

North Tyneside Council

Report to Standards Committee

Date: 1 December 2016

ITEM 8

Title: Reporting on
Related Party
Transactions

Report from Service Area: Law and Governance

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Wards affected: All

1.1 Purpose of Report:

This report advises the Committee of the revised arrangements regarding the recording of Members' involvement with Related Parties of the Authority.

1.2 Recommendation(s):

The Committee is requested to note the report.

1.3 Information

1.3.1 The audit of the Authority's 2015/16 accounts was recently concluded and an unqualified audit opinion was issued. The Audit Completion Report, produced by Mazars, in respect of the 2015/16 Annual Financial Report was presented to the Full Council on 22 September 2016.

1.3.2 A number of Internal Control issues were raised by Mazars and agreed actions were approved by Council in response. One of the Internal Control issues raised related to testing of related party disclosures. An extract of the Audit Completion Report in relation to this matter together with the Management Response agreed by Council is set out in Appendix 1.

Related Party Transactions

1.3.3 The requirement to identify related party transactions is set out in Section 33 of Financial Reporting Standard 102 issued by the Financial Reporting Council and it requires the Authority to disclose in its accounts "any related transactions", including disclosures necessary to draw attention to the possibility that the Authority's financial position has been affected by the existence of related parties and by transactions with such parties.

1.3.4 Related parties are defined as bodies or individuals that have the potential to control or influence the Authority or to be controlled by the Authority. The disclosure of these transactions allows readers of the accounts to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. Related

parties include outside bodies and organisations, which have financial transactions with the Authority.

- 1.3.5 For example, it is necessary for the purpose of indentifying related party transactions to consider those transactions which include payments to organisations with contractual and/or financial links to the Authority, where the Members or close related members of their families have control or influence over the organisation or over the Authority. The objective is to identify any transaction which may have taken place as a result of the control or influence exercised by one party over the other. This of itself does not imply any improper influence but promotes transparency and identifies where there is the opportunity for improper influence by either party.

The type of information that falls into a related party category includes:

- Ownership of an organisation that transacts with the Authority or a contractor of the Authority;
- Director of an organisation that transacts with the Authority;
- Trustee, governor or partner of an organisation that transacts with the Authority.

A related party transaction also includes grants or loans to voluntary organisations, companies etc or payments for goods or services received by the Authority.

- 1.3.6 In relation to Members the Authority's External Auditors had considered that it was appropriate and sufficient to use of Members' Register of Interests to identify related party transactions. Members are only required to update their register entries within 28 days of any change and the Register does not require such extensive details to be provided. As a result it was accepted by Full Council, that to provide more robust governance an annual return from each Member on related party transactions will be required.

The Annual Return

- 1.3.7 In order to determine whether such related party transactions exist in relation to the Members of the Council the Authority needs to know whether any Member has a relationship with a related party of the Authority. The Authority will therefore write to every Member in the course of preparation of its annual accounts, to ask whether to their knowledge they, or any business, partnership, company of which they are a director or company in which they have a significant shareholding, has any contract with the Authority or a related party of the Authority, such as the Authority's strategic partners. A blank copy of the annual return that will be requested from Members is attached at Appendix 2.

1.4 Appendices

Appendix 1 - Extract of the Audit Completion Report
Appendix 2 – Annual Return – Related Party Transactions

1.5 Contact officers:

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1.6 Background information:

Audit Completion Report, produced by Mazars, in respect of the 2015/16 Annual Financial Report.

Extract of the Audit Completion Report**1. Members' interest – compliance with Code of conduct for changes in interests****Description of the deficiency**

Testing of related party disclosures identified that Members' declarations of interests were not up-to-date, with the Code of Conduct requiring any changes to be notified within 28 days.

Potential effect

Non-compliance with the Code of Conduct. As set out in the Code, failure to disclose, without reasonable excuse or to register a Disclosable Pecuniary Interest is a criminal offence under section 34 of the Localism Act.

Risk of incomplete disclosures in the financial statements.

Recommendation

A reminder should be sent to all Members to ensure they declare changes to interests (in particular at the start of each new year and after new appointments are made) as per the underlying Code at least annually. Reminders on the importance of interest should be built into any on-going training. We understand Internal Audit work is on-going in this area.

Management response

The requirement placed upon Members to update their Register of Interests and the significance of any failure to do so forms part of the training on the Code of Conduct. Members are also reminded of the need to do so at other times. The use of the Register of Interests to identify any related party transactions has previously been acceptable to external audit but a need to provide more robust governance arrangements is accepted. As a result the mechanism for identifying any related party transactions will now revert to an annual return from each Member