

Key risks – knowing what they are and how they can be managed *cont.*

Disclaimer

The comments on legal liability and recent legislative changes in this section of the resource and throughout the document do not purport to be a complete and accurate description of the law on these topics.

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Financial

Financial risk is the risk to an organisation's cash flow. Often, financial risks are not managed effectively.

Good financial management is essential for your organisation's survival and is an important part of financial risk management and good governance. It involves:

- being provided with and reviewing financial information on a regular basis
- effectively managing the funds of the organisation
- implementing sound financial practices and policies
- understanding the organisation's financial position and obligations.

Good financial management and the ability to demonstrate that this is occurring is essential if your organisation is seeking additional external funding or capital assistance.

Often organisations will appoint a financial director/ treasurer with accounting experience to assume this responsibility. He or she will generally be involved in day-to-day transactions or maintaining the accounts.

Notwithstanding this appointment, all board members should have an understanding of their organisation's accounts and financial reports, as they are responsible in the eyes of the law.

If board members do not have this financial literacy, there are several courses that can be undertaken to assist with understanding the key responsibilities. Refer to the section titled *Financial Management – Useful Websites and Other Resources*.

Financial responsibilities

Each organisation will have specific legal obligations in relation to their financial management and an ethical responsibility to their members in respect to managing their organisation's funds.

Corporate governance issues also need to be taken into consideration when administering an organisation's finances. It is important that all officers of your organisation (president, club director, board member, treasurer, etc.) understand their responsibilities in this area, particularly if they are a director of the organisation in the eyes of the law.

Listed below is a summary of the key issues. For further information, it is recommended that you talk to your state sport and recreation organisation or other national sporting body and/or obtain professional advice if any aspect requires clarification or further consideration.



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Key issues - duties and requirements

A. Legal responsibilities of directors regarding financial management

The legal duties of directors will vary depending on whether an organisation is incorporated pursuant to the Corporations Act or in accordance with South Australia's Association Act.

Directors of all organisations have legal duties and responsibilities, which require that they act:

- competently
- honestly
- in good faith
- in what they consider to be the best interests of the organisation.

Common law principles that directors should follow include:

- monitoring the management and performance of the organisation
- understanding the basics of the organisation's business, services offered and objectives
- maintaining their knowledge of the organisation's direction and activities
- assessing the appropriateness of management's (if applicable) business practices
- monitoring the organisation's policies
- being conversant with the organisation's financial status by regularly reviewing financial statements and other financial reports prepared internally and externally
- enquiring into matters where necessary.

B. Corporate governance requirements regarding financial management

Directors are also required to understand the financial needs of their organisation in relation to statutory and common-law requirements and corporate-governance issues.

In order to understand and identify the responsibilities involved in your organisation's financial management, it is recommended that each director read through the following financial management checklist.

This checklist should be reviewed at least annually but it can be used more often according to the needs of your organisation. For example, when:

- a new director or treasurer is appointed
- in preparation for the annual general meeting
- following the organisation's annual general meeting, as new directors may have been appointed.



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Financial management

Checklist of requirements	YES	NO
Treasurer or management provides up-to-date financial reports on a regular basis.		
The financial reports provide adequate information needed for financial decision-making by the board.		
The organisation prepares an annual budget and a revised annual estimate (actual Year to Date and YTD & Forecast).		
The treasurer reports the financial position of the organisation against budgets and estimates.		
The board monitors budgetary performance.		
The organisation has appropriate insurance and the board deliberates the insurance renewal process on an annual basis.		
There are financial policies and procedures in place to guide officers of the organisation (treasurer/general members).		
The board understands and authorises the policies for monitoring cash, purchasing and major contracts, etc.		
The board understands that the process of internal control and segregation of duties (i.e. each step in financial handling - receipt, recording, banking, reporting) is not completed by one person.		
The organisation has an appointed independent auditor.		

If your organisation has answered 'no' to any of these requirements, it is recommended that you either implement the practice or, if the board has elected not to follow these requirements, ensure that you are not in breach of any legislative or compliance requirements. It may also be useful for the board to minute its rationale for departing from a partial item on the checklist.



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C. Legislative requirements

If your organisation is incorporated under the Associations Incorporation Act (SA) 1985 or under the Corporations Law, there are specific legal obligations in relation to financial responsibilities that are also relevant to your organisation's operations.

Accounting records

All organisations must take reasonable steps to keep accounting records that record and explain the transactions and financial position of the organisation. An organisation and any officer of the organisation who fails to do this can each be fined.

Additionally, under the Act, organisations should keep a receipt book, a deposit book, correctly filled in cheque books, bank statements and a general ledger. The records must be kept at the organisation's office or in the custody of an officer of the organisation, whichever the rules or a resolution of the board allow.



³⁷ Note: The Associations Incorporations Act is currently under review, and therefore these requirements may change.

Lodgement of financial accounts

Only prescribed organisations are required to submit an annual audited financial statement to the Office of Consumer and Business Affairs. Prescribed organisations are defined in the *Association Incorporation Act (SA) 1985 (Section 35)* and, in general, they are organisations with gross receipts of more than \$500,000 per annum.

Examples of gross receipts include:

- government funding
- membership fees
- donations
- fundraising income.

Legislative requirements checklist (*Associations Incorporation Act and Corporations Act*)

The following tables provide a checklist of some of the key financial reporting obligations under the *Associations Incorporation Act*³⁷ and requirements under the *Corporations Act 2001*.

It is recommended that your organisation identify which Acts are applicable, retain copies within the organisation for reference purposes and build on the checklists below to ensure all financial responsibilities are understood and assigned to a board member.

Use the checklists below to help you understand the main requirements. These checklists are not intended to be a comprehensive list of your organisation's requirements and are not a substitute for an organisation determining its full obligations under each of the Acts.

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Associations Incorporation Act (SA) 1985

Checklist of requirements for prescribed organisations	
Must maintain financial records - Section 35 and 39C.	
Accounts must be lodged with the Corporate Affairs Commission.	
The accounts must fairly present the results of the operations of the association and its financial position (Section 35).	
Audit of annual accounts - by a registered company auditor or a member of CPA Australia, ICAA, or IPA or a person the Commissioner considers to have appropriate qualifications.	
Accounts to be presented to members.	

Corporations Act 2001 – incorporated associations

Checklist of requirements	
Must maintain financial records - Section 286.	
Lodgement of accounts with ASIC — Section 319(1). Must lodge a directors' report and declaration, balance sheet, profit and loss statement, cash flow statement, statement of changes in equity and the notes to the financial statements.	
Accounts to be presented to members. Must be distributed to members no more than 21 days before the AGM or four months after the end of the financial year (Section 315).	
Audit requirements are dependent on the level of annual revenue. Annual revenue < \$250,000 – no audit or review requirements unless required by ASIC. Annual revenue < \$1,000,000 – can elect to have a review rather than audit. A CPA, ICAA or IPA must conduct the review.. Annual revenue > \$1,000,000 – audit must be completed by a registered company auditor.	

Key Financial Policies

Financial management is not only about understanding the financial information in your organisation and using this information to improve organisational operations, it is also about ensuring that the right policies and procedures are in place to ensure:

- the financial information you are using is accurate, complete, up to date and reliable
- the safe guarding of the club's financial assets (cash, investments, etc.)
- that investments by the organisation are protected
- the review and reliability of the financial information will lead to the correct decisions.

For complete financial management of your organisation, you need to consider implementing good financial controls to detect and prevent errors, theft or fraud.

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Explicit policies and procedures set out the required approach, responsibilities and processes for club officers and members to properly administer the financial matters of the organisation in accordance with its wishes and consistent with statutory requirements and sound financial management practices.

If your organisation has an audit and finance committee, it may be worthwhile to ensure that it has recently reviewed the range of policies and procedures that your organisation has in place and also consider the policies and procedures that need to be developed.

Corporations Act 2001 – incorporated associations

Financial control	Policy and/or other documentation
<p>Controls are in place for cash handling</p> <p><i>Cash handling and receipting</i> Assigning the responsibility of collecting cash or transacting on behalf of the organisation to designated officers of the organisation. In other words, the collection and receipting of cash is restricted to nominated members of the organisation.</p>	
<p>Controls relating to the safeguarding of assets</p> <p><i>Disposal of assets</i> Limiting the authority regarding the sale or disposal of the organisation's assets to designated board members and only with the authority of the full board (preferably by board resolution).</p>	
<p>Controls are in place for committing the organisation's resources (i.e. spending, contracting, etc.)</p> <p>Contracts, including leases, are legal agreements that commit the organisation to fulfilling certain requirements or obligations, often financial. It is advisable to maintain a record of contracts, including such details as commencement date, term, and frequency of payments, amount to be paid and any other special conditions that need to be fulfilled.</p>	
<p>Key financial accounts are regularly reconciled</p> <p><i>Bank reconciliation</i> Treasurer to perform reconciliation between bank statements and related financial reporting, control accounts for all bank, investment and cash accounts. The board to periodically validate the reported amount of cash at the bank to the bank statement.</p>	
<p>Authorised (and number of) signatories</p> <p>All cheques must contain two eligible signatures. Eligible signatories are board members or staff members who have been previously nominated and endorsed by the board. Similarly, to the extent possible, all EFT transactions should involve two authorised signatories. Avoid giving sole authority to one individual, unless there are extensive detective and compensating controls.</p>	

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Financial Management - Useful Websites and Other Resources

For more information relevant to financial management and policies, please refer to the following resources:

Example policies

- Institute of Community Directors³⁹

Training

- Australian Institute of Management⁴⁰

Other

- Australian Sports Commission⁴¹
- Australian Taxation Office⁴²
- Australian Charities and Not-for-Profits Commission⁴³



³⁹ Financial Management and Financial Control Policies. <https://www.communitydirectors.com.au/icda/policybank/>

⁴⁰ Understand Financial Reports - Understand and interpret the bookkeeping, accounting and financial management principles, concepts and terminology behind financial reports. <http://www.aims.com.au/training/training-courses/index-of-2014-courses-by-abc/>

⁴¹ Provides a guide to the role of the club treasurer and other useful information for managing a club's finances. http://www.ausport.gov.au/supporting/clubs/resource_library/administration/financial_management

⁴² Information on finance for not-for-profit organisations including details on expenses, acquisitions, donations and record keeping. <http://www.ato.gov.au/Non-profit/>

⁴³ The National Standard Chart of Accounts (NSCOA) is a data entry tool and data dictionary for not-for-profits, including charities. All Australian governments (Commonwealth, state and territory) have agreed to accept NSCOA when requesting information from not-for-profits. While NSCOA is not compulsory, there are benefits in using it.

It is most commonly used in the not-for-profit sector, including charities. The NSCOA may also be particularly useful if your organisation is about to change or update its accounting system or thinking about updating and improving its financial reporting <https://www.acnc.gov.au/ACNC/Manage/Reporting/NSCOA/ACNC/Report/ChartofAccounts2.aspx>