

Governance and auditing

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Governance and Auditing

Governance is the process by which clubs are directed, controlled and held to account. It is concerned with the overall structures and processes for decision-making, accountability, control and behaviour and should be directed by the management committee.

Financial management governance is a core component of the governance framework. In this section, the two key areas for financial management governance are discussed.

Financial controls

Financial management is not only about understanding the financial information about your club and using this information to improve club operations, it is also about ensuring that the right policies and procedures are in place to ensure that the financial information you are using is accurate and that you can protect your investment in the club. For complete financial management of your club, you need to consider implementing good financial controls.

A financial control is a procedure that is implemented to detect and prevent errors, theft or fraud, or policy non-compliance in a financial transaction process. Financial control procedures can be implemented by either an individual or as part of an automated process within a financial system.

Each financial control procedure is designed to fulfil at least one of these seven criteria:

1. **Completeness** – ensures that all records and transactions are included in the reports of the club
2. **Accuracy** – ensures that the right amounts are recorded in the correct accounts
3. **Authorisation** – ensures that the correct authorisations are in place to cover such things as approval, payments, data entry and computer access
4. **Validity** – ensures that the invoice is for work performed or products received and the club has incurred the liability properly
5. **Existence** – ensures the existence of assets and liabilities. Has a purchase been recorded for goods or services that have not yet been received? Do all assets on the books actually exist? Is there correct documentation to support the item?

6. **Handling errors** – ensures that procedures are in place to ensure that errors in the system have been identified and corrected
7. **Segregation of duties** – ensures that certain functions are separated. For example, the person taking cash receipts does not do the banking.

Benefits of financial controls

- Understanding the financial position of your club
- Regular reporting will provide accurate financial information that can be used by those responsible for the operations of the club (e.g. sales numbers can be provided to sales representatives to monitor targets and budgets)
- Clubs can make informed decisions on budgets and spending
- Provides documentary proof for compliance requirements (e.g. GST calculations)
- Club standards are set and all persons within the club are informed of these standards through reporting.

Good financial controls will:

- Help to align the objectives of the club – to ensure thorough reporting procedures and to ensure that the activities of the club are in line with its objectives
- Safeguard assets – to ensure that the club's physical and monetary assets are protected from fraud, theft and errors
- Prevent and detect fraud and error – to ensure that systems quickly identify any errors or fraud
- Encourage good management – to ensure that the manager receives timely and relevant information on performance against targets, as well as figures that can indicate variances from targets
- Allow action to be taken to correct undesirable practices – authorise a formal method of dealing with any fraud, dishonesty or incompetence
- Reduce exposure to risks – to minimise the chances of unexpected events
- Ensure proper financial reporting – to maintain accurate and complete reports as required by legislation and management, and to minimise the time lost in correcting errors and ensuring resources are correctly allocated.

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Financial controls checklist

To manage the risk of financial transaction processing failures, manual or automated control procedures should be implemented at key stages of the process. Some of the questions that can be asked are:

- a) How well are the financial aspects of the club managed?
- b) Are the club operations protecting the club against disasters, internal theft and unfavourable external audits?
- c) How comprehensive are management practices? Are the financial records accurate?
- d) Review the following checklist. clubs with sound financial management practices would answer 'yes' to most of the following questions:

General	YES?
Is a chart of accounts used?	
Is it detailed enough to give adequate management information?	
Is a double entry bookkeeping system used?	
Are journal entries used?	
Are journal entries approved?	
Do you use budgets and cash projections which are:	
• compared to actual results?	
• investigated if there are major discrepancies?	
Do you understand the form and contents of the financial statements?	
Are comparative financial statements produced and reviewed?	
Are the books and records kept up to date and balanced?	
Is financial information produced regularly?	
Are reasonable due dates imposed for preparation of financial information?	
Are storage facilities safe (including computer back-up files)?	
Is insurance cover regularly reviewed?	
Is there a records retention schedule?	
Is there a policy for credit approval for customers?	
Sales	YES?
Are credit files kept up to date?	
Are credit checks on customers done regularly?	
Are sales orders approved for price, terms, credit and account balance?	
Are all sales orders recorded on pre-numbered forms and are all numbers accounted for?	
Do you review the monthly debtors' statements for outstanding balances?	
Is the accounts receivable subsidiary ledger balanced monthly?	
Is an aging schedule of customers' accounts prepared monthly?	
Are write-offs and other adjustments to customer accounts approved?	

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Cash Receipts	YES?
Do you or a responsible employee other than the bookkeeper or person who maintains accounts receivable:	
• Open the mail and pre-list all cash receipts before turning them over to the bookkeeper?	
• Stamp all cheques with restrictive endorsement 'for deposit only' before turning them over to the bookkeeper?	
• Compare daily prelisting of cash receipts with the cash receipts journal and the duplicate deposit slip?	
Are cash receipts deposited intact on a daily basis?	
Are cash receipts posted promptly to appropriate journals?	
Are cash sales controlled by cash registers or pre-numbered cash receipts forms?	
Cash spent (disbursements)	YES?
Are all disbursements except for petty cash made by cheque or internet payments?	
Are cheques pre-numbered and all numbers accounted for?	
Are all cheques recorded when issued?	
Are all unused cheques safeguarded, with access limited?	
Is a mechanical cheque protector used to inscribe amounts as a precaution against alteration?	
Are voided cheques retained and mutilated?	
If a signature plate is used, do you have sole control?	
Do you sign or view all cheques and internet payments?	
Are supporting documents, processed invoices, receiving reports, purchase orders, presented with the cheques and reviewed by you before the manager signs the cheques?	
Are supporting documents for payments properly cancelled to avoid duplicate payment?	
Are cheques payable to cash prohibited?	
Are signed cheques mailed by someone other than the person who writes them?	
Are bank statements and cancelled cheques:	
• received directly by you?	
• reviewed by you before they are given to the bookkeeper?	
Are bank reconciliations prepared:	
• monthly for all accounts?	
• by someone other than the person authorised to sign cheques or use a signature plate?	
Are bank reconciliations reviewed and adjustments of the cash accounts approved by a responsible person other than the bookkeeper?	
Are all disbursements from petty cash funds supported by approved vouchers?	
Is there a limit on the amounts of individual petty cash disbursements?	
Are petty cash funds on an imprest basis (the total amount is set (e.g. \$100), you can only spend what you have, and it's only topped up with what's spent)?	
Are petty cash funds:	
• kept in a safe place?	
• sufficient to require only monthly reimbursement?	
• controlled by one person?	
• periodically checked by someone other than the custodian?	

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Accounts payable	YES?
Are supplier invoices matched with relevant purchase orders and receiving reports?	
Are all available discounts taken?	
Is there written evidence that invoices have been properly processed before payment, e.g. stamped?	
Are there procedures that ensure that direct shipments to customers are properly billed to them?	
Do you verify that the total of accounts payable agrees with the general ledger control account?	
Are expense reimbursement requests submitted properly and approved before payment?	
Goods received	YES?
Are all materials inspected for condition and independently counted, measured, or weighed when received?	
Are receiving reports prepared and used promptly?	
Are receiving reports:	
<ul style="list-style-type: none"> • pre-numbered and do they account for the sequence of all numbers? • promptly provided to those who perform the purchasing and accounts payable function? • controlled so that liability may be determined for materials received but not yet invoiced? 	
Employees	YES?
Are all employees' job references checked?	
Are individual personnel files maintained?	
Is access to personnel files limited to a person who is independent of the payroll or cash functions?	
Are wages, salaries, commission and piece rates approved?	
Is proper authorisation obtained for payroll deductions?	
Are adequate time records kept for employees paid by the hour?	
Are salesmen's commission records reconciled with sales records?	
If employees punch time clocks, are the clocks located so someone in authority may watch them?	
Are time records for hourly employees approved by a foreman or supervisor?	
Are there controls to ensure that the absence of any employee is noted?	
Is the accuracy of the payroll checked?	
Are payroll registers reviewed by a responsible person?	
If employees are paid in cash, is the cash requisition compared to the net payroll?	
Is there control over unclaimed payroll cheques?	
Are staff cross-trained in accounting functions?	
Are annual vacations required?	

Review those questions in the checklist that are applicable to your club but which you have not answered 'yes' to. The management committee should implement appropriate policies and procedures, including naming the people who will be responsible for them and a completion date. When the appropriate policies and procedures have been set up, you should be able to answer 'yes' to all the questions. The management committee should review this checklist annually.

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Many clubs would be of a size (under \$500,000 in income - prescribed association) whereby a formal audit could be deemed unnecessary. This is a decision for the Management Committee and of course what is detailed within the constitution. The above checklist should be completed regardless whether an auditor is appointed and then provided to the auditor.

The term “audited accounts” means that the financial records of the club have been independently checked by someone with recognised (accounting) qualifications as being a true and correct record of the financial operations and position of a club at that time.

The Treasurer must be familiar with the rules/constitution of their club and its obligations, particularly if the club is incorporated (see *Filing annual accounts, above*). For incorporated associations, depending on the complexity of their books, it may be possible to appoint an auditor who is not from a registered company, such as an accountant, bank manager, council clerk or chartered secretary. Some clubs, because of their constitution, require an honorary auditor to be appointed at the AGM. If the club is an incorporated association, it is usually a legal requirement to have the club’s accounts audited prior to the AGM.

Unincorporated clubs requiring an auditor may approach their local bank manager, council clerk or an accountant, who may do the work for nothing in support of the club. The records of all clubs do not necessarily have to be audited. However, the members of almost any club can pass a resolution requesting an audit. It is best to check with the State Corporate Affairs Office before appointing an auditor either in an incorporated or unincorporated association.

Because auditing can be a costly process, it is not unusual for sport and recreation clubs to search for an accountant who is willing to audit the club’s books on a voluntary basis. To ensure that an audit is truly independent, the auditor should be someone who is a not member of the club. It is good practice to give the auditor plenty of time (e.g. 6 to 8 weeks) to audit the accounts.

The auditor will need to be provided with:

- The books of account, consisting of the cashbooks written up and balanced for the year, and journals and ledger if these records are maintained
- Bank statements for the whole year
- Copies of deposit slips and cheque butts
- Receipt books containing the duplicates of receipts issued as well as cancelled original receipts; the auditor also needs to sight books of unused receipts
- Vouchers for payments made, which should be placed in the numerical sequence of cheques drawn
- Access to ‘paid’ cheques from the club’s bankers - unless receipts have been obtained for all payments made
- A copy of the minutes book to enable the auditor to review approvals for major items of income and expenditure
- A copy of the last audited statements of account
- The financial statements for the year now being subjected to audit, together with all supporting working papers
- Any other records or evidence the auditor may request to confirm the accuracy of transactions recorded and the existence of assets and liabilities shown in the books of account and the financial reports.

Summary

The application of financial resources has a significant bearing on the success of sport and recreation clubs.

Clubs need to be able to account for their financial resources, but also need to look at ways to effectively use their financial resources. The Treasurer has a key role to play in the effective management of financial resources, but it is the management committee that has ultimate accountability for how funds are used by clubs. This guide has endeavoured to clarify the position and role of the Treasurer, to outline the skills and attributes that may help treasurers be successful in their role, and to detail the responsibilities of the Treasurer as a manager of financial resources in sport and recreation clubs.

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