

health

Financial guidelines for Class B cemetery trusts

Department of Health

**Financial guidelines for Class B
cemetery trusts**

Final



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Executive summary

Background

The Department of Health appointed CT Alliance (CTA) to develop guidelines enabling Class B cemetery trusts (trusts) that earn gross revenue of less than \$80,000 per year, and are predominantly managed by volunteer staff, to establish and maintain a set of minimum standard financial controls.

Prior to developing the guidelines, CTA visited 10 trusts to review their operations and gain a better understanding of the types and management of financial processes at the trusts. The outcomes of these site visits contributed to the guidelines.

Purpose

The purpose of the guidelines is to help trusts implement appropriate financial controls over core financial processes. The guidelines also aim to improve trust member understanding of the potential risks and issues associated with each financial process. The guidelines have been developed for the core financial processes that are likely to be in place at most small trusts. Where relevant, discussion on risks and issues for member consideration are included.

Trusts that earn gross revenue above \$80,000 should already have a range of financial controls in place to meet their own requirements. Those trusts that do not have such controls in place should adopt these guidelines as a minimum standard.

The guidelines cover specific financial processes, including:

1. assets
2. banking and reconciliation processes
3. cash handling processes
4. petty cash
5. personal expenses
6. grants, donations and fundraising
7. financial delegations
8. financial policies and procedures
9. security of financial information and periodic review of controls
10. invoices and receivables
11. purchasing and payables
12. reporting of financial position
13. segregation of duties of trust office bearers such as secretary and chairperson
14. wages and allowances.

Introduction to the financial guidelines

Context

The financial guidelines have been prepared to assist Class B cemetery trust members to understand their financial responsibilities under the *Cemeteries and Crematoria Act 2003* (the Act), and to implement appropriate financial controls that are relevant to their trust. The guidelines support consistent, repeatable and properly controlled financial processes. They also aim to help trust members to understand the financial information presented to them, as well as the potential risks and issues associated with that information.

The guidelines should be scaled to the level of activity of each trust. Trust members are responsible for ensuring that the controls implemented are appropriate to the level of operations and financial risk at their trust.

Each trust is responsible for the stewardship and proper accounting of its income and expenditure, assets and liabilities. It is important that all trust members understand that they have a responsibility for the prudent financial management of the trust. All trust members, including those not involved in the day-to-day finances of the trust, need to understand the financial position of the trust. Trust members must receive sufficient and appropriate financial information so they can obtain assurance regarding the financial management of the trust.

Financial controls support transparency, accountability and compliance with financial management responsibilities under the Act, including:

- Section 12. Functions of Class B cemetery trusts: 'Properly and efficiently manage and maintain each public cemetery for which it is responsible.'
- Section 49. Cemetery trust to keep accounts and records: 'A cemetery must keep proper accounts and records of its financial affairs.'
- Section 52. Report to secretary on operations and accounts: 'A cemetery trust must submit a report in respect of the exercise of its powers and functions under this Act in relation to any public cemetery for which it is responsible to the secretary for each financial year in respect of which it manages that cemetery.'

Structure

The guidelines detail recommended controls for each financial process and, where appropriate, include issues for trust member consideration.

Issues for trust member consideration are points that non-financially literate trust members should be aware of, with regard to the proper financial management of the trust. The issues identify where and how an error or fraud could occur. The inclusion of the issues for trust member consideration in no way suggests that there is any fraud or wrongdoing by the secretary or treasurer of any trust. Rather, they are included to ensure trust members are aware of potential financial risks, and to highlight the need for appropriate financial control and oversight.

Glossary of key terms

| | |
|-------------------------------|--|
| Bank reconciliation | A bank reconciliation is the process of comparing and matching figures from the accounting records (cashbook or general ledger) against those shown on the bank statement. Any differences between the accounting records and bank statement are explained as part of the bank reconciliation. |
| Cashbook or general ledger | The cashbook or general ledger is the central accounting record of the trust. The cashbook or ledger records all the individual receipts and payments of the trust. |
| Cheque signatories | Cheque signatories are trust members who are authorised to sign cheques on behalf of the trust. |
| Financial delegations | Financial delegations provide the authority to individuals to incur expenditure and make payments for purchases on behalf of the trust. |
| Payables | Payables are expenses payable to suppliers that have supplied goods or services to the trust. |
| Personal expenses | Personal expenses are travel, administrative and related expenses necessarily incurred by trust members in the course of undertaking trust business. |
| Portable and attractive items | These items are susceptible to theft or loss due to their portable nature and attractiveness for personal use or resale. Examples include mobile phones, digital cameras, and power and gardening tools. |
| Purchasing | Purchasing refers to the act of buying goods or services for the trust. |
| Receipt book | A receipt book contains duplicate or triplicate receipts that are used to record and acknowledge the receipt of payment for services provided by the trust. |
| Receivables | Receivables are monies payable to the trust for services delivered by the trust, such as a burial. |
| Segregation of duties | Segregation of duties is the concept of having more than one person complete a financial task. Segregation of duties is designed to reduce the likelihood of financial error or fraud, through ensuring that no one person has total, or near total, control over financial processing. |

1. Assets guideline

Although most Class B cemetery trusts have limited assets (such as general gardening equipment), it is important that any assets are protected and accounted for. The following controls are recommended:

1. All asset purchases should be approved by trust members.
2. Portable and attractive items should be appropriately secured.
3. Any assets of material value that are not covered by the Victorian Managed Insurance Agency (VMIA) policy should be separately insured by the trust (for example, a trust-owned motor vehicle).
4. An asset register should be maintained for insurance and assessment purposes.
5. An asset register should contain information on:
 - description
 - purchase date
 - cost
 - location
 - disposal details.
6. A trust member who is independent of day-to-day financial processing functions should conduct an annual stocktake of trust assets to confirm the existence, condition and location of assets.
7. Any stocktake differences following the annual review should be investigated and resolved.
8. The outcome of the stocktake, including any adjustments required to the register, should be presented to the next trust meeting for review and endorsement.

Assets – Issues for trust member consideration

| | |
|----------------|--|
| Asset security | Although the small number of assets at most trusts means trust members are aware of all the items and where they are stored, having a register of assets provides improved stewardship, accountability and security of assets, and may reduce the likelihood of loss or theft. |
| Annual review | Even though most trusts do not have many assets, a yearly check is worth undertaking to confirm that the assets do exist and that they are being appropriately stored. |

2. Banking and reconciliation processes guideline

Banking

This guideline should be read in conjunction with the *Cash handling guideline* and the *Security of financial information and periodic review of controls guideline*. It is important that cash and cheques are properly secured and can be accounted for at all times.

The following guidelines apply to banking:

1. Receipts should be banked as soon as possible. Ideally, cash receipts should be banked the same day. However, if the value of receipts is small, banking weekly is acceptable.
2. A bank deposit slip must be prepared for all banking. All cash and cheques being deposited must be recorded on the bank deposit slip.
3. At the time the deposit slip is prepared, the value of deposits should be checked against the value of invoices or receipts issued, to confirm that they match up.
4. Bank deposit slips must be signed by the person preparing and depositing the banking.
5. A record of the deposit must be maintained. This can be a deposit receipt, a duplicate deposit slip, or a deposit stub from a deposit book.
6. Transfers into and out of investment accounts should be approved by the trust members.

Bank reconciliations

Bank reconciliations should be performed monthly, even where there are very few transactions.

The completed bank reconciliation (including supporting bank statements) should be reviewed and signed off by an independent trust member (who is not a cheque signatory) before being presented to all trust members for review and endorsement at their next meeting.

Note that bank reconciliations apply to investment accounts, as well as to day-to-day operational accounts.

Preparation for the reconciliation

Complete these steps in preparation for the bank reconciliation:

1. All transactions for the month need to be recorded in the cashbook or general ledger. Receipts should be recorded from the deposit slips (and supporting invoices or receipts). Payments should be recorded from the cheque book (and supporting tax invoices or receipts).
2. All transactions on the bank statement should be ticked off against the cashbook or general ledger to ensure the statement is accurate and all transactions have been recorded in the cashbook or general ledger. Examples of items that will appear on the statement, which need to be entered into the cashbook or general ledger, include bank charges, any interest earned and any electronic deposits made directly to the trust bank account.
3. Checking the bank statement against the cashbook or general ledger will also identify any cheques that have not yet been cashed (unpresented cheques) and any deposits at month end that are not showing on the bank statement. Both of these are needed for the bank reconciliation.
4. Determine the closing balance of the cashbook or general ledger as follows (this step only applies if a manual cashbook or general ledger is being used – accounting software will automatically do this for you as part of the bank reconciliation process):

| | |
|---|-----|
| Opening cashbook balance for the month (the same as last month's closing balance) | X |
| Plus total receipts for the month per the cashbook | X |
| Less total payments for the month per the cashbook | (X) |
| Closing cashbook balance for the month | X |

Performing the reconciliation

Once the cashbook or general ledger and the bank statement have been fully checked against each other, the bank reconciliation can be completed.

1. For trusts that use accounting software, the reconciliation will be automatically performed once all transactions have been entered and the reconcile function has been selected.
2. For trusts using a cashbook, the reconciliation is a manual process. In the example below, the reconciliation starts with the cashbook and ends with the bank statement. It is just as acceptable to start with the bank statement and end with the cashbook. The specific order of the reconciliation does not matter, provided the cashbook and the bank statement reconcile.

Bank reconciliation for (insert month and year)

| | |
|--|-----|
| Closing balance per cashbook or general ledger | X |
| Less deposits not on bank statement | (X) |
| Plus unpresented cheques | X |
| Balance per bank statement | X |

If this number agrees with the bank statement, the bank reconciliation is complete. If not, see below.

If the reconciliation does not balance

If the bank reconciliation does not balance, the bank statements need to be rechecked line by line with the entries in the cashbook or general ledger to ensure that all transactions are correctly recorded in the cashbook or general ledger and on the bank statement. If the checking is done thoroughly, the difference will be identified. There are two simple ways to double check:

1. Recheck that all receipts per the cashbook appear on the bank statements. It may be necessary to refer back to individual receipts and bank deposit slips to determine if errors are in the cashbook or on the bank statement.
2. Recheck that all payments per the cashbook appear on the bank statements. Again, go through one by one until you find the difference. It may be necessary to refer to individual cheque butts to confirm if errors are in the cashbook or on the bank statement.

Banking and reconciliation processes – Issues for trust member consideration

Note that the purpose of a bank reconciliation is to reconcile between the bank account and the trust cashbook or general ledger. This ensures all transactions are completely and accurately recorded. Some specific considerations for trust members follow:

| | |
|-----------------------------|--|
| Frequency of banking | Daily banking or banking as soon as possible is preferred. This reduces the risk of loss or theft. |
| Frequency of reconciliation | A potential indicator of fraud or wrongdoing is the failure by the secretary or treasurer to complete the bank reconciliation in a timely and reliable manner. There is a greater likelihood of misappropriation of cash or cheques where monthly bank reconciliations are not completed. |
| Checking the reconciliation | <p>As the secretary or treasurer often performs all financial functions in small trusts, trusts should consider having a trust member who is independent of all day-to-day financial processing (and who is not a cheque signatory), to check the reconciliation each month. This will help reduce the risk of lack of segregation of duties allowing financial controls to be circumvented, which can lead to fraud (refer <i>Segregation of duties guideline</i> for further information).</p> <p>When reviewing the reconciliation:</p> <ul style="list-style-type: none"> ▪ ensure any unresolved differences between the closing cashbook balance and the adjusted bank balance are properly explained ▪ ensure any differences that are reported as a bank error (and therefore can't be fixed at the time the reconciliation is completed) do not carry forward from month to month. Any anomalies identified during the reconciliation process should be resolved during the next month. Carry-forward differences could mask improper activity. |

- check the actual bank statements to ensure that the closing bank balance has been correctly reflected in the bank reconciliation. If there is a problem with the reconciliation, simply changing the bank balance is an easy way to hide it. This applies also to the cashbook balance, so check it in the same way.
- check the additions of the bank reconciliation
- peruse the supporting bank statements to look for large or unusual transactions that may warrant specific explanation
- check that deposits not on the bank statement (deposits shown in the cashbook, but not on the bank statement at month end), appear on the bank statements within the first few days of the following month. This is important, as misappropriated cash receipts can be hidden by carrying forward items reported as deposits not yet on the bank statements.
- check supporting paperwork as detailed in the '*Reporting of financial Position*' guideline.

3. Cash handling guideline

Cash and cheques should be held securely so they can be accounted for at all times. The following controls are recommended:

1. Cash and cheques are to be kept in a locked cash tin or locked filing cabinet until they are banked. If a cash tin is used, it is preferable that it is securely stored.
2. If the trust maintains a petty cash float, it is important to keep petty cash and general cash receipts separate.
3. Receipts should be issued in duplicate for all payments received (cash or cheque). Receipts should be sequentially numbered. As receipt books provide a clear audit trail for cash and cheques received, all trusts must issue a receipt for payments received.
4. Receipts should be entered into the cashbook or general ledger in a timely manner. As a minimum, they should be entered each month as part of the bank reconciliation process.
5. All cheques received should be made payable to the cemetery only, and crossed 'not negotiable'.
6. For all cheques received, the numeric amount of the cheque must agree with the written amount.
7. All cash and cheques should be banked as soon as possible – refer to bank and bank reconciliation procedures.

Cash handling – Issue for trust member consideration

Issuing receipts

Receipts must be issued for all payments as it provides a clear audit trail from the receipt into the cashbook or general ledger and then into the bank. It is easier for money to be lost or not properly accounted for if receipts are not issued.

4. Petty cash guideline

Petty cash is normally used for small, day-to-day purchases such as stamps and general stationery. The value of the petty cash float (including any changes) should be approved by trust members and recorded in the minutes.

The following petty cash controls are recommended:

1. Documented procedures for how petty cash will be managed include:
 - the approved float balance
 - who will manage the petty cash float
 - what petty cash can and cannot be used for
 - what the maximum dollar value of an individual item can be
 - how often it will be reconciled
 - requirements for supporting evidence for all items of expenditure.
2. Petty cash should ideally be kept in a locked cash tin with limited access.
3. Each item of expenditure should be supported by a tax invoice or receipt. Small items, such as reimbursement of printing costs incurred by the secretary, should be supported by a note detailing the basis of determining the cost.
4. Each item of expenditure should be recorded in a petty cash book that includes the name of the claimant, the date of the expense, the amount and the nature of the expense.
5. Petty cash should ideally be reconciled each month at the same time as the bank reconciliation. However, if there are very few transactions, the trust members may agree that it will be reconciled quarterly, or when the float needs to be replenished.
6. The float should only be reimbursed after petty cash has been fully reconciled.
7. The cheque signatories signing the reimbursement cheque should review the reconciliation and test-check some of the listed expenses to the supporting invoices or receipts.
8. Both cheque signatories should sign the reconciliation as evidence that it has been checked and is correct.
9. The signed petty cash reconciliation should form part of the information presented to trust members at their meetings. Any unreconciled items or other issues with the reconciliation should be brought to the attention of trust members.
10. Once petty cash is reconciled, each item should be properly recorded against the relevant expense type in the cashbook or general ledger.

Petty cash – Issues for trust member consideration

Regular reconciliation

Petty cash needs to be reconciled and checked on a regular basis to ensure all purchases are genuine and related to the trust. Inappropriate, personal or fraudulent purchases can be hidden in a petty cash account that is infrequently reconciled or checked.

Checking the reconciliation

It is important not to simply sight a list of expenses recorded in the petty cash book. Every time a cheque is drawn to reimburse petty cash, an independent person (such as the second cheque signatory) should randomly check items of expense to see that they are supported by an invoice or receipt. This will ensure all expenses are genuine and related to trust business.

5. Personal expenses guideline

Under Schedule 1, clause 5 (1) of the Act, a member of a Class B cemetery trust, other than a member who is an employee of the public service, is eligible to be reimbursed for travelling and other allowances (personal expenses).

The Minister fixed the following fee structure for the reimbursement of personal expenses payable to a maximum of \$4,000 per annum:

| | |
|-------------------------------------|---------------|
| Travelling expenses | Up to \$2,000 |
| Postage and administrative expenses | Up to \$2,000 |

The reimbursement of personal expenses includes:

- travelling, accommodation, meals and other incidental expenses associated with attendance at meetings, overnight absence from home or absence from the normal work location in the course of undertaking trust business
- expenses associated with domestic travel on authorised trust business
- travelling expenses incurred in the course of authorised duties
- the purchase of postage stamps, paper or envelopes necessary to conduct the day-to-day operations of the trust.

According to Schedule 1, clause 5 (2) of the Act, the reimbursement of personal expenses is to be paid from trust funds.

In paying these expenses, the Minister has endorsed the following control requirements:

1. Claims must be reasonable and necessarily incurred. This is defined as being unavoidably incurred in the course of authorised work.
2. All expenses must be supported by an invoice or receipt, and the expense must be endorsed by the chairperson of the trust. Small items such as reimbursement of printing costs incurred by the secretary should be supported by a note detailing the basis of determining the cost.
3. Where a chairperson claims expenses, receipts must be endorsed by an authorised trust member.

In addition to the Ministerial requirements, it is recommended that:

- reimbursement for use of a personal vehicle for trust business should be either at cost or at Australian Tax Office (ATO) rates as agreed by the trust
- all expenses should be reimbursed through petty cash or paid by cheque
- allowances should not be paid in advance
- trusts keep accurate records to ensure allowances paid do not exceed the set limits. This can be achieved through maintaining a register of personal expenses that will allow the trust to quickly and accurately report on personal expenses paid to each trust member if required. Trusts may choose not to maintain a separate register, but sufficient records must be maintained to allow the trust to report on personal expenses paid to each trust member if required.

6. Grants, donations and fundraising guideline

Grants

Grants may be obtained from a range of sources, including federal, state and local government, local businesses and community groups. Each grant will have its own requirements for record keeping and acquittal. Trusts must ensure that they comply with the requirements of each grant, including the tracking of expenditure during the project, so they can account for the expenditure of grant monies if required. As with all expenses, tax invoices and receipts should be kept in support of grant expenses.

Donations

Donations to the trust can be a valuable source of income. If donations are received, the following controls are recommended:

1. A receipt should be issued for every donation.
2. The donation should be banked as soon as possible.
3. Donations should be recorded in the cashbook or general ledger on a timely basis. At the very least, this should occur at the end of the month when the bank reconciliation is performed. Donations should be separately identified from other sources of income.
4. Donations with attached conditions of use should only be accepted with the agreement of the trust.

Fundraising

If fundraising activity is undertaken, the following controls are recommended:

1. If possible, two trust members should count the proceeds from fundraising activities, and both should initial the bank deposit slip.
2. Fundraising monies should be banked as soon as possible.
3. Fundraising monies should be recorded in the cashbook or general ledger on a timely basis. At the very least, this should occur at the end of the month when the bank reconciliation is performed. Fundraising monies should be separately identified from other sources of income.
4. If fundraising is expected to raise more than \$10,000 in any one year, the trust must be registered with Consumer Affairs Victoria as a fundraiser operating in Victoria.
5. If the trust runs raffles (a raffle is a lottery in which a certain sum has been paid to enter or to participate in, in order to win prizes offered), it needs to be 'declared' (in effect, registered) as a community organisation or charitable organisation by the Victorian Commission for Gambling Regulation (VCGR). Trusts should understand their obligations by contacting the Victorian Commission for Gambling Regulation on 03) 9651 3333 or by visiting their website at <www.vcgr.vic.gov.au>.

Donations and fundraising – Issues for trust member consideration

Control over fundraising float and fundraising receipts

If fundraising activity is undertaken, normal controls around cash handling and banking should apply. It may be necessary to use an initial float of trust money if change needs to be given at a fundraising event. If so, ensure the float value is properly separated from any fundraising receipts at the end of the day. The same controls for cash apply to a float, and the float is to be organised in a minimum time period before the fundraising to reduce risk of loss or theft.

Money should be banked as soon as possible to minimise the risk of loss or theft.

7. Financial delegations guideline

Financial delegations provide the authority to incur expenditure and make payments for purchases. All trusts are encouraged to complete a financial delegation instrument that is approved by the trust. A standard template has been developed for this purpose and, is available on the department's website (see Appendix 1).

Where trusts elect not to use the financial delegation instrument template, they can choose to determine financial delegations and limits at a trust meeting. This information must be recorded and readily accessible.

When defining delegations, the following controls should be considered:

1. Delegations should apply to positions (for example, secretary or chairperson) and not individuals.
2. The register of delegations should detail the dollar limit of the delegation and whether there are any limitations or special conditions under which it may be used.
3. The dollar limit applying to delegations should be based on the normal value of transactions. As a guide, in small trusts it would be reasonable for the secretary to hold a financial delegation up to \$2,000, with the chairperson of the trust holding a delegation up to \$4,000. Beyond that value, the full trust should approve purchases.
4. The delegation limits are to be inclusive of GST.
5. Delegations should be reviewed by the trust members at least annually, with the review noted in the minutes. This can be as simple as confirmation that the trust members are happy with the existing delegations and cheque signatories.
6. Trust members should note that the power to make trust rules, fix trust fees and charges, borrowing and investment powers, and the power of delegation, cannot be delegated to an individual trust member. Refer to section 15 of the Act for full details of powers that trusts cannot delegate.

8. Financial policies and procedures guideline

Documented financial policies and procedures define the trust's financial policies and how they will be implemented. While it is up to the trust as to which policies and procedures it develops, these documents are a key part of trust governance and oversight. They provide a clear reference point for the financial and operational management of the trust, help to reduce errors and ensure that financial processes are consistent and repeatable if the responsibilities of trust members change, or new staff are employed.

Trusts should consider the following when developing policies and procedures:

1. Policies define the position of the trust. They are an overall plan intended to guide and determine trust decisions (for example, what the approved petty cash float is), whereas procedures define how the policy is implemented on a day-to-day basis (for example, how petty cash is recorded, evidenced, reconciled and reimbursed).
2. Policies and procedures should be documented and approved by the trust.
3. Policies and procedures should be periodically reviewed (annual review is preferred) and updated to ensure they continue to meet the needs of the trust.
4. Procedures should be sufficiently detailed to ensure that someone unfamiliar with the trust could step in and complete the financial processing if required.

Any policies that are developed by the trust **must** as a minimum reflect the advice in these guidelines. Some general (non-exhaustive) policy considerations for key financial processes are set out below:

1. Assets: The policy should include the approval process for asset purchases and the dollar value above which items are recorded as assets, noting also that items should generally be recorded as assets only if they have a life of more than one year. The policy should also cover the trust's position regarding the recording of portable and attractive items, stocktaking and disposals if applicable.
2. Cash handling, banking and bank reconciliations: The policy should include the trust's position regarding the handling of cash and cheques, the frequency of banking, and the frequency of bank reconciliations, including confirmation that all accounts will be reconciled monthly.
3. Invoices and receivables: The policy should address whether the trust raises invoices or issues receipts, or both. It should also specify whether or not the trust allows payment plans, under what circumstances, and for how long.
4. Petty cash: The policy should detail the approved float balance, how petty cash will be managed, how it will be secured, who will control and manage the petty cash, what petty cash can and cannot be used for, what the maximum dollar value of an individual item can be, and the requirement for receipts as proof of purchase and record keeping.
5. Purchasing and payables: The policy should cover required approvals, purchasing delegations and requirements for seeking quotes.
6. Reporting of financial position: The policy should specify the number of meetings to be held annually and the financial information to be presented to each meeting.
7. Segregation of duties: The policy should state the trusts' position with regard to segregation of duties, including what compensating controls it will implement to assure itself that there are adequate procedures and systems to prevent fraud, non-compliance or conflict of interest, where segregation is unable to be implemented.

9. Security of financial information and periodic review of controls guideline

Security of financial information

The following controls are recommended (as applicable):

1. Restricted access to the safe or cash tin.
2. Restricted access to petty cash.
3. Restricted access to the cheque book.
4. Restricted access to the cashbook or accounting software.
5. A limited number of authorised cheque signatories.
6. Restricted access to on-line banking facilities, ensuring two on-line authorisers for any payments or transfers that can be made through on-line banking.
7. Backup arrangements for accounting software and manual cashbooks include that:
 - weekly backup is preferred, but monthly backup is acceptable for trusts with small numbers of transactions
 - spreadsheets and accounting software can be backed up to memory stick, CD, DVD or other hard drive
 - manual cashbooks can be photocopied
 - ideally, backups should be stored with a trust member other than the secretary or treasurer who holds the original information.

Periodic review of controls

From time to time, it may be necessary to review the financial controls of the trust to ensure they continue to be appropriate and meet the trust's needs. Triggers for such a review include:

- change of trust members
- change of trust member roles and responsibilities
- change of paid secretarial staff (if applicable).

The following is recommended:

1. When reviews are conducted, the areas detailed above under Security of financial information should be addressed.
2. Any such review should be discussed at a trust meeting, with the outcomes of the review noted in the minutes.
3. At least annually, the trust should consider all of the above points and confirm in the minutes that it has reviewed financial controls. Any agreed control or process changes should also be minuted. Policies and procedures should be reviewed and updated at this time.

10. Invoicing and receivables guideline

Invoicing

Complete and accurate invoicing is essential to ensure that trusts receive the correct fees in a timely manner for services they have provided.

Although some trusts issue detailed receipts instead of raising invoices, and some both raise invoices and issue receipts, the same control principles apply:

1. Invoices should be raised as soon as possible after a service has been provided – one copy to the customer and the trust retains a copy.
2. Invoices should be raised at the correct gazetted fee amount. They should be checked before being issued to ensure they are complete and accurate.
3. Invoices should be numbered sequentially.

Receivables

When the trust receives payment for its services, the following controls should apply:

1. A duplicate receipt should be issued for all invoices paid. If the trust does not raise invoices, an itemised duplicate receipt should be issued.
2. All revenue should be banked in a timely manner.
3. All revenue should be recorded in the cashbook or general ledger in a timely manner.
4. If cheque payments are dishonoured by the bank, the trust should immediately follow up to ensure correct payment is received. Trusts should seek to recover any dishonour fees from the payee.

Most small trusts are paid for their services on the day of the burial or interment, or paid in full for a reservation before a right of interment is recognised. However, if the trust does allow clients to pay for services after they have been provided, the following controls should apply:

1. All invoices should clearly identify when payment is due. If the trust does not raise invoices, any agreed payment plans should be documented in a letter sent to the client.
2. At least monthly, outstanding invoices and payment plans should be followed up.
3. The status of all outstanding invoices and payment plans should be reported to trust members at each trust meeting.
4. If any outstanding invoices and payment plans for services already provided become unrecoverable, trust members should approve all bad debt write-offs.

Invoicing and receivables – Issues for trust member consideration

Payment plans and uncollectable amounts

- Allowing payment plans or delayed payment for services increases the risk of bad debts (where the trust ends up not getting paid for its services). The trust should closely monitor any receivables to ensure they are paid as agreed.
- The trust should also approve any amounts deemed uncollectable. Writing off receivables as uncollectable is a way in which fraud can occur, as receivable amounts paid in cash could be misappropriated and then written off.

11. Purchasing and payables guideline

General purchasing guidelines

The following purchasing controls are recommended:

1. Purchases should only be made by trust members or staff who hold a financial delegation for purchasing (refer *Financial delegations guideline*).
2. Tax invoices and receipts should be obtained for all purchases.
3. Purchases other than day-to-day items should be agreed with trust members.
4. For large, higher value purchases, trusts should consider using some form of purchase order as a way of confirming their requirements at the time of the order.

Getting quotes

Small trusts are usually in regional Victoria and it can be difficult to get more than one or two quotes for large purchases. It is also important to support local communities. These points need to be balanced with the need for trusts to obtain value for money in purchasing. Accordingly, the following quotation rules are recommended.

1. For purchases less than \$2,500, obtain at least one verbal quote (but preferably in writing).
2. For purchases \$2,500 to less than \$5,000, obtain at least one written quote.
3. For purchases \$5,000 to less than \$25,000, obtain at least three verbal quotes sought, with the recommended quote in writing (noting, however, that it is preferable if all quotes are in writing).
4. For purchases \$25,000 to less than \$150,000, seek at least three written quotes, with at least one of those from a small business (20 or less employees).
5. For purchases greater than \$150,000, conduct a public tender.

For all purchases greater than \$1,000, it is recommended that trust members agree to the purchase in advance.

Note also that when applying for grants, trusts will need to comply with the specified quotation requirements for the grant application.

Making payments

1. All invoices should be paid when they are due.
2. Payments should only be made against tax invoices or a statement that has first been reconciled to supporting invoices.
3. Before an invoice is paid:
 - the trust should ensure the goods or services have been fully and properly received
 - the trust should check that goods received are fit for the purpose ordered
 - the invoice should be checked for mathematical accuracy
 - the trust should check to confirm that the invoice is not a duplicate payment.
4. All payments should require either two cheque signatories or two on-line authorisations if internet banking is used. Original paperwork supporting the payment must be provided to the second cheque signatory or authoriser to enable them to check the payment to be made.
5. Where paying by cheque, there should be limited access to the cheque book, and blank cheques should never be signed in advance by a second cheque signatory.
6. When invoices are paid, they should be marked as paid, including the cheque number and date (consider using a stamp to indicate on each invoice that it has been checked and paid).

7. Both cheque signatories should initial the cheque butt and sign the original invoice as evidence it has been checked, and that it relates to the business of the trust.
If invoices are paid via EFT or BPay, the electronic receipt number for the transaction should be recorded on the invoice, as well as the date.
- 8 All payments should be recorded in the cashbook or general ledger in a timely manner. This should occur at least monthly, as part of the bank reconciliation process.

Purchasing and payables – Issues for trust member consideration

Cheque signatories

- Regardless of whether payments are by cheque or through internet banking, there must always be a second person to make the payment. Allowing only one cheque signatory or one on-line authorisation leaves the trust exposed to fraud or theft.
- Trust members should never sign blank cheques. Although the treasurer or secretary of each trust is usually a respected and trusted individual, there is the opportunity for wrongdoing if blank cheques are signed by a second signatory.

Checking the payment

- The second cheque signatory or on-line authoriser must ensure they review the original paperwork supporting the payment. This is the only way to be sure that the payment is bona fide. Trust members should note that they will be held accountable for fraudulent payments where they have not checked the supporting paperwork.

12. Reporting of financial position guideline

Regular reporting of the operations and finances of the trust is a critical part of the governance of the trust. It supports financial control, transparency, accountability, and compliance with financial management responsibilities under the Act.

Recommended controls

The following controls are recommended:

1. Trusts with low levels of activity (less than 15 interments a year) should meet at least four times a year, with financial information provided at every meeting.
2. Trust with moderate levels of activity (more than 15 interments a year) should hold a meeting each month.
3. A trust may decide to meet less frequently than four times a year if it has few or no interments, but trust members should be aware that less frequent meetings reduce the level of financial governance. Trust members in these situations should make themselves available to verify financial records as required outside trust meetings.
4. All trust meetings should be properly minuted, including any significant discussions and decisions made. It is important that evidence of trust review and endorsement of the financials is recorded in the minutes.
5. The financial information to be presented at every trust meeting includes:
 - details of receipts and payments for the period. If these are presented in summary format, the full supporting cashbook or general ledger should also be available for review. If the trust prepares budgets, then it is good practice for the receipts and payments to be reported against budget.
 - bank reconciliation(s) for the period, including reconciliations for all investment accounts
 - cheque books, deposit stubs or deposit receipts, and supporting bank statements.
 - original invoices supporting all payments made
 - details of the petty cash reconciliation (if applicable), including supporting receipts and invoices
 - copies of invoices or receipts issued supporting all income for the period
 - details of any outstanding receivables, such as clients on payment plans
 - details of any material outstanding accounts payable.

Independent review of financial information

For some trusts, all day-to-day financial management is performed by one person, and review and discussion on financial management at trust meetings is limited, or the financial literacy of other trust members is limited. In these cases, it is recommended that before each trust meeting, a trust member who is independent of all day-to-day processing functions and who is not a cheque signatory, should review the bank reconciliation and all receipts and payments for the period. Once the review is completed and the trust member is satisfied that everything is in order, they should sign the bank reconciliation and cashbook or general ledger printout as endorsement that all transactions have been checked and are bona fide.

This review should include:

- tracing all expenses listed in the cashbook or general ledger to supporting cheque butts and original supporting tax invoices and receipts. For expenses, ensure all invoices are marked as 'paid' (including the cheque number and date paid), and ensure both cheque signatories have initialled the cheque butts and signed the original invoice as evidence it has been checked and that it relates to the business of the trust.
- tracing all invoices and receipts for services provided into the cashbook or general ledger and the bank
- checking that the bank reconciliation shows the correct reconciled balances by reference to the cashbook or general ledger balance and the original bank statements.

Annual review

At least annually, trusts should critically review their financial operations to confirm they are comfortable with the controls and processes in place. This can be discussed at a trust meeting, with the minutes reflecting the discussion and any agreed changes. Ideally, this review should occur before the annual Abstract of Accounts is provided to the department.

Reporting of financial information – Issues for trust member consideration

Regular reconciliation

- The best way for trust members to guarantee sound financial management is to ensure that the records of the trust are updated and reconciled each month.
- Monthly reconciliation means all receipts and payments will be entered into the cashbook or general ledger in a timely manner, and that bank accounts are also reconciled in a timely manner.
- Regular reconciliation is critical in small trusts where one person performs all day-to-day financial processing, as it is necessary to account for all financial transactions of the trust.
- Trust members should be aware that there is the risk of theft or fraud where one person performs all day-to-day financial processing. A key sign that something may be amiss is failure to reconcile bank accounts regularly, and to present the reconciliations (together with all supporting information) to trust members for review.

Review of financial information

- Independent review of all transactions for the period as detailed under 'Independent review of financial information' will provide trust members with assurance regarding the financial management of their trust. As all trust members have a responsibility for prudent financial management, it is important that trusts implement this control, or other similar mechanisms, to gain assurance about the trust finances. All trust members are accountable for the proper management of the trust.

13. Segregation of duties guideline

Background

Segregation of duties means having more than one person complete a financial task. Segregation of duties is designed to reduce the likelihood of financial error or fraud through ensuring that no one person has total, or near total, control over financial processing. Segregation should ensure that end-to-end responsibility for any series of financially related transactions is distributed among two or more staff or trust members. The general rule is that responsibility for processing a transaction should be separated from the review and approval roles.

Balancing segregation with practicality

Although it is preferable for segregation of duties to be implemented, in small trusts with a low level of financial activity, it may not be practical or possible to have multiple people involved in financial processing. In these circumstances, the importance of the oversight and review role of the trust is heightened as a compensating control (refer to *Reporting on financial position guideline*, particularly regarding independent monthly review of transactions).

As each trust is responsible for the financial management of the trust, they must make decisions based on the risks, relative to the size and scope of operations, as to whether financial processes need to be segregated to increase control, or whether the trust is prepared to rely on financial review and oversight of its financial transactions by trust members at trust meetings. This decision and its rationale must be clearly recorded in the trust minutes.

Recommended segregation of duties controls

If trusts **are able to** introduce segregation of duties, the following is recommended:

1. Segregation of duties should be documented and defined.
2. Segregation should be reviewed at least annually for continued appropriateness.
3. Segregation should be reviewed whenever staff or operational circumstances change.
4. The secretary (or whoever performs day-to-day financial processing) should not have approval or cheque signatory rights.

There should be operational segregation between processes, specifically:

Purchasing, payables and asset management

- the approval to purchase and the creation of purchase orders (if orders are used)
- the approval for order variations and the creation of the variation (if orders are used)
- responsibility for purchasing and responsibility for processing the payment
- responsibility for processing invoices and final delegate approval before payments are made
- responsibility for processing invoices and cheque signatories if paying by cheque
- between all purchasing and accounts payable functions, and maintenance of supplier details such as bank account details, if an electronic accounting system is used to maintain and pay suppliers
- purchasing and asset management responsibilities.

Invoicing, receivables, banking and reconciliations

- the receipting of cash and the banking of cash
- the receipting of cash and the management of debtors (accounts receivable)
- the receipting of cash and the processing and approval of credit notes

- the receipting and banking functions, and responsibility for bank reconciliations
- review and approval of bank reconciliations and the conduct of bank reconciliations
- the creation of adjusting journals and the approval of the journals (if an electronic accounting system is used).

Wages and employee information

- Payroll processing and checking and approval of wages, including adjustments
- Payroll processing responsibility and the maintenance of employee-related salary and wage data
- Payroll processing and cheque signatories.

14. Wages and allowances guideline

For trusts that employ a paid secretary (who is not a trust member¹) or pay agreed fixed allowances to trust members performing secretarial functions, the following controls are recommended:

1. All allowances and wages should be documented and approved by the trust members. Where applicable, this should include:
 - rates of pay and allowance rates
 - entitlement to superannuation guarantee
 - entitlement to sick leave, annual and long service leave (trusts should refer to <www.fairwork.gov.au> for further information regarding entitlements and obligations when employing paid staff)
 - any agreed deductions to be made by the trust on behalf of the employee
 - any agreed changes to rates of pay or allowances.
2. Before allowances or wages are paid, there should be independent review and approval of the calculation to ensure it is correct. This can be performed by the second cheque signatory or the second on-line authoriser. The check should include:
 - correct hours and allowances.
 - correct rates of pay and allowance rates used
 - correct rates of tax and other deductions, if applicable
 - correct superannuation guarantee paid, if applicable.
3. Payment should preferably be by cheque with two signatories. If paying wages electronically, two independent people must authorise the payment on-line.
4. Payments should be recorded in the cashbook or general ledger in a timely manner.
5. Any overpayments should be deducted from the next pay, if not previously repaid.

Staff cessation

Staff cessation procedures should ensure that:

- all keys and other trust items are returned to the trust or chairperson prior to the staff member ceasing duties
- controls such as cheque signatories, safe access, cash tin access, accounting system access and on-line banking access is reviewed and amended accordingly.

Australian Tax Office compliance matters

Withholding tax

If a trust employs staff, it may need to comply with certain Australian Tax Office (ATO) requirements concerning withholding tax. Withholding tax requires the employer to withhold amounts from an employee's pay and to send the withheld amount to the ATO.

Section 12-35 of the *Taxation Administration Act 1953* (TAA) states: 'An entity must withhold an amount from salary, wages, commission, bonuses or allowances it pays to an individual as an employee (whether of that or another entity)'.

This provision applies to:

- trusts that employ staff, including a secretary or grave digger
- trust members who receive an honorarium for the performance of certain duties. NOTE - Trust members cannot hold paid positions in the trust.

Trust secretaries or other trust employees who do not complete a Tax File Number (TFN) Enquiry form and do not provide an Australian Business Number (ABN) or TFN to the trust will have 46.5% withheld from their payments. Trusts are required to remit this withheld amount to the tax office.

¹ Please note trust members cannot hold paid positions in the trust.

Withholding tax and reimbursement of expenses

Reimbursement² of travelling, meals and other agreed expenses incurred by a trust member is **not** subject to PAYG withholding tax.

NOTE - If a trust member is seeking reimbursement of expenses, they **do not** have to provide their TFN to the trust.

In order to comply with withholding tax provisions, trusts have to:

- register for withholding tax with the ATO
- remit their withholding tax quarterly. The amount of withholding tax on employee salaries can be combined with staff withholding tax if the trust employs other staff
- issue payment summaries to secretaries at the end of a financial year.

Superannuation guarantee

Trusts may also be required to make superannuation payments on behalf of their paid employees.

Independent advice from the ATO

As this is a complex matter, it is advised that trusts seek independent ATO advice regarding their specific circumstances to ensure they are complying with the requirements for withholding tax and the superannuation guarantee.

Trusts may also refer to the publication, 'Tax basics for non-profit organisations' that can be downloaded from the ATO website at <www.ato.gov.au> or contact the business tax enquiries line on 13 28 66.

Trust members who are paid an honorarium

Trust members who receive an honorarium of less than \$1,800 are not required to meet the TFN or ABN requirements described above.

Wages and allowances – Issues for trust member consideration

| | |
|---|--|
| Checking pay and allowance calculations | <ul style="list-style-type: none">▪ As the secretary usually prepares their own pay calculation (either wages or allowances), it is important that someone independent thoroughly checks the calculation. It would be relatively easy for error or fraud to occur in this area if it is not properly controlled. |
| ATO compliance | <ul style="list-style-type: none">▪ Trusts need to ensure they meet their obligations with regard to PAYG withholding tax and the superannuation guarantee.▪ The ATO may deem that even where fixed allowances are paid, as services have been provided, the individual needs to be categorised and treated as either an employee or contractor.▪ Trusts should contact the ATO to seek specific advice about the circumstances applying to their trust. |

² ATO's PAYG Withholding Bulletin No.1 2000/01 exempts reimbursement of actual expenses from PAYG withholding tax.

Appendix 1

SAMPLE INSTRUMENT FOR CLASS B CEMETERY TRUSTS

CEMETERIES AND CREMATORIA ACT 2003 SAMPLE INSTRUMENT OF DELEGATIONS FUNCTIONS AND POWERS

1. Commencement

This Delegation commences on *[insert date]* and remains in force until such time as the instrument is varied or revoked by the Cemetery Trust.

2. Interpretation

In this Instrument:

Act means the *Cemeteries and Crematoria Act 2003*.

Cemetery Trust means the *[insert name]* Cemetery Trust, constituted under the Act.

Functions and powers means the functions and powers of the Cemetery Trust under the provisions of the Act specified in column 1 of the Schedule.

Schedule means the attached Schedule to this Instrument of Delegation.

Officers means the persons named in or for the time being holding, acting in or performing the duties of the respective offices or positions in the Cemetery Trust.

3. Delegation

The Cemetery Trust met on (insert date) and agreed at this meeting and acting under section 15 of the Act to:

- (a) **DELEGATE** its functions and powers to the officers specified in column 3, subject to the limitations, if any, specified in column 4, of the Schedule; and
- (b) **REVOKE** any and all previous instruments of delegation made by the Cemetery Trust of its functions and powers under provisions of this Act.

Signed at *[insert place]* in the **State of Victoria**

This *[insert day]* day of *[insert month]* 20*[insert year]*

THE COMMON SEAL of **[INSERT NAME OF CEMETERY TRUST]** a body corporate established)
 under the Cemeteries and Crematoria Act 2003 was)
 affixed in the presence of:

.....
Signature of Secretary of the Trust

.....
Name of Secretary of the Trust

.....
Signature of Chairperson of the Trust

.....
Name of Chairperson of the Trust

| | |
|-----------------------------------|---|
| SOURCE OF AUTHORITY/POWER: | CEMETERIES AND CREMATORIA ACT 2003 |
| HOLDER OF POWER/FUNCTION: | CEMETERY TRUST |
| AUTHORITY TYPE: | FINANCIAL DELEGATION |

| COLUMN 1 STATUTORY PROVISIONS | COLUMN 2 DESCRIPTION | COLUMN 3 DELEGATE(S)³ | COLUMN 4 LIMITATIONS |
|--|---------------------------------|---|---------------------------------|
| Section 15(1) | Expenditure | Trust secretary | up to \$2,000 per transaction |
| Section 15(1) | Expenditure | Chairperson | up to \$4,000 per transaction |
| Section 15(1) | Expenditure | Trust member | up to \$4,000 per transaction |
