

Good governance and financial management

Good Governance Fact Sheet No. 15
for Committees of Management
of Crown land reserves in Victoria

It is expected that Crown land reserve committees of management implement good governance for financial management. This is the responsibility of the whole committee and every committee member, not just the Treasurer.

The basics of good financial management

The basics of good financial management for committees includes:

- Segregations of duties
- Regular bank reconciliations
- Maintaining auditable financial records (including all key financial decisions recorded in meeting minutes)
- A register of assets
- Implementation of financial policies and procedures, including gifts, benefits and hospitality

Segregation of Duties

The principle of Segregation of Duties (sometimes known as Separation of Duties) is based on:

- Shared responsibilities of a key process that disperses the critical functions of that process to more than one person.

In relation to committee finances, this translates into the idea that more than one person should be responsible for the chain of financial management processes.

- For example, receiving, authorising and paying an invoice. If only one person from a committee is involved in the chain of receiving, authorising and paying an invoice, this would not meet the expected standards for Segregation of Duties. Expected practice would involve clear policy on who is delegated with authority to authorise payment of the invoice, and then at least one other committee member involved in the chain to oversee the actual payment.

In the era when payments by cheque were common, it was always assumed that committees would have two people to sign each cheque. The same principal applies to electronic payments. At least two people should be involved in the chain of approval and payment, mirroring the two signatures on a cheque.

As part of this process, it is important to ensure that (1) all aspects of the invoice are legitimate, appropriately authorised and payable and (2) there is oversight and capacity to track that the payment is made to the destination indicated on the invoice.

- Note: Some frauds occur when people pay the invoiced amount to a different account than is indicated on the invoice. This would be the equivalent of a cheque written out to a person/organisation other than what is on the invoice. For a cheque, it would be routine to ensure it is made out to the correct person/organisation. Likewise, a blank cheque should never be signed on the assumption that another committee member will complete it. For electronic payments, committees need to ensure there is the same attention to detail in the approach to a “two-person” checking of all payments.

Regular Bank Reconciliations

Bank reconciliation is the process of matching the balances in an entity's accounting records to the corresponding information on a bank statement.

For example:

- *A committee starts the month with \$2,000 in the bank and during the month the accounting system records total income of \$500 and expenditure of \$1,000. It would be expected there would be an accounting deficit of \$500 for the month and the bank account would reduce correspondingly by \$500 to \$1,500. If the bank account does indeed have a \$1,500 balance, then the accounts are reconciled – the accounting records and the bank statements match up. But imagine if the bank account has a balance of \$1,400. There's \$100 missing, the figures don't reconcile. In that case, an investigation would be required to explain the difference; maybe \$100 in cash collected from a fundraiser had been included in the accounts but hasn't yet been banked; or perhaps the accounts mistakenly recorded \$200 income from a fundraiser when it was actually \$100. After the reasons for any discrepancies are identified and with appropriate oversight from committee members, the accounts would be corrected and the bank reconciliation completed.*

Ideally Committees would do a bank reconciliation every month. At a minimum, it is expected that committees do a bank reconciliation every three months for the end of September, December, March and June. In keeping with the Segregation of Duties principle, multiple committee members need to be involved in the bank reconciliation process, including at least two people who sight the actual bank balance (fraud can occur when a report is prepared using an incorrect figure for the bank balance).

Finance system software will usually have inbuilt mechanisms for bank reconciliations. These will automatically flag any imbalance. If you use a system that doesn't have a built-in bank reconciliation function, you will need to devise a process that ensures your bank reconciliations are done appropriately.

Maintaining auditable financial records

Many organisations are required to have their accounts audited by a professional auditor once per year (usually for the financial year ending 30th June). The auditor checks the accounts, and if all is in order, issues a formal statement along the lines of the accounting records being "true and correct."

Most Crown land reserve committees of management (those Category 2 or 3 committees incorporated through the *Crown Land (Reserves) Act 1978*) are not required to have financial accounts audited every year. However, DELWP expects committee accounts to be "fit for auditing" at any time.

This includes:

- Invoices for all payments and records of the authorised approval to make those payments, including any relevant minutes of committee meetings
- Records of all income, including copies of any receipts issued
- Bank statements

Each year DELWP requires committees to provide an Annual Financial Return that includes a summary of committee finances for the year ended 30th June. This Annual Financial Return can be done directly through the Crown Land Kiosk.

While the financial statements included with the Annual Financial Return are not required to be audited, it is suggested that committees organise their finances with a view that if it were chosen for an audit, this could be done efficiently and with easy access to all the required evidence an auditor might seek. This includes all key financial decisions being recorded in meeting minutes, with the minutes available for inspection during any audit process.

Asset Register

It is expected that all committees maintain a register of assets. An accurate and up-to-date assets register has a range of benefits, including for insurance and transparency associated with the disposal of assets, be it by sale or an asset reaching the end of its useful life.

The nature of the assets register a committee should keep depends on whether financial accounts are done with “accrual” or “cash” accounting.

- Accrual accounting involves the preparation of a Balance Sheet that summarises the value of different types of assets and changes in the value of assets over time. This requires tracking of changes in the value of each asset. For example, a desk-top top computer bought for \$1,600 might be deemed to be worth \$1,200 a year later. The difference, \$400, would be recorded as “Depreciation” in an assets register used for accrual accounting. The new value of the asset would be counted as part of the Balance Sheet and the amount of Depreciation recorded in the Depreciation line item of the Income/Expenditure Statement.
- For “cash” accounting, a formal Balance Sheet is not required. The full value of any assets purchased (or sold) are included in the Income/Expenditure Statement. Therefore, it is not required to precisely calculate “Depreciation” by tracking changes in asset values over time. However, committees using cash accounting should keep an asset register with details of all purchases and sales/disposal of assets. In addition, it is highly recommended that committees keep a reliable estimate of changes in the value of assets over time. This helps in situations where a committee needs to consider the potential sale or disposal of an asset.

Example: A committee buys two lap-top computers for use by volunteers. After a year or so, it is clear the volunteer team only needs one computer. A volunteer expresses an interest in buying the other computer. Amongst the issues for consideration by the committee, it would be a helpful starting point if an up-to-date asset register exists with clear details of purchase date and price and agreed current value.

There is no standard format for asset registers, although all asset registers contain similar information. Commercial finance system software will usually include an asset register format.

- The Crown Land Kiosk includes a section with an asset register suitable for use for “cash” accounting. It is highly recommended that committees consider using the asset register in the Kiosk.

Committees wishing to keep additional asset information may prefer to use formats available in commercial finance software or various formats that can be developed within common software platforms such as Microsoft Excel. An example of what a very basic asset register may look like is included as Appendix A to this fact sheet.

- Note: There is some discretion regarding the range of assets to include in an asset register. For both “accrual” and “cash” accounting asset registers, any asset with a purchase price of \$1,000 or more must be included. It is recommended committees consider including assets of lesser value, for example, garden equipment, vacuum cleaner etc. Depending on insurance arrangements, having an up-to-date asset register can be helpful for any property related insurance claims the committee may need to make.

For Committees overseeing land with saleable water assets, the details of these water assets should be clearly noted in the assets register. The valuation and sale of water can be a complex process, particularly if a sale involves combining the Crown land reserve water in a sale with water owned by others. Any committees contemplating the sale of water should seek advice from DELWP.

The value of the land of Crown land reserves is not required to be included in the assets register. The value of any buildings on the land should be included, along with separate listings for any key assets associated with the building, for example, air conditioners or solar panels. Any additional special features of the building, for example, leadlight windows, should be noted in the asset register. Photos of key assets can be useful to complement your written asset register, along with copies of original invoices/receipts and any relevant identifying details.

Good governance and financial management

Implementation of financial policies and procedures, including gifts, benefits and hospitality

A wide range of topics covered in the Committee of Management Guidelines (and other Fact Sheets) are directly relevant to good governance and financial management, including:

- Conflicts of Interest (Chapter 5).
- Gifts, Benefits and Hospitality (Chapter 5).
- Committee Policies (Chapter 5)
- Record Keeping Practices (Chapter 6)
- Asset Register (Chapter 6) and discussed above
- Leases and Licenses (Chapter 10)
- Employees (Chapter 13)
- Hiring of contractors and Purchasing Contracts (Chapter 14 and 17)
- Revenue / Expenditure (Chapter 17)
- Cash Handling (Chapter 17). See also Regular Bank Reconciliations discussed above.

All committees should ensure compliance with the Guidelines in these areas and be in a position to demonstrate compliance to DELWP if requested to do so.

Example: Gifts, benefits and hospitality register

The Guidelines (Chapter 5) states that: *“All offers of goods, benefits and hospitality valued at \$50 or more (non-token) should be recorded in the Gifts, benefits and hospitality register, regardless of whether the offer is accepted or declined. Good record keeping should transparently document accepted and declined offers. This can help to identify if a person is being targeted, or if a business or person is making repeated offers in an attempt to influence committee decisions.”*

All committees should maintain a Gifts, benefits and hospitality register and be in a position to provide a copy to DELWP if requested. The Gifts, benefits and hospitality register should also be a standard agenda item near the beginning of every committee meeting, where the accuracy of the register is checked and any required updates noted.

Note: In addition to recording gifts, benefits or hospitality directed towards individual committee members (for example, the offer of free accommodation to attend a conference), the register should include gifts, benefits and hospitality intended for the general operation of the reserve/committee. For example, if somebody wanted to donate a motor mower valued at more than \$50 to assist with general operations, this and any other general gifts and donations valued at \$50 or more should be recorded in the Gifts, benefits and hospitality register.

Other Fact Sheets relevant to good governance and financial management

See also:

- *Annual Financial Return (Fact Sheet 4)*
- *Code of Conduct (Fact Sheet 6)*
- *Conflict of interest policy (Fact Sheet 9)*
- *Crown Land Kiosk (Fact Sheet 10)*
- *Gifts, benefits and hospitality policy (Fact Sheet 14)*

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APPENDIX A: ASSET REGISTER (EXAMPLE)* for NAME OF CROWN LAND RESERVE COMMITTEE OF MANAGEMENT INCORPORATED
(An on-line Asset Register for Committees is available through the Crown Land Kiosk. Use of Kiosk version highly recommended)

*Designed for CoMs doing "cash" accounting, i.e. does not include depreciation schedule

Includes both "purchased" assets and other "non-purchased" assets (e.g. buildings on site)**

** For other "non-purchased" assets, put N/A in Purchase Date & Price Columns and complete Estimated Current Value

This updated completed on / / by:

Checked and approved by:

| Asset Name | Description | Purchase Date | Purchase Price | Estimated Current Value | Notes |
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