



## ROCpod episode 31 – Good governance in practice: financial decision-making

### Speaker Key

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**SW** Hello and welcome back to *ROCpod*. My name is Sarah Wilkin and I'm a Senior Adviser in the Compliance and Protected Disclosures Team at the ROC. Today's episode is about financial decision-making – it's an instalment in our good governance in practice series.

Registered organisations are funded by members, and officers and employees are expected to act in the best interests of those members. But what are the standards of conduct that are expected when you make a decision? What does best practice look like for an organisation? And where can you turn to if you're unsure about your financial management responsibilities?

Today my colleague, Joanne Fenwick will help me answer these questions today. She is the ROC's financial reporting specialist. Hi Joanne.



**00:01:28**

**JF** Hi, Sarah.

**SW** Joanne, let's begin with a brief summary of the kinds of decisions that are 'financial decisions'.

What are the typical financial issues that officers and employees are dealing with?



**JF** Well Sarah, all sorts of financial decisions are made in registered organisations. Some involve modest amounts of money. For example, using a corporate credit card to pay for office supplies. Or paying an account on behalf of the organisation. You actually might have a finance team who are dealing with routine transactions every day. Or perhaps you're an office-holder who travels, and you use a credit card to pay for work-related expenses.

**SW** Ok, so what are some of the really *big* financial decisions that are made in registered organisations?

**JF** Well the committee of management and some office-holders, in particular executive members like the President or Secretary, can actually have significant decision-making powers. It could include having the authority to purchase and sell assets and enter into contracts, including engaging an auditor or other service providers.

Your rules will outline the powers of your office-holders, including whether they can participate in decisions relating to your organisations' financial management.

But whether you're paying for office stationery, you're involved in a property purchase, or you're granting a loan or donation, there are standards of conduct that you'll be expected to follow.



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**SW** So having the authority to purchase goods is an obvious example of a financial duty. Others might even be issued with a credit card and that can also be relevant to the organisations' financial reporting obligations. Some reporting units hold an exemption certificate from financial reporting because they have no financial affairs. But if an officer or employee buy things for the reporting unit using a corporate credit card this actually *is* a financial affair. So in those circumstances, you shouldn't seek an exemption from financial reporting under section 271 if your reporting unit has and uses a credit card.

Joanne, you said that there are standards of conduct expected of financial decision-makers. Let's talk about the statutory duties under the *Fair Work (Registered Organisations) Act* (and we're going to call this the RO Act for short). They apply to officers, and sometimes even employees of registered organisations in some circumstances.

So, how are the statutory duties relevant to financial decisions that are made?

**JF** So officers are expected to act with care and diligence, and in good faith and for a proper purpose.

Officers and employees also have a duty not to misuse their position or information for a personal advantage, or to cause damage.

These are significant duties that apply to people involved in the financial



management of their organisation. There may be penalties if you breach the duties, and we've seen Courts hand out civil penalties to officers *and* organisations. Some breaches are actually also criminal offences, so clearly they are very serious.



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**SW** I see. Do you have an example you can share with us where the statutory duties were breached?

**JF** Sure, Sarah. So in one case the Federal Court found that 3 senior officers of a branch breached their duties when they failed to follow financial procedures. The officers actually signed blank cheques and shared bank PIN numbers with the office manager, who then just spent money without further involvement from the officers. They bypassed the procedures because it was convenient. But the Court found they had ignored the significant financial controls of the branch, which sent the wrong message to other people that it was ok to ignore the rules.

**SW** So proper financial decision-making involves following your rules and policies relating to financial governance.

And in this matter, you had some officers of the branch also breached their duty not to misuse their position. Could you tell us a little bit more about their conduct?

**JF** Yes, that's correct. So the Branch's Secretary and Assistant Secretary used the branch's money to pay for travel expenses for themselves and their spouses to attend a wedding. They received a personal financial advantage at the expense of the Branch. This was clearly in breach of the rules, and the Court ordered the officers to pay compensation to the branch.



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**SW** Right. So we've seen a few examples in our jurisdiction where poor governance controls have resulted in significant financial loss to the organisation ... Thank you Joanne for the quick summary. And if you would like to know more about the statutory duties of officers, we've actually produced a governance podcast with practical examples and tips. It's episode 25 ('the duties of officers')– you can go back and have a listen. We've also published summaries of cases in plain English on our website.

Joanne, you mentioned the rules of registered organisations. How do these rules impact the financial management of an organisation?

**JF** Now under the RO Act there is an obligation on organisations that their rules require the organisation and its branches to develop and implement expenditure policies. This also extends to the ways in which the organisation's property is controlled and its funds invested, the conditions under which funds may be spent including the



approval of loans, grants and donations.

**SW** And we see the policies and procedures of organisations are also an important part of regulating financial decisions, aren't they?

**JF** That's right, Sarah. We see how important they are in investigations, in particular where they involve allegations of financial misconduct. So in an investigation, we review the rules and policies of organisations. What we've found on several occasions are policies that they just don't have enough checks and balances to monitor and scrutinise spending and other financial decisions.

In some instances, the organisation has policies, but they are sort of like grey areas where the obligations aren't crystal clear, which means that the officers are filling in the gaps. Sometimes we find there isn't a positive culture that promotes people to follow them – just like the case we've just spoken about. Or the policies actually aren't enforced to any great extent by the organisation.

Record keeping processes are also a critical part of financial governance, and our investigations have revealed some deficiencies in record-keeping processes as well.



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**SW** So one practical step that an organisation could take today is to review their policies?

**JF** That's right. So if it says there's an allowed spending amount for something, say how much it is, explain when it's actually available. And use examples. Talk to your officers and financial people about when it is being used now and put clear guidelines so that every single officer knows when they can or can't use, for example, their credit card.

Then make sure your officers are enforcing it, work on your culture so everyone does it right. Good financial decision making starts with great guidance about what's allowed.

**SW** We've mentioned the standards of conduct expected of financial decision-makers in registered organisations – for example, to act in good faith and for a proper purpose. We'd also expect the organisations' rules, its policies and its people in leadership to set those standards.

Now where else can officers find out about their responsibilities?

Let's say I'm a new officer on a committee of management. How can I find out about my duties?

**JF** So if you are a new committee of management member and you want to know what your duties are, the first place to go is to the rules of the organisation. So they will identify the responsibilities of the committee of management. Then the next step would be to go to your policies.



**SW** Ok, so when I make a decision as part of a group can I just rely on the people around me and trust that they're all going to do the right thing?

**JF** No, you can't. So all officers are responsible for their decisions, even if they're sitting on a committee and making a decision as a group.

**SW** So members of a committee can be held *individually* responsible for decisions made by that committee?

**JF** Yes, they can. And for this reason, it's important to ask questions *before* you approve a financial transaction, especially if you have any doubts, or you don't understand something. We know that officers come from a range of backgrounds – and not everyone is a finance expert. But at the end of the day, you must be satisfied your decisions are in the best interests of your members. In some cases, you might need to make further enquiries to be certain about that.



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**SW** And is it the same for a paid officer, and officers in an honorary position? Are they both these officers held to the same standards?

**JF** Yes, the duties apply to all officers with financial management duties.

The starting point for a new officer, whether you're paid or in voluntary position, is the financial governance training course that is actually required under the RO Act. Officers **must** complete the training within 6 months of taking office, unless they get an exemption because of existing skills, qualifications or experience.

The training actually isn't just for new officers to an organisation. If you move from one office to a different one, and it actually has financial duties, you'll need to complete the training again or get an exemption.

**SW** And this training also isn't just for the really big offices in registered organisations, like the Secretary or the President, is it?

**JF** No, it isn't. So organisations will have a much wider list of officers who exercise financial management duties. Committees of management, for example, approve financial reports – so members of committees of management must complete the training or get an exemption. Other officers might sit on a conference, which can collectively decide how money is spent. So each of those officers must do the training too.

So you will actually need to consider your rules and the practices and policies of your organisation to determine which of your officers have financial management duties and therefore, must do the training.

**SW** If you're not sure whether an officer exercises financial management duties, what we'd recommend you do is get in touch with the ROC for tailored assistance. The



requirement under s 293K is a civil penalty provision, and for all the reasons we'll talk about in today's podcast, the training is critically important to financial decision-making.

Joanne, can you explain a little but about what the training involves?

**JF** There are several providers of approved training. Some are delivered online and others are approved for in person training.

But they must all cover some core units, including the statutory duties of officers, the financial reporting process and conflicts of interest. And there's an evaluation component to ensure participants understand the content.



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**SW** So as a financial decision-maker you must understand your powers and duties, and also the expected standards of conduct. Training is an ongoing process. So if you're in the same office for years, the legislation doesn't require you to re-do the training, unless you change to a different office. But it's best practice to do refresher training. We've heard of some organisations building this into their governance procedures because they recognise the benefit to their officers *and* the organisation.

Now a key role of the committee of management relates to the preparation and approval of the organisation or branch financial report. Joanne, can you further explain this function?

**JF** Yes, so for a member, the financial report provides them with an insight on the overall financial position and viability of their organisation or branch. It allows them to see how their money is being spent and invested. All of the financial decisions that the committee of management have been involved in, and some that they have not, will be represented in this financial report.

Now the committee of management must also pass a resolution that the financial statement and notes comply with the Australian Accounting Standards, the Commissioner reporting guidelines, that they give a true and fair view of the financial performance, the financial position and cash flow of the organisation or branch and they believe they are able to pay their debts when they become due and payable.

Now every committee of management member is *personally* responsible for this resolution, so they need to ensure that they have enough information and knowledge of the financial report and the operations of the organisation or branch to be able to pass that resolution.



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**SW** Ok, so what are some steps that a committee of management member can take to ensure they are in a position to have the confidence to agree with those statements?



**JF** Well attending the financial governance training course is a great start. This will provide an overview of key financial processes and understanding the financial statements. Also look at reviewing monthly financial reports and this will help you track revenue and expenditure. Look at significant changes in categories of expenditure, for example, has there been a big change from one month to the next or even from last year to this year? Seek an explanation for unusual or large expenditure items especially if you can't recall those items being approved at a previous committee of management meeting.

Another good thing to do is to look at the balance of the organisation or branch bank account, their accounts payable (so that's the amount that the organisation or branch owes) and accounts receivable (the amount that is owed to the organisation or branch). Are there significant increases or decreases in any of these items? Things like a decreasing bank account with increasing payables and receivables can actually signify some trouble!

**SW** There is a great resource on our website which is a guide to understanding financial statements. It's especially useful for people like me who don't have a finance background.

**JF** Yes, the guide to understanding financial statements includes an overview on common accounting terms and principles along with some financial ratios. You can use it to further examine an organisation or branches financial performance and position.

But overall, it's really important for all office holders to know what they are responsible for under their organisations' rules, know the policies and procedures of the organisation and make sure to follow them and actively participate in meetings. Make sure you have all the required information you need to be satisfied with the decisions being made.



**00:15:13**

**SW** Joanne, you mentioned earlier that record-keeping is a big part of running a registered organisation. Could you explain this further?

**JF** The RO Act requires that organisations and branches to firstly, keep financial records that correctly record and explain the transactions and their financial position. It also requires that the financial records are kept in a way that will enable a financial report to be prepared and in a way that will enable the financial report to be conveniently and properly audited.

Also, as part of the financial reporting process, the committee of management must pass a resolution relating to various items including that their financial records have been kept and maintained in accordance with the RO Act.

**SW** Keeping records is also important for financial decision-making. But what kinds of



records are relevant to financial decisions?

**JF** So for day-to-day transactions, it's best practice to keep receipts and reconcile them monthly with credit cards statements. Your expenditure policies should require officers and staff to record how they spend the organisations' money and have an approval process for all purchases.

So for example if you're on a work trip, make sure that credit card purchases are authorised under your organisations' expenditure policies. Your policy may have a daily rate for expenses like meals and accommodation – it sort of sounds obvious, but it's important for credit card holders to understand those policies!

Record-keeping is essential for confirming that you're using your credit card appropriately, and they can protect you if your spending ever comes into question. Trust me – you'll be *really* grateful for record keeping habits at audit time!



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**SW** Okay, so one practical step that I, as an officer holder, could take right now is to ensure that everyone is keeping receipts?

**JF** That's right. Those records protect the officer and the organisation. Officers should be giving those receipts to the branch to compare to the credit card statements. But that doesn't mean you can't keep a copy for your own records as well. And if you're the officer, consider taking notes – If you have 12 receipts for petrol, maybe make a diary note for where you were going and why it was related to the organisation's business.

**SW** They're good examples, but what about for large financials decisions?

Let's say you're involved in signing off on a big printing contract. What are some of the issues you might need to watch out for?

**JF** What comes to mind immediately is a conflict of interest. If possible, you shouldn't participate in decisions that benefit yourself, or even look like they might benefit you. Be aware of perception. Whistleblower disclosures are often based on what people observe, or what they *think* they may have seen.

It's preferable that these kinds of decisions are made by another group of officers (perhaps a committee of management, where the responsibility is shared with several people).

You must disclose to the organisation if you have a conflict of interest, and the organisation is legally required to record material personal interest disclosures in the minutes of meetings.



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**SW** Members can also request information about disclosures from the organisation. It's all part of the legal framework which is designed to promote financial decisions that are in the best interests of members.

**JF** And look another issue that officers should be aware of *before* they make a financial decision is whether they have the authority to make it. It sounds simple, but you'd be surprised how you can get tripped up on this one.

**SW** Could you give us an example?

**JF** Sure, so let's say your branch executive is authorised under the rules to approve small loans of up to \$1,000. Anything more than \$1,000 is approved by the committee of management. So, if the loan amount is \$1,500 you'll need to make sure the decision is made by the committee of management.

Some organisations rules will actually require certain financial decisions to be made in a meeting. So, you have to make sure that you hold that meeting!

The lesson here is to refer to your rules and policies, and don't approve anything beyond your authority. Loo and if you do, even if it's unintentional or you think it's about a nominal value, own your mistake. It's a good idea to keep records about the actions you've taken to fix it.



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**SW** As we all know, mistakes do happen. So what happens if an officer has spent money on their credit card and that isn't appropriate?

**JF** This should be caught either by the officer themselves or the checks against receipts.

One step is to ensure your policies require the money to be paid back to the organisation. It's an important part of a compliance culture. It helps deter inappropriate spending, protects the organisations funds, and educates everyone on what is acceptable. Make sure you also check your policy for if it was unclear around this spending. Maybe include an examples so other officers don't make the same mistake.

But owning that mistake is also important. This is where a speak up culture protects an organisation, it empowers people to not just speak up about things they see that aren't correct, but also mistakes they themselves have made.

**SW** Yes and the everyday habits can make a real difference to supporting and monitoring good financial decisions. Steps like keeping records and having meeting procedures, they're all essential to the oversight and management of individuals – wouldn't you say that Joanne?



**JF** Yes, absolutely! Another example are your meeting minutes. The rules of your organisation are the starting point for determining how you must record and keep minutes – but you'd expect the minutes to include the specifics about a financial decision that's been made, and who is responsible for any further action. If someone has declared an interest and excused themselves from voting, the minutes should record that the interest was announced, and the officer removed themselves from that part of the meeting.

At the end of the day, minutes keep people accountable and can protect the organisation if someone later disputes a decision.

**SW** So one issue we've identified with the recording of financial decisions involves decisions by both federally registered organisations AND their state counterpart. Can you explain what best practice record keeping for meetings look like for organisations that do have these state-based association?

**JF** So it's always best practice for organisations to separate the business of the two entities, including the record keeping about any financial decisions that are made. Resolutions and decisions relating to the federally registered organisation can only be made by the federally registered organisation and, vice versa, the state-based association can only make resolutions and decisions relating to the state-based association. The minutes should be two different documents (even if the meeting is held on the same day and attended by the same people).



**00:21:38**

**SW** Thank you Joanne, that's really great advice.

And if you want more tips on record keeping, you can go back and listen to our good governance episode about record keeping and decision-making – that's episode 11 of *ROCpod*.

We spoke earlier about the consequences of deficient financial governance practices – financial loss to the organisation, civil penalties, and even criminal penalties in some instances. So we know this stuff is important.

Before we finish today's episode, I want to highlight that there is help available.

Joanne, if I'm a leader of a registered organisation, an executive office-holder or a people manager, where can I go to make sure my organisation has got this covered? Obviously you'd want *all* your financial decision makers on the same page ...

**JF** Look I'd recommend you connect with us in our 12-month ROC to You pilot program. We've spoken about some handy resources today – but many financial decisions are group decisions, so a conversation with your committee of management can serve as a reminder about the governance procedures that support good financial decision-making.



All you need to do is complete the ROC to You form on our website and tell us about the topics you'd like us to talk with you about. We're happy to set up a virtual meeting or even give a presentation at your next meeting.

**SW** ROC to You is an excellent opportunity to get your questions answered by a subject matter expert. Alternatively, if you'd prefer to read information in your own time, we've also got the Digital Classroom. And there are modules relevant to today's podcast, about the officer duties and the disclosure requirements.

Thank you so much for your time today, Joanne. Officers exercise significant power when they make financial decisions. And with care and the right governance controls in place, great outcomes can be achieved for members.

**JF** Absolutely. Thank you for having me on, Sarah.

**SW** Next month's podcast will be about the role of the registered auditor in the financial reporting process. Don't forget to subscribe to ROCpod to be the first to listen.

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