

# ***General Instruction 2: Annual Financial Statement***

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### **GENERAL INSTRUCTION NO. 2**

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*Local Government (General) Regulations 2021*

#### **Issue of General Instruction**

I, Kathleen Robinson, Acting Chief Executive Officer of the Department of the Chief Minister and Cabinet, under regulation 4 of the *Local Government (General) Regulations 2021*, issue this General Instruction to councils in relation to financial administration and accounting.



.....  
Acting Chief Executive Officer

Department of the Chief Minister and Cabinet

28/7/2022

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## **1 Title**

- 1.1 This General Instruction is titled *General Instruction 2: Annual Financial Statement*.

## **2 Commencement**

- 2.1 This General Instruction commences on the day after the day it is issued and applies on and from the 2021-22 financial statements.

## **3 Definitions**

**Act** means the *Local Government Act 2019*.

**AASB** means the Australian Accounting Standards Board.

**AASB 124** means Accounting Standard AASB 124 *Related Party Disclosures* of the Australian Accounting Standards.

**General Regulations** means the *Local Government (General) Regulations 2021*.

**CEO** of a council, means the council's chief executive officer as appointed under section 165(1) of the Act, who is in charge of day-to-day operations of the council.

## **4 Relevance to Regulations**

- 4.1 Regulation 4 of the General Regulations states that the CEO of the Agency may issue general instructions to councils or local government subsidiaries in relation to financial administration and accounting. A general instruction must be made in writing, given in writing to all councils and local government subsidiaries, and published on the Agency's website.
- 4.2 Regulation 5 contains an offence if a council or local government subsidiary does not comply with a general instruction. Failure to comply with a general instruction is an offence of strict liability with a maximum penalty of 50 penalty units.
- 4.3 Regulation 13(a) of the General Regulations prescribes that a separate line that states the total remuneration provided to the CEO during the year must be included in a council's annual financial statement.
- 4.4 A council must comply with the General Regulations, including the provisions of Part 2, Division 6 (Annual financial statement), when entering into a contract with the CEO in accordance with this General Instruction.

## **5 AASB 124 – Related Party Disclosures**

- 5.1 AASB 124 requires related party transactions to be disclosed as a note in annual audited financial statements. This includes the nature of the related party relationship, information about those transactions and outstanding balances.
- 5.2 AASB 124 only requires disclosure of material related party transactions and their outstanding balances in the financial statements.
- 5.3 **Related parties**

For councils, there are four types of 'related parties' that need to be considered:

1. **Entities related to council** – This classification will include any entity that is either controlled or jointly controlled by council; or which a council has significant influence over. These entities will, typically, have been identified as part of the financial statement preparation process and will be disclosed in the notes relating to investments in joint ventures,

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associates and subsidiaries. The local government subsidiary CouncilBIZ falls under this definition.

2. **Key Management Personnel (KMP)** – AASB 124 defines KMP as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. For a council this includes all council members, the CEO and council senior staff (e.g. directors and managers – noting that lower levels of management could also be included if they are responsible for planning, directing and controlling the activities of the council).
3. **Close family members of KMP** – A family member of a KMP, who may influence or be influenced by that KMP in relation to a council's business is also a related party to a council. It is up to the council to determine a 'close family member'. Generally this includes a KMP's spouse / partner, children and dependents, but could also include extended family such as cousins, grandparents and other relatives.

*Notes for point 3:*

*A family member such as a spouse or child of a KMP who is employed by the same council as the KMP would meet the definition of a 'related party' and, as such, their remuneration and associated leave balances would meet the definition of related party transactions and balances.*

*Council must ensure any conflict of interests that could arise in such circumstances are being separately managed in accordance with the requirements of the Act.*

4. **Entities that are controlled or jointly controlled by either 2 or 3 above** – An entity that is conducting business with a council is considered to be a related party of the council if that council's KMP or a KMP's close family member has control (or joint control) and influence over that entity. Such entities can include corporate and / or business activities, clubs, associations and sporting groups.

*Notes for point 4:*

*For disclosure in this note, it would need to be demonstrated that the KMP or close family member had the ability to control, or jointly control an entity prior to concluding it was a related party of a council.*

*The employment of a KMP or close family member of a KMP by an entity that transacts with the council does not, in and of itself, result in those transactions meeting the definition of a related party transaction. For this to occur the KMP (or close family member) needs to be in a position where they have control or joint control of the entity.*

*For example, if the CEO's spouse is employed by a business that provides building material to the council, the entity is unlikely to be a related party as the CEO's spouse would not have the ability to control or jointly control the entity.*

*However, if the CEO's spouse owned and operated the business or held a senior position that could decide to enter into contracts with the council, then the entity would be a related party of the council as the spouse would have the ability to control the operations of that entity.*

**5.4** Under AASB 124 remuneration is classified as either:

- (a) short-term employee benefits;
- (b) other long-term employee benefits;
- (c) termination benefits;
- (d) post-employment benefits; and /or
- (e) share-based payment.

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- 5.5 Short-term benefits** include wages, salaries, allowances (not reimbursements), paid annual leave, paid sick leave, employer-funded superannuation contributions, and non-monetary benefits (such as housing, cars or free / subsidised goods or services).
- 5.6 Long-term benefits** include long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within 12 months after the end of the period, profit-sharing, bonuses and deferred compensation.
- 5.7 Termination benefits** include any other payment made on termination in relation to the position.
- 5.8** It is not expected that a council would provide post-employment benefits or share-based payment. Notwithstanding this, the definitions of these payments under AASB 124 should be referenced.

*Note for point 5:*

*When deciding on remuneration, employee benefits as defined by 'AASB 119 Employee Benefits' should be taken into consideration. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity.*

## **6 Related party transactions**

- 6.1** A related party transaction is a transfer of resources, services or obligations between a council and the related party, regardless of whether a price is charged.
- 6.2** For the purposes of determining whether a related party transaction has occurred, the following transactions or provision of services for related parties are to be considered:
- (a) purchases or sales of goods;
  - (b) purchases or sales of property and other assets;
  - (c) rendering or receiving of services;
  - (d) rendering or receiving of goods;
  - (e) leases;
  - (f) transfers under license agreements;
  - (g) commitments to do something if a particular event occurs or does not occur in the future; and
  - (h) settlement of liabilities on behalf of the council or by the council on behalf of that related party.
- 6.3** When reporting transactions, a council is to differentiate between Ordinary Citizen Transactions and Non-ordinary Citizen Transactions.
- 6.4 Ordinary Citizen Transactions** – These are transactions that occur between the council and KMP and / or related parties that occur during the normal course of council's business. Such transactions are made under the same terms and conditions that would apply to any other member of the community, in the ordinary course of the council's business. There is no obligation to disclose Ordinary Citizen Transactions.

*Examples for clause 6.4*

*Payment for ordinary/general services provided by Council such as rate payments, animal registration, facility hire, pool entry and dump fees.*

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**6.5 Non-ordinary Citizen Transactions** – All material related party transactions that do not satisfy the definition of an Ordinary Citizen Transaction must be disclosed in accordance with AASB 124.

**6.6** There must be a set mechanism for all KMP to declare all related party transactions (excluding Ordinary Citizen Transactions). This is because a transaction that may appear to be immaterial on its own, may, in combination with other like transactions, have a material impact on the financial statements and warrants disclosure.

*Examples for clause 6.5 and 6.6*

*Transactions with CouncilBIZ and/or the Local Government Association of the NT (LGANT) if the Council is a member of the organization.*

### **7 KMP – Actual, acting and temporary appointments**

**7.1** In relation to disclosures required for KMP, the basis of reporting relates to individual persons and not positions.

**7.2** KMP is to include all persons appointed as the actual or acting KMP during the financial year.

**7.3** KMP of a council includes council members, the CEO and council senior staff.

**7.4** Except for the CEO's position, it is the discretion of a council to decide whether to include acting KMP appointments in the related party disclosures note if the appointment is for less than 4 weeks in a row in each financial year.

**7.5** All actual, temporary and acting appointments to the CEO's position must be included in the related party disclosures note.

**7.6 Actual** – An actual appointment means a person who is actually employed to a particular KMP position and must be included in the related party disclosures note.

**7.7 Temporary** – A temporary appointment means where a person is backfilling a vacant KMP position while the position is being recruited to. All temporary appointments must be included in the related party disclosures note for the period served in that role.

**7.8 Acting** – A person who is acting in a KMP role that is actually filled where the actual incumbent is not actively fulfilling that KMP role.

*Notes and examples for clause 7.8*

*If a person is acting in a role covering an existing KMP who is absent for less than 4 weeks (e.g. while seconded or on annual leave), then judgement will be required to determine whether the acting KMP should be included in the note.*

*If it is unlikely that a person or their related parties will enter into related party transactions with the council while acting as a KMP, then in such circumstances exclusion of that person from the note would be warranted. However, if there is evidence suggesting that significant transactions have been entered into by the person acting as a KMP or their related party, then they should be included in the note.*

**7.9** If during the financial year more than one person held the position of a particular KMP, then the disclosure requirements apply to each person holding that position and an appropriate narrative would be included as an explanation.

**7.10** All personnel holding a KMP position during the year are to be considered when determining related parties. Where a person is not a KMP for the full period, related parties are only considered during the period that they hold a KMP position.

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- 7.11** A council must have appropriate procedures in place to capture all KMP information and relevant related party information for those council members who have occupied their role for only a portion of the financial year (for example, during an election year).

### **8 Total remuneration provided to the CEO**

- 8.1** Regulation 13(a) of the General Regulations requires councils to include a separate line that states the total remuneration provided to the CEO during the financial year.
- 8.2** The related party disclosures note included in a council's audited financial statement must separately report the total remuneration provided to each person appointed as the actual, acting or temporary CEO during the financial year, and the relevant dates of the period their appointment(s).
- 8.3** The below is a list of the minimum items to be included when reporting on the CEO's total remuneration during the financial year (if applicable):
- (a) base salary (including leave entitlement payments);
  - (b) employer superannuation contribution;
  - (c) benefits and allowances (includes travel allowance);
  - (d) membership of professional bodies or any other organisation (including frequent flyer programs);
  - (e) cashed-out annual and long service leave (taken in lieu of actual leave);
  - (f) vehicle entitlements (for example, fuel cards, repairs and maintenance, and insurance);
  - (g) accommodation / housing entitlements;
  - (h) account payments (for example, electricity, phone and internet);
  - (i) car parking space;
  - (j) accrued leave entitlements; and
  - (k) any other payment or entitlement in cash or in kind provided to the CEO during the financial year connected with their employment.
- 8.4** Payments in relation to expenditure for airfares, train or sea tickets, taxi vouchers, and accommodation directly related to official travel are to be excluded when reporting on the CEO's total remuneration during the financial year.
- 8.5** Councils must report details of the CEO's remuneration in either a table format or as a narrative as provided in Option 1 or 2 in the Schedule.

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## Schedule

### Option 1 – Table format

A separate column is required for each individual.

Remuneration	20XX-YY		
	Actual CEO <i>(include names and dates)</i>	Acting CEO <i>(include names and dates)</i>	Temporary CEO <i>(include names and dates)</i>
Short-term benefits	\$	\$	\$
Non-cash benefits	\$	\$	\$
Other long-term benefits	\$	\$	\$
Post-employment benefits	\$	\$	\$
Termination benefits	\$	\$	\$
Share-based payments	\$	\$	\$
<b>Total remuneration</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

### Option 2 – Narrative format

**Total remuneration provided to the CEO during 20XX-YY:**

**Actual CEO** *(include names and dates)*

In 20XX-YY the total remuneration provided to the CEO was \$G\*, comprising of:

- \$A in salaries, allowances and other short-term benefits
- \$B in non-cash benefits
- \$C in other long-term benefits
- \$D in post-employment benefits
- \$E in termination benefits
- \$F in share-based payments

**Acting CEO** *(include names and dates)*

In 20XX-YY the total remuneration provided to the acting CEO was \$H\*, comprising of:

- \$A in salaries, allowances and other short-term benefits
- \$B in non-cash benefits
- \$C in other long-term benefits
- \$D in post-employment benefits
- \$E in termination benefits
- \$F in share-based payments

**Temporary CEO** *(include names and dates)*

In 20XX-YY the total remuneration provided to the temporary CEO was \$I\*, comprising of:

- \$A in salaries, allowances and other short-term benefits
- \$B in non-cash benefits
- \$C in other long-term benefits
- \$D in post-employment benefits
- \$E in termination benefits
- \$F in share-based payments

\* Total remuneration must equal the total of amounts A to F for each appointment.