



Financial Management Toolkit

September 2018

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None of the material is, or should be regarded as advice. This does not replace obtaining financial advice on each sport's specific requirement and it is recommended you do so.

ACKNOWLEDGEMENT

The NSW Office of Sport gratefully acknowledges the work done in sport governance by other organisations which are referenced throughout the Toolkit.

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Table of Contents

Introduction	5
Stream 1 Roles & Responsibilities	6
1 Roles & Responsibilities	7
1.1 Who’s Responsible?.....	7
1.2 What are the roles and responsibilities?.....	7
1.4 What does a successful Treasurer look like?.....	9
1.5 Should we consider advisory functions?	9
Stream 2 Planning	11
2 Planning	12
2.1 What do we want to achieve?.....	12
2.2 What have we got to invest?.....	13
2.3 What is a budget?.....	13
2.4 Strategic Initiatives vs. Day to Day Operations	14
2.5 Allocating scarce resources	14
2.6 How do our decisions as a board affect the budget?.....	14
Stream 3 Structures & Compliance	15
3 Structures and Compliance	16
3.1 How is our sport structured?.....	16
3.2 What does this structure mean?	16
3.3 Do we have to be audited? Why?	16
3.4 Who are the external users of our financial statements?.....	18
3.5 Have we checked our tax exempt status?.....	18
3.6 What about GST?.....	18
3.7 What are employment taxes?	19
Stream 4 Financial Risk Management	20
4 Financial Risk Management	21
4.1 What is financial risk?.....	21
4.2 What are internal controls?.....	21
4.3 Are we too small to have controls?.....	22
4.4 What questions should we be asking about controls?.....	22
4.5 What can go wrong?.....	23

Stream 5 Keeping Score.....	24
5 Keeping Score	25
5.1 Cash vs. Accruals?.....	25
5.2 What systems should we use?	26
5.3 What outputs should we produce?.....	26
5.4 How does a decision get into our records?	27
5.5 What is a balance sheet?	27
5.6 What is an income statement?.....	27
5.7 What is a cash flow?	27
Stream 6 Performance	28
6 Performance	29
6.1 What information should be presented?	29
6.2 How often should we get information?	30
6.3 Are there financial ratios we should consider?	30
6.4 What questions to ask of the financials?.....	32
7 Glossary of key terms.....	33

Introduction

The Sports Financial Management Toolkit (Toolkit) has been developed by the New South Wales Office of Sport (OoS) to assist New South Wales State Sporting Organisations (SSOs) improve financial management practices and skills.

For NSW SSOs financial management and reporting involves board secretaries, treasurers, officers, board and committee members being able to;

- read and interpret financial statements and consider financial reports and legal requirements;
- examine the types of reports which should be provided to the board;
- reflect on the financial and non-financial metrics which provide knowledge about your SSO's organisational performance;
- assess the board's or committee of managements responsibilities with regard to reporting against legislative and funding requirements;
- effectively manage SSOs funds; and
- implement sound financial practises and understand your organisations financial position and obligations.

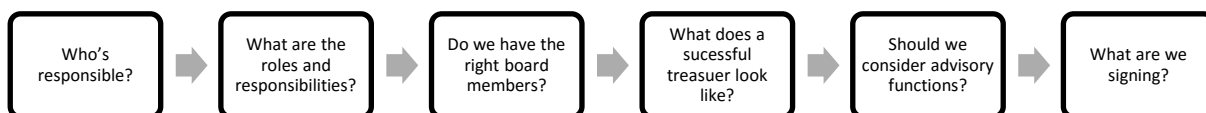
SSOs should keep accurate and up-to-date records of financial transactions. The exact requirements may vary depending on the legal structure of your organisation (i.e. incorporated as associations under the Associations Incorporation Act 2009 (NSW) (the Act) or as company limited by guarantee.

Stream 1

Roles & Responsibilities

1 Roles & Responsibilities

Like all things, boards and treasurers should evolve over time. As board members, it is important to understand your obligations, and seek support and guidance when unsure. To use a sporting analogy, performance is often mapped to the training hours put in. The role of the board is not fixed, and requires ongoing training, support and implementation. All boards should reflect on the diversity of skills they have available, the challenges they are facing and the obligations they are making for their sport.



1.1 Who's Responsible?

A board? A committee? Call it what you like – but in any State Sporting Organisation they play a significant role in driving success. What is important to note is success can mean many things, and a board has to define this and navigate accordingly.

Whilst this guide covers the financial management of a State Sporting Organisation, the role of the board does not stop with this. Participation, community engagement, competition results, Olympians – all sports will have different goals. What are yours?

Finance is a small element of the overall strategic directive of the board, but is important to note that all board members are responsible.

From a financial viewpoint, the treasurer will often be charged with matters pertaining to finance. It is incredibly important to understand that a board is a team sport. Whilst the treasurer may be the star with numbers, the board runs the game plan. In running this game plan, there is a joint sense of commitment and responsibility.

1.2 What are the roles and responsibilities?

Directors owe certain duties to its State Sporting Organisation and members. These duties require directors to act competently, honestly, in good faith and in what they consider to be the best interests of the State Sporting Organisation. Under the *Corporations Act* or *Associations Incorporations Act (NSW)*, if a director fails to satisfy any of these duties, they could ultimately be liable to compensate members of the organisation or third parties who suffer loss as a result of that failure.

As guidance, the following are some of the broad principles which are relevant in determining if a director has fulfilled their duty of care, skill and diligence to the State Sporting Organisation. Although the list is not exhaustive, it serves as good guidance¹:

- Take reasonable steps to place themselves in a position to guard and monitor the management of the State Sporting Organisation;
- Acquire a working knowledge of the fundamentals of the business of the State Sporting Organisation;

¹ Financial Management. It's your business. Produced 2003 NSW Department of Tourism, Sport and Recreation

- Remain informed about the activities of the State Sporting Organisation and assess the safety and properness of the business practices of management;
- Generally, monitor the State Sporting Organisations affairs and policies, although a detailed inspection of day to day activities need not be undertaken;
- Maintain a familiarity with the financial status of the State Sporting Organisation by regularly reviewing the financial statements; and
- Make enquiries of matters identified within the financial statements that require action or more information.

Whilst the roles of directors are often well known, it is important to note the role officers have within your State Sporting Organisation. Dependent upon the circumstance, an officer can have the same obligations as a director. These circumstances are shaped by legislation (such as the *Corporations Act* or the *Incorporated Associations Act (NSW)*), and in summary, an officer is:

- A director or secretary; or
- A person who makes or participates in making decisions, has the capacity to affect the financial standing of your State Sporting Organisation or provides instructions to which the directors act upon.

Officers in your State Sporting Organisation could include for example a Chief Executive Officer, a Secretary or Chief Financial Officer.

As a closing thought, ASIC provide this guidance which is also worth considering:

What you need to know as a director or office holder	Guidance
<p>As a director or officeholder, your key duties include:</p> <ul style="list-style-type: none"> – being honest and careful in all your dealings – understanding what your company is doing – making sure your company can pay its debts on time – ensuring your company keeps proper financial records – acting in the company's best interests, even if this conflicts with your personal interests – using any information only for the good of the company. Using information to gain an unfair advantage for yourself or others could be a crime. <p>If you have any personal interests that conflict with your duties as a director, you should disclose these at a directors' meeting.</p>	<p>When acting as a company officeholder, keep the following in mind:</p> <ul style="list-style-type: none"> – always be honest and diligent when acting for the company – understand your obligations and make compliance a part of your business – understand your company's financial position and business dealings – always act in the best interests of the company, its shareholders and creditors – seek professional advice if you're in doubt.

Source: <https://asic.gov.au/for-business/running-a-company/company-officeholder-duties/your-company-and-the-law/>

1.3 Do we have the right board members?

Each State Sporting Organisation will be compiled differently, however a highly functional board helps navigate an often delicate financial path. Some boards will have executive members such as a Chief Executive Officer or Chief Financial Officer, whilst others will rely solely on volunteers. Regardless of size and composition, the role a board plays in the finances should be consistent. In compiling your board, it is important to consider if you have the financial literacy to not put at risk your sport, or you as board members or officers individually.

The Sports Governance Capability Framework available through www.sport.nsw.gov.au should be the starting point to consider board compositions and skill matrix assessments.

1.4 What does a successful Treasurer look like?

State Sporting Organisations, more than most, understand the importance of keeping score. Enter the treasurer, an often thankless role that is paramount to every State Sporting Organisation. Put simply, the treasurer is the board delegate responsible for maintaining financial records for the board's consideration. Depending on the size of your State Sporting Organisation, the treasurer may have help in the form of a CEO, finance manager or bookkeeper, or they may also maintain the books and records.

Given the often limited resources available, the treasurer roles can be a balancing act. Whilst profit and loss and balance sheet can be a retrospective focus, the treasurer needs to be able to plan for the future, ensuring the strategic objectives of the State Sporting Organisation are supported by the appropriately available resources.

A successful treasurer will, amongst other things:

- Develop close working relationships with bookkeepers, finance managers and those responsible for maintaining records;
- Provide considered content for consideration by the board;
- Have a sound understanding of the reporting obligations of the State Sporting Organisation;
- Develop strong relationships with external funding bodies;
- Be inquisitive and ask questions;
- Challenge the financials and ask the right questions – bringing the board with them in these discussions;
- Act as a conduit between the board and their auditors;
- Work with various other functions to ensure alignment of intentions – i.e. fundraising, participation etc.

1.5 Should we consider advisory functions?

The board are ultimately responsible for the financial performance of a State Sporting Organisation. In establishing sound financial governance, the use of a financial advisory or audit and risk committees are worth exploring. These can come in all shapes and sizes, and are commonly referred to as examples:

- Audit and risk committee;
- Finance and audit committee; and
- Financial advisory committee.

Regardless of size and structure, this committee or sub-committee are able to support the board, and the treasurer, in the financial outputs of the State Sporting Organisation. It is important to charter these appropriately to provide appropriate guidance.

As an example, Swimming NSW, as published in their [annual report](#), use a finance and risk committee:

The role of the Committee includes assisting the Board with the Company's governance and the exercising of due diligence throughout its operations while supporting the Board in the development of Board policy and monitoring the activity of the Company within the scope of its remit. The Committee also acts as a support to the Board in its strategic decision-making process by the review and provision of advice about the:

- Integrity and reliability of financial, budgeting and audit reporting processes. This also includes the application of appropriate accounting policies.*
- Adoption of risk management strategies to manage/monitor both current and emerging financial and operational risks.*
- Investment of the Company's surplus funds and the resultant performance of those investments and the appointed investment manager.*
- Compliance of the Company's Work Health and Safety policies and practices to relevant legislation.*
- Focusing of the Company's business policies and practices upon the protection of the Company's assets.*
- Effectiveness of the systems in place which go toward ensuring compliance to the Company's system of internal controls.*
- Independence, objectivity and effectiveness when considering the selection and appointment of the external auditor and the liaison with that auditor during the annual audit process.*

The creation of such committees puts an area of focus on this core function, with the ability to align the overall objectives to the financial objectives. These committees can be compiled of board members, but increasingly they are leveraging external advisors or volunteers to provide technical expertise.

In considering an advisory committee, it is worth asking the following:

- Does the board have appropriate resources to address all finance and risk obligations, or would they benefit from recommendations being made?
- Does external resources exist that could be utilised within a finance and risk committee environment?
- Do board meetings get consumed with financial reporting?
- Is there an appropriate sounding board to frame and challenge financial policy, management and risk?

1.6 What are we signing?

As a board, you have a fiduciary responsibility to your sport. It is essential that you take the time to understand your decisions, and seek clarity and guidance if you are unsure.

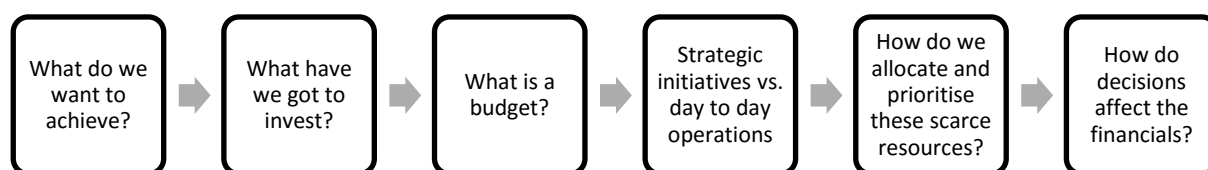
Stream 2 Planning

2 Planning

Planning cannot happen without having a clear set of objectives. What are you trying to achieve? How are you going to get there? Can you afford it? What are the enduring benefits?

Planning in a financial sense should not be seen as something that happens once a year. Setting a budget, and then reflecting twelve months later can often be a default position.

The concept of 'scarce resources' holds true for State Sporting Organisations, particularly for those heavily reliant on funding. By starting with goals, planning toward allocating these resources can begin. Do you want to grow participation? Maybe invest into community engagement programs. Perhaps the focus is on winning? Maybe invest into high performance coaching.



2.1 What do we want to achieve?

A board or committee should spend time regularly to set out their objectives and strategy. In looking at what you are trying to achieve, a board can then look to plan and prioritise how to get there. A good starting point for a board is to consider:

1. What is it we want to do for the sport? For example:
 - Participation?
 - Community engagement?
 - Grass roots support?
 - Facilities for future generations?
 - Winning?
2. What timelines are realistic in achieving these goals?
3. What are the enduring benefits these goals create?
4. With what resources can we make the vision a reality?

A business planning process to map out what you hope to achieve is a fundamental document for all State Sporting Organisations. It becomes your road map, your game plan. Please refer to Strategy and Planning resource in the Running Your SSO toolkits on the Office of Sport website (<https://sport.nsw.gov.au/clubs/ryssso>)

2.2 What have we got to invest?

Funding sources can vary year on year, and it is important to understand the types of income you will likely have available, and how these funds are to be used. As treasurer, and as the board, you should consider:

- Where does our revenue come from?
- When will we receive this money?
- What is the appropriate price to charge for our service / participation etc.?
- What sources of external funding are available?
- Are there any grants we could explore to grow the sport?

It is important to have a strong sense of where funds are available so as to consider how they should be invested. It is worth periodically checking with <https://www.sportnsw.com.au/> to better understand what might be possible.

2.3 What is a budget?

Simply put, a budget outlines your State Sporting Organisations finances and maps your forward direction. Better practice would suggest that a budget should be prepared at least annually, and serves as a reference point for boards and committees to assess actual performance to expectation. Within this guide there is further information on how to assess performance.

The highlights of a good budget link back to planning. In looking at what you want to achieve, you can now overlay the financial elements. Whilst it can be hard to predict the future, your budget will require a series of assumptions. It is suggested that amongst other things you should consider:

- Look at past revenues, and assess if they are recurring or one off in nature;
- Look at past expenses, and assess if they are recurring or one off in nature;
- Consider if any of your goals will drive more revenue opportunities;
- Consider what will be required to be spent to achieve your goals; and
- Understand the timing of your receipts, remember you cannot spend what you don't have.

History will serve as a guide to the future, but critically challenge the past with an eye to what is possible tomorrow and beyond.

The budget belongs to the board, and it does serve as a wonderful reference point in assessing and approving spend throughout the year. Monitoring it can often be the starting point for sound financial controls.

3 Way Budgets

The trap many State Sporting Organisations fall into is only considering revenues and expenditure in budgeting. This assumes that cash and expenditures are perfectly aligned, which is not the case. It is important to remember, some level of spend will be for the future, creating an asset, rather than an expense.

The concept of a three way budget is intended to extend the planning process beyond revenue and expenditure, and plan how assets, liabilities and cash will be impacted throughout the year. In doing this through your budget process, it is recommended that you:

- Estimate your revenues and expenditure;
- Consider these from a cash in and cash out perspective;
- Factor in this interaction with the balance sheet; and

- Project if there are any likely deficiencies in cash throughout the year and consider the impact on operations or the need to defer or seek funding.

2.4 Strategic Initiatives vs. Day to Day Operations

In budgeting or planning, it is important to make the distinction between strategic initiatives and day to day operations. This is a real balancing act.

- Day to day operations should consider the costs that have to be incurred to operate effectively – rent, wages, electricity, insurances etc.
- Strategic initiatives are the things you will invest in for future generations – facilities, coaching, participation etc.

If one is neglected over the other there can be ramifications. Focussing on day to day can lead to losing sight of the future, but equally, neglecting the day to day can sacrifice the ability to be there in the future. As a board, it is really important to plan this accordingly.

2.5 Allocating scarce resources

A board should sign off on the budget at a point in time they are comfortable the outcomes are aligned to the goals of the State Sporting Organisation. The notion of scarce resources is ever apparent in sports, and the board must look to ensure that monies are spent to better the sport and enable it to reach its goals.

In allocating monies through a budget process, it should challenge you to:

- Prioritise key initiatives;
- Assess those that can have the biggest impact; and
- Consider those that are for the betterment of the sport.

2.6 How do our decisions as a board affect the budget?

In most instances, a decision of the board or committee will be able to be traced through the budget process. The following worked example demonstrates the interdependencies in planning and the financial outcomes.

Worked Example

Extract from Committee Minutes	Outcome to budgeting
The committee sought and had approved funding to grow the game in regional centres.	<p>Grant revenues should be recognised in accordance with the grant agreements.</p> <p>Budgeted expenses should be recognised in terms of spend required to reach the desired goals</p> <p>Any assets created should be considered for inclusion into the balance sheet</p> <p>The timing of cash flows should be considered – it is highly unlikely that cash in will be at the same time as cash out.</p>

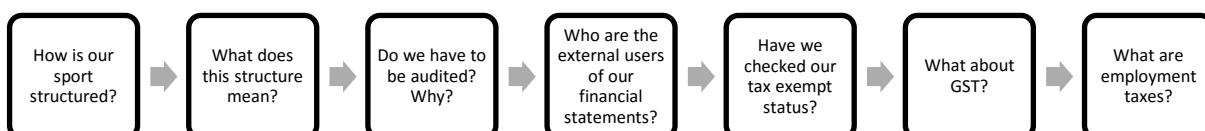
Stream 3

Structures & Compliance

3 Structures and Compliance

The term structure can have various meanings for different roles within your State Sporting Organisation. Some may see it as their employee organisational structure, or board structure, however within the context of this toolkit, we are referring to the legal entity structure.

The manner in which your State Sporting Organisation is structured will often mandate your compliance obligations. As examples, these obligations can extend across reporting, auditing and taxation. Do you know how you are structured?



3.1 How is our sport structured?

The way in which your sport is structured is often inherited. It is often a good idea at the time, but has not been subjected to review for some time. The manner in which you are structured can dictate much of your compliance obligation.

Common structures within the sporting sector include:

- Public Company limited by guarantee; and
- Incorporated associations.

3.2 What does this structure mean?

The decision to form either structure will depend on your individual circumstances. Throughout the Governance Toolkit (<https://sport.nsw.gov.au/clubs/ryssso>), the implications of these structures are explored.

Please refer to this guidance (<https://sportandrecreation.nsw.gov.au/sites/default/files/Incorporated-Association-vs-PCL-by-Guarantee.pdf>) from the toolkit in considering what the implications of each structure are.

3.3 Do we have to be audited? Why?

State Sporting Organisations hold a special place in the heart of the community, and as such, are often of a public interest. As a board, you have an obligation to the members and the community. Auditing of financial statements may be required by law, but don't forget, it may be required by constitution. Do you know your obligation? Please consider:

- Does your constitution call for an audit?
- Does your structure call for an audit?
- Does your structure call for a review?

Audit v Review:

Your structure and in some circumstances your turnover will determine whether you require an audit or a review.

If required by constitution, an audit will need to occur.

For companies limited by guarantee, it is suggested reviewing the threshold requirements published by ASIC: <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/preparers-of-financial-reports/companies-limited-by-guarantee/>

For incorporated associations, it is suggested reviewing the threshold requirements published at Fair Trading NSW: <https://www.fairtrading.nsw.gov.au/associations-and-co-operatives/associations/running-an-association/financial-reporting-requirements/audit-and-reporting-exemptions>

These guidance statements are useful in assessing if your structure requires an audit.

What is an audit?

An audit is a process involving an independent auditor inspecting and assessing your financial statements and underlying records at year end to ensure that materially they present fairly the financial statements of the State Sporting Organisation. This information is often required by other users, such as members or funding bodies.

An audit, whilst some may find it daunting, is a great opportunity for the board to seek feedback on their financial rigour, and to seek external verification that their books and records are in good shape.

What is a review?

A review is not as extensive as an audit, providing less assurance over the financial statements. A review includes reduced procedures by the auditor, mainly consisting of enquiries of management and analysis of financial information.

You should be aware of your requirements before exploring this option.

Working with auditors:

Being audited should by no means be a nerve wracking experience. There are many benefits of obtaining an external audit, including:

- Providing an independent view of performance for stakeholders;
- Enhancing overall governance processes;
- Adherence with Accounting Standards and legislative requirements;
- May assist in obtaining funding opportunities;
- Identifies key areas within financial process that may require improvement;
- Identifies control gaps or weaknesses; and
- May act as a deterrent to fraud, or may also detect fraud.

In order for the audit experience to be effective and efficient, your auditor should seek to undertake the following throughout the annual engagement:

- Provide you with a Fee and Engagement Letter;
- Meeting with you to discuss audit risk areas and expectations throughout the engagement;

- Provide you with a detailed list of audit information requirements to ensure a timely and streamlined audit;
- Regularly engage with the Audit and Risk Committee / Board of Directors;
- Provide you with notification of upcoming changes to accounting standards; and
- Provide you with a management letter covering audit issues identified and recommendations for the future at the completion of the engagement.

3.4 Who are the external users of our financial statements?

As mentioned previously, State Sporting Organisations hold a special place in the heart of the community, and as such, are often of a public interest. Your reporting requirements are often driven by who the users of the financial statements are, and even if they are not, it's important to consider who might need them to make decisions.

Users of financial statements may include the following:

Users	Why
Members	Understanding how the sport is operating and performing
Directors	Making decisions on how to operate the sport
Financiers	Assessing the ability to service debt
Government	Assessing funding needs along with assessing the long-term viability of the sport

3.5 Have we checked our tax exempt status?

Some State Sporting Organisations have the ability to self-assess their tax exempt status – meaning if eligible there is no income tax to pay. It is important to continually review any exemption to ensure it remains valid. It is recommended this be completed annually. The Australian Tax Office provide much guidance on this (www.ato.gov.au).

Whilst a State Sporting Organisation may be exempt for income tax purposes, just as paying your annual sporting membership fee or participation fee is considered to be an obligation for your sport, there are other specific tax obligations that must be considered. Whilst not exhaustive, the following must be understood:

- Fringe benefits tax
- Goods and services tax
- Payroll tax
- Superannuation guarantee
- Land tax
- Stamp duty

The Australian Tax Office published a guide in 2014 on the interaction between tax and not-for-profit organisations, which can be accessed:

https://www.ato.gov.au/uploadedfiles/content/sme/downloads/nonprofit16966tax_basics_for_non_profit_organisations.pdf

3.6 What about GST?

GST for State Sporting Organisations is not as clear cut as opting in or out. The ATO publish threshold tests to assess if you have an obligation. It is important to understand that any GST collected is not the money of your sport – and you must plan around your requirements to remit these monies collected.

Regardless of thresholds, you may still choose to register your State Sporting Organisation for GST if its GST turnover is less than the threshold. The decision to voluntarily register for GST is one that should be based on the administrative needs of your State Sporting Organisation. Some State Sporting Organisations under the threshold may choose not to register for GST because they consider the GST reporting requirements to be a greater burden than the benefit.

3.7 What are employment taxes?

As the name suggests, employment taxes refer to taxes paid for or on behalf of your employees. They include the following:

- Fringe benefits tax
- Payroll tax
- Pay as you go (PAYG)
- Superannuation

In order to determine if you may have such obligations, consider asking yourself the following questions as a starting point:

Question	Potential obligation
Are we currently providing cash or non-cash benefits to employees outside of their salary and wages? Non-cash benefits may include things such as a company car, mobile phones, internet, gym membership or health insurance.	Fringe benefits tax
Do we have frequent or significant entertainment and meal expenses?	Fringe benefits tax
Do we provide access to the use of a car to employees?	Fringe benefits tax
Have we assessed if we meet the threshold requirements for payroll tax in NSW?	Payroll tax
Are we withholding tax from employees as required under pay as you go withholding?	Pay as you go withholding
Are we paying the superannuation guarantee on behalf of our employees?	Superannuation guarantee
Do we have full time equivalent employees or contractors?	Payroll tax and superannuation guarantee

Stream 4

Financial Risk Management

4 Financial Risk Management

A core role of the board is to assess, monitor and mitigate risk. For the purposes of this section, we are considering financial risk – but it does not stop there. You should also consider the guidance of the Risk Management toolkit (<https://sport.nsw.gov.au/clubs/ryso/riskmanagement>).

Risk mitigation can be likened to warming up before a race. It may not stop injury, but it is certainly a great preventative measure. Financial risk management is no different. What mechanisms, or controls, do you have in place to ensure there are no considerable holes in your financial function?

Controls can often be difficult to implement in operations with limited opportunity to segregate duties. However, by asking a series of questions around where risk exists in a process, it becomes clearer that steps can be taken to reduce any exposure.



4.1 What is financial risk?

Every State Sporting Organisation is faced with a multitude of risks - loss of information, insurance, cyber security, loss of members, loss of funding or loss of a major sponsor as examples.

A critical assessment to be performed by your State Sporting Organisation is to document all possible risks, as well as how you are currently aiming to mitigate those risks.

In looking at financial risk, loss of assets is often considered, but equally important is to consider longevity of revenue sources and how expenditure is appropriately approved as examples.

4.2 What are internal controls?

Internal controls are measures taken within an organisation to:

- Reduce the risk of loss;
- Reduce the risk or error; and
- Provide some level of assurance over the validity of the books and records.

Where there exists an opportunity for loss or error – you should be looking to controls to minimise the exposure.

Sound internal controls start with the culture within a State Sporting Organisation. Does your board strictly enforce operating policy and procedures? Do you have policies and procedures? Without policies and procedures, particularly those associated with higher risk items such as physical assets and cash, there exist an opportunity for error, or worse still, theft.

Internal controls can be in many forms, shapes and sizes. As an example, when you start asking questions, it highlights a State Sporting Organisations tolerance to risk.

- Do your information systems have controls around access? Passwords and dual factor authentication for example.
- Do your information systems have features inbuilt that ensure accuracy of transactions?
- Where do you physically store assets that could be misappropriated?
- How do you handle cash?
- How often do you reconcile your bank statements?
- Are you able to segregate duties?
- How are expenses approved?
- How do you ensure grants are being spent in accordance with grant requirements?
- Are variances to budget investigated and reviewed?
- Do you have dual signatories on transactions?

4.3 Are we too small to have controls?

Smaller State Sporting Organisations often have fewer employees which may limit the extent to which segregation of duties is practicable. In a smaller team, the manager may be able to exercise more effective oversight than in a larger group, which may compensate for more limited opportunities for segregation of duties. On the other hand, the manager may be more able to override controls because the system of internal control is less structured.

Segregation of duties is recommended where possible - it is the act of separating ones duties to reduce the opportunities for a person to be in a position to not identify an error or to worst case perpetrate and conceal errors or fraud. Put simply, it is the sharing of one task between two or more people - in essence creating a preparer and a reviewer.

4.4 What questions should we be asking about controls?

There are many questions that can be asked about revenue, receivables, expenses, payables, and employee benefits - which can then open the discussion around controls. Once again, if the Board is unsure about the responses to any of these questions, they should investigate further and consider building a control to address the risk. These questions are a starting base, and by no means exhaustive.

Revenue and receivables control questions:

- Are all sales/memberships/fees etc. recorded, and at the right rate?
- Is unearned grant revenue correctly recorded?
- Is grant income recognised in accordance with grant terms?
- Are credit notes appropriately approved?
- Do invoices reflect the correct pricing, discounts, GST etc?
- What steps are in place to ensure any unpaid membership monies are recoverable?
- Are debtors raised when a sale is made on credit terms?
- What steps are in place to ensure collections allocated against the correct debtor?

Expenditure and payables control questions:

- Do you have dual authorisation for all payments, regardless of if it is EFT or cheque?
- Are the banking approvers appropriate for your State Sporting Organisation?
- How are purchases appropriately approved?
- What steps are in place to ensure purchases are recorded in the right period?
- Are payables representative of all amounts owing to suppliers?
- What steps are in place to ensure accrued liabilities are calculated and recorded correctly?

Employee benefits control questions:

- What steps are in place to ensure that salary and wages are only paid to eligible employees?
- Are payroll and related expenses (superannuation, payroll tax etc.) recorded in the correct period?
- What checks are there to verify employees are paid for the time they have actually worked?
- Are pay rates applied to employees payments in line with the award or hourly rate documented in contracts?
- Are all provisions that all necessary (e.g. long service leave) being recognised?
- What steps are in place to verify that items such as annual leave, long service leave, and sick leave have been recognised and appropriately approved if taken?

4.5 What can go wrong?

Internal controls and financial risk management will not safeguard entirely your State Sporting Organisation. What they do is create an environment of process and procedure, and ideally minimise any exposure. Many State Sporting Organisations will have limited resources to have all the checks and balances in place. Start by asking the following questions:

- What can we least afford to lose?
- Who can approve transactions?
- How do we protect access into our systems?

Whilst these in no way cover all exposure – it does give you a sense of what can go wrong. In many instances, it will be physical cash that is the item that can least afford to be lost – and unfortunately, this is a prime target for misappropriation. It is often reported that cash is taken through a poor control environment or through no oversight.

Stream 5

Keeping Score

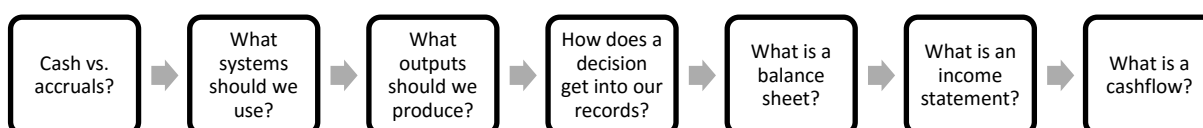
5 Keeping Score

In many sports the score is the ultimate success factor. In administering a State Sporting Organisation, the financial books and records are akin to the scoreboard. In using this simple analogy, the rationale behind keeping good records becomes apparent.

Maintaining books and records requires rigour and discipline if they are able to provide meaningful insight. There are many instructional guides on how to maintain books and records, and we will explore some basic principles in ensuring they are maintained to maximise meaningful outputs.

Cash vs. accruals? Automatic entries vs. manual? Cloud vs desktop? Spreadsheet vs. paper ledgers? What does this all really mean? In working back from objectives, the right system will provide the ability to drill down into performance and create the right outputs.

Financial statements should give an idea of where you've been (income statement), where you are at (balance sheet), and where you may go (cash flow).



5.1 Cash vs. Accruals?

When do you record a transaction? When it happens, or when the cash physically changes hands? These questions at their core define whether the cash or accrual method of accounting is applied.

Cash accounting is a method often adopted by smaller State Sporting Organisations, with a lower level of transactions. Cash accounting is tracked and maintained by way of processing transactions only when cash is received or paid.

Cash accounting can come with some pitfalls, including:

- Not always knowing who owes you what;
- Not always knowing what you owe others;
- Limited visibility on cash flow requirements; and
- Inability to match income and expenses given the timing difference between cash earned vs. cash spent. This can often be problematic with accounting for grants.

Accrual accounting usually requires a greater time commitment than cash accounting, but delivers a more accurate position of the State Sporting Organisation at any point in time. This is a result of recording income and expenses as they take place rather than waiting for the physical cash transaction. Depending on the terms, this can have a significant time deviation in terms of understanding your State Sporting Organisations existing obligations, but equally, obligations of others to you. Accrual accounting allows the users of the information a far more accurate and complete view of performance at a given point in time.

Some key factors to consider when choosing a method are:

- The size of the State Sporting Organisation and level of transactions;
- The financial reporting requirements of your State Sporting Organisation;
- Complexity of transactions;
- Level of accounting experience within the finance function; and
- What accounting system is being used and its capabilities.

5.2 What systems should we use?

Selecting an accounting system can be as simple or as complicated as one chooses to make it. They can be designed explicitly for your State Sporting Organisation, often at a considerable cost, or they can be purchased off the shelf. An effective accounting system will keep score, whilst providing the necessary information required to track performance.

Ultimately the choice of which accounting system to use comes down to the users. This is often dictated by legacy, and in more recent instances by the preference of the financial officer or outsourced provider if applicable.

There are no right or wrong answers, but better practice would suggest a system should:

- Avoid being susceptible to loss of records, such as paper;
- Have automated features where possible to validate information and create efficiencies (automated bank feeds for instance);
- Have the ability to track who has processed transactions or made changes;
- Have all the functionalities you need (such as payroll); and
- Be available to those that need to use it (such as a cloud platform).

The “cloud” is a much used term, and accounting systems have certainly benefited from this shift in technology. The movement of many accounting ledgers to the cloud has opened up far more automation, whilst providing greater real time access to information. In addition, these systems have given the opportunity to provide;

- Continuous version updates and backups of information to ensure data is retained;
- Accessibility to real time information to better inform decision making;
- Collaboration via remote access, allowing for sharing of information between boards, advisors and the finance function;
- Inbuilt systems controls such as approvals;
- Integration with many third party tools; and
- Automated features to reduce manual input and free up resources to be better applied elsewhere.

Cloud based systems may not suit every State Sporting Organisation – however, they are becoming more and more prevalent due to their continual advancements, and ability to save time. These systems are proving to be cost effective, and integrate with many other platforms, such as banking and payroll.

5.3 What outputs should we produce?

What information are you basing your decisions on? As a board it's your responsibility to ensure the decisions you make are in line with the strategic objectives of the State Sporting Organisation. Even more important, it's imperative to ensure decisions are based on complete and accurate information. How do you know the reports you receive are complete and accurate?

In a traditional accounting sense, a board should be basing financial decisions on three core reports: an income statement, a balance sheet and a cash flow statement. However, it does not stop here. Non-financial performance indicators are also important to consider and when benchmarked against financial information can be beneficial in aiding decision making. Whether it be that more investment needs to be put into coaching accreditations, or whether participant numbers are out growing available facilities.

5.4 How does a decision get into our records?

A board is always making decisions. Minutes are documented from meetings and can serve as a useful source of reference for a State Sporting Organisation to track what they're trying to achieve and how successfully they have performed. So how does a board know that their financial decisions which are ratified at their periodic board meeting are actually put into practise and acted upon? Ultimately it comes down to the reporting outputs discussed above. By way of having a board approved budget and reviewed against actual performance the board can clearly see whether day to day operations are in line with the board's strategy and whether management is implementing their decisions.

5.5 What is a balance sheet?

Where are we at?

A balance sheet in essence is a snap shot of where the State Sporting Organisation is at any point in time. A balance sheet has three key components.

- Assets – what have we got?
- Liabilities – what do we owe?
- Equity – What's historically left over?

5.6 What is an income statement?

Where have we been?

An income statement is like a journal. It's a record of where you as a State Sporting Organisation have been. It details the highs and lows and can be useful in identifying trends and cycles. An income statement is best reviewed when being compared to something whether it be budgets, forecasts, a prior month or even year.

You should expect to see revenues and expenditure, to present your overall surplus or deficit for the period. However, it is not uncommon to request an income statement with details on a given project, grant or event.

5.7 What is a cash flow?

Where can we go?

A cash flow statement is often the last report reviewed, if provided at all – perhaps an indication of a lack of understanding some users have of it. However an effective cash flow can tell a very honest story. A cash flow statement is broken down into three key components - operating, investing and financing activities.

The cash flow also provides a valuable link between the income statement and balance sheet. The income statement is the record of the State Sporting Organisation's performance for the year. When compared against budget it can highlight the effectiveness of control over operational activities. The Balance Sheet discloses the financial health of the State Sporting Organisation at a point in time. The cash flow statement then looks to disclose where cash has been generated and how it is applied. This allows the State Sporting Organisation to monitor how it is funding its investing activities, the effectiveness of its financial management strategies, and its reliance on and ability to service debt.

With this information, the board should be able to see whether their strategic objectives are being met and whether there is either scope to increase spending or whether danger signs are present and measures need to be put in place to reduce spending. Considering most State Sporting Organisations are non-for-profit, surplus cash flows may often be a positive sign that the board may be in a position to increase spending to help meet its objectives – but it could equally indicate you are not paying your obligations. A cash flow should be carefully monitored regularly.

Stream 6 Performance

6 Performance

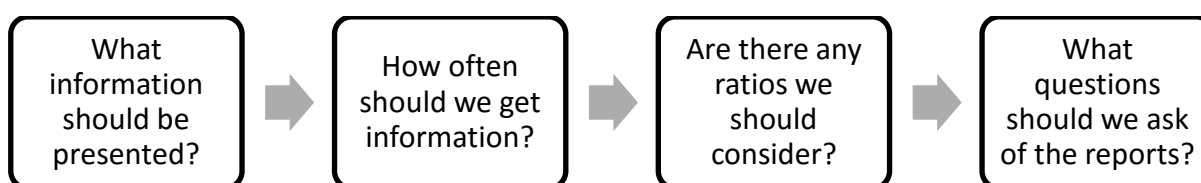
At the end of a season, a player, a team, an administration reflect. Did we win? Did we qualify for the national championships? Did we increase our participation? Did we build a new pavilion? These questions link back to goals and objectives, and the reports a board interpret are tools to assess and drive performance.

Whilst a board may get long and detailed financial reports – being able to ask the right questions of these is important. Do they allow the board to understand if performance expectations have been met? If no, the manner in which they are prepared and presented should be questioned.

The financial reports should only be seen as a small element of measuring performance, but they are a window to creating linkage to goals. Did we grow our participation as we set out to do? Let's check our membership revenues. Did we build that new pavilion? Let's check our balance sheet.

A good board report will not only link to goals, but will drive the discussions around the next wave of initiatives – creating a virtuous circle.

Creating better data, leads to better discussion and ultimately better decisions.



6.1 What information should be presented?

The papers made available for board members should cover many facets of your sport and should not be driven solely by financials, but equally, these should not be glossed over or diverted simply to the treasurer.

As a starting point, you should have available:

Report	Why
Actual to budget	A roadmap of if you achieved what you set out to do. It allows for refinement, deliberation and the opportunity to reset.
Income statement	A snapshot for the period in question, and year to date, for your income and expenditure.
Balance sheet	A point in time summary of your assets and liabilities – your ability to invest vs. your obligations.
Cash flow statement	A snapshot for the period in question, and year to date, of where the physical money came from and went.
Forecast to the end of the year	A point in time peek into the future.

These all provide important financial information, and should be seen as a base level expectation. But, do they really tell you what you need to know? There is no 'one size fits all' guide to financial reporting – however, you should take time as a board to challenge what you need.

Some thoughts to consider:

- Can we track our performance back to our stated goals?
- Our targets are not monetary – can we create a link?
- Has money been spent in the best interest of our sport?
- Was our spending approved?
- Has our grant funding been used in accordance with stipulations?
- Will we run out of money?

Your strategic objectives should be considered in assessing performance. Many goals and objectives will be non-financial or non-monetary. That does not mean the financials cannot tell a story. As a board, you should consider what effect an action has, and determine what information you need to assess performance. Performance ratios should take on financial metrics, but also look to overlay non-financial metrics.

As supplemental information, it is worth requesting a summary of spend over certain thresholds to ensure it is mapped to the boards expectation and approval. Whilst not preventative, it does add a layer of internal control rigor.

Grant funding can be difficult to monitor, particularly around any required acquittal process. As a board, you may consider asking for grant based reports – to consider if the money received is being spent in accordance with the funders intention. You should be able to ask:

- Why did we get these funds?
- Are we spending in line with the grant parameters?
- For what period to they relate?
- What are our reporting obligations?

6.2 How often should we get information?

As a board, you are entitled to ask for information when you need it. It is a fine line however between governing, rather than being heavily involved in the detail of day to day operations. You should request the information you require for each board meeting as a baseline.

Throughout the year, you should also ensure you receive at a minimum:

- The annual budget;
- The annual financial statements (including the balance sheet, income statement and cash flow statement with appropriate notes); and
- Acquittals for any grant monies required.

6.3 Are there financial ratios we should consider?

Information for information's sake is a challenge all boards face. In addition to the core financial reports, financial ratios can help give indicators to performance. But what is a ratio? Put simply, it is a relationship between key pieces of information that help indicate if you're are on the right track. They can link to the past and the future, and can compare you to your peers.

Where to start?

The right data has to exist to be able to make the ratios meaningful. The old adage of garbage in, garbage out applies here. In considering what is important, consider the data sets that can support this.

Worked Example

The board have recently met, and outside of the financial statements, felt they needed more information to help shape better decisions. In reflecting on what would help, they considered if their strategic imperatives are being met?

- Has our participation grown?
- Did our retention strategies materialise?
- Were our fundraising efforts successful?
- Did we maintain our operating expenditure in line with budget?
- Were we able to drive web traffic to our site for key events?

In addressing these questions, the board decided they would look to:

- Participation program costs against participation numbers. The lower the number, the greater the impact.
- Number of repeat members over total memberships. The greater the number, the better the retention.
- Planned Fundraising revenues over total revenue. The greater the number, the greater level of self-sustainability.
- Operating expenditure as a % of revenue. The board set out to spend x% of all revenue on what they deemed 'operating' expenses.
- Event revenues per unique web site visit. The more revenue per visit, the greater the impact if the web campaign.

No sport will have the same ratios, but as guidance, the following were identified through surveys conducted by the NSW Office of Sport, and form a good base for ratio reporting.

- **Net income ratio** – surplus divided by net revenue. Measures the level of surplus generated from each dollar of revenue received.
- **Current ratio** – liquidity based ratio which measures the State Sporting Organisations ability to meet short term debts measured by dividing current assets by current liabilities.
- **Debt to Assets ratio** – indicator of financial leverage which indicates how the State Sporting Organisation has financed its assets with debt.
- **Revenue stream percentage ratio** – indicates how much a particular stream of revenue is contributing to total revenue. This is often beneficial in assessing the performance of a given strategic initiative, or in aiding discussions around where resources may need to be better focused.
- **Cash expenditure cover ratio** – indicates the level of cash available to cover expenditure – and highlights how long a State Sporting Organisation can continue to operate before more cash is needed.

There are no right answers when it comes to the number of ratios. As a guide, focus on the 5-10 that best drive meaningful decisions in your sport.

Many people find it easier to interpret data that is visualised. Where possible, you should consider appropriate opportunities to visualise your data. A page of charts or graphs can often provide far more insight than pages and pages of financial statements. Remember your audience in preparing this information.

6.4 What questions to ask of the financials?

The biggest challenge with assessing performance is to reflect on what answers the financial statements should give you as a board. To do this, you must first ask the questions. The following are a series of questions you may want to ask of the financial statements, the treasurer or your finance function.

- Are there any significant increases or decreases in income or expenditure – and if so, do these make sense?
- Are we generating enough revenue to be sustainable, or relying on funding? What happens if the funding model changes?
- Has budget been met? Have we exceeded expectation or fallen short? Why?
- Do our financial results reflect our non-financial results? E.g. Our participation numbers have increased, so should have our participation revenue. We have increased spending on coaching accreditations, have our coaching numbers increased?
- Have events occurred which weren't foreseen and need to be budgeted for next year?
- Have our statutory obligations been met in regards to GST, payroll tax, WorkCover etc.?
- Do we have enough cash to pay our creditors? Are we at risk of being late on payments?
- Is our business solvent? Do our current assets exceed our current liabilities?
- Is any inventory held still able to be sold? Or is it at risk of being obsolete?
- Are we owed large amounts by debtors and is there an issue with collecting such monies?
- Are we generating a positive or negative net cash flow? Does spending need to be tightened or is there scope to invest into the sport?
- Are we too heavily reliant on debt? What happens if further debt cannot be sourced or is recalled? How long could we survive?
- Have all our employee entitlements been provided for?
- Has the auditor identified any issues with our books and records?

7 Glossary of key terms²³⁴

Asset – something of value that the State Sporting Organisation can use over time.

Board or Committee – the body comprised of the directors and includes executive committees of management as per the entity's rules.

Director – a person (office bearer) who is a member of the Board and who is charged with the management (in a governance sense) of the entity.

Equity – the residual interest in the assets of the entity after deducting its liabilities.

Expenditure – amounts spent, or incurred, in running the State Sporting Organisation.

Fiduciary responsibility – a person or group of persons who have been entrusted to act in good faith and seek the best possible outcomes for the State Sporting Organisation.

Financial literacy – A basic level understanding of how money works measured through a skill set that allows one to make sound financial choices which maximise outcomes.

Financial outputs – reports either individually or collectively which are generated from financial records used to aid in decision making. Examples include, income statement, balance sheet and cashflow statement.

Financial records – formal documentation representing past transactions of the business such as sales and purchase invoices and bank reconciliations.

Governance - is the system by which organisations are directed and managed.

Liability – a commitment or obligation the State Sporting Organisation has as the result of a past event.

Members – those people who have an invested interest in the performance and success of the organisations whether it be participants, social supports, volunteers or executives.

Office bearers - are elected or appointed to boards or committees of sporting clubs/associations who are often seen as community sports leaders. Typically, club office bearers have higher levels of involvement and are responsible for running their club. Office bearers have legal obligations as directors and are often given titles including committee member, sports administrator, president, chairperson, treasurer, secretary, public officer, company secretary.

Revenue – amounts the State Sporting Organisations has received or will receive, which can include fees, registrations, memberships etc.

Scarce resources - the limited availability of revenue, cash, volunteers, time available to allocate towards achieving a desired outcome in line with forward strategy.

Segregation of duties – the act of separating one's duties to reduce opportunities for a person to be in a position to not identify an error or perpetrate and conceal fraudulent behaviour.

State Sporting Organisation - means a State Sporting Organisation whether incorporated or not, public or private, that has its own function(s) and administration.

Treasurer – a person who is elected by the board to manage the financial affairs of the organisation.

Volunteer - a representative from the community who freely chooses to give their time, skills and experience to support their sport or recreation activities.

² <https://sport.nsw.gov.au/clubs/ryc/governance/goodgovernance>

³ https://www.aasb.gov.au/admin/file/content102/c3/SAC4_3-95.pdf

⁴ <https://sportandrecreation.nsw.gov.au/sites/default/files/oos-strategic-planning-toolkit.pdf>