

## **Tips for good record keeping and financial reporting to members;**

These tips cover some of the main issues that should be addressed by the governing body of any entity. However, the focus is on the likely needs of a small non-profit entity like a community-based historical society. The list below does not cover every possible issue, but provides some thought starters to good governance in respect of record keeping and financial reporting.

1. It is necessary to check the entity's constitution (Memorandum and Articles of Association) to make clear any legal requirements for financial reporting and record keeping. For example, does the constitution require particular financial statements to be prepared for annual reporting and do these financial statements require an audit report? It is worth remembering that the current membership has the right, within certain constraints, to alter the constitution by passing a special resolution if the existing requirements are not considered appropriate.
2. If the entity is an incorporated association, then check the legal requirements for reporting as a company to the Australian Securities & Investments Commission (ASIC) or as an Incorporated Association to Consumer Affairs Victoria at the State Government level. In either case, ensure that any necessary lodgements have been made and that there are no fees unpaid.
3. It is important to decide which record system works best for the entity based on the skills and experience of available members. For smaller entities, a paper based system may be adequate. However, low cost, simple to operate software is available and is more efficient, provided the entity has the available skills and resources to acquire and operate the packages.
4. Time should be taken to decide which banking system works best for the entity remembering that most financial institutions have very user-friendly internet based systems to cover the needs of both members and staff. For example, the banking system chosen should not require the physical attendance at a bank branch except for the registration of signatories for the account. A comparison of likely costs to operate an account should be made between financial institutions, as well as determining what other benefits and support may be available.
5. It is of high importance to determine if there are any requirements for the entity to register with the Australian Tax Office (ATO), and to ensure that any registrations are undertaken as soon as possible. The treasurer should report at least annually to the governing body that the entity is meeting all current ATO obligations, if any. While non-profit entities are exempt from income tax, if the annual turnover (revenue) is above \$150,000 then the non-profit entity has 21 days to register for Goods & Services Tax (GST).
6. An Australian Business Number (ABN) is required for registration for GST and PAYG withholding rules and by some government departments and some corporations when applying for grants. Otherwise, an entity like an Historical society, can operate without a registered ABN.
7. It is also important to determine whether an individual is an employee, independent contractor or volunteer of the entity. If the entity has paid employees, then it must withhold pay according to the pay as you go (PAYG) withholding rules. Also the entity must make

payments to the correct superannuation fund under the Superannuation Guarantee Law. Independent contractors are normally paid the agreed amount on their invoices, and their obligations to the ATO are not the concern of the Historical Society. Also there are normally no tax implications for volunteers. Furthermore, as Historical Societies are unlikely to be offering fringe benefits to their paid staff, then the law and regulations relating to Fringe Benefit Tax (FBT) normally does not apply.

8. The entity must ensure their records contain enough information, particularly if the ATO will be involved, to meet their reporting obligations. Otherwise, it will always be necessary to determine what additional information will be necessary for future decision making and reporting.

9. A good filing system is a must for managing the cash flows and for producing timely and correct financial reports. The filing system can be either a manual card based system or an electronic system, which should be backed up on a regular basis to cover the possible loss of information if the system goes down or fails. Training in the use of the filing system should be provided to all appropriate staff, to ensure access to these files at all times to authorised staff.

10. Good governance requires documentation as to how the records are kept and also the agreed upon systems for reporting. For ongoing continuity it is necessary to ensure that more than one person understands the overall system.

11. Staff, with the appropriate authority should make entries to cash books on a regular basis and not wait until end of financial period. It is important to ensure that actual amounts collected are recorded accurately against the appropriate revenue headings and that these amounts are not used before recording them to meet immediate expenses to be paid.

12. It is normal that the cash payments journal (CPJ) and the cash receipts journal (CRJ) have separate columns for the most common types of transactions. For example, the CPJ may have columns for bank interest and charges, rent, rates, electricity, payments to staff, office supplies and other expenses. The CRJ could have separate columns to record members fees and subscriptions, grants and bequests received, interest revenue and other revenue. At the end of each period, the columns are added to produce the total amounts for inclusion in the financial reports.

13. To ensure ongoing control of finances, bank statements are reconciled with the cash books/journals on the receipt from the bank of the statement. Remember, at any point of time, some money could have been received by the entry or cheques written that the bank is not aware of. Also, on receipt of the bank statement any interest, fees or other charges will have to be included in the accounts of the entity, along with any amounts received or paid by the bank on behalf of the entity. Hence, there will be a need to reconcile the difference between what the balance on the bank statement is and the balance of the bank account in the books of the entity.

14. All entries should be entered with care to ensure correctness, and no transactions involving the staff should be entered into without the authority of at least 2 people in authority in the entity.

15. If the entity does not have the people with the skills and experience to maintain the books, then hiring a part-time bookkeeper should be considered before the situation becomes out of control.

16. Even when the amounts are small, it is important to the health and happiness of the entity that the financial records are maintained and that the members are made aware on a timely basis of the financial position and financial performance of the entity. The financial performance is shown in a statement of income and expenditure and the financial position is shown in a Balance Sheet (or Statement of Financial Position) Note, most software packages automatically generate these statements as when required, after the transactions for the period have been entered.

17. The regulations covering non-profit incorporated associations permit the financial statements to be prepared either on a simple cash basis or the generally accepted accruals basis. If the Statement of Income and Expenditure is prepared by a small historical society on a cash basis, then the total expenditure will include amounts spent on assets and these outlays will not be disclosed separate items in the balance sheet. However, when using the cash basis good governance practice would include keeping an up to date asset register with the important details about each asset. An asset register can be of benefit in providing good services to members, as well as providing the basic information as to whether or not the assets should be insured. (Note: if the entity is using the accrual basis of accounting, then expenditures on assets are disclosed in the balance sheet and expenses, including depreciation of asset, are disclosed in the Statement of Income and Expenditure. For accrual accounting, an entity is expected to maintain up-to-date asset registers)

18. Once, the entity is established and the likely cash flows can be estimated with some degree of certainty, the practice of preparing budgets covering anticipated revenues and expenditures and then reporting the actual transactions against these amounts, is encouraged for better financial management and for coping with the unexpected.

19. Once the likely level of cash expenses of relatively small amounts is known, the entity may wish to establish a petty cash system. Payments of expenses from the float should be recorded on a worksheet or in a petty cash book so that the payments made plus the remaining cash always should equal the original value of the float.

20. It is important from the start to get organised and stay organised.

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