

TIPS FOR IMPROVING DEBTOR COLLECTIONS

Send out invoices as soon as work is completed, not at the end of the week or month.

Provide incentives for early payment – this may suit some organisations and not others and will depend on the services provided or the value of payments.

Make it easy to pay – direct credit arrangements, EFTPOS, BPay, or credit card.

Where commission is paid to sales staff, pay commission on the amounts collected, rather than on the total sales amount booked.

Run regular reports to identify when payments are due and produce regular aged debtors (or sometimes called aged receivables) reports.

Identify slow paying customers and make contact early to discuss any issues – faulty goods, inadequate service, or inability to pay etc.

Budget and forecasting

Budgeting and forecasting are the future financial plan of the station and play an important role in maintaining financial stability and establishing reserves for station improvements or equipment.

Often budgets are developed after a process of strategic planning or review so that priorities are clear and with a close look at annual operational plans. If you don't make these connections, you may find that the budget and financial planning are not consistent with the station's vision or goals.

With a budget you can then forecast the future health of the station. Forecasting is when you review actual outcomes against budget and make adjustments. For example, forecasting will allow you to predict that by the end of the year your electricity will have cost four times the amount you had budgeted for. You are then able to allocate more funds (usually by taking them from elsewhere) to ensure that you don't overspend.

Once you have a budget:

- you are able to monitor the financial performance of the station closely.
- you can make plans over a number of years
- you can avoid shortfalls or financial problems before they happen
- you can authorise financial delegations to staff with budgets to guide them

How many budgets do you need?

An organisation should have an overall annual budget that includes all areas of operation and is prepared in advance of the start of the financial year.

Your station may also have several sub-budgets depending on how many “jobs” there are being done. “Jobs” in accounting terms are separate cost centres which can be combined. If your station has received a grant for a specific project that involves a number of transactions (eg paying wages or expenses) then a separate project budget is important. You will have probably developed the project budget at the time of a grant application and any grant undertaking usually requires you to keep to the proposed budget. There might also be a separate budget for a fundraising event or an upgrade to station facilities.

Jobs can be consolidated to give a picture of the combined accounts but if you are really wanting to see what’s going on at the station you will need to also look at the various projects as separate budget reports.

Remember that good budgeting requires:

- Preparation against the strategic goals of the station.
- Timelines which match up to your reporting year (either calendar or financial)
- Referring to previous financial year figures to make sure the budget is realistic
- Frequent comparisons between actuals and budgets throughout the year or for a specific project
- The possibility of amending the budget if required.

Preparing Annual Budgets

When preparing a budget, there are a number of things to consider.

Ideally, you should always budget to make some level of surplus (which can be added to your reserves for special projects, upgrades and to maintain financial stability). If not, budget to aim to break even by the end of the year.

Sometimes it is a difficult financial situation, or there are some financial reserves that need to be used to operate, and you may have to budget for a deficit. If you think you're heading into a situation where you'll be operating at a loss, discuss options with your Board or Management Committee and with your accountant. The aim in this situation is to plan ahead so that the deficit only applies for a specified period. This could be one or two years, but make sure the period of time is realistic and agreed to by the Board, and budget to return to a small surplus as soon as possible.

However, in framing the budget bottom line, it is very important to be as accurate as possible. Do not put a positive spin on your budget (that is, forecast a unrealistic surplus) when it's more likely that, given the previous year's performance, there may be a deficit. This would be highly misleading information to provide the Board or Management Committee.

The budget for the overall operations of the station will be more accurate if you also budget separately for special events. For example, the line item for income from events for the whole year will be more accurate if you've carefully considered each event separately. Similarly, your forecast regarding how much money will be spent on printing or organisation for events will be more accurate if you've considered each event separately.

A budget allowance should be also made for the purchase or replacement of office or studio equipment of any substantial cost that is anticipated to be required in the coming year. This represents capital expenditure.

You can't escape the consequences of what has happened in the previous year! As you move into each new financial year, you take with you the state of play at the end of the year just finished. The factors involved are:

- the annual surplus/deficit
- any major outstanding debts or monies owed to the station
- liabilities in the form of monies set aside for specific purposes (eg. unused annual leave, long service leave).

There are two main ways to tackle the process of budgeting:

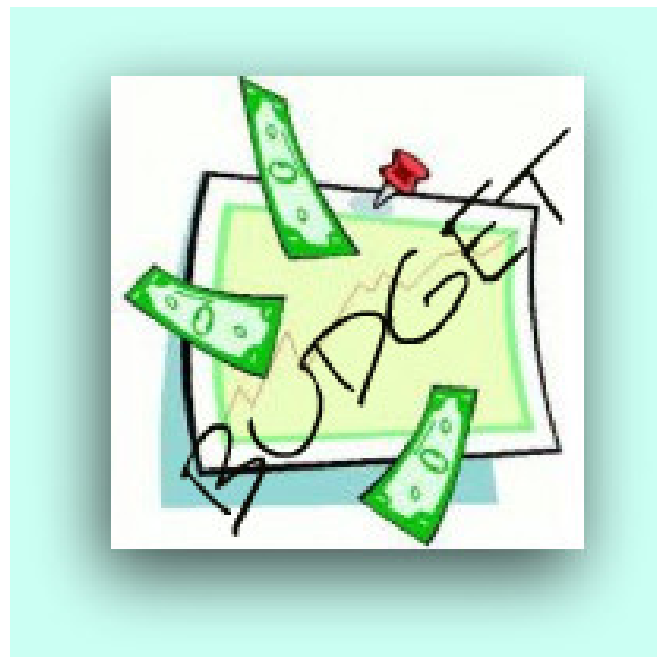
- incremental: this is where you simply take the previous budget and make a percentage increase to each of the items, to account for inflation or adjust amounts for any item where you know for sure that changes are going to occur. For example, this year, the station spent a lot of money on advertising because of a special event, but you know it won't need to spend that amount on advertising next year. The disadvantage of this approach is that you aren't looking critically at everything in your financial operations – you're assuming you got it right this year and that next year will be more or less the same.
- zero-based: this is where you start from scratch and work everything out as though you are starting the operations anew. The disadvantage of this approach is that it's very time consuming.

As so often happens in life, the middle road is the best way to follow – use past experience as your guide, but be open to new ideas and review each line item of the

budget. Ask yourself questions for each category - are there different circumstances this year to last year or are there different operational requirements this year. You wouldn't want to miss out on a new income stream because you didn't think beyond current sources of income.

Be as specific as possible when listing items - avoid items such as 'miscellaneous' income and expenditure – you can always find some other way of categorising an item.

DON'T list 'petty cash' as an expense in your budget. Petty cash should always be reconciled and entered against the appropriate line item in your accounts eg. postage, taxis, catering.



Contingency planning

Setting a budget also means dealing with unpredictability. Not everything goes to plan, so an important step in the budgeting process is to plan for contingencies.

One way of dealing with this is to include a line item in the expenses section of the budget called 'Contingencies'. If you do this, don't make the figure too large, otherwise you will be tempted to record unexpected expenditure on other line items under 'contingencies'. If you've underestimated expenditure on maintenance, for example, show it in your financial records as maintenance costs rather than hiding it in 'contingencies'. If you're up front about an overrun in maintenance costs, it's there as a reminder when you're preparing next year's budget. It is preferable to think through which line items in the budget might be affected if things don't go according to plan and then increase or decrease expenditure in those line items.

Similarly, you need to look at income in the same way. For example, if a grant you're expecting doesn't eventuate, what impact will that have on the overall budget? If you've created a separate budget for the project's income and expenditure it will have less impact because your overall operating budget isn't affected. However, if you've allocated 15% of the project funds as income to help cover overall administrative costs at the station, you need a Plan B to accommodate the possibility of the grant not being received and Plan B is likely to involve cutting expenditure somewhere else.

In summary, the safest course of action with regard to budgeting is to:

Use a combination of incremental and zero-based approaches to budgeting (see notes for previous topic).

Do separate budgets for core operations and external grant projects (not doing this has been the downfall of many organisations).

Keep any line item for expenditure on 'contingencies' low.

Do two budgets - a 'best case' and a 'worst case' if there are too many unknowns with regard to income. Your Board needs to know as much as possible about potential income and expenditure if they are to make responsible financial decisions. As a manager, you too need to be realistic, since you're the one who has to oversee the finances on a day-to-day basis.

Monitoring and Managing Your Station's Finances

Once you have developed a budget it should be entered into your accounting software. This makes it possible to create reports which compare the actual expenditure and income against revenue and expenditure in the budget figures. It also lets you see how well you are performing against your income targets.

The budget to actual figures should be reviewed on a regular basis each month to track your financial position and as a minimum on a quarterly basis. Regular review means you will be able to see any difficulties arising at an early stage and make adjustments if required.

There are several different formats of reports and you should talk with your accountant and auditor who can advise you on the ones you need.

There are some examples of reports on the following pages:

Budget Summary (with Unspent Budget) — Not-for-Profit Inc.

PO Box 2341
Townsville QLD 4810

Month: Sep 2014

120C, 120L, 120Q, 130L, 130Q, 200L, 200Q

Forecast: Initial Budget Version

Account tree: DOHA Grant Acquittal

Account types: Income, Cost of Sales, Expense, Other Income

Accounts are highlighted on \$200 variance.

	Sep 2014 Actuals	Sep 2014 Budgets	Variance	Jul 2014 - Sep 2014 (YTD)Actuals	Jul 2014 - Sep 2014 (YTD)Budgets	Variance	Budget Annual Total	Unspent /Unearned Budget	Spent (%)
<u>100 - Training Services (5 out of 5 project(s) selected)</u>									
Income									
Program Funds	82,680	80,340	2,340	250,380	241,020	9,360	964,080	713,700	26%
Program Funds	82,680	80,340	2,340	250,380	241,020	9,360	964,080	713,700	26%
Total Income	82,680	80,340	2,340	250,380	241,020	9,360	964,080	713,700	26%
Gross Profit	82,680	80,340	2,340	250,380	241,020	9,360	964,080	713,700	26%
Expenses									
Administration	6,360	6,198	(162)	19,260	18,594	(666)	74,376	55,116	26%
Motor Vehicle Expenses	1,542	1,503	(39)	4,669	4,508	(161)	18,031	13,361	26%
Rent/Occupancy Expenses	289	282	(7)	875	845	(30)	3,381	2,505	26%
Other Administration Expenses	4,529	4,414	(115)	13,715	13,241	(474)	52,965	39,249	26%
Salaries and Wages (non-Board)	74,942	73,033	(1,909)	226,946	219,098	(7,848)	876,393	649,447	26%
Salaries and Wages (non-Board)	74,942	73,033	(1,909)	226,946	219,098	(7,848)	876,393	649,447	26%
Program Delivery Expenses	159	155	(4)	482	465	(17)	1,859	1,378	26%
Meetings and Events	159	155	(4)	482	465	(17)	1,859	1,378	26%
Total Expense	81,461	79,386	(2,075)	246,687	238,157	(8,530)	952,628	705,941	26%
Operating Profit	1,219	954	265	3,693	2,863	830	11,452	7,759	32%
Net Profit	1,219	954	265	3,693	2,863	830	11,452	7,759	32%

Budget Analysis

XYZFM	Monthly Actual	Monthly Budget	YTD Actual	YTD Budget	Variance	Annual Budget
Income						
Sponsorship	\$450	1,500	7,000	10,500	-3,500	\$18,000
Membership	\$100	250	1,500	1,750	-250	\$3,000
Donations	\$200	66.66	350	466.66	-116.66	\$800
On Air Fees	\$350	458.33	4,000	3,208.33	791.67	\$5,500
Miscellaneous Fees	\$700	833.33	6,000	5,833.33	166.67	\$10,000
Total Income	\$1,800	3,108	18,850	21,758.33	-2908.33	\$37,300
Expenses						
Accountancy	\$250	\$275	\$2,200	\$1,925	-\$275	\$3,300
Advertising and Promotion	\$100	\$41.66	\$200	\$291.62	\$91.62	\$500
Bank Fees and Charges	\$150	\$16.66	\$150	\$116.62	-\$33.38	\$200
CDs	\$30	\$25	\$50	\$175	\$125	\$300
Commissions	\$100	\$333.33	\$2,200	\$2,333.31	\$133.31	\$4,000
Depreciation - Other	\$167	\$166.66	\$1,166.62	\$1,166.62	\$0.00	\$2,000
Electricity	\$320	\$75.00	\$600	\$525.00	-\$75.00	\$900
Insurance	\$375	\$375	\$2,625	\$2,625	\$0	\$4,500
Internet Costs	\$38	\$37.50	\$262.50	\$262.50	\$0.00	\$450
Postage	\$10	\$37.50	\$150.00	\$262.50	\$112.50	\$450
Printing and Stationery	\$35	\$166.66	\$900	\$1,166.62	\$266.62	\$2,000
Rent on land and Buildings	\$250	\$250	\$1,750	\$1,750	\$0	\$3,000
Repairs and Maintenance	\$100	\$333.33	\$600	\$2,333.31	\$1,733.31	\$4,000
Staff Amenities	\$20	\$37.50	\$120	\$262.50	\$142.50	\$450
Subscriptions	\$333	\$333.33	\$2,333.31	\$2,333.31	\$0.00	\$4,000
Telephone	\$250	\$166.66	\$1,204	\$1,166.62	-\$37.38	\$2,000
Total Expenses	\$2,527	\$2,671	\$16,511	\$18,696	\$2,184	\$32,050
Surplus	-\$727					\$5,250

Managing financial risk

Taking steps to minimise financial risk runs through every aspect of financial management – from planning, budgeting and daily financial operations to monitoring and evaluating the station's financial management processes.

Risk management identifies what could go wrong and the financial impact this would have on the station's operations, and then devising strategies to minimise the impact the risk would have if it materialised.

Potential risks could be:

- a drop in sponsorship revenue
- a drop in the number of subscribers or members
- slow payers and bad debts
- falling behind on completing projects, which impacts on cash flow and jeopardises the chance of obtaining a grant from that funding source in the future
- relying on loans to maintain cash flow
- poor cash flow forecasting
- inefficient record-keeping
- fraud or theft by employees or volunteers
- loss or damage to property damage through fire or robbery
- equipment failure
- conflict of interest eg. a board or staff member standing to gain financially from involvement in an aspect of the station's operations.
- Lack of financial management skills of staff and directors

A strategy for minimising risk in relation to loss or damage to property damage through fire or robbery, is to have adequate insurance cover. Strategies for minimising the risk of relying on loans to maintain cash flow could include placing greater emphasis on doing a cash budget each year and setting a limit on how far the station is prepared to go into debt.

Employer responsibilities

One of the most important parts of managing finances is the payment to staff and external contractors. There are issues of compliance and all records of payments must be kept rigorously.

Your obligations include:

- registering for pay as you go (PAYG) withholding tax
- withholding amounts from salary and wages and pay the withheld amounts to the ATO when you lodge your monthly or quarterly BAS returns
- contributing to your employees' superannuation
- having workplace injury insurance cover
- complying with payroll and fringe benefits tax requirements.

PAYG

The amount to be withheld from an employee's pay depends on the amount they are paid and whether they have given you their tax file number (TFN). The Tax Office publishes tax tables that list the amounts to withhold from weekly, fortnightly and monthly pays. These are available from the Tax Office by phoning 1300 130 248 and free from most newsagents.

You are also required to give each employee an annual payment summary of the amount paid and the tax withheld from them during the year. They need this to complete their personal income tax return. You also need to provide an annual report to the Tax Office detailing withheld amounts.

Contractors

If you pay individual contractors for services, eg. Technical support, cleaner, IT consultant, web designer, graphic designer, ask them to include their ABN on invoices. If they don't, you are required to withhold an amount from the payment and send this to the Tax Office as you do with payments withheld from employees. The withholding rate for 'no ABN quoted' is 48.5%. You are also required to give contractors an annual payment summary for their personal tax purposes.

Superannuation Guarantee

Under the superannuation guarantee legislation, you must pay an amount equal to 9%¹ of an employee's salary into a superannuation fund of the employee's choice. There are some exceptions to this requirement, which are detailed in the ATO booklet, *Tax basics for non-profit organisations*.

Fringe benefits tax (FBT)

Fringe benefits are rights, privileges or services provided to an employee by an employer. One of the most common fringe benefits is a car, which generally becomes a fringe benefit when it is owned or leased by an employer and made available for the private use of an employee. If the employer's car is garaged at an employee's house, it is treated as having been made available for private use.

Some benefits are exempt from FBT – these include:

- laptop computers (one per FBT year per employee)
- mobile phones primarily used in employment
- most minor benefits valued at less than \$100
- some taxi travel.

If you provide fringe benefits to employees, you could be subject to fringe benefits tax (FBT). Some fringe benefits are exempt from FBT and most non-government income tax exempt organisations will qualify for a rebate (subject to capping) if they have to pay FBT. Employers must assess their own liability for FBT annually. This can be complicated, so do it in consultation with the accountant to avoid any nasty surprises from the Tax Office.

Workers compensation insurance

You must have a workplace injury insurance policy if you pay over a certain amount each year in remuneration (this includes wages, benefits and superannuation). Contact the WorkCover agency in your state or territory for information on how to take out cover.

Payroll tax

Payroll tax is a state (as opposed to federal) tax and is generally payable by an employer on salary and wages paid to employees working in Australia. The rate of payroll tax varies from three to six percent of salary and wages, depending on in which state the employee is performing their duties in. Consult your accountant regarding your payroll tax obligations as payroll tax only applies above a relatively high payroll level and varies from state to state.

Complying with Australian Tax Office (ATO) requirements: GST and income tax

The Goods and Services Tax (GST) is a broad-based tax of 10% on most goods, services and other items sold or consumed in Australia. Everyone pays GST when they purchase something which is subject to GST.

Businesses that are registered for GST also collect it. They can then offset the GST they pay when purchasing goods and services against the value of the GST they have collected by supplying goods and services. If a commercial business has a turnover of more than \$50,000 a year, it must register for GST. The threshold for non-profit organisations is \$150,000. So, if your station's turnover is less than \$150,000 you are not required to register for GST, but you can choose to if you want to.

If your station is registered for GST, you must complete quarterly or annual Business Activity Statement (BAS) returns. The frequency with which you submit BAS returns depends on your income. You can register with the **Australian Tax Office** (ATO) to complete BAS returns online or they can be submitted in paper form either by you or your accountant. The necessary forms are provided by the Tax Office. If the amount of GST you have paid on purchases is less than the amount of GST you have collected from sales, you pay the difference to the ATO when you lodge your BAS, along with any other payments such as PAYG tax withheld for employees. All standard accounting software packages incorporate GST record-keeping, so it's easy to generate reports calculating GST payments/refunds due with each BAS. It's important to complete your BAS statements on time – otherwise you'll find yourself facing a late fee.

Irrespective of whether you are registered for GST, your station should have an Australian Business Number (ABN) – this number is used to identify you in dealings with the Tax Office and other government agencies. The following reasons for a non-profit organisation having an ABN are given on the ATO website (www.ato.gov.au).

A non-profit organisation can use its ABN to:

- apply to the Tax Office for endorsement as a **Deductible Gift Recipient** (DGR) or **Income Tax Exempt Charity** (ITEC)
- register as a pay as you go (PAYG) withholder
- register for goods and services tax (GST) and claim input tax credits
- conduct enquiries with the Tax Office on other taxes, including fringe benefits tax
- deal with investment bodies, and
- interact in future with other government departments, agencies and authorities.

GST and community radio activities

In the following areas, you collect GST and on your BAS you enter revenue from these sources as GST inclusive sales:

Sales of merchandise (T-shirts, pens, CDs, mugs, stubbie holders etc.).

Receipts should indicate that the price includes GST.

Sponsorship announcements: you are providing a service to sponsors, so invoices must include GST.

Subscribers: annual subscriptions are subject to GST if subscribers derive a benefit from their subscription, eg. if their subscription entitles them to goodies such as the station magazine, CDs or member-only discounts at stores and station events.

Donations, on the other hand, are GST exempt. Something is a donation or gift if the person giving the donation receives no material benefit. Donations received during radiothons would normally fall into this category, but seek expert advice from your accountant or the ATO before proceeding on this basis. Revenue from donations is entered on your BAS as 'Other GST-free sales'.

Income tax

Even though your station is a non-profit organisation, it may still be required to pay income tax. There is a self-assessment process for determining whether you belong to any of the following categories of non-profits that are exempt from paying income tax:

- community service organisations
- cultural organisations
- educational organisations
- employment organisations
- friendly societies
- health organisations
- religious organisations
- resource development organisations
- scientific organisations, and
- sporting organisations.

Go through the self-assessment process with your accountant to determine whether the station is exempt from paying income tax. You don't want to be caught out because you fudged answers to questions! If you decide you're exempt, you don't need to advise the Tax Office, but make sure you keep evidence of the self-assessment process and review your status each year to make sure the station is still exempt.

***[Insert further reading/research icon]* ATO resources**

The ATO provides a range of free resources to help people understand compliance issues. We recommend that you download *Tax basics for non-profit organisations*

and *Income tax guide for non-profit organisations* from www.ato.gov.au – select the 'For non-profit' from the left navigation, then 'Guides' from the drop-down menu.

Even though there is a lot of free information from the ATO, you should check with your accountant to make sure that you are doing everything right in terms of complying with GST requirements.



Managing assets

The assets are all the physical items that the organisation owns, and because they are worth money, they are calculated as part of the value (assets) of the organisation.

Therefore, it's important to keep track of all your station's assets so that each year your accountant can note their value in the balance sheet and calculate the depreciation for the annual financial reports. You do this by maintaining an up-to-date assets register, a template for which is on the templates CD you've been given (AssetRegister.xls).

You don't need to record details of every item of equipment the station has purchased; for example, a printer worth \$200. Most organisations have an asset value threshold, below which the items are not valued. There are also Federal accounting standards and laws which determine, by cost, what items should be included on assets registers and their rate of depreciation. Check with your accountant to see what he/she regards as the threshold value of items to be included in the organisation's asset register.

You do need to include leased assets in the register, but not equipment that is rented, because the station will never own it (rental payments are an expense).

The asset register should be checked at least once a year. If you check it more regularly, it becomes part of your overall financial risk management strategy, because you'll know quickly whether anything has gone missing.

Managing the audit process

Associations are incorporated under State and Territory Associations Incorporation legislation, which is not administered by ASIC, but by the various state authorities. As legislation differs in each state or territory, it is difficult to outline detailed requirements for incorporated associations, but basically an incorporated association needs to keep proper accounting records and, in some states prepare, have audited and lodge financial statements.

If you need an audited statement of the station's finances for your Annual General Meeting (AGM), the deadline for getting the audited statements is usually the date for mailing out AGM papers to members. Make sure you allow enough time for the auditor to complete the task and that he/she knows the deadline for delivering the statement to you.

You may be required under funding agreements, incorporation legislation or your constitution to conduct an audit once a year. Not-for-profit company structures (a company limited by guarantee) are required to submit an annual return and audited accounts to ASIC each year. An audit certifies that the accounts are in order, and gives the final figures on income and expenditure for the financial year. The station may decide when it will have its audit done by setting its own "financial" year. This will generally happen automatically in the process of incorporation, when you will have to nominate the financial year. Most organisations use a standard financial year ie 1 July to 30 June. .

Your audit may need to be done by a practising accountant qualified to certify an audit who is *not* a member of your organisation. It is a good idea to look for someone who is familiar with not-for-profit organisations and government funding. You should use the same auditor each year and changing an auditor can only occur by resolution at the AGM.

Auditors cost money, and their fees are based (partly) on how much work they have to do. The more preparation you do, the easier (and cheaper) their work will be.

Preparation of books should include the following:

Filing of all primary records. Shoe boxes full of unfiled receipts and plastic bags of unsorted paper work will cost you money!

All bank reconciliations for the year, completed and accurate (and filed, if not recorded in the cash book).

All organisational records such as changes in Directors or office holders.

Once financial records are in order and assembled the auditor will require:

- cash payments and receipts books²

- all used cheque stubs, deposit books, transaction reports

- bank statements for the entire year

- copies of your bank reconciliations

- bank statements for any other bank accounts (e.g. high interest accounts)

- copies of all invoices and deposits including any “accruals” and “prepayments”, that is, any large amounts still owed or owing or large bills paid in advance.

- monthly and quarterly financial reports (generally P&L statements)

- copies of any funding advice notifications

- organisational records including Board minutes and staff leave and entitlements (if applicable)

The auditor should be provided with a copy of the current guidelines from any funding body or any other requirements for audited statements.

The auditor should provide a draft set of accounts to be reviewed by the station and return all financial records and documentation. If you see parts

² These can be generated in your accounting software – in MYOB it's the 'General ledger (detail)' report.

that do not look “right”, or the auditor has not laid it out according to your instructions, contact them and discuss it. You can ask for the layout to be altered, and you should always have them explain anything you do not understand.

When you look at your audit, two things will concern you:

what has been spent under each budget item and whether the auditor’s figures agree with yours - any difference needs to be discussed with the auditor

how much surplus or deficit you have in real terms at the end of your financial year.

There are three main parts to your audit:

1. the statement of income and expenditure.
2. the balance sheet.
3. the auditor’s declaration that everything is in order.

1) The statement of income and expenditure:

deals with income and expenditure to all your bank accounts (ie. includes your high interest account)

only deals with transactions that actually happened in the year being audited

gives a “balance” at the bottom that tells you the cash surplus or deficit for the year and any equity (including reserves and assets).

This surplus or deficit is usually not the same amount that you have left in the bank (or overdraft if you’ve overspent). Nor is it necessarily the same as the surplus or deficit in your budget for the year. It is the Profit & Loss balance for the full financial year taking into account all liabilities.

It may also have an adjustment for the timing of your funding. If you have received funds during the year for the period of time after the end of the year,

your auditor should indicate “funding in advance”. This would happen if -
you received your next quarter’s cheque before the end of the current
quarter (which you hope is the case);
your financial year is different from your funding year.

2) The balance sheet

This represents the total worth of the organisation. Again, the “balance” is not necessarily the real cash situation of the group, as the value of capital assets and depreciation is included. The easiest way to approach the balance sheet is to think of it as the summary of the organisation’s value and financial position at the end of each financial year.

3) Auditor's certificate

This is the auditor’s declaration that everything is in order.

Fiduciary Responsibilities

Ensuring your organisation abides by its Fiduciary Responsibilities

Fiduciary responsibilities rest with the directors of an organisation. It is the responsibility of directors to act honestly and in good faith and to the best of their ability in the best interests of the organisation or company.

It is also a director's duty to ensure the organisation acts in accordance with the Corporations Law and all other laws governing an organisation operating in your State or Territory and acts honestly and credibly in all dealings with the organisation and its stakeholders including members.

Given the recent debate about corporate governance and fiduciary duties in the wake of numerous corporate disasters, there is a greater focus on the need for directors of all organisations to carry out their fiduciary duties.

What are some examples of fiduciary responsibilities?

Directors hold a position of trust. They make decisions that affect the future of an organisation. Large amounts of money can be involved with various appointments, grants and contracts, making it vital for directors to act and make decisions that do not suit their own agendas, but are made in good faith and with the primary duty being to the organisation. The community should be confident that a director will act in good faith and always in accordance with the law.

They should also:

not take advantage of their position to further their own needs;

be honest and industrious;

never use information gained through their privileged position to advantage a friend/associate outside the organisation;

provide adequate information to authorised persons or members when requested and not mislead them in any way;

disclose any potential conflict of interest;

act with care and diligence;

maintain confidentiality of information that is only made available to the decision makers;

never knowingly place the organisation in a potentially litigious position; and

ensure all decisions made are to the advantage of the organisation or group, not the individual or any particular interest group.

ensure they act according to the constitution of the organisation.

As a board or committee member am I liable for losses?

Please note: When it comes to being sued, or being held personally liable for some action or lack of action, legal counsel should always be sought. The information below is provided simply as a guide and should not be relied upon as legal advice.

Just like any company, incorporated community groups are subject to the law. These take various forms but there are responsibilities for directors at both commonwealth and state level. If there are breaches of these laws, financial and other penalties can be leveled against the organisation and directors may also be held personally liable.

If community groups or associations register to be incorporated, then there are certain legal advantages providing the group accepts certain legal responsibilities. Incorporation is a system of state or territory government registration. It is voluntary and enables registered groups to be recognised as a separate entity to its members. It therefore offers some protection for those in decision-making roles from any debts or liabilities sustained by the group. Although to be protected as an incorporated association, the organisation must not make a profit for its members – a surplus is allowable but that surplus should not be able to be disbursed to any individual instead this would be held as retained earnings and/or invested back into the organisation.

Incorporation covers the organisation; if an individual member acts illegally or negligently they can still be personally sued for losses and damages.

All organisations need to abide with the relevant legislation of the commonwealth and the state, which include:

occupational health and safety

trade practices

equal opportunity

fair trading

environment protection

What can I do to ensure that we meet our fiduciary responsibilities?

For community groups to ensure they are run legally, responsibly and ethically, they need a clear and defined organisational structure and a clear and defined mission and all Board members need to be clear about their responsibilities.

Board members should be open and accountable and put the needs of the organisation before their own.

To ensure fiduciary responsibilities are met:

- implement guidelines detailing appropriate behaviour for board members and outline penalties for any breaches;
- ensure board members are aware of all relevant commonwealth and state laws that govern the organisation;
- review the board's performance to ensure the group sticks to its mission;
- make sure there is accurate and clear financial reporting - and that your finances are audited each year in accordance with legislative requirements.
- ensure the board has complete information on which to base financial and other decisions.
- set values and ethical guidelines;
- determine long-term goals, and make the board account for changes in strategic direction;
- provide board handovers and training for new board members; and
- try to ensure that there is a broad range of skills at board level.

Being a director does not simply mean abiding by state and commonwealth laws. These days, people are also measured by their ethical standards. Some actions may fall within the law, but that does not necessarily mean they will be accepted as "good" decisions by an organisation or by society in general.

This is why it is important to clearly state the organisation's mission and decide very early on what actions the community group will take to achieve its goals. Is money from any source OK? Can any group/person hire your facility and promote their cause on site? There are numerous ethical issues that while not illegal are a major part of deciding if a director is working in the best interests of the organisation.

