Keeping Books for a Small Community Organisation

(2000 Edition: Incorporating the GST and Other Tax Changes)

Leslie Gevers

Thomas-Gevers Pty Ltd
ACN: 069 188 932
ABN: 40 948 830 792

As Trustee for the Thomas-Gevers Trust trading as
Leslie Gevers Community Management Services
Unit 9, 'Raglan Terraces'
8-10 Pensioner Guard Road, North Fremantle WA 6159
PO Box 133 North Fremantle WA 6159
Telephone: (08) 9336 7717
Facsimile: (08) 9336 7718
E-mail: cms@lgcms.com.au
Web Page: http://www.lgcms.com.au/

ISBN 0 9577 066 69

Illustrations by Simon Kneebone **(08) 370 9152**

Other publications available from Leslie Gevers Community Management Services are:

'Managing a Community Organisation in Australia'

'Example Policy and Procedures Manual for Human Services Organisations'

'Unit Costs Spreadsheet for HACC Services'

'Evaluation and Continuous Improvement in Human Service Organisations'

Telephone (08) 9336 7717 or fax (08) 9336 7718 for pricing details and ordering information.

TABLE OF CONTENTS

SECTION 1.

FINANCIAL MANAGEMENT

Good financial management is a cornerstone of effective organisations. Ineffective financial management systems take people's focus away from other areas of management such as staff management and service delivery and result in too much time being spent completing reports for funding providers, working out how much money is available and doing simple things like paying wages and accounts.

Effective financial management is more than just keeping the books up-to-date. It includes:

- meeting the financial requirements of incorporation;
- meeting the accountability requirements of funding bodies;
- ensuring a good bookkeeping system is in place and is maintained;
- developing and following budgets and doing financial forward planning;
- dealing with financial issues as they arise.

In this section we look at the principal areas of financial management as they relate to Management Committees and the management of organisations.

Details on setting up and maintaining books and making payments etc. are provided in the following sections.

KEY PLAYERS IN FINANCIAL MANAGEMENT

The key players with an interest or involvement in the financial management of funded community organisations are:

GOVERNMENT

Federal and State governments determine community priorities and set up programs to meet those priorities. They decide how much money will be allocated to a program. Government departments then administer the programs. For example, the Commonwealth Department of Health and Family Services, and State departments of community services or health jointly administer the Home and Community Care (HACC) Program through planning and managing the distribution of funds throughout the community.

When an organisation is funded, the funding program specifies a range of financial accountability requirements which must be met if funding is to be continued. In turn, the funding body or government department must report back to the government how the funds have been expended and what outcomes were achieved by the Program. The government is ultimately accountable to the community for its use of funds.

Additionally, the Associations Incorporation Act requires incorporated groups to maintain proper financial records and to present proper financial reports to the members each year.

See Gevers, L. 'Managing a Community Organisation', for details on the legal requirements of incorporated groups.

MANAGEMENT COMMITTEE

The Management Committee of an incorporated organisation, through its constitution and incorporation is ultimately responsible for all aspects of financial management within the organisation.

These responsibilities include:

- making sure proper financial systems are in place;
- making sure the requirements of the Incorporation Act and funding bodies are met;
- setting budgets and determining policies to ensure the most effective use of funds.

TREASURER

The Treasurer is the person who actually carries out the work to meet the financial responsibilities of the Management Committee.

This work will usually include:

- making sure there are proper financial management systems in place and that these systems are followed;
- making sure that reports are prepared and checking that the reports are accurate;
- making sure that there is no misappropriation of funds;
- making sure that accountability requirements are met;
- making sure the Management Committee understands the financial information and deals with issues as necessary.

The Treasurer does not have to actually do the bookkeeping, but rather, makes sure that the work is done and that proper reports are prepared. In fact, it is preferable for someone else to keep the books so that the Treasurer has a monitoring and checking role.

The Treasurer does these tasks on behalf of the Management Committee and reports to the Committee.

The Treasurer does not take on the legal responsibilities associated with financial management. These responsibilities always stay with the Committee as a whole

BOOKKEEPER

The Bookkeeper maintains the cashbooks, pays wages, draws cheques for other payments, files documents and prepares reports, all under the monitoring eye of the Treasurer.

Day-to-day supervision of the Bookkeeper is the responsibility of the Coordinator or Manager.

It is important that there is a clear separation between the Treasurer and the Bookkeeper in order to make sure that there is proper monitoring.

In some groups the Treasurer and the Bookkeeper are one and the same person.

Except in the very smallest of groups this situation should be avoided as it cancels out the monitoring role of the Treasurer.

AUDITOR

Funding programs usually require an audited statement of receipts and payments and/or a statement of income and expenditure to be prepared at the end of each financial year. This is also a requirement under most State Incorporation Acts.

An audited statement certifies that your accounts are in order and that the financial statements are a true and fair record of the operations of the organisation as reflected in the books of account.

An audit must be completed by a qualified accountant who is **not** a member or employee of your management group. The auditor is employed by the management committee and should report back to the committee, not to the coordinator.

Importantly, the auditor does not check to see if funds are misappropriated. They are simply certifying that the reports are accurate. It is then up to the treasurer, the committee and the funding bodies to properly examine the audited reports to make sure funds were spent as they should have been.

PREVENTING THE MISAPPROPRIATION OF FUNDS

There is no foolproof way of preventing the misappropriation of funds, but the following are important to give you the best safeguards possible:

1. Develop a budget. This will provide a framework against which income and expenditure reports can be checked. It also provides a framework within which the manager or coordinator can operate. Only payments outside of the budget require the minuted approval of the management committee.

2. Develop budget based reports which show the income and expenditure to date, the budget for the year and the balance of the budget. In this way the treasurer and committee can quickly check if income and expenditure is within budget (see below).

3. There should be four authorised signatories to all bank accounts: two staff members and two management committee members. Each cheque or withdrawal form should be signed by two people, one of whom must be a management committee member.

   Keep the number of people who can sign cheques to a minimum to develop the monitoring skills of the cheque signatories.

4. For signatories to be effective, they must take their responsibilities seriously. They should look at what they are signing and should never sign blank cheques.

5. The bookkeeper should not be a signatory to bank accounts, however, this is very difficult to do in many organisations. In cases where the bookkeeper is a signatory, it is essential that the treasurer be responsible for examining the "Cash Receipt Book", the receipt book and the payment vouchers every month, and for examining the monthly statement of receipts and payments.

6. Use order forms for every order or purchase. These must be signed by the coordinator.

7. Avoid cash payments. Unless absolutely necessary all payments should be made by cheque.

8. Do not make loans to staff or other people.

9. Each month the treasurer should check for:

   - cheques being made out to cash;
   - any odd payments;
   - variations in wages amounts;
   - items running over budget.

   The treasurer should also check that:

   - the amounts on funding advice letters have been banked without variation;
   - all withdrawals from high interest accounts appear as deposits on the bank statement;
   - the bank reconciliation is accurate;
   - the total monies received tallies with the total of receipts issued;
   - the monthly statement of receipts and payments is accurate.

10. Document your financial management procedures and processes. In this way everyone knows what is required and deviations from required procedure can be quickly identified.

The basic principle behind all this is that the staff, the bookkeeper and the treasurer should all take joint responsibility for ensuring that everyone uses the financial system properly. Remember, however, that the management committee as a whole is ultimately responsible for financial management.

The treasurer on behalf of the management committee is responsible for making sure that payments are in line with management decisions and that funds are not being misappropriated. It is not the auditor's responsibility.