

Governance Story for Aboriginal Corporations

Looking after money story





Governance Story for Aboriginal Corporations series

These books help members and directors of Aboriginal corporations understand governance.



The Central Land Council (CLC) and Aboriginal corporation directors in the CLC region made these books.

This book is only for learning. It is not advice. If you have a question or a problem, talk to a lawyer. The writers of this book, CLC and ORIC are not responsible for things you do because of this book.

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Hard words

corporation

A group of people want to hold land, make money or work together. So, they make a legal person, called a corporation. A corporation is only a person on paper.

Aboriginal corporation (AC)

A corporation that is about making the lives of Aboriginal people or communities better. Most of the directors have to be Aboriginal people.

members

The Aboriginal corporation belongs to a group of people. These people are the members.

directors board of directors board

The corporation members choose a small group of members to govern and make decisions for the corporation.

The whole group of directors is called the board of directors, or board for short.

CATSI Act

This is the law about how to set up and manage Aboriginal corporations. It says how Aboriginal corporations have to work. The full name is the *Corporations (Aboriginal and Torres Strait Islander) Act 2006*.

ORIC

The organisation that makes sure Aboriginal corporations follow the CATSI Act. The full name is Office of the Registrar of Indigenous Corporations.



general meeting

A meeting for all members.

annual general meeting (AGM)

A general meeting that the CATSI Act says all Aboriginal corporations have to hold one time every year. But some Aboriginal corporations can ask ORIC to only have one AGM in 2 or 3 years.

conflict of interest

Interests that might stop a director making decisions that are best for the corporation.

**finance
financial**

The corporation money story.

financial reports

The papers that tell the corporation's money story.

financial year

From 1 July to 30 June the next year.

**audit
financial audit**

Some Aboriginal corporations have to get an audit report. It says if the money story for the last financial year was straight and true. That report is called a financial audit.

**auditor
financial auditor**

A financial auditor makes the financial audit report.

Corporation money story

The corporation's money story is about:

- where the corporation's money comes from
- what the corporation spends the money on.

Another word for money story is finance.

Financial reports

Financial reports are the papers that tell the corporation's money story. There are different financial reports that tell different parts of the money story:

- what happened in the past
- what the directors think will happen in the future.



Past

Income and expense report

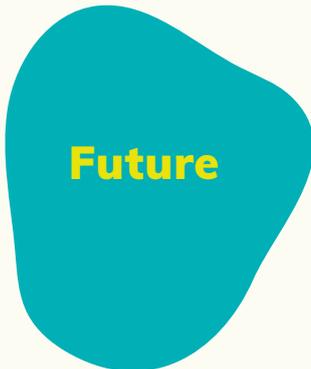
- What money did the corporation get?
- What money did the corporation spend?
- How much money is left in the bank?

This is also called a profit and loss statement.

Balance sheet

A report about the money story on one day. It shows:

- how much money was in the bank
- what the corporation owned or had.



Future

Budget

A money plan.

- What money does the corporation plan to get?
- When will the corporation get that money?
- How will the corporation spend money?

Looking after finances

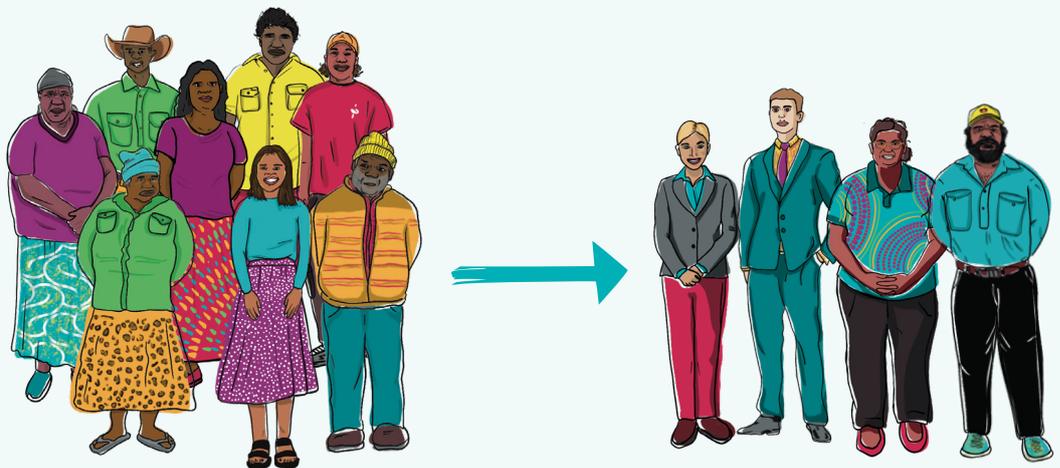
The CATSI Act says that the board of directors has to look after the money story. They have to make sure the corporation has a good money story.

Directors have to:

- keep checking the money story to make sure there is always enough money to pay the bills
- make sure that the corporation is spending money the right way
- check that people are following the rules about spending corporation money.

If the corporation has staff

If the corporation has staff, then sometimes they can manage the finances. But the directors still have to check that staff are doing it the right way.



The board can give permission to staff to manage the finances. This is called delegating power.

Checking the money story

Directors have to do these things to check the money story.

- ✓ Understand all the financial reports or ask questions to learn.
- ✓ Make sure there is enough money to pay the bills.
- ✓ Make sure the budget is OK.
- ✓ Make sure the corporation spends its money the way the budget says.
- ✓ Stop money fraud. Money fraud is when someone takes or uses corporation money the wrong way.

The board of directors has to decide:

- who can spend corporation money
- what they can spend it on
- how much money those people can spend.



Parts of the money story

The money story is like a water tank

Income

Income is the money coming into the corporation. It is like rain falling into a water tank.



Budgeting

Budgeting is planning for the future. It is like seeing clouds and thinking about what is coming. It is important to think about what to use in wet season and how to save in dry season.



Bank

The bank holds the corporation's money. It is like a tank that holds water.

Balance

The balance is how much money is in the bank. It is like the level of water in the tank.



Expenses

Expenses are the things the corporation has to use its money for. It is like filling up buckets of water from the tank. Every bucket is for a different bill.

Directors need to know what money came into the corporation and what money went out.

income
income = in

Money that comes into the corporation.



expense
expense = exit

Money that goes out of the corporation.



Income

Income is the money coming into the corporation. It is like rain filling the tank. An Aboriginal corporation might have different types of income.

Examples of income

sales



Money that the corporation makes from selling things or doing services.

grants funds



Organisations give the corporation money for work or special projects.

donations



Other people or organisations give the corporation money to do its work.

investments



The corporation finds ways to make its money grow.

royalties



Money that mining companies pay for taking minerals from an area of land. Sometimes, traditional owners choose to give some of their royalties to the corporation.

The corporation has to keep records of all the money that it got. These are things like invoices and agreements.



Expenses

Expenses are the things the corporation spends its money on. It is like filling up buckets of water from the tank. Every bucket is for a different bill.

Examples of expenses

operational



Things like:

- paper, pens, computers
- bills, like insurance and rent
- accountants and lawyers
- salaries for staff.

program and project



The things the corporation needs to run the program or project. These are things like books and food for a healthy eating training program.

capital



Things like:

- buildings
- vehicles
- equipment and machines.

compliance



The things that the corporation needs so it can follow the rules. These are things like auditors and meetings.

**licenses
and permits**



Any licenses and permits the corporation needs to do its work, like ochre cards for working with children.

training



Training for directors and staff to do their jobs.

marketing



Different ways to tell people about the corporation, its projects and programs. This might be newsletters, social media, radio or tv ads.

The corporation has to keep records of all the money that it spent. These can be receipts, bills, purchase orders, cheque books and things like that.

Questions to ask about the income and expenses

Where does the corporation's income come from?

Does the report show all the income and expenses?

Are the expenses more than the income?

Is this bad?

Did the right people say "yes" to the expenses?

What did the corporation spend its money on?

Were the expenses different to the budget?

Why?

Were the expenses this year different from the expenses last year?

Why?

Is the CEO or accountant worried about any of the income or expenses?



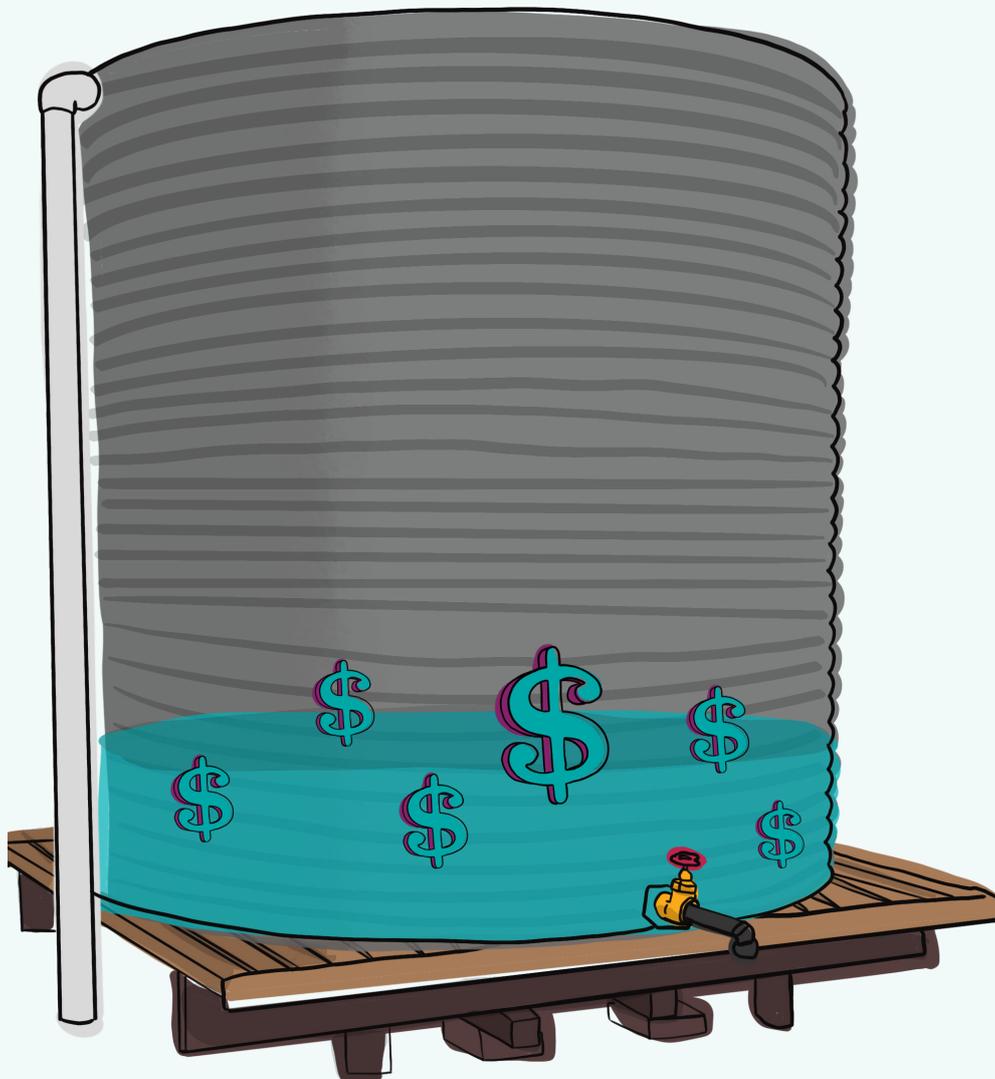
Balance

The balance is the money that the corporation has in the bank. It is like the level of water in the tank.

Directors have to know that the corporation has enough money to pay its bills. The balance sheet is a report for one day. It is like a photo of the corporation's money story on that day.

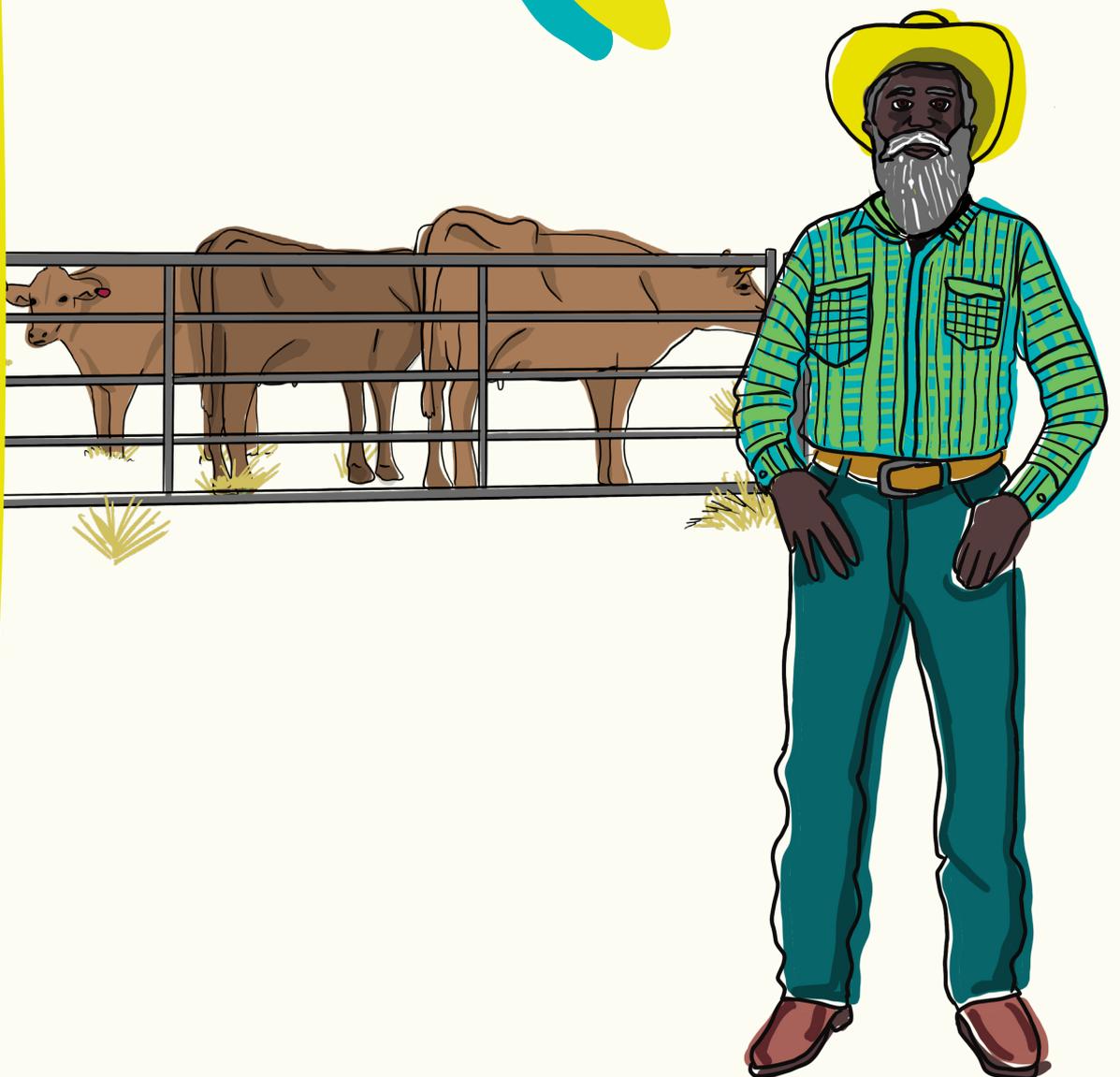
It shows:

- what the corporation owned
- what the corporation owed or had to pay.



We run a cattle station. We own cattle, horses, motorbikes, trucks and computers. We also have some money in the bank.

We owe rent, wages, water, electricity and other bills. We are also still paying the loan for our new truck.

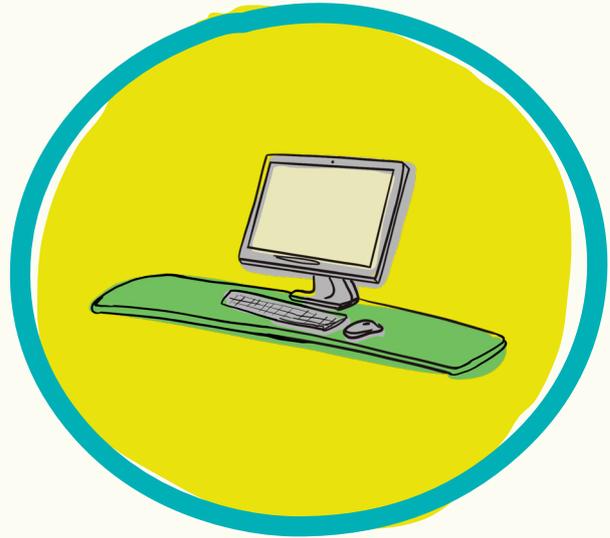


Assets

Assets are things the corporation owns that it could sell, like cars, computers and buildings.

Money can also be an asset.

Examples of assets



Appreciating and depreciating

The corporation buys an asset, like land. Later, it sells that land and makes more money. This is called appreciating.

10 years ago, we bought our office building for \$100,000. If we sell that building today, we can get \$120,000. The price has gone up \$20,000.

It has appreciated.



The corporation buys assets, like cars and computers. Later it sells those assets for less money. This is called depreciating.



2 years ago, we bought a new car. It cost \$40,000. If we sell that car today, we can only get \$30,000.

It has depreciated by \$10,000.

Asset register

If the corporation has assets, then it has to have an asset register. This is the list of all the assets the corporation has. It shows how much the corporation:

- bought the asset for
- can sell the asset for now.

Example asset register

Asset	Bought for	Can sell for
	\$40,000	\$25,000
	\$200,000	\$300,000
	\$2,000	\$200



Liabilities

Liabilities are everything that the corporation owes. These are some of the liabilities corporations might have.

Examples of expenses

bills



Money for something the corporation bought or used, like:

- water bill
- electricity bill
- rent.

loans



Money that the corporation borrowed and has to pay back.

tax



Money that the corporation has to pay the government, like:

- goods and services tax, or GST
- income tax.

staff benefits



Money the corporation has to pay staff, like:

- salaries
- superannuation
- holiday, sick and other types of leave.

credit cards



Money the corporation has to pay back to the credit card bank or company.

trade credit



Money the corporation has to pay, after buying something with a purchase order.

Checking the balance

The balance is how much is left in assets after the corporation pays all its liabilities.

The balance is the assets take away the liabilities.

$$\text{balance} = \text{assets} - \text{liabilities}$$

solvent

If the balance is a positive number, there is enough money to pay the bills. Positive means more than 0.

Example

$$\$5,000 - \$2,000 = \$3,000$$

This means the corporation is solvent.

insolvent

If the balance is a negative number, there is not enough money to pay the bills. Negative means less than 0. The corporation owes more money than it can pay.

Example

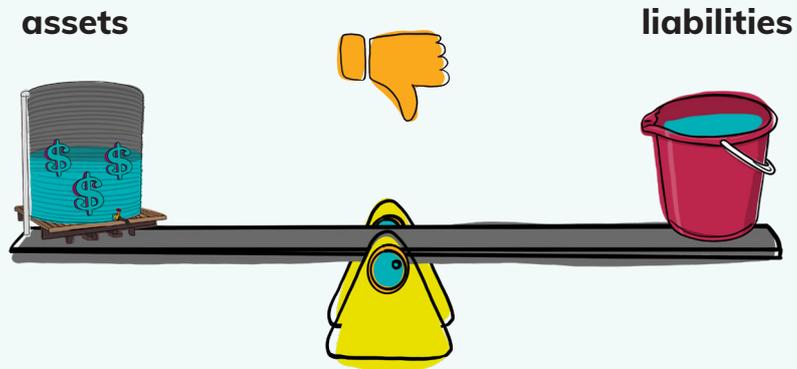
$$\$5,000 - \$6,000 = \text{\$-1,000}$$

This means the corporation is insolvent.

If you think the corporation is insolvent, ask an accountant for help straight away.

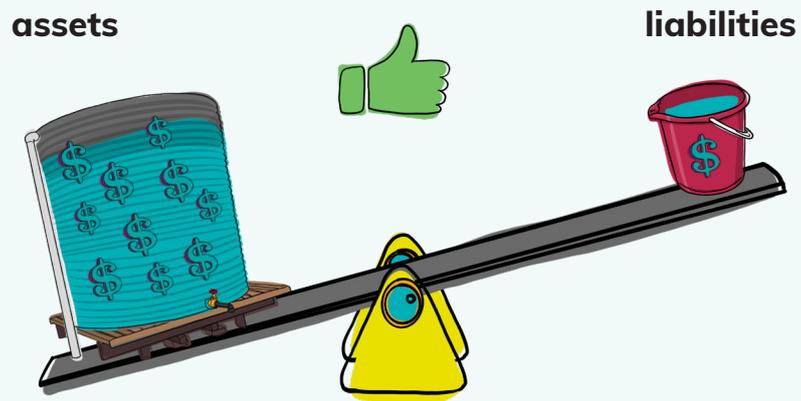
Balanced

The corporation has enough money to pay the bills. But it does not have any money for the future. This is not good.



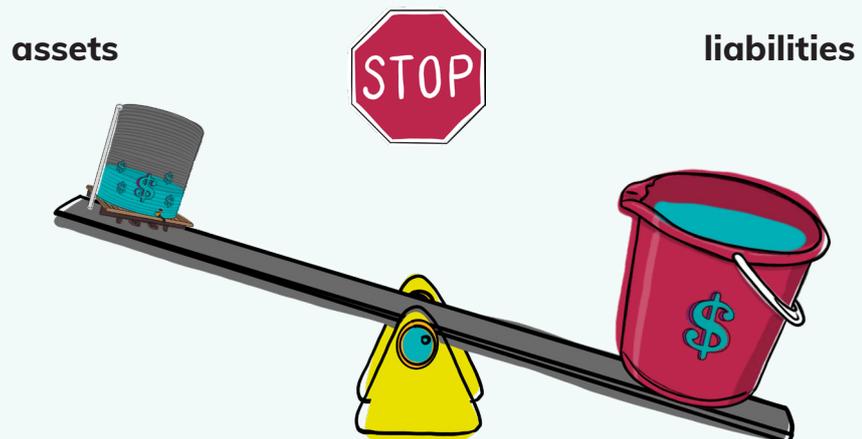
Solvent

The corporation has more money and assets than bills. This is good.



Insolvent

The corporation has less money and assets than bills. This is not good. The corporation has to stop buying and selling things.

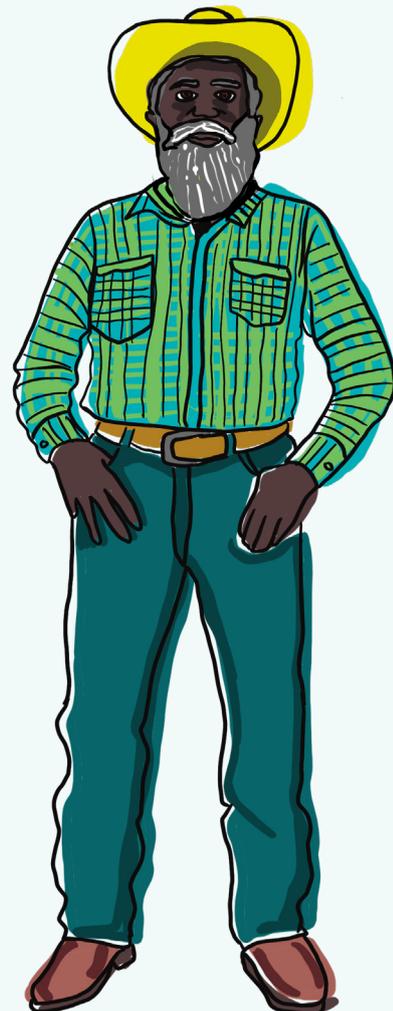


Example of a good balance



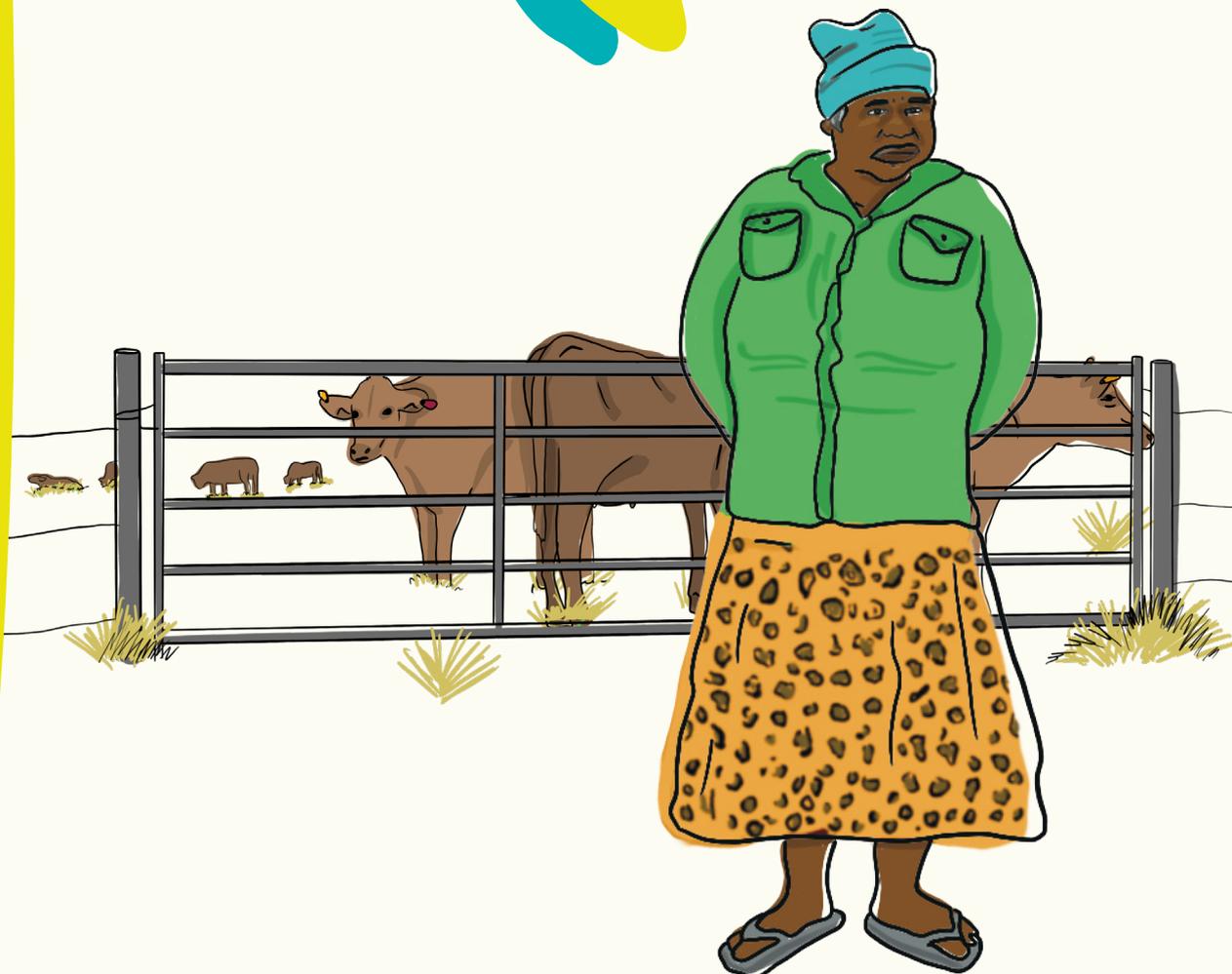
Our cattle station has \$300,000 in assets. We have to pay \$100,000 in liabilities.

So, our balance is \$200,000.



Our cattle station has \$250,000 in assets. We owe \$250,000 in liabilities.

If we sell all our assets, we can pay our liabilities. So, we are solvent. But, then we will have nothing left. We will have no cattle, no horses, no motorbikes, no truck, no computers and no money. This is not good.



Example of a bad balance



The corporation can pay its bills. But there are no assets left.

Example of insolvent



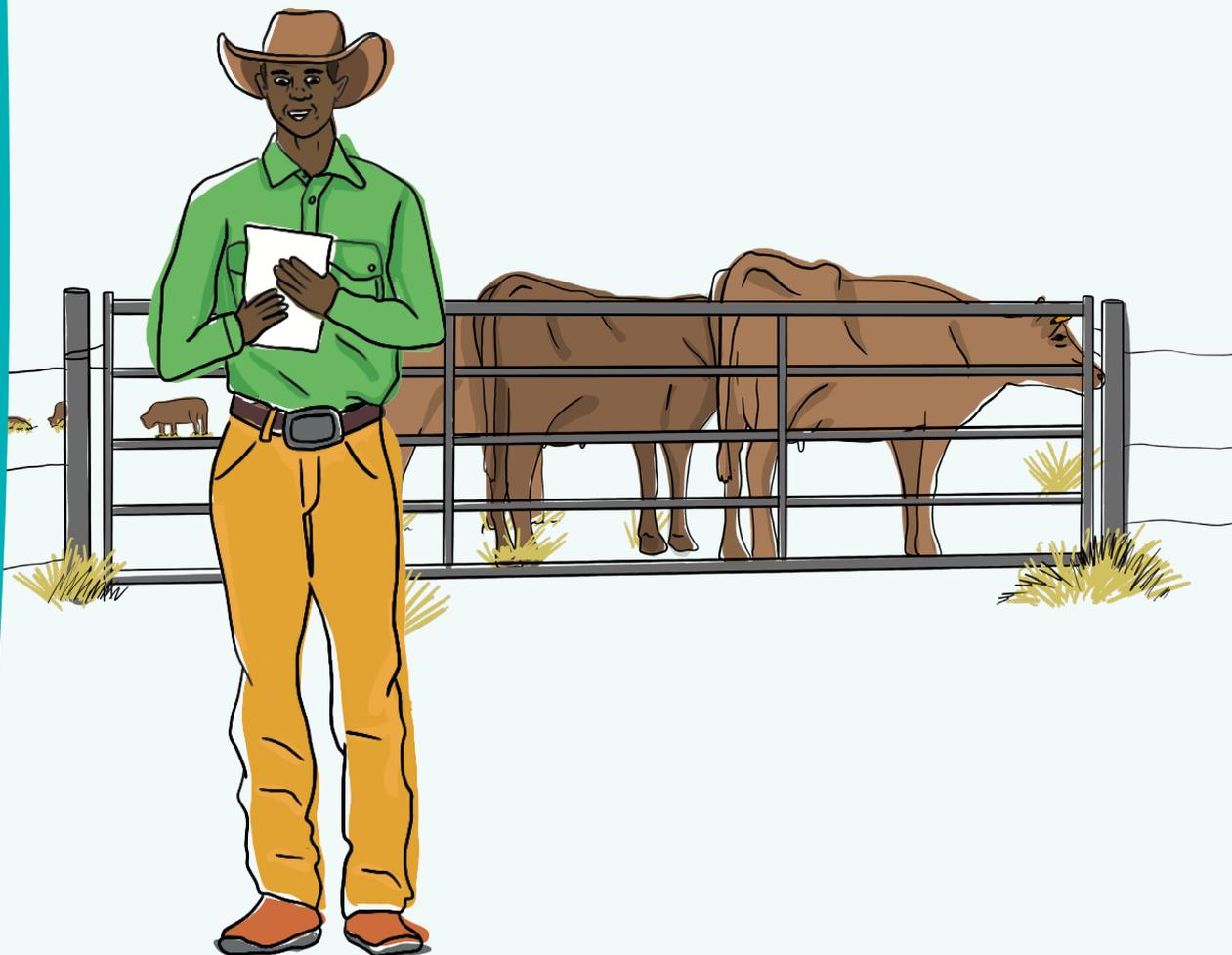
The corporation cannot pay its bills.

When this happens you have to stop buying and selling things. Then you have to get help to fix the problem.

Our cattle station has \$200,000 in assets. We owe \$300,000 in liabilities.

Even if we sell all our assets, we cannot pay our liabilities. We would still owe \$100,000. So, our balance would be -\$100,000. This is very bad.

We are insolvent. We have to stop and ask an accountant to help us.



Questions to ask about the balance sheet

- ✓ How much money is in the bank?
- ✓ Does anyone owe us money?
- ✓ How much money can we get if we sell all our assets?
- ✓ Is the CEO or the accountant worried about any assets or liabilities?
- ✓ Are all our assets in the assets register?
- ✓ How much money do we owe?
- ✓ Who do we have to pay?
- ✓ How much money do we have to keep in the bank?
- ✓ Do we pay all our bills on time?
- ✓ Are we solvent?





Making a budget

A corporation can have a budget for its everyday work. It can also have separate budgets for different programs and projects.

To make a budget, the corporation has to work out:

- what its income will be
- what its expenses will be.

To do this, the corporation can:

- look at old project and annual budgets
- look at old income and expense reports
- work out what money it might be able to make
- find out what income it can get from grants
- get quotes, this means finding out the price for a thing or service.



Questions to ask about budgets

How many quotes did we get?

How sure are we about our income and expenses?

How is the budget different?

Do the members and directors understand the budget?

How can we spend less money and save more?

What can the corporation money be used for?

Is there enough money for when things go wrong?

What could change our income?





Financial audit

Some Aboriginal corporations have to get a report that says if the money story for the last financial year was straight and true. The financial year is 1 July to 30 June the next year. That report is called a financial audit.

An independent financial auditor makes the financial audit report. Independent means it is someone from outside the corporation.

The financial auditor checks:

- if the corporation followed all the rules and laws
- how the money came in
- how the money went out
- how the corporation saved money
- if the corporation did the financial reports the right way.



If your corporation has to make a financial report, then it also has to get an audit report.

Financial audit jobs

Directors' jobs

The board of directors do these things for financial audits.

- ✓ Get 3 quotes for financial auditors.
- ✓ Make sure the financial reports are straight and true.
- ✓ Give the financial reports to the financial auditor.
- ✓ Understand the audit report or ask questions to learn.
- ✓ Check that the audit report is straight and true.
- ✓ Help explain the audit report to members.
- ✓ Send the audit report to ORIC.



Members' jobs

Members do these things for financial audits.

- ✓ Choose the financial auditor at a general meeting.
- ✓ Make sure they understand the audit report.
- ✓ Ask questions if they do not understand the audit report.



Choosing an auditor

Members have to decide if they get the same auditor as last year or find a new one.

Members can ask these questions when choosing an auditor.

- Last year, did the auditor finish the report on time?
- Did the auditor do a good job?
- Are they expensive?
- How many times have we used the same auditor?
- Should we choose a different one?



When an auditor knows the corporation too well, it is hard for them to see new problems. So, we only use the same auditor for 3 years. Then, we choose a new auditor.

If the auditor finds a problem in the money story, they will say how to fix that problem. The board has to follow the auditor's instructions.

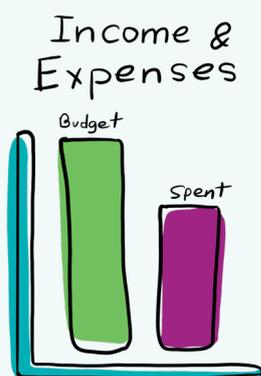


It is good to learn from the auditor. We ask the auditor if they are worried about any of the numbers. We also get them to tell us how we can look after our money story better.

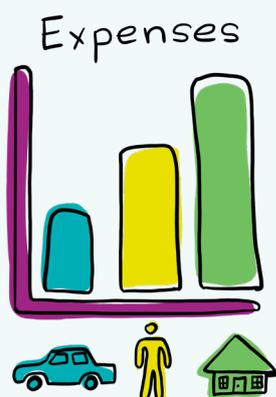


Easy ways to show money story

Here are some ideas to help people understand financial reports.



Show income and expenses as a bar graph. Put the amount the corporation spent next to the amount it budgeted. This helps to see the difference.



Use pictures to help make the financial reports easier.



Use another picture system.

- Red STOP shows where the corporation needs to stop because there is a worry.
- Orange thumbs down shows where the corporation needs to look at making changes.
- Green thumbs up shows where the corporation is doing well.



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