



ROCpod episode 39 – Good governance in practice: what makes a good expenditure policy

The ROCpod was a monthly podcast focussed on the regulation of registered organisations. It shared information, tips and tools for improving compliance with legislative requirements.

The podcast was key part of the Registered Organisations Commission's (ROC) education strategy. The ROC was abolished on 6 March. The Fair Work Commission (the Commission) is now the regulator for registered organisations.

Although processes may change under the Commission, much of the podcast content is still useful.

Email any questions about anything in an episode to regorgs@fwc.gov.au.

Speaker Key

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BS Hello and welcome to *ROCpod*. My name is Bill Steenson and I'm a Principal Lawyer of the Compliance and Investigation team at the ROC. Today's episode is about expenditure policies. We'll be discussing what makes a good expenditure policy and outline practical steps for organisations in developing and implementing these policies.



For today's episode I'm joined by Joanne Fenwick, who is a Financial Reporting Specialist at the ROC. Welcome aboard, Joanne.

JF Thanks for having me on this month.

BS Let's start with the basics Joanne, can you tell us why it's important for organisations to have expenditure policies in place?

JF Sure Bill. To start with, the *Fair Work (Registered Organisations) Act 2009* (we call this the 'RO Act' for short) states that an organisation's rules must require the organisation and its branches to have expenditure policies in place.

Now apart from it being a legal requirement of the RO Act, expenditure policies are also essential for good financial management in an organisation. A suite of clearly worded policies helps to ensure that everyone in the organisation knows what the processes are for spending money, including the amount that can be spent, who can spend money and how purchases are authorised. Expenditure policies create a transparent framework that everyone in the organisation can follow and outline the expectations and values of the organisation around spending. Ultimately, expenditure policies help to ensure that the organisation's spending is in line with its objects and purpose.



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BS Now we've seen examples in our jurisdiction where there has been significant spending, and sometimes questionable spending, in organisations because of a lack of clearly developed expenditure policies.

You mentioned Joanne that organisations should have a range of expenditure policies. Can you tell us why there should be multiple policies instead of just one overarching expenditure policy?

JF That's a great question Bill. Organisations should have separate policies for different items of expenditure because there will be inherent differences in the value and risks associated with these purchases and therefore there will often need to be differences in who can authorise the expenditure and what the approval process is.

Now spending in an organisation can range from modest amounts such as on one-off travel for an individual officer or employee, or stationery for the office, to significant sums like the purchase of an investment property or the purchase and implementation of a new IT system. While items like stationery can be routinely approved by a senior officer, significant purchases should undergo a thorough assessment and approval process by the Committee of Management. The Committee can then decide whether the spending meets the needs and objectives of the organisation, rather than leaving this decision to just one person. This ensures that spending on big ticket items is subject to adequate scrutiny and review. That's



why organisations will need separate policies for each of the different categories of expenditure.



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BS So just going on from that Joanne, what are examples of common expenditure policies Joanne?

JF Most organisations will have a travel policy, a motor vehicle policy and a procurement policy, and many will also have a credit card policy if they provide work credit cards to officers or employees. Larger organisations might also have policies around the purchase of assets such as property or other substantial or ongoing investments.



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BS Okay so let's get to the heart of today's episode: what do organisations need to ensure is covered in their expenditure policies?

JF So first of all, expenditure policies must clearly outline exactly **what positions** are authorised to spend funds in the organisation. For example, are there specific officers or employees in your organisation that are entitled to hold and use a corporate credit card and spend funds? The policy should make this very clear. The policy should identify which positions within the organisation and/or branch can hold and use a corporate credit card.

The policy must also state **what position/s** are authorised to approve the different types of expenditure and what the approval process is for each type of different expenditure. As we discussed before, this is going to be different depending on how big the purchase is. But at a minimum, there should always be two people involved in any spending in an organisation. The first person will be the person incurring the expenditure. The second person will be someone with the appropriate financial delegation to approve the spending. For modest spending this could be the officer or employee's direct manager, whereas for significant spending the Committee of Management will need to review and approve the expenditure.

Every organisation's rules set out the powers and duties of the Committee of Management, so have a look at what your rules say about which decisions have to go to the Committee for approval.



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BS Now that safeguard of having two people involved in any spending is very important. You might have a policy where the Branch Secretary normally approves spending on credit cards or travel, but when it comes to the Branch Secretary's **own** credit card or



travel, someone else should approve that. That way there's always an independent review of the transaction.

JF That's right, Bill, best practice certainly is that you shouldn't approve your own spending.

BS When it comes to approvals, there is a similar requirement in the RO Act around loans, grants and donations which provides that any loan, grant or donation above \$1000 must be approved by the Committee of Management.

So what else should organisations think about when preparing expenditure policies?

JF Another thing policies should be clear on is any spending limits. For example, do limits apply to the corporate credit cards held by officers or employees. Or using the example of work travel, what is the limit an officer can spend for meals and accommodation on each individual trip. Policies should have sufficient detail so as to provide certainty. For example a travel policy should make it clear if the limit is separate for accommodation and meals or a total daily amount.



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BS You raise a great point about travel Joanne. Officers of organisations may often be required to travel for their role and require accommodation, transport and meals. So how would an organisation determine what the spending limit for something like travel is?

JF We have seen problems arise, particularly with travel policies, as the policies are worded to allow the officer or employee to spend a "reasonable amount" on meals and accommodation during a work trip. But what is reasonable to a person might be very different to the organisation's expectations on travel spending. In one person's mind a "reasonable amount" may mean staying in five-star accommodation and expensive dining. Using the word reasonable, introduces a discretion which has the potential to confuse and lead people astray.

We would suggest that organisations set dollar limits that work for their own budget. Expenditure policies can be as specific as this much for breakfast and this much for dinner. Or if you want to benchmark the amounts, for example by referring to an external source, you could refer to the determination on travel allowance rates for domestic and overseas travel released by the Australian Tax Office, (the ATO). The determination is released annually by the ATO and sets out amounts for accommodation and meals in capital cities and rural areas as well. Organisations can refer to the annual ATO determinations to guide spending limits on travel for their travel policy.



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BS That's an excellent tip to promote a consistent approach to spending on travel in an organisation. It also sets clear expectations on spending for officers and for employees.

Now could you explain some of the common problems that the ROC has observed in expenditure policies in the past and any issues that have come about because of it?

JF Absolutely Bill. So as part of our investigations into allegations of financial mismanagement or suspected misconduct, the ROC reviews the rules and policies of organisations. What we've found on several occasions is policies that are unclear on who can spend money in the organisation, who can approve spending and what the spending limits are. The wording of these policies was ambiguous and open to interpretation. This created significant problems for these organisations down the line. As I mentioned with travel, some policies we have reviewed stated that the officer could spend a "reasonable amount" with no clear way for the organisation or officer to work out what was reasonable. In these cases, the policies left the organisation open to inappropriate spending, resulting in significant financial loss.

In some other instances, we found that there was no relevant policy at all – for example an organisation issued a corporate credit card but didn't then have a credit card policy. And an organisation where the rules required it to have an expenditure policy, actually had never developed one.

This was really significant because while compliance with rules is usually a matter for an organisation and its members, if those rules concern financial management, then the ROC is empowered to investigate. And a rule saying 'you must develop and comply with an expenditure policy' is clearly related to finance and financial management.



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BS Yes it's extremely important that policies are very clear about spending limits and expectations. People need to understand exactly what are the limits they can spend up to.

Remember that a policy is designed to create a framework for how things should be done in an organisation and what the expectations are for everyone. The clearer the policy is, the better it is for everyone in the organisation and for its as well members.

Remember, you can include examples and explanations in your policy too, if that helps the officers and members understand what is, and isn't, allowed under the policy.

Sometimes when we do investigations, we also see that there is a difference between what the policy or rule **says** and what actually happens.

JF That's a really great point, Bill, non-compliance with a policy is not always deliberate misconduct. Sometimes it's due to changes in process, procedure, or technology



within the organisation. For example, the policy may have been originally drafted to say that the branch should buy all stationery with a cheque but now the branch's practice is to use a credit card. This is technically non-compliance but it is not deliberate or malicious. So ensuring that your policies reflect latest internal procedures, such as electronic procurement systems, and payment options such as electronic funds transfer, is really important

Another important practical step to ensure good governance is to schedule regular reviews of all your policies, not just the financial ones, to make sure that they're staying up to date. Yes, your organisation should be doing what the policy says, but processes change. As an organisation make a conscious decision whether there is a **better** way of doing it and if so – update the policy. That way you can use the new process, and **still** comply. This also gives you an opportunity to think about any risks that the new process has and build in protections for the organisation and officers or employees. Now remember, good expenditure policies protect both of you.

You should also make sure that your policies are consistent with your rules. If the rules say that a certain approval process must be followed, the policy should say that too. You don't want to send mixed messages about what is and isn't allowed.

Consider including in the policy how often it should be reviewed and who has the authority to do that. For instance, the Committee of Management should have final sign off on your expenditure policy.



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BS Now another issue we see is personal spending. Joanne do you have any tips for how organisations should deal with personal spending in their expenditure policies?

JF Well I guess the short answer is don't do it.

Organisations should make it clear that corporate credit cards and other funds can **only** be used for purchases that relate to the operations of the organisation and **not** personal reasons. Under no circumstances should the organisation's funds be used for personal spending. This should be stated explicitly in the policies.

For example, if an officer has a motor vehicle provided by the organisation, the corporate credit card can be used to pay for petrol in the vehicle on work related trips. However, the card cannot be used to buy personal items at the checkout while paying for the petrol. This would be an inappropriate use of the organisation's funds for personal reasons.

If any personal expenditure is inadvertently incurred on a corporate card, the policy should clearly outline how the money should be paid back by the officer or employee and in what timeframe. The best option is to not have such spending occur in the first place and that requires ensuring all officers and employees are well aware of the policy and its details.

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BS Another important area when it comes to spending which we haven't talked about yet and that's record keeping and reconciliation processes.

Joanne, can you talk us through what an organisation's policies should cover in relation to this?

JF Sure Bill. So without receipts from transactions there is no way for the organisation to verify that the spending has been for business purposes. An organisation's policies should require officers and employees to keep all receipts or tax invoices from transactions, regardless of the amount of the transaction. The policy should outline where the records should be stored in the organisation, for example in the organisations' record management system, or alternatively who the records should be provided to, and within what timeframe after the expenditure was incurred. And these requirements should be enforced.

So, the policy should also state what the consequences are of a failure to keep records. For example, if an officer or employee consistently fails to keep receipts of their spending, the policy might state that the officer's access to the credit card will be cancelled.

The policy should also detail how the reconciliation process for transactions will occur. So normally a reconciliation usually occurs at the end of each month and involves the officer or employee assigning each item of spending in the past month to the relevant category (so for example, stationery for office, or catering for meetings) and providing receipts for each transaction, if not already provided or uploaded to the organisation's records management system.

The reconciliation is then submitted to an independent person, usually a finance officer or more senior officer for independent review – so that a person is not reviewing and approving their own expenditure. The expenditure will then be reviewed and verified that it has been incurred for work related purposes and that sufficient records have been maintained.

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BS And with a lot of spending in organisation is done by credit card and while they're efficient, it's usually many weeks after the expenditure occurs before the statement shows up and someone knows about the spending. That's why a reconciliation process, which introduces a system of checks and balances, is really essential to good financial management in an organisation.

So Joanne are there any last tips for organisations?



JF Yes, one last thing I would say is that in order to create a culture of good financial governance it is essential that everyone in the organisation is not only made aware of the expenditure policies but that they are implemented consistently.

One way to make everyone aware of the policies is to make sure they are covered in any induction materials for new officers and employees. Further the policies should be readily available to officers and employees on the organisation's website so that they can easily check policy details as they undertake their work. They should also be publicised to members for transparency purposes.

Organisations might also consider doing annual refresher training. Good governance is something that's learned either through formal training or watching what other people in your organisation are doing. So that's why it's equally important that organisations follow through on their policies and the consequences for any breaches and this is clearly observed by officers and employees. Organisations will only benefit from expenditure policies if they are implemented consistently and enforced.



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BS Thanks for joining me today, Joanne. I appreciate the time you've taken to talk about the importance of expenditure policies and how to make sure they're effective.

JF You're welcome, Bill, thank you.

BS Please tune into *ROCpod* next month. Where we'll be talking with the Registered Organisations Commissioner about the latest compliance issues and discuss the ROC's priorities for the year ahead.

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