Funds need to be disclosed?	Superannuation contributions for KMP form part of KMP compensation. This must be disclosed in accordance with AASB 124 paragraph 17. See Table 1 below for further information about where to disclose these contributions.  It is also likely that the SMF is controlled or jointly controlled by the KMP, in which case the SMF will be a related party of council. This means that other transactions with the SMF may need to be disclosed, if material. AASB 10 and AASB 11 are used to assess whether the KMP controls or jointly controls the SMF.
5. We have a temporary CEO on contract through an agency. Is the temporary CEO a KMP? Council pays the agency for the temporary CEO's services. Is this amount included in KMP remuneration?	The Acting CEO will be a KMP (see points in Q6 below) so that person and their close family members and controlled or jointly controlled entities will be related parties of council. Any transactions with these people and entities during the period will be related party transactions that may need to be disclosed.  The agency is not a related party of council. Any payments to the agency for the temporary CEO's salary will need to be included in KMP remuneration. This will include any agency commission paid, not just the amount the temporary CEO receives.

<b>Related Party Disclosures (continued)</b>	
<p>6. Our council has decided that acting arrangements for less than 3 months do not constitute KMP. Is this OK?</p>	<p>Care needs to be taken with “acting” arrangements.</p> <p>Adopting such a policy does not stop those people, their close family members and any entities they control or jointly control from being related parties during that period. If on the facts that person meets the definition of KMP in AASB 124 during the acting period then material transactions with them, their close family members and controlled entities during the financial year will need to be identified and may need to be disclosed.</p> <p>Some considerations that may help determine whether the acting person meets the definition of KMP include:</p> <ul style="list-style-type: none"> <li>• Did the acting KMP fill a vacant role or did they just act while the position holder was on leave?</li> <li>• Did the acting KMP only complete the operational tasks of the KMP position holder while they were on leave?</li> <li>• Did the acting KMP attend key meetings such as monthly executive management team meetings?</li> <li>• Was the acting KMP involved in operational / strategic planning?</li> <li>• Was the acting KMP involved in determining the budget?</li> <li>• Did the acting KMP approve anything above their ‘normal’ delegation?</li> <li>• Did the acting KMP just fill-in for someone for a few weeks over Christmas when no key meetings / decisions were made?</li> <li>• How long was the KMP position holder on leave?</li> </ul> <p>If a person is considered KMP during the year (even if they were only KMP for 2 out of the 52 weeks of the year) then all transactions for the rest of the year between the entity and that person and any of their related parties (person or entities) would need to be captured.</p> <p>However, only the compensation paid to them, as KMP, during the acting period would need to be disclosed in KMP compensation.</p>
<p>7. Do we only need to identify transactions for an acting KMP for the period they were acting?</p>	<p>No. Related party transactions for acting KMP should be captured from the first date of their acting period through to the end of the financial year.</p>
<p>8. Is KMP compensation/ remuneration the amount actually paid or the amount accrued?</p>	<p>KMP Compensation is calculated on an accrual basis. This means that for components such as wages, salaries, annual leave and long service leave the amount that will be included in the disclosure will correspond to the amount expensed through the Statement of Comprehensive Income. See Table 1 below for further details.</p>

<b>Related Party Disclosures (continued)</b>	
9. Is annual leave for KMP included in short- term benefits or long-term benefits?	<p>The requirements of AASB 119 are used to determine whether annual leave is a short-term benefit or a long-term benefit. For most councils, this will result in annual leave being disclosed in short-term benefits. However, if annual leave is not expected to be settled wholly within 12 months of year end it will be included in long-term benefits.</p> <p>Whether annual leave is a short-term or long-term benefit is based on the entity as a whole. It is <b>not</b> assessed on an individual KMP basis.</p>
10. Does a KMP's car, personal mobile phone calls and discounted rent form part of KMP consideration.	Yes these non-monetary benefits are included in KMP compensation. See Table 1 below for further details, including how to calculate these amounts.
11. Do transactions between KMP and Council's controlled entities need to be disclosed in Council's financial statements?	<p>Transactions between KMP of council and council's controlled entities will need to be captured and, if material, disclosed in the notes to council's consolidated and separate financial statements. This is the case even if the controlled entity is not consolidated on the basis of materiality.</p> <p>Transactions between KMP of the controlled entity, and the controlled entity will need to be captured and, if material, disclosed in the controlled entity's financial statements. These transactions will not need to be disclosed in the council's consolidated or separate statements.</p>
12. Are the Regional Organisations of Councils (ROCs) related parties of council?	If council has control, joint control or significant influence over a ROC (which is usually the case) then the ROC will be a related party. However transactions with the ROC will only need to be disclosed if they are material. AASB 10, AASB 11 and AASB 128 are used to assess whether the council controls, jointly controls or has significant influence over the ROC.
13. If Council offers a contract to an independent contractor through a tender process and then the independent contractor sub-contracts some of the work to a related party (say company of KMP or close family members of KMP), would there be any disclosure required?	<p>If the independent contractor is controlled or jointly controlled by the KMP or a close family member of the KMP (or a related party of council through other relationships) then the transaction will need to be disclosed under AASB 124. The definition of control in AASB 10 is used to assess control.</p> <p>If the contractor is truly "independent" (i.e. not controlled or jointly controlled by the KMP or a close family member of the KMP) then this transaction will not need to be disclosed under AASB 124.</p> <p>In this instance, the KMP will also need to ensure they comply with the requirements of the <i>Local Government Act 2009</i> to act in accordance with the local government principles, and manage conflicts of interest.</p>

**Related Party Disclosures (continued)**

14. How does Council determine criteria to assess whether a transaction with a related party is material?

Materiality of related party transactions is not based dollars alone (i.e. quantitative materiality). Instead it is primarily based on **qualitative** materiality.

Indicators of potential materiality include:

- if a transaction did not follow applicable employment/procurement processes that apply to unrelated parties (with an implication that the council may be receiving/paying significantly more or less than with an unrelated party)
- if the terms and conditions of the transaction differ from those that would apply to unrelated parties (with an implication that the council may be receiving/paying significantly more or less than with an unrelated party)
- if knowledge of the related party's involvement in the transaction could lead to a perception that the transaction may have/had a material financial impact on the council
- in the case of employment of a KMP's close family member within the council - the position is a senior/influential role within the council

**Table 1: Components of KMP Compensation**

Category of KMP compensation (these terms are those specified in AASB124)	Examples of compensation that is included in each category	How the component of compensation is calculated
Short-term employee benefits	Includes wages, salaries, annual leave*, sick leave and bonuses.	<p>The amount disclosed is the amount expensed through the statement of comprehensive income. For example, if a KMP works for a full 52 weeks during the year and does not take any leave, but accrues 4 weeks leave the amount expensed (and therefore disclosed) is 52+4 = 56 weeks' salary.</p> <p>*Annual leave is included here if expected to be settled wholly within 12 months of year end. (Note: The decision to include annual leave as a short-term or long-term benefit is based on the entity as a whole, not the circumstances of individual KMP).</p>
	<p>Includes non-monetary benefits provided as part of a KMP's remuneration package – for example housing, cars, laptops and mobile phones for private use.</p> <p>Does not include the use of council owned equipment for council business purposes eg. Cars owned by council that are only used for council business by the employee or councillor.</p> <p>Councillor remuneration is included here even though councillors are not "employees".</p>	<p>The amount disclosed is the value of non-monetary benefits provided during the year.</p> <p>NOTE: this may be different to the value calculated for fringe benefits tax purposes because:</p> <ol style="list-style-type: none"> <li>1. The fringe benefits tax year is from 1 April to 31 March. The value of the benefit for disclosure in KMP compensation needs to be calculated for the period 1 July to 30 June; and</li> <li>2. Some fringe benefits are exempt from fringe benefits tax; however the value of these benefits must be included in KMP compensation; and</li> <li>3. Some FBT calculations use methods that calculate a value that could be materially different to fair value. For example, the statutory formula method for car fringe benefits.</li> </ol> <p>Acceptable methods for the valuation of non-monetary benefits include:</p> <ul style="list-style-type: none"> <li>• Direct market comparison – for example, rent at the market rate for comparable properties in the same location.</li> <li>• The FBT taxable value of a car fringe benefit calculated using the operating cost method adjusted for the difference in timing of the FBT year compared to the financial year.</li> <li>• Actual cost to council where this is on market terms and conditions.</li> </ul>

Category of KMP compensation (these terms are those specified in AASB124)	Examples of compensation that is included in each category	How the component of compensation is calculated
Short-term employee benefits (continued)		Where the KMP makes a contribution towards the non-monetary benefit (for example pays some rent or makes a contribution to reduce the car fringe benefit to zero) this amount reduces the value of the benefit that is disclosed in KMP compensation. If a non- monetary benefit such as a car is used partially for business purposes the value of the benefit will need to be apportioned accordingly.
Post-employment benefits	Includes superannuation contributions to defined benefit funds	The employee's share of defined benefit fund contributions
	Includes superannuation contributions to defined contribution plans.	The amount of superannuation contributions paid on behalf of the employee or councillor.
Long-term benefits	Long service leave, annual leave*	Long service and annual leave accrued during the year.  *Annual leave is included here if the leave is not expected to be settled wholly within 12 months of year end. (Note: The decision to include annual leave as a short-term or long-term benefit is based on the entity as a whole, not the circumstances of individual KMP).
Termination benefits	Includes redundancy payments	Include only the redundancy component, not the payment of employee entitlements that have previously been accrued.

## AASB 15 /AASB 1058

<p>If council has a material pre-paid rates balance does this need to be disclosed in 2016/17?</p>	<p>AASB 1058 does not apply to councils until 2019/20.</p> <p>Where council has not adopted accounting standards, because they are not effective yet, AASB 108.30 requires this fact to be disclosed. In addition, "known or reasonably estimable information relevant to assessing the possible impact that application of the new Australian Accounting Standard will have on the entity's financial statements in the period of initial application" is required. Examples of this disclosure are illustrated in Note 1.D of the Tropical Illustrative Financial Statements.</p> <p>When a council applies AASB 1058 will alter the timing of the recognition of revenue arising from prepaid rates. If this revenue is material for a council that council will need to disclose this information. For example, the following wording may be appropriate:</p> <p><b>Standard and impact</b></p> <p><b>AASB 15 Revenue from Contracts with Customers &amp; AASB 1058 Income of Not-for-Profit Entities</b></p> <p>These will replace several Standards and Interpretations including AASB 118 Revenue, AASB 111 Construction Contracts and part of AASB 1004 Contributions. They contain a comprehensive and robust framework for the recognition, measurement and disclosure of revenue by not-for-profit entities.</p> <p>Council is still reviewing the way that revenue is measured and recognised to identify whether they will have a material impact. To date the following impact has been identified:</p> <p>At 30 June 2017 council had received pre-paid rates totalling \$3.5 million. These rates are recognised as revenue in the Statement of Comprehensive Income. If council had applied AASB 1058 this year these rates would have been recognised as a liability in the Statement of Financial Position and council's net result would decrease by \$3.5 million.</p> <p><b>Date council will apply the standard</b></p> <p>1-Jul-19</p>
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