Webinar transcript – Smaller charities: Managing charity finances

20 March 2018

**Chris:**

Hi and welcome to today’s webinar. Today we’ll be looking at how charities, particularly small charities, can manage their finances and their money effectively.

My name’s Chris Riches, and I’m from the ACNC’s Education Team.

oining me today, and it’s great to have him here with us, is the ACNC’s Director of Reporting and Red Tape Reduction, Mel Yates. Hi, Mel.

**Mel:**

Good afternoon, Chris, hi everyone.

**Chris:**

We’ll whip through a couple of housekeeping items.

So if you have any troubles with the audio for the webinar, you can try listening through your phone. You can call the number listed in the email you will have received upon sign up, and you can put in the access code and listen to the webinar that way.

You can also ask a question at any time through the webinar by using the tools in the go to webinar panel on your screen. Feel free to ask questions during the webinar by typing them into the go to webinar interface.

We’ve got our colleagues Eric Lee, who’s a senior accountant here with us, and Katrina from our Education Team. They’re on hand to respond.

We’ll try and answer all the question that come through, but if your question isn’t answered, feel free to send us an email afterwards and we’ll get back to you.

A recording of this webinar as well as the presentation slides will be published on the ACNC website in the coming days. We’ll also send out an email with website links featured in this webinar, so you don’t have to go through madly jotting everything down as it comes up on screen.

Finally, we really value your feedback. If you have any suggestions for ways we can improve our webinars, please let us know in the short survey at the end of proceedings today.

All right, as has been pre-empted on the slide that’s on your screen, here’s what we’re going to cover today.

We’re going to look at three or four main themes linked with charity money and finances, with an emphasis on smaller charities.

First, we’ll examine some of the financial threats and challenges that small charities might face. As you can see here, they include fraud and theft, inefficiencies, poor oversight, conflicts of interest, as well as the loss of public trust and confidence, and perhaps even breaches of the ACNC Governance Standards.

We’ll then take a quick look at the aims and importance of good financial controls and prudent financial management, as well as a more detailed and practical coverage of the measures small charities can take to address these issues.

Most of them are pretty straightforward.

Finally, we’ll take a look at some of the money myths surrounding financial issues, like admin costs, reserves, surpluses and remuneration, and we’re going to provide some ACNC perspectives on each topic.

All right, let’s see if we can get the slide moving in the right direction this time. There we go, wonderful, all right.

Let’s start by looking at some of the key financial threats and challenges for small charities. They include, as you can see in the bullet points here, insolvency or charity collapse, theft, fraud or financial misconduct, breach of ACNC guidelines, conflicts of interest related to financial decisions, inefficiency or wastage of resources, loss of public trust, confidence and support.

We’ll go through some of these threats in more detail to highlight them and ensure they’re on your charity’s radar.

Knowing the scope of the threats to proper and responsible financial management that your charity might face is the first step to ensuring that you can adequately address these issues.

Tthe first statement up on the slide here is pretty blunt. All charities must guard against fraud and theft. That’s all charities, big, medium sized, small.

Fraud and theft can have, and do have, devastating effects on charities, serious impacts on charities’ work, they can cause charity collapse, they can result in insolvency, court cases, criminal proceedings.

As you can see here, we have judge and police down the bottom there, loss of trust in individual charities, and even the sector.

Some of the highest profile charity problems have come about due to theft and fraud. We have the infamous collapse of the Victorian branch of the National Safety Council of Australia, that was way back in the 1990s.

That was a very high profile example.

We also have instances of alleged or proven fraud and theft that have hit well known charities in recent years, some of whom have been the subject of ACNC follow up and investigations.

For small charities, it can be argued that fraud and theft are an even more serious concern for the simple reasons that for small charities, budgets can be far tighter. Cash on hand, or reserves, are often a bit lower.

This means there’s generally less leeway in terms of their finances. Theft or fraud involving even a small amount of money can still have a dire impact.

As you can see on the side here, one key measure to address the issue is to simply be aware of some of the red flags that might indicate problems, and I’m going to ask Mel here for his expert opinion. What are some of those red flags?

**Mel:**

It’s a really good thing to think about, Chris. I guess from a practical perspective, reliance on one person for everything in relation to the charity’s finances is really risky.

So it’s risky for the individual involved, but it’s also very risky for the charity. So that’s one thing that I would encourage our listeners to think about, is try and set up systems or processes that involve more than one person, so there’s shared responsibility, shared knowledge and there’s also accountability, and it helps with transparency.

So I guess following on from that, if within a charity there is an instance where information about the finances of the charity is not shared, or if someone wants to know about the balance of the bank account or what expenses have been paid, or where the grants have been received from, things like that, and if they’re asking questions of the treasurer, and the treasurer is unable to answer those questions, or is unable or unwilling to give information, that’s a very strong indicator that there’s something not quite right.

Charities are obviously set up for public benefit, so they need to be transparent in their operations and their financial management. So they’re a couple of things I’d think about.

**Chris:**

OK, now on the side here also, we mention insolvency, and we reference Governance Standard 5. Now, we’re going to refer to other Governance Standards on our next slide, there we go, look at that. Now, all registered charities must comply with ACNC Governance Standards.

There are five of them, you can find them at [acnc.gov.au/governancestandards](http://www.acnc.gov.au/ACNC/Manage/Governance/ACNC/Edu/GovStds_overview.aspx).

Now, the website, the ACNC website, provides a great run down of the Governance Standards for any charity, new or existing, or for any Responsible Person.

Charities, of course, need to comply with all Governance Standards to retain a registration with the ACNC And when it comes to charities and responsible financial management, a couple of Governance Standards stand out.

Governance Standard 3 requires charities to act lawfully. Of course, even without Governance Standard 3, your organisation would be compelled to operate within the law, but the standard states it explicitly and does so to ensure charity assets, reputation and people are protected.

As we’ve stated, the ACNC can and will investigate if there are incidents of fraud or theft or other breaches of the law. Now Governance Standard 5 is also a biggie. It outlines the duties of Responsible Persons.

There are seven of them, and we’ve listed a few, not all of them, but a few, on the slide. Mel, did you want to just go through some of them for us?

**Mel:**

Absolutely. So they’re all really, really important, and I’ll single out a couple. It’s not to say that they’re the most important ones, because they are all equally important. But I guess if we look at acting honestly, and acting with reasonable care and diligence.

So really, that’s about making sure that a Responsible Person performs all of their duties to the standard that is expected of what a reasonable person within those circumstances, and working within that charity, should meet. So there’s a number of factors to take into account when determining whether a RP has acted reasonably, and that’s really their experience, their skills and the function that they’re performing. This requires an analysis of what is reasonable, which can be interpreted in different ways, depending on the circumstances.

So this is quite a tricky one, because it’s not always clear cut, but it’s very important that at all times, you must act in the interests of the charity, and you have to be I guess a bit curious around things that are happening.

So it’s making sure that you’re comfortable with decisions.

Before you make a commitment to spend money, do you have money in the bank? Well it’s actually making sure that yes, we have funds available, so we can spend it on this purpose.

So it’s really about when you’re thinking about making a decision or you’re being asked for your input, make sure you have enough information to make a good decision, something that is obviously in the interests of the charity.

**Chris:**

And to have your charity hat on when you’re in a meeting, when you’re making these decisions, rather than your Joe Bloggs hat on. That’s vital, isn’t it?

**Mel:**
Absolutely.

**Chris:**

Now, there’s a couple of links there at the bottom of the slide, govstandard 3 and govstandard 5, they provide a great rundown of the Governance Standards, and obviously there’s the general Governance Standards link that gives a rundown of all five of them. Click again, there we go.

We’ve got conflicts of interest. Now conflicts of interest particularly linked to financial matters. We’ve mentioned conflicts of interest in passing. All charities and their Responsible Persons can encounter conflicts of interest, but those on the boards or committees of smaller charities, or those which operate in smaller towns, maybe rural, regional areas, they need to be especially vigilant.

We’ve noticed in many small towns or in regional areas, there’s more likely to be a crossover between people’s duties as a Responsible Person and their interests outside the charity.

They might be, say a store owner, a business operator, a member of another committee, part of the local municipal council, a service group.

Often people in smaller towns, they often have fingers in many pies.

They’re civic minded, they help out, and they look to serve their community in a variety of ways.

What it can mean though is that when it comes time for these people to make decisions related to the charity they’re a part of, they can easily have perhaps a competing interest in play. Again, Mel, what perhaps are some examples? We’ve listed a couple there, what are some examples of conflict of interest in this context?

**Mel:**

So conflict of interest, it can be a number of things, and it’s really important that you try to identify signs of any actual potential or perceived conflicts of interest. And they may or may not be financial.

So it could be to do with finances, but it doesn’t always have to be. So one of the keys here is around how conflicts of interest are managed by the charity. So we’re not saying to make sure there is never any conflict of interest, because that may impact adversely on the charity.

You’ve already talked about smaller communities, so quite often there’s only a handful of people who want to get involved in organisations, so it’s really important that those people are involved in organisations, but it may from time to time bring up situations that are in conflict.

Where a conflict does occur, it’s really, really important that all Responsible Persons disclose any conflicts to others, and then they remove themselves from participating in the decision making process.

And it’s also important to note that they should never try to influence a decision.

It’s really, really about identifying a conflict of interest, disclosing that there is a conflict of interest and removing yourself, if you do have a conflict, from being part of the decision. Let the other members of the board or the other Responsible Persons have a think about what is in the best interests of the charity, and they can make a decision.

**Chris:**

And often we see, I’ll say probably the example here of a local council meeting, for example, of there’s a committee of council, or even a main council meeting, you often see councillors or even council officers stand up, declare a conflict or a perceived conflict of interest, and they literally exit the room.

They exit the room, they close the door, there’s no discussion until they’ve left the room, and then discussion and decision is made.

So not only are they not taking part in the decision making process, they’re not even part of the discussion as well, which means that they can’t really influence or be seen to influence the discussion.

So that’s a very practical example of what you can do.

**Mel:**

And I think that’s a really important point, Chris, you’ve really hit the nail on the head there. Where there is any conflict of interest, they actually shouldn’t even be part of the discussion about it.

They should remove themselves from all deliberations and let the remaining Responsible Persons make the decision that is in the best interests of the charity.

And there might be examples of this, for instance, in a smaller community there might be a Responsible Person who owns and runs a café.

And the charity that you’re involved in may need some catering, and that café owner, or the Responsible Person, one and the same, they might offer to provide the catering for the charity, but for a discount compared to what they would normally charge to other people.

Now, in that instance it’s really clear that there’s an actual conflict of interest there.

So that Responsible Person should make the offer for the catering, and then withdraw from the discussion, remove themselves from the conversation and let the other Responsible Persons decide whether they choose to get the catering from that café, or they might choose to get it from another source.

But it’s really important that the café owner is not part of the discussion or the decision making, and they really should not try and influence, they should let the other Responsible Persons make that decision in the best interests of the charity.

**Chris:**

Indeed, indeed. Next slide looks at inefficiencies, and wastage. Now, it’s pretty obvious that charities need to manage their money well.

We’ve got, in Australia, 40% of our registered charities have less than $50,000 in annual total revenue, that’s according to our most recent Australian Charities Report.

Because of this, many organisations simply don’t have the leeway to be inefficient or waste money. We know that many charities run on the smell of an oily rag, and that they are extremely efficient, and that they do everything they can to make their money stretch as far as possible, because if they didn’t, they probably wouldn’t be around anymore.

But beyond running efficiently, to ensure you meet your aims, ACNC Governance Standard 5 again comes into play. Running inefficiently or wasting charity finances may see you breach Governance Standard 5, which sets out to ensure charity’s financial affairs are properly managed.

Again, down the bottom there you’ll see there’s a couple of handy links on this slide to spots on the ACNC website that can help you avoid these problems, and of course we’ll be looking at how you can address these issues a little later in the webinar.

The next one here, we’ve got loss of public trust, confidence and support. Now, this is vital. If the public sees that a charity isn’t doing the right thing with its money, support for that charity will evaporate.

Again, we’ve seen it before. We’ve seen it here, we’ve seen it overseas as well. Some charities have perhaps mismanaged their finances, and the repercussions from supporters and the general public have been pretty quick and pretty decisive. And they’ve ended up hitting the charities involved pretty hard. But the wider problem is the impact this sort of improper financial management can have on the whole sector.

When one charity does the wrong thing financially, that might involve them managing money poorly, not having the checks and balances in place to prevent say fraud, theft, that sort of thing. Rightly or wrongly, it ends up reflecting poorly on the sector overall.

This has a flow on effect. There’s a loss of public confidence in charities.

This can lead to a reluctance amongst donors or volunteers to give of their time, give of their money to support the sector. That sort of thing.

One of the ACNC’s key objects is to maintain, protect and enhance public trust and confidence in the sector. And not properly managing money is a quick way for charities to lose that trust and to fall on the wrong side of this particular ACNC aim. Now, a little bit more about some of our objects and aims.

You can see the link down there, that’s just our about page, pretty much.

That goes through some of our information.

All right, we’ve got, let’s see, what have we got here? We’ve got addressing some of the issues. Now, one of the key ways towards addressing some of these issues that we’ve mentioned over the last few minutes, is to look at financial controls and financial procedures.

Mel, these sound very fancy, financial controls and procedures. What exactly are they?

**Mel:**

Yeah, sure.

So it’s a good question, and really they can be distilled down into anything that might be a process, a policy, a procedure. It could be something to do with a system, or it could be manual. It’s anything that could be implemented within the organisation to manage charity finances, to ensure that the resources of the charity are used for the charity, and by the charity, and not for any other purpose.

So they really help the charity to minimise risk that the charity’s objectives will not be met.

**Chris:**

All right, now we’ve got some information here up on the screen that looks at some of these controls and procedures. Now, as was mentioned, they can perhaps be formal policies, procedures.

They can also be methods, which help charities and Responsible Persons manage their finances, and in doing so, they’ll also help charities meet the ACNC governance and reporting requirements, Mel.

**Mel:**

I think one other point to make that’s really important is financial controls and procedures are going to be different for every organisation.

**Chris:**

Yes, very good point.

**Mel:**

It’s not a one size fits all. But one of the really, really good ways to think about how you might approach this is try not to reinvent the wheel.

Speak to other organisations in your area. Speak to other colleagues or other people within your network that you might know, and get a sense from them, what do they do within their organisation to try to help ensure that all of the charity resources are used for the proper purposes of the organisation.

So a lot of these things are not necessarily going to lead to complex systems. They might be really, really simple and straightforward, but it’s important to think about the context that your charity operates within, and what would be fit for purpose and appropriate for your particular organisation.

Charities that obviously today we’re looking at smaller ones, what might be fit for purpose for them is going to be drastically different from some of the very large charities that are existing here in Australia, or even overseas.

**Chris:**

Absolutely. Now, let’s see, we’ve got some aims which we’ve sort of touched on already, so we’ll very quickly whip through some of the aims of these controls and procedures.

The first thing, obviously they help effective charity governance and operation. They maximise charity efficiency and the impacts that a charity can put forward. They help charities take up opportunities which present themselves.

This is important for smaller charities, especially those that are on smaller or tighter budgets. If they do the right thing in this way, the impact that they can have, and the ability they can have to take up opportunities which present themselves are maximised, and that occurs through effective financial controls.

Controls and procedures, they help guard against insolvency, financial problems.

This obviously occurs through actually having the policies themselves in place, but also through the policies fostering increased knowledge, awareness of issues among charity staff, leaders, volunteers even.

They also play a key role in reducing the chances of your charity suffering through fraud, theft related problems, that sort of thing. These issues are more likely to occur where there are poor or inadequate financial controls, financial oversight, or no real vigilance, or even a poor understanding or recognition of some of the warning signs that your charity might be at risk, which we’ve already touched on.

Now, having functional and usable and practical policies in place, they enhance public trust and confidence in your charity, and by extension, in the sector overall.

They also paint a picture for donors, and that could be your current donors, potential donors as well, that your charity is responsible, and it’s one that they should consider supporting.

And as we’ve mentioned before, financial controls help your charity fulfil ACNC requirements, Governance Standards reporting obligation, that sort of thing. This means your charity stays registered, and that’s pretty simple.

So we’ve got some examples of some financial controls and procedures.

Now this isn’t, again, the whole kit and caboodle, and also as Mel quite rightly mentioned before, some of these are going to be more relevant to some groups, some will be more relevant to other groups. So this is giving you as wide as possible information so you can have a bit of a think and a bit of a look.

Policies, obviously they form an important part of the overall financial controls. And again, policies don’t have to be long, drawn out written documents with heaps of details and clauses and that sort of thing.

They can be relatively short. They can be pretty basic, as long as they cover everything that needs to be covered.

Now, the first couple of policies, as you can see up here on the screen, involve money handling, a money handling account access, and permission.

Now, when we talk about policies for money handling and account access, Mel, what should they perhaps include?

**Mel:**

Sure. So I ideally, and as you’ve mentioned, Chris, this is not always possible, but ideally, cash management should be done by more than one person, so that the person who’s looking after the cash is not at risk of being accused of something they may or may not have done.

And it also makes sure that there’s adequate control in place, which protects the charity’s resources. So where possible, try and have a police where if cash is being used, more than one person is present and there at the same time, so that two people can double check and make sure everything’s OK.

And if that’s not possible for whatever reason, then try to have a think about, perhaps you can implement some sort of system whereby the amount of cash that one person has can be traced.

So that way, there is an audit trail, or a way of working out how much cash the person had with them, so that if something goes wrong or something goes missing, then it can be worked out, how much has gone missing and what might have gone wrong.

Now, that’s not to say everyone is a thief, but it’s just about making sure that the risk is minimised of money going missing or being misused.

It might be as simple as the petty cash amount, which is available within the rooms or the premises of the charity, locking that away. So don’t leave it out so there’s a pool of $20 available that can go missing. It’s making sure on a practical level that the cash is safe and secure.

**Chris:**

And we obviously also mention a signatory policy here as well. So designated signatories for things like bank accounts, cheques, that’s if you still use them. Or permissions. Things like passwords, account details. All of that sort of stuff is basic good practice, isn’t it, Mel?

**Mel:**

It is, it is and I think it’s really important. We’ve heard some horrible stories from charities where for example, if the committee only meets on a monthly or every two months, or only quarterly, even quarterly, people have decided in the past that they will pre-sign blank cheques.

And then the chequebook goes missing, and the bank account gets emptied. So think about really practical things that you can do around making sure that you do have two signatories, but making sure that the controls work.

So that’s not about ticking the box to say yep, we need two signatories, and then signing the whole chequebook just in case you have expenses or bills to pay, because it just undermines the whole point of having the control.

You made a really good point, Chris, in this digital era where a lot of organisations probably don’t even have cash, they might be using electronic banking, for example, set up a process whereby the person who sets up the payments can’t authorise them.

Speak to your bank, or speak to your credit union, or speak to whatever financial institution you use to see what measures you can actually implement so that for example, there might be another person who gets sent a code which authorises their payments, to their mobile phone.

So then you’re separating the ability to create a payment with the ability to authorise it and release those funds. They’re just some examples that might be relevant.

**Chris:**

Thank you. Now, before we go any further, I’ll quickly mention here, we’ve got some slides, sorry some links on a slide that will come up in a few minutes that cover a number of these policies, and also ones that we’ll look at on the next slide as well.

You’ll receive an email in the coming days that will contain obviously this presentation, but the links as well. So again, don’t go madly jotting them all down. You’ll be able to, at your leisure, have a look through them when our email comes through.

Now, one issue that we do have some guides and some templates on is again, conflict of interest. We’ve mentioned it before.

Conflicts of interest become a problem when they’re not declared or properly managed. So having a proper policy that covers the public disclosure of conflicts is a key tool to address that issue.

**Mel:**

And I think one point to make that I’ve already made a bit earlier, it’s really about making sure that this is really about how conflicts of interest are managed.

So we’re not saying that they won’t happen, because they will happen, it’s a fact of life. But when they do happen, it’s really important that people identify them and then manage them accordingly.

**Chris:**

And a register of interests is another way of, I guess, helping manage conflicts of interest as well. That register of interests obviously should be properly maintained and updated. And they should be available to charity members and the public as well.

Now, anything that someone in your charity with decision making ability or responsibility has an interest in, again that’s another business organisation, another role, can be recorded or noted in that register of interests, so that it’s there for everyone to see.

So that it’s declared, it’s out there in the open, potential conflicts of interest are noted, they’re taken seriously, and then they can be addressed, avoided that sort of thing. A register like this, combined with a good policy that directs proper behaviour, and it compels public transparency as well.

So on a general level, look at things like access to documents, as it says here. Financial information, as well as processes and personnel involved in decision making on financial matters.

Contracts, purchases, that sort of thing.

Consider guidelines or policies in these areas, perhaps, to ensure probity and transparency, and to guide responsible financial management, as well as obviously getting the best deal, or value for money when making these purchases or when making these financial decisions.

Now, we go onto another slide, we’ve got a few more. These are slightly more involved, perhaps. Audit and review policies, procedures, any fraud measures. What should be some of the things that are included in these types of measures, Mel?

**Mel:**

Thanks, Chris. So there really should be a clear understanding by all people who are involved in running the charity, of what should occur, when it should occur, and whom should do the actual work.

For example, if we look at an audit or a review, an audit is generally quite a detailed inspection, and it’s usually done by someone independent. A review is generally a bit less involved than an audit, but again, it’s important that that’s done independently.

Now, it might be the case for your charity that the treasurer hands over the chequebook and the bank account statements to someone else on a quarterly basis, so that someone else just has visibility of the movements within the bank account.

Or it might be appropriate for the organisation to get someone outside the organisation like an accountant or a bookkeeper to have a look at that information on a regular basis.

It’s going to be different for every organisation, but the important thing is that you think about some of these things and what’s appropriate, and everyone knows who is going to do what, when it’s going to be done, and what is involved.

**Chris:**

OK, now the next point we’ve got here looks on the surface pretty basic.

Basic budgeting, financial reporting, that sort of thing.

It is surprising though, how often it can be overlooked. Mel, how can this be done effectively? And how can it be done as a way to perhaps head off some financial issues that might arise?

**Mel:**

It’s a really good point, Chris. I think one of the most important thing is that really charities should have a plan of what they want to achieve.

So what programs do they want to run? What services do they want to deliver? Over what timeframe? Who are the beneficiaries that they want to help? What is their aim or their objective, and what are the outcomes that they’re trying to achieve through the charity?

Now, I guess in terms of those things, having a bit of a plan, so mapping out where the charity expects to receive funds, where they expect to spend funds, who they’re going to receive it from, what they’re going to spend it on.

That allows the charity to know what they are capable of doing, but it’s really important that the reporting or the monitoring that is done, once that plan is made, it really has to have the ability to be changed.

Because in Australia, many of us would be familiar with bushfires in summer, with floods in winter. Sometimes you don’t know what’s around the corner.

So you can have a really good plan, but you might have to tear it up and throw it out the window and respond to a community emergency which is going to call on the resources of the organisation to deliver some of those unplanned services that may be required.

So it’s about trying to set up a flexible plan, a plan that doesn’t bind you too much, but gives you a bit of a roadmap of where you want to head to.

And then it’s about giving some information, even if it’s basic information or updates to the board or the Responsible Persons, on a regular basis so they can keep informed about how progress is tracking, and if they need to make any decisions or any changes to the plan.

**Chris:**

We’ve also noted here a couple of other points. The first one here is mentioned is a culture of questioning. Now, it doesn’t mean a culture of doubting, that’s not what it means.

When we mention or we encourage a culture of questioning in our charities, we’re looking to empower people in positions which require decision making and good judgement to be willing to ask for more information to increase chances they’ll make the best possible decision.

Sometimes we have a culture where it’s easy to stay quiet. We don’t want to rock the boat. Sometimes though a little bit of boat rocking can be a good thing.

So from a charity perspective, you should ensure that there’s plenty of time and scope for people to ask questions, as well as convenient ways for them to gain further information, to help them make better decisions and more informed decisions.

**Mel:**

And I think that’s a really good point, Chris.

There may be people in organisations where there’s actually not the ability or not the opportunity to ask questions about the finances.

Quite often organisations are so busy with delivering to beneficiaries the products or the services or the programs that are needed and so crucial, that sometimes there’s not necessarily the time and space given to allow the analysis of the finances, and to make sure that there’s cash in the bank. But that’s really, really important.

I would strongly encourage anyone who is involved in a charity to make sure that they actually get up to speed with where things are at in terms of the financial resources.

They take an active interest, and they ask questions where something doesn’t feel right. If you think there’s a problem, there may well be, and it will be really, really, it will be the best outcome for you and the charity to make sure that if you don’t feel comfortable about something, then get it resolved so that everyone is on the same page, and everyone is comfortable that there’s not an issue to be dealt with here.

**Chris:**

Absolutely right, absolutely right.

Now, the last point here, once you’ve got all these controls, or the controls that you need in place, it’s no use having them and not reviewing them, not following up on them.

They need to becoming part of your charity’s, we’ll call it regular rotation. They should be put into your induction pack or your on-boarding pack for new board members.

They should be easy to understand, and your charity should provide the opportunity for feedback on them periodically so that they’re constantly being refined and so that they remain relevant and easily understood as well.

Another point in terms of policies, procedures that sort of thing, is the idea of financial literacy. Now, alongside policy and procedure there should be empowerment, and that empowerment can come through charity’s Responsible Persons have the knowledge to fulfil their roles properly, and knowing what they’re doing when making financial decisions.

Now, there’s plenty of financial literacy courses available. Some might cost a little bit of money. Some are free, but the investment in either time, money or both in the responsible financial management of your charity is invaluable.

And improved financial literacy backed by solid policy and procedure and practice, can make the world of difference to charities.

This is a relatively busy slide, this one, here we go. We’ll just take a quick and very small detour, just to look at the record keeping, financial reporting, how they relate to the ACNC.

So we’ll mention a couple of points here as we go along. When it comes to record keeping, the ACNC Act, it compels charities to keep both financial and operational records. Now, Mel what are perhaps some examples of financial records?

**Mel:**

Sure. So a financial record is really anything to do with a transaction that a charity may be undertaking.

Some examples could be receipts, bank statements, financial statements which may be prepared, reimbursement forms, expense claim forms, if your volunteers are entitled to, or need to get reimbursement for things that they’re buying on behalf of the charity.

All of those things, all of the paperwork and the documentation, they all become financial records.

**Chris:**

OK, now on the second point, operational records, we’re talking about, this is on an all-inclusive list, but things like operational policies, governing documents.

It might be your constitution, that sort of thing. Minutes of meetings, contracts, annual reports. Those type of documents as well, that look at the operation of your charity.

We’ve got a very good list of both operational and financial record examples on our website. That’s at acnc.gov.au/recordexamples.

And it’s also to know the form that records can be kept in. They can be kept on paper, or in electronic form, but it’s important that they’re accessible and that they’re easy to find. They must also either be in English or easily translated into English.

We often have small charities ask us about their financial reporting obligations to the ACNC as well. Mel, what are some of their obligations in terms of their annual information statement and their other reporting?

**Mel:**

Thanks, Chris. So all charities, whatever their size, small medium or large, do need to submit an annual information statement for each year of operation within six months of the end of the reporting period.

That’s the same for all sized charities, but the difference with the annual information statement for small charities, is there is less financial information that is collected through the process.

So there’s actually less fields that need to be completed, less pieces of information that need to be provided. But none the less, all charities do need to lodge an annual information statement. Now in terms of the financial reporting, small charities do have the option of either adopting a cash or accrual basis for accounting.

Now, there’s a lot of information on our website about that.

**Chris:**

Yes, there is.

**Mel:**

But cash accounting is really recording transactions when the cash is received or given out. Accrual accounting is a bit different. You may not necessarily receive the cash or pay out the cash, but under accrual accounting you record things when they happen, not necessarily when the cash is received or given out. So there is a big difference there.

Small charities have the option of the type of accounting they use.

Medium and large charities must use accrual accounting. And then looking at financial statements, you might see that we sometimes interchange the term financial report with financial statements.

Under the ACNC legislation, the term financial report is quite often used.

But that is essentially the same thing as a financial statement. It’s just a different word that’s used. But the ACNC does require, if you do prepare financial statements, they have to be a series of four statements, the notes that accompany the financial statements.

They’re optional for small charities, so you don’t have to prepare them and submit them, but then again, a lot of small charities actually have a requirement in their governing document that they do prepare financial statements.

Tthe charity has to make that decision about what they want to do under the ACNC framework, whether they prepare them. And it’s really good practice if small charities do prepare them, and they can submit those with their Annual Information Statement.

They go up on the Charity Register so they’re available and accessible to anyone who wants to look at them, but they don’t have to get those financial statements reviewed or audited.

So there is a bit of a difference there. Financial statements are optional and there is no requirement to have the financial statements reviewed or audited.

**Chris:**

OK, now there’s a couple of links there again at the bottom of that slide, and going to that slide, there’s some more links for you. Again, don’t worry about jotting them down, we’ll send this information through to you all in the coming days, both in terms of an email coming out, but also a link to the presentation when it’s uploaded on our website as well.

And again, you can go and have a look at these various pages and bits and pieces of information at your leisure.

The last little bit of our webinar today, looking at a whole heap of question marks. Looking at some money myths. And money myths and small charities.

What we want to try and do is to fill some gaps around some of these myths. And provide a little bit of information on each topic, as well as where the ACNC stands, or our attitude to them, just so you know where we stand and what we reckon, I suppose.

The first one, admin costs. Now, there’s often a belief that charities can’t or shouldn’t spend their money on admin or on overheads. Now, that’s a myth. The reality is that charities are justified in incurring reasonable administration costs.

Now, the emphasis is on the word reasonable.

Spending money on admin is a part of running a professional, effective and sustainable charity. If admin costs are reasonable and justifiable, then there shouldn’t be any problems. Again, there’s a link down there, to a spot on our website that provides a little bit more guidance on the matter.

Our second myth, surpluses. There is a myth and there’s a myth that’s very widespread. There’s a belief in an organisation that I actually am a part of, that charities can’t make money, they can’t record a surplus.

Now, that’s not true either. Charities, as we often say, are not for profits.

They’re not ‘never make profits’. Charities can record surpluses as long as any surplus generation is used to further the charity’s purposes or aims.

In fact there’s a pretty solid argument that generating a surplus is, for charities, good financial practice. It can increase the financial viability and security of the charity in question, and it can help cover unexpected costs or emergencies that might arise.

Again, we’ve got a link down there to money myths, so go and have a look if you wish. Mel?

**Mel:**

I might just make a comment too, the term surplus, that’s the same thing as profit. It’s just that the term surplus is quite often used in the charity and not for profit sector.

So if you haven’t heard of that word, and you’re unsure what that means, it’s just the same thing as a profit, and as Chris said, we actually encourage charities to aim to make a surplus because it grows the pool of resources which you can then use towards your charitable purpose.

**Chris:**

Now, our next myth, reserves. Charities which record surpluses, they might also have the ability to keep some money in reserve. Again, there’s a myth that charities can’t do this. Again, it’s not right.

Reserves are a sign of planning ahead, they’re a sign of prudent financial management, and they’re a sign of good charity governance.

A moderate amount of reserves., they can contain risk, they can increase financial stability. The ACNC believes it’s up to each charity’s Responsible Persons to decide what an appropriate level of reserves might be for their organisation. There’s no one size fits all here.

And Responsible Persons also should look at ways to build and maintain their charity’s reserves. This is the type of situation where having a solid level of financial literacy can be advantageous. It will allow you to make more informed decisions about issues like reserves.

Our final myth, remuneration. Should charities pay or remunerate board members? The reality is that most small charities don’t do this, but it doesn’t mean that they’re not allowed to. Some charities do choose to remunerate board members.

There are a few reasons why they might do so. Some of them are listed there in the slide up on the screen. What’s important for all charities to know is that the ACNC does allow board remuneration as long as it complies with our Governance Standards.

And again, there’s a couple of slides here. One that’s got a little bit of an ugly link, but if you go and have a look, that will be fine. Go have a look at those slides, and they’ll be able to grab you some further information.

Now, I think, there we go, some more information for you. There’s a lot of links in this one today. We’re just about at the end of things today, formally.

What we’ll do is we’ve perhaps got time, he says gazing over at a clock, for perhaps one question, unfortunately.

We’d love to get to some more questions, and I know that both Eric and Katrina are both madly typing away in the background, so continue to feed your questions through to them. Thank you very much for asking away.

I’ll ask Mel a question here. There’s been a question come through, it’s been asked by a couple of people. Relates perhaps back to a slide earlier in this presentation that looked at the importance of regular financial reporting to your charity’s board.

Now, there’s a couple of people who have asked us, what type of financial information should be reported to the board each month? What do you reckon, Mel?

**Mel:**

It’s a really good question Chris, and I would really start by saying that it’s going to be different for different organisations. It is not a once size fits all, but what I would encourage you all to do is actually have a conversation about it.

So as a board, what information do you need in order to help you make the best decisions you can for your charity? I really think the start of this is to actually have a conversation. I think there needs to be an understanding that any information you need, then that requires someone to prepare it.

There needs to be a balance between giving the board or Responsible Persons, enough information so that they’ve got timely and up to date, and accurate and current information about the finances of the organisation, but you don’t want to create the situation where there’s too much information going to board members, and so no-one reads it, or no-one’s interested.

And then you’ve got someone within the charity that’s spending their time on something that’s not even useful or relevant.

So I really, really think it’s about having a really clear understanding from the board, and within the charity, of what information can be provided, and what’s going to be useful in order for you as Responsible Persons, to actually make sure you’re informed, so you can make good decisions in the best interests of the charity.

They’re some of the things I’d say. Some practical examples of what that might look like, well if you want to keep it really simple, then provide the current copy of the bank statement, or download, if you’re using electronic banking, download the current balance of the bank account and perhaps the last month’s worth of transactions, or the last quarter’s worth of transactions. It might be as simple as that.

Or if you want some more detailed information, you might look at a balance sheet or a profit and loss report, or something like that.

But it’s going to be different for every different charity.

And also, we need to think about where charities are getting their money from. If they’re getting a grant or they’re getting funding from a particular source and at the end of that grant period, they have to provide a report, or they have to actually acquit where the expenditure was made from that grant, then it might be a really good thing to actually provide some brief information about how that grant is going, how’s the program going that’s using those funds.

And actually start to report information that can then be used later on through the acquittal process. So it’s trying to minimise reinventing the wheel and setting up a system that is meaningful, useful, relevant, fit for purpose and which then might be able to be used for more than one occasion.

**Chris:**

We’ve got time for one more. We’re going to sneak one more in.

We’ve gone through things like regular reporting to the board, policies, procedures, those sort of things. We’ve been asked, what are just a couple of general tips towards good management of charity budgets, good management of charity finances? Are there perhaps a couple of key things you could highlight, Mel?

**Mel:**

Yeah, absolutely. So I think it’s really good to try to make sure that there is a transparent process.

As I mentioned before, it’s really important that people are free to ask questions, that if they feel uncomfortable about something, then they should be able to get their concerns resolved.

There’s nothing worse than when you think something is wrong, and you keep asking the treasurer, and the treasurer’s response might be, stop asking about the missing $50. Don’t worry about it, it’s not important.

Well actually, it is important. If that missing money can’t be accounted for, then there is a problem for the charity.

So it’s really about allowing the conversations to take place so that everyone is informed on the board, and everyone feels comfortable.

I think also, keeping in mind that even though you might have a plan of what the charity is going to do, and what the charity is going to deliver, then you really need to be mindful, as I mentioned, there might be natural disasters.

There could be any number of things which require your organisations to stop and think, well we were planning on doing A, but we actually need to do B, and we didn’t know about it at the start of the year.

And they’ve got to be living planning documents that can be adjusted, and the charity can change its focus or its destination, if you like, for things that may happen within the environment, which you may not know about at the start of the year.

So you want to have some sort of plan to give you structure, but you don’t want to have such a firm plan that it’s rigid and inflexible. There’s a fine line there, and I think one of the really important things is, if you are a Responsible Person, and you don’t have a lot of finance experience, then start to think about what you can do to increase your knowledge.

You might even have a quick conversation with your treasurer and say look, I’ve never really understood accounting or finances, but can you give me some information about how I can start to increase my knowledge?

And over time, that will allow you to make sure that where you can add value is by asking questions and getting more information, and you’ll be more engaged, and you’ll be more aware of what your charity is doing, and how it’s performing, and the best outcome of all is that that helps your charity to be more successful.

**Chris:**

Wonderful, wonderful. Now up on the screen right now we’ve got a few ways you can stay in touch with us. Obviously through the website, all those links you’ve seen, around social media, YouTube, our podcasts, all of those bits and pieces.

We’ve reached almost 1 o’clock, so we’re going to wander, I reckon.

We’re going to let you go and have your lunch, it is time for lunch. Thank you to everyone who’s come along today.

Thank you to everyone who’s typed out some questions and that sort of thing in the background.

Thanks particularly to Eric and to Katrina for answering those questions and typing away madly as well.

A huge thank you to Mel, thank you very much, Mel, for lending your knowledge and expertise.

**Mel:**

Pleasure.

**Chris:**

We hope you’ve enjoyed our presentation today. We’re going to flip to the last slide, and a big thank you. Thanks again, we look forward to you joining us again in the near future. Have a great day.

**Mel:**

Bye bye.