

Financial powers and reporting obligations

Legal information for Western Australian incorporated associations



This fact sheet covers:

- Who is responsible for overseeing your association's finances
 - What are the requirements for preparing financial information, including auditing
 - What kind of financial information needs to be provided at your associations annual general meeting
 - What financial information needs to be provided to the Commissioner for Consumer Protection
 - What financial records must your association keep
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Incorporated associations in Western Australia and their management committees must comply with the financial reporting and management requirements set out in the *Associations Incorporation Act 2015 (WA)* (the Act) and the *Associations Incorporation Regulations 2016* (the Regulations).

This fact sheet explains what those requirements are and is general information only. Your association may need to seek specific advice.

Who is responsible for overseeing our association's finances?

Each member of the management committee (sometimes referred to as the committee of management or board) of an incorporated association is jointly responsible for managing the finances of the association. This means that all committee members need to understand the association's financial obligations and participate in making decisions about the association's finances.

What powers and duties do members of the management committee have over an association's finances?

The committee of management of an incorporated association usually has broad powers relating to the association's finances. Committee members of an incorporated association must comply with a range of duties under the Act and the Regulations as well as the association's rules, which include duties concerning the finances of the association.

Under the Act, each committee member owes the association duties, including:

- to keep accounts of all transactions of the association that correctly record and explain its transactions and financial position and performance

- to disclose any material personal interest they have in a matter being considered at a management committee meeting, and to refrain from the decision making process on that matter – a material personal interest disclosed must also be disclosed at the next annual general meeting (**AGM**)
- not to use their position improperly to gain an advantage for themselves or for another person, or to cause a detriment to the association, and
- to exercise powers with a degree of care and diligence reasonably expected in the circumstances

Incorporated associations can restrict or amend committee members' powers through the rules of the association, as long as the restriction or amendment is not contrary to law. For example, the rules may require that members approve the association's annual membership fee, or the association's investment plans be agreed at a general meeting.

NOTE

The rules (constitution) of an incorporated association must state the powers of the management committee (see Schedule 1 of the Act). An association's rules will often state that the management committee must manage and control the business and affairs of the association. Check whether your association's rules limit the powers of the management committee.



An incorporated association that is registered as a charity with the Australian Charities and Not-for-profits Commission (the **ACNC**), will also need to comply with the ACNC's Governance Standards. These Governance Standards impose specific duties on committee members, for example, a duty to ensure that the financial affairs of the charity are managed responsibly. For more information about the duties of committee members under the Governance Standards, go to Not-for-profit Law's Governance resources at www.nfplaw.org.au/governance.

Can't we just leave all this financial stuff to the Treasurer?

No – the law is clear that all members of the management committee are responsible for managing the association's finances, not just the treasurer.

The treasurer (or financial officer – or whatever other name is given to the position) is generally charged with the task of ensuring that financial transactions are properly recorded and reported on.

The treasurer usually presents financial reports at committee or board meetings. It is important that these reports are easily understood by all management committee members because the committee members are all responsible for keeping a check on the finances of the association.

While the treasurer may not be able to do all of the regular financial tasks personally, it is the responsibility of the treasurer to ensure that good systems are in place to allow these tasks to be properly and consistently completed (for example by employees of the association).

Other tasks for the treasurer may include:

- making sure finances are well planned by preparing an annual budget and then regularly monitoring this budget to make sure that the association is staying within it
- making sure that the accounting books and records are up to date and in order – there must be a proper record of all payments made and money received, and

- ensuring that records are easily accessible so that a financial statement or financial report can be prepared (and, if necessary, reviewed or audited) at the end of the year.

What are the requirements for preparing financial information, including auditing?

The financial reporting responsibilities of an incorporated association depend on whether it is a Tier 1, 2 or 3 incorporated association, based on its annual revenue.

See the following table:

Tier	Annual revenue
Tier 1	Less than \$250,000
Tier 2	\$250,000 to \$1,000,000
Tier 3	Over \$1,000,000

Where a Tier 1 or Tier 2 association has a one off increase in revenue (for example, if the association applies for a special grant for a particular purpose), the association can apply to the Commissioner to be declared a specific tier of incorporated association for that financial year.

Tier 1

Within 6 months after the end of each financial year, a Tier 1 association must prepare financial statements that give a true and fair view of the financial position and performance of the association. Financial statements for that financial year must be presented at the AGM.

Tier 1 associations must determine whether they are operating on a cash or accrual basis of accounting.

Cash accounting

Cash accounting involves the recording of income as and when it is received, and recording expenses as and when they are paid. An association that operates on a cash basis must include the following in its financial statements:

- a statement of all monies received and paid during the financial year
- a reconciled statement of bank account balances, and
- a statement setting out the association's assets and liabilities.

Accrual accounting

Accrual accounting involves the recording of income on the date it is earned, regardless of when it is actually received, and recording expenses as and when they are incurred, as opposed to when they are paid. An association that operates on an accrual basis must include a statement of income and expenditure for the financial year and a balance sheet in its financial statements

Tier 2 and Tier 3

Within 6 months after the end of each financial year, Tier 2 and Tier 3 associations must prepare a financial report for the financial year. The financial report must give a true and fair view of the financial position and performance of the association, and comply with the Australian Accounting Standards Board accounting standards.

The financial report must consist of:

- the financial statements for the year
- the notes to the financial statements (including all disclosures required by the Australian Accounting Standards Board accounting standards, and any other information necessary to give a true and fair view of the financial position and performance of the association), and
- the management committee's declaration about the statements and notes.

The management committee declaration must:

- state whether in the management committee's opinion, there are reasonable grounds to believe that the association will be able to pay its debts as and when they become due and payable
- state whether in the management committee's opinion, the financial statements and notes are in accordance with the Act
- be made in accordance with a resolution of the management committee
- specify the date on which the declaration is made, and
- be signed by at least 2 members of the management committee who are authorised to do so.

Tier 2 associations must have their financial reports reviewed and must present a copy of the reviewer's report together with the association's financial report for that financial year at its AGM. If a Tier 2 association is required to have its accounts audited (see the next section of this factsheet), it is not required to have the financial report reviewed. However, it must present a copy of the auditor's report, and the audited financial report, at its AGM.

A Tier 3 association must have its financial report audited and must present its audited financial report and a copy of the auditor's report at its AGM.

TIP

An incorporated association must hold an AGM within 18 months of first incorporating. An AGM must then be held once in each calendar year, within 6 months of the end of the association's financial year. Associations can choose their financial year, by specifying it within their rules, but the end date of the financial year chosen cannot be more than 15 months after the association incorporates.

What are the requirements around carrying out an audit?

Tier 1 and **Tier 2** associations are not required to complete an audit of their accounts (and **Tier 1** associations are not required to have their financial statements reviewed) unless:

- it is required by the association's rules
- it is a requirement under the terms of an association's funding agreement or licence
- a majority of members at a general meeting pass a resolution that an audit must be completed, or
- the association is directed to do so by the Commissioner for Consumer Protection.

Tier 2 associations must have their financial reports either reviewed or audited, but not both. If, based on the above points, an association must undertake an audit, it does not also need to conduct a review.

Tier 3 associations must have their financial reports audited.

If the incorporated association has a fundraising licence (Charitable Collections Licence), the Auditor General may request an audit (see *Charitable Collections Act 1946* (WA) s 20).

What is the difference between a 'review' and an 'audit'?

A 'review' is not as detailed as an 'audit'. A reviewer's report must include a statement about whether anything has come to their attention to suggest that the financial statements or report did not comply with the requirements of the Act, and if something has come to their attention, a description of the issue.

The auditor's report must:

- include a statement as to whether the financial statements or report have been prepared in accordance with the Act
- describe any defects or irregularities identified in the financial statements or report
- include any statements or disclosures required by the auditing standards, and
- specify the date on which the report was prepared.

A review or audit may be conducted by:

- a registered company auditor under the Corporations Act
- a member of:
 - Chartered Accountants Australia and New Zealand (with a designation Chartered Accountant or Fellow Chartered Accountant)
 - CPA Australia (with a designation Chartered Practising Accountant or Fellow Chartered Practising Accountant)
 - Institute of Public Accountants (with the designation Member or Fellow), or
- a person deemed appropriate by the Commissioner for Consumer Protection.

If a reviewer or auditor suspects a significant contravention of the Act, they must notify the Commissioner of this in writing within 28 days after becoming aware of the circumstances.

What financial information needs to be presented at your associations AGM?

Incorporated associations must have an AGM every year, apart from within its first year of incorporation, where it may hold an AGM any time within 18 months after incorporation.

As outlined above, the requirements will depend on the size of the association. The financial information that must be presented at the AGM for the three tiers of associations is set out below.

- **Tier 1** associations that **are required** to have their accounts audited or reviewed (see Requirements for carrying out an audit, above), need to present its reviewed or audited financial statements and a copy of the report of the review or auditor's report.

Tier 1 associations **not required** to have their accounts reviewed or audited, just need to present their financial statements for that financial year.

- **Tier 2** associations need to present their financial report, either reviewed or audited as required, and a copy of the review report or the auditor's report, whichever is applicable
- **Tier 3** Associations need to present its financial report and a copy of the auditor's report.

What financial information needs to be provided to the WA Commissioner for Consumer Protection?

The Department of Mines, Industry Regulation and Safety, Consumer Protection Division (**Department**), regulates incorporated associations in Western Australia.

Every year, within 6 months after the end of the incorporated association's financial year, the association must provide to the Commissioner a written statement confirming:

- the association's address and address for service of any process, notice or other document
- that the association continues to have at least 6 members who have full voting rights under the association's rules
- the date on which the association held its most recent AGM, and
- the revenue of the association for the most recent financial year,
- unless exempted from doing so by the Commissioner.

The statement can be lodged online through the Department's online portal [AssociationsOnline](#).

NOTE

If your incorporated association is a registered charity, it is required to lodge an Annual Information Statement with the ACNC within 6 months of the end of its financial year. Depending on the association's size, it may also need to have its financial reports reviewed or audited. Find out more about charity reporting on the Not-for-profit Law Information Hub at www.nfplaw.org.au/charityreporting.



What financial records must our association keep?

The Act requires incorporated associations to keep sufficient financial records that correctly record and explain its financial transactions and financial position and performance, and enable true and fair financial statements to be prepared in accordance with the Act. These records are to enable true and fair financial statements to be prepared.

The financial records are required to be kept for at least 7 years.

RELATED RESOURCES

Consumer Protection Western Australia has developed a very useful resource on running an incorporated association in Western Australia, which includes information on financial records and reporting. You can access it at: <https://www.commerce.wa.gov.au/consumer-protection/inc-guide>.



Resources

Related Not-for-profit Law Resources

The Not-for-profit Law Information Hub (www.nfplaw.org.au) has further resources on the following topics:

- Registering as a charity – www.nfplaw.org.au/charity
- Charity reporting – www.nfplaw.org.au/charityreporting
- Governance and legal duties of office holders – www.nfplaw.org.au/governance
- Holding meetings – www.nfplaw.org.au/meetings

Other Related Resources

➤ [Australian Charities and Not-for-profits Commission \(ACNC\)](#)

The [Report annually](#) page of the ACNC website provides information on reporting requirements according to a charity's size.

➤ Consumer Protection, Western Australia – [Associations and clubs](#)

➤ [Model Rules](#) – some incorporated associations in Western Australia use the 'model rules for incorporated associations' published in Schedule 2 of the Associations Incorporation Regulations 2016 (WA). You should check your association's rules to determine the financial and reporting requirements of your incorporated association.

➤ [Institute of Chartered Accountants \(ICA\)](#) – enhancing not-for-profit annual and financial reporting.

➤ [Governance Institute of Australia](#) – the Governance Institute has a series of good governance guides, which include information on financial reporting. They also provide a pro bono program to assist with things like governance audits, board paper templates and annual report preparation. Contact the Governance Institute for their guidelines on when a group is eligible for this free assistance.

➤ [CPA Toolkit](#) – CPA has a toolkit with two guides relevant to not-for-profit management.

➤ [QUT Approving Financial Statements](#) – the Australian Centre for Philanthropy and Non-profit Studies at the Queensland University of Technology has a resource on non-profit governance which includes a page on approving financial statements.

Legislation

➤ [Associations Incorporation Act 2015 \(WA\)](#)

➤ [Associations Incorporation Regulations 2016](#)

➤ [Australian Charities and Not-for-profits Commission Act 2012 \(Cth\)](#)

A Not-for-profit Law Information Hub resource. Access more resources at www.nfplaw.org.au. Justice Connect Not-for-profit Law acknowledges the generous support of our funders and supporters. Find out more at www.nfplaw.org.au

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