

## Questions and Answers

### AASB124 Related Party Disclosures Webinar - 14 October 2016

	QUESTIONS	ANSWERS
1	Is a Chief Financial Officer a Key Management Personnel (KMP) if he is not part of the Exec team?	If he has the authority and responsibility to plan, direct and control the activities of the Council, then the CFO is a KMP of Council. Includes any acting positions even if for a short period of time.
2	If say Director of Engineering Services is participating at a board meeting but does not vote - he is not KMP?	The question is whether the Director of Engineering Services has the responsibility to plan, direct and control the activities of the Council, whether it is by way of vote at a board/council meeting or at an executive meeting. If the answer is yes then the Director is a KMP of Council. Includes any acting positions even if for a short period of time.
3	Under the Local Government Act the only staff members 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?	By way of delegation, the General Manager permits others to exercise that power. Therefore any Council staff (whether executive or otherwise) that have the authority and responsibility to plan, direct and control the activities of the Council, is a KMP of Council. Includes any acting positions even if for a short period of time.
4	How will the judgment of who is a close family member going to be audited?	This will be the discretion of the Auditor General however it is most likely the AG will be reviewing each council's policies and processes over the three necessary steps: <ol style="list-style-type: none"> <li>1. Councils have identified related parties and related party relationships.</li> <li>2. Councils have identified and recorded related party transactions</li> <li>3. Councils have assessed the information and determined whether the transactions need to be disclosed.</li> </ol> Council should keep documentary evidence as to what has and hasn't been disclosed and why.
5	Would in-laws be captured in these requirements?	Yes they are a close family member and transactions Council has with the in-law of a KMP may need to be disclosed if KMP are expected to influence or be influenced by the in-law in their dealing with Council.
6	Referring to example 4 in the slides - what would happen with this cousin if there was no transaction - are they not a close family member?	They are still a close family member but we are only interested if they have a transaction with Council. Then it is a matter for Council to decide whether the transaction is required to be disclosed.
7	Is payment of rates a related party transaction?	It is a related party transaction; however Council would not require disclosing this transaction if the KMP is paying his/her rates just like every other rate payer. However, the Council would need to disclose the transaction if the KMP had not paid his/her rates as an example for the last 3 years.
8	Would this example need to be disclosed? A KMP's son	If for example the work experience is available to the general public and not paid work

	applied to do school based work experience with a different KMP section.	experience then it is not a transaction and would therefore not be considered for disclosure. If Council makes a decision to pay the son of the KMP when others had not been paid for the same work experience, then it may require disclosure.
9	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.
10	Has the Auditor general been consulted?	The Auditor-General has a representative on the Technical Advisory Group which is consulted on all Code of Accounting Practice and Financial Reporting requirements including AASB124 Related Party Disclosures.
11	What about transactions with previous Councillors (pre September) and new Councillors (post Sept)?	From 1 July 2016 all Councils are required to capture related party transactions with KMP; this includes all Councillors before and after the September 2016 elections.
12	Does the service have to be provided by the related party directly or is it enough that the related party is employed by the consulting firm providing the services.	It depends on how much influence the related party has at the consultancy firm. Using a legal firm as an example, if the related party is the cleaner at the firm, there would be no influence. However if the related party is a senior lawyer or managing partner they would have some influence and would therefore need to be considered.
13	When the standard talks about decisions being made at "meetings" to identify KMP are we talking about Council Meetings only or are we talking about Senior Management Team Meetings?	Both.
14	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. Expense incurred in P&L.
15	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. Balances are not needed to be disclosed.
16	What about items included in Fringe Benefits Tax Calculations – are these included?	Yes.
17	Will the OLG issue a form to submit similar to the pecuniary interest form?	The OLG does not intend to issue a template form of disclosure.
18	Does accrued leave entitlements have to be disclosed for KMP	No.
19	Has any consideration be given to the interaction with and impact of the Personal Information & Privacy Protection Act (PPIPA) with this Standard as far as disclosures?	No consideration has been given; the private sector has been doing this for some time and is asked to disclose more information than the public sector.
20	How do you treat former General Managers (GM) in a	Council needs to capture information from all KMP and those acting in KMP positions that

	merged council who were part of the initial management team but left soon after?	are or were in those positions any time during the financial year that is being reported on. If prior to 1 July 2016 the GM left or ceased to be a KMP in the new council then transactions with the former GM would not be required to be disclosed unless post 1 July 2016 he holds another position in the new Council which identifies him as a KMP of the new council.
21	Is the OLG going to develop a model policy for Councils to use as a standard, along with a related party transaction declaration?	OLG is not intending to develop a model Policy. There are a number of Policies already developed by councils in NSW and other States. A link to these policies has been provided on our website.
22	Please clarify if these new provisions take effect from the 2016-17 Financial Statements.	Yes
23	Are "use of Council assets" also included in related party transactions not just dollars?	Yes. 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'.
24	The Local Government Association of Queensland, recently advised QLD Councils that it is unacceptable to collect related party information upfront (e.g. asking for information about close family members of KMPs and their business involvements) when no transactions may eventuate. They are now only going to ask for information that has occurred. Has NSW OLG considered this?	The three steps are 1. Identify related parties and related party relationships. 2. Identify and record related party transactions and 3. Determine whether the transactions need to be disclosed. NSW Councils will determine the process of collecting the information required for disclosure. Councils approach should be sensible, efficient and practical. Councils approach may be to collect this information through their employment/procurement processes as well as asking KMP provide disclosure on a periodical basis i.e. every 3 to 6 months. In most cases information collected would probably be at the time of transaction or post transaction. Examples of Council policies and disclosure forms are available via a link on our website. (See slide 22 – Other considerations).
25	What if you have a confidentiality agreement with a past employee who has been terminated?	If they were 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. The reporting of KMP compensation is aggregated and there is no naming.
26	Does the Standard override privacy protection issues as raised by Queensland Councils?	Councils are required to comply with the Accounting Standard through the <i>Local Government Act 1993</i> and the Standard doesn't consider privacy issues therefore non-compliance with the Standard could lead to qualification.
27	Is Council required to record all relationships regardless of the fact there may be no transactions?	Yes - they need to know the relationships in order to be able to determine whether transactions have taken place.
28	Is it the role of staff to determine who fits within the bounds	The Standard states: "Close members of the family of a person are those family members

	<p>of the Standard? The Standard states that it applies to children of the person or spouse/domestic partner. Why does the Webinar example expand these relationships?</p>	<p>who may be expected to influence or be influenced by that person in their dealings with the entity and include:</p> <p>(a) that person's children and spouse or domestic partner;          (b) children of that person's spouse or domestic partner; and          (c) dependants of that person or that person's spouse or domestic partner."</p> <p>This is a principles based definition and the examples in a - c is not exhaustive which is supported by the following decision by the International Interpretations committee:-  <a href="http://www.ifrs.org/Current-Projects/IASB-Projects/Related-Party-Disclosures-close-member-definition/Project-news/Pages/Project-news-May-2015.aspx">http://www.ifrs.org/Current-Projects/IASB-Projects/Related-Party-Disclosures-close-member-definition/Project-news/Pages/Project-news-May-2015.aspx</a></p> <p>The intention of the webinar was to illustrate other relationships which may need to be considered. It will be up to each Council to determine how they will identify the related parties.</p>
29	<p>Why can't an enhanced Pecuniary Interest Disclosure suffice?</p>	<p>In order to capture the relevant information there is a requirement essentially for two sets of information nevertheless. OLG has determined that rather than including information from the Pecuniary Interest Declaration in the financial statements (which isn't required under AASB 124) the forms/disclosures are being kept separate.</p> <p>The 'Pecuniary Interest Disclosure and AASB124' document on our website highlights the comparisons and contrasts between pecuniary interest disclosures and related party disclosures relating to KMP. This document considers the purpose and content of the pecuniary interest form and the AASB 124 disclosures.</p> <p>The Pecuniary Interest form is intended to identify conflicts of interests which may affect the Councillor / designated person's ability to be objective in Council decisions and gains / losses which the Councillors and designated persons have incurred in their role as Councillor / designated persons.</p> <p>The AASB 124 disclosures are intended to provide information to users of the financial statements about transactions which have occurred during the reporting period between the Council and their related parties.</p> <p>The purpose of the two documents is different; however there is some overlap with collection of information. The AASB 124 disclosures in the financial statements include an</p>

		<p>aggregation of information rather than providing detailed information on each KMP and if this information was included on the pecuniary interest form then certain personal information would be on the public record without any requirement for this to be the case.</p> <p>Council's administrative collection of information could be streamlined by including a AASB 124 appendix to the pecuniary interest form which does not form part of the statutory disclosure and therefore is not included in the register of returns but is provided to the finance team for completion of the financial statements. This would mean that Councillors / designated persons would only complete one return.</p> <p>OLG came to the conclusion that as the purpose of the information being collected is not the same there is no scope to consolidate these two disclosures. However as suggested above Councils collection of the information from KMPs could be streamlined.</p>
30	What is defined as a transaction, does it include rezoning?	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. The rezoning of land owned by the KMP or close family member is captured.
31	Who specifically is a KMP as an officer who has authority and responsibility for planning, directing and controlling the activities of Council? Down to what level of staff? Where do the Property Manager, Engineering Manager and Facilities Maintenance Coordinator fit into the ambit of the responsibility to plan, direct and control the activities of the Council? Taking the issue to the extreme, does the Traffic Controller on a road works project meet this definition?	The KMP has to be responsible for planning, directing and controlling the activities of the Council as a whole rather than an individual component of the Council so it would generally be members of an Executive team where the Council activities as a whole are discussed. The KMP will vary for each Council as the KMP of private sector entities vary.
32	How do relationships between KMP (and their close family member) and the Council impact on the result?	<p>The transactions which occur between KMP (and their close family members) and the Council are disclosed because they may have happened on terms which are not arms length and may provide evidence of transactions which may not have happened had they not been with a related party.</p> <p>You are not disclosing all relationships; you are only disclosing where the transactions have occurred.</p>
33	What is the penalty for noncompliance?	Potential qualification of financial statements
34	Are the financial statements invalidated by noncompliance?	When signing off on the preparation of the financial statements the Councillor will not be able to say that the financial statements are in compliance with Accounting Standards and



		a potential audit qualification may be received.
35	Can you provide a copy of Office of Local Government's own Policy	The OLG will not be preparing a model policy for NSW Councils and instead has provided links to various Qld and NSW Government policies that been prepared. The Office of Local Government itself as part of the Department of Planning and Environment Cluster is guided by Treasury in this process. Links relating to AASB124 NSW Treasury Circular TC16-12 and 'The Looking Glass' Issue 6 are available on our website.