

**GOVERNANCE AND AUDIT COMMITTEE
18 JANUARY 2010**

**RELATED PARTY TRANSACTIONS
Director of Corporate Services – Legal/Borough Treasurer**

1 PURPOSE OF DECISION

- 1.1 The purpose of this report is to consider whether Members of the Council should be required to complete an annual declaration of “Related Party Transactions” in the same fashion as senior officers are required to.

2 RECOMMENDATION

- 2.1 That Members of the Council be required to complete an annual declaration of Related Party Transactions.**

3. ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 3.1 The Borough Solicitor is the co-author of this report.

Borough Treasurer

- 3.2 The Borough Treasurer is the co-author of this report.

4 EQUALITIES IMPACT ASSESSMENT

- 4.1 Not relevant.

5 STRATEGIC RISK MANAGEMENT ISSUES

- 5.1 Not relevant.

6 SUPPORTING INFORMATION

- 6.1 The action plan appended to the Annual Governance Statement approved by the Committee in June 2009 identified that consideration would be given to whether Members of the Council should be required to complete an annual declaration of Related Party Transactions (“a Declaration”).

- 6.2 For a number of years senior officers of the Council (the Chief Executive, Directors and Chief Officers) have been required to complete annually a declaration. A copy of the form of declaration and guidance notes is appended to this report as Annexe A. Although the front page of the guidance refers to Members as well as officers, in practice forms of declaration have neither been circulated to nor completed by Members.

6.3 Declarations are sought in order to secure compliance with Financial Reporting Standard 8 (“FRS8”) issued by the Accountant Standards Board which seeks to implement International Accounting Standard 24. Those accounting standards are couched in terminology appropriate to the private rather than to the public sector but the accounting standards are now being sought to be replicated in the public sector.

6.4 In relation to FRS8 the Accounting Standards Board advised that the objective is as follows:-

“To ensure that financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may be affected by the existence of related parties and by material transactions with them.

Two or more parties are related when at any time during the financial period:-

- (a) one party has directly or indirectly control over the other party; or
- (b) the parties are subject to common control from the same source; or
- (c) one party has influence over the financial and operating policies of the other party to the extent that that other party might be inhibited from pursuing at all times its own separate interest; or
- (d) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest

The standard requires the disclosure of:-

- (a) information on related party transactions; and
- (b) the name of the party controlling the reporting entity and, if different of the ultimate controlling party whether or not any transactions between the reporting entity and those parties have taken place”.

6.5 CIPFA (the Chartered Institute of Public Finance Accountants) has advised that both senior officers and Members are considered to be “related parties” (i.e. related to the Council) for the purposes of FRS8. CIPFA also advises (in accordance with guidance from the Accounting Standards Board) that Members of the close family or the same household as senior officer or Member should also be considered to be a related party.

6.6 Examples given of declarable transactions are:-

- purchases or sales of goods, property and other assets
- rendering or receiving of services
- leases
- loans, provision of guarantees or collateral
- settlement of liabilities

6.7 It is accepted that to some degree there will be an overlap between a requirement of Members to make a declaration with their duty to register Personal Interest under the Code of Conduct for Members. However, requirements to make a disclosure under

the Code and under a declaration would not be co-terminus and it cannot be sustained that disclosure under the Code secures compliance with FRS8

- 6.8 A recent internal audit report identified as a weakness in the Council's Governance Arrangements the failure to comply with FRS8 by omitting Members from those required to make a declaration. The Auditors report contained the following:-

“Recommendations

All Councillors, Members of CMT and officers responsible for managing budgets should make an annual declaration of Related Party Transactions in respect of themselves and their family members/close relatives.

The requirement for Members and chief officers to declare Related Party Transactions has been considered by the Accounting Standards Board as fundamental to the presentation of the Council's published accounts. Advice issued by the Audit Commission requires the completion of a signed declaration on an annual basis.

Rationale

The purpose of this disclosure is to provide assurance to the Council's stakeholders that any material transaction between the organisation and those in a position to influence its decision are properly disclosed. Arrangements for the disclosure of interest are governed by the Council's Code of Conduct. The Council's register of Member's Interest is considered in the disclosure of Related Party Transactions but at present there is no requirement for Members to complete a signed declaration. A questionnaire was circulated to all first and second tier officers after 31st March 2007 but this was not extended to Members.

Where Members and chief officers are not required to complete an annual declaration concerning Party Related Transactions there is a risk that the Council is unaware of any perceived or actual conflict of interest and is therefore unable to provide a full and open disclosure to stakeholders”.

- 6.9 In light of the guidance alluded to above it is recommended that Members should join with senior officers in making an annual declaration.

Background Papers

Guidance on FRS8 and IAS24 issued by the Accounting Standards Board and Deloitte.

Contact for Further Information

Alex Jack, Borough Solicitor (01344) 355679.

Alex.jack@bracknell-forest.gov.uk

Chris Herbert, Borough Herbert (01344) 355694..

Chris.Herbert@bracknell-forest.gov.uk

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