

Head Office

## Financial Management Policies and Procedures Manual

2016 – 2018

This document sets out John Readings policies and procedures that are to be adhered to by all business managers.

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## John Readings Financial Management Policies

### Financial Management Policy

John Readings (JR) promotes a best practice approach to all aspects of its operations from its retail stores throughout Australia and internationally, its publishing arm and its online business and warehouses. JR values ethical and compliant practices and the highest level of service to all stakeholders.

In line with the company's ethos and strategic plan, all facets of financial management will reflect the following:

- All activities will be conducted ethically,
- All activities will reflect the company's strategic goals,
- All activities will be undertaken to achieve the key goals and financial bench marks identified in the company's business (strategic plan) and each business operational plans.

All procedures will be designed to support the successful operation of the company.

### Financial Reporting Policy

Reports should provide analysis of all income and expenditure, balance sheet and cash-flow items in relation to the endorsed budget by the board of directors.

### Budgeting Policy

All budgets are prepared at the direction of the Finance, Audit and Risk Management (FARM) Committee (chaired by the Chief Financial Officer) and must respond to business and strategic goals.

### **Cash Control and Investment Policy**

All investments must be endorsed by the board of directors and be subject to reviews and recommendations from the FARM Committee.

All money received is to be banked by the Chief Financial Officer (CFO) or delegated authority in a timely manner.

Bank accounts are to be monitored by the CFO to ensure there are sufficient funds to meet daily operational requirements. If there is excess money in the business operating account the CFO is to arrange for this to be transferred to the investment account.

### **Credit Policy**

All activities undertaken in collection must endeavour to minimise bad debt. All activities undertaken must comply with federal and state legislation requirements relating to PAYG employees, work cover and modern awards conditions.

Where the business operates in countries other than Australia, all activities must comply with that country's legislation.

### **Fixed Asset Policy**

Management of assets must comply with Australian Accounting Standards. The assets of the company must be maintained to ensure maximum usage.

### **Taxation Policy**

All activities must comply with taxation law including maintaining tax exemption status.

Where the business operates in countries other than Australia, all activities must comply with that country's legislation.

### **Insurance Policy**

Insurance coverage must protect the company against any loss or liability in relation to the following:

- Business assets,
- Public liability,
- Workers' compensation,
- Professional indemnity,
- Director and officer liability.

## Invoice Policy

### *Accounts Receivable*

- Invoices need to be in the accounting system by the end of each month to provide accurate accounting information.

### *Accounts Payable*

JR's terms of payment are 60 days from date of invoice. All invoices need to be verified, job numbered and approved by the authorising staff member and the relevant senior manager. The assistant accountant is responsible for inputting all invoices for the month into the company's accounting system to ensure accurate accounting information.

## Cash Receipts Policy

Payment for a product or service can be made in the following way:

- Electronic funds transfer (EFT),
- Credit card,
- Cheque.

The payment terms for all products and services are 30 days from date of invoice.

### Project Expenditure Policy

- Project funding must cover all project costs including fixed costs, management, administration, coordination and direct project costs,
- All project activity must be reported upon bi-monthly by the CFO for reporting to the FARM Committee and the board of directors,
- All project contracts are signed in accordance with the procurement policy,
- All projects, upon signing of contract, will be formally established in the John Readings accounting system by the assistant accountant through completion of the project number and budget,
- All expenses related to projects will be job and account coded by the project managers and then entered by the assistant accountant into the company accounting system,
- Thee project manager will verify and approve all projects under their responsibility. The CEO, CFO and/or relevant director will sign all payments and requisitions to ensure the amounts reconcile prior to payment,
- Project managers must operate within project budgets at all times,
- Project managers must confirm all verbal commitments in writing and have it approved by the CEO and CFO (or relevant director).

### International Transactions

The company is planning to establish retail outlets at strategic locations throughout Asia. Where a new location is agreed upon the project manager must comply with all local laws with regard to taxes and employee obligations.

## John Readings Financial Management Procedures

Full disclosure of the processes and procedures are essential to the financial report's credibility. Information should be disclosed in a way that enables FARM Committee and external auditors to attest to its reliability.

### **Management Accounts**

- The CFO has the overall responsibility for preparing the monthly and quarterly management accounts for the FARM Committee and the board of directors. The CFO has responsibility for compiling quarterly management reports for:
  - All retail outlets located in Australia and offshore,

- The publishing division of the business,
  - The online retail business and warehouse activities.
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- The management accounts are to be available for review by the FARM Committee and CEO at least three days prior to scheduled management meetings,
  - The management accounts are to be prepared using Australian Accounting Standards and with regard to the Australian Income Tax Act 1986 and the Corporations Act 2001,
  - The management accounts are to be prepared from the JR accounting system accounting package with detailed working papers of reconciliation. This includes a reconciliation of all balance sheet items and ensuring the accuracy of these items,
  - Accrual accounting is used through the reports except for the cash flow statements,
  - Monthly and quarterly management accounts should include an operating statement with year to date results, a detailed balance sheet and cash flow statement,
  - The profit and loss account should detail the budget year to date, actual results year to date and variances year to date,
  - Notes should explain any significant variances that the CEO should be aware of for decision-making,
  - The CFO needs to ensure the end of month reports are completed by the 15<sup>th</sup> of the subsequent month.

### End of Month/Quarter Checklist

Note: Management accounts are given to the CEO and FARM Committee monthly and quarterly.

1. Adjust all previous month's/quarter/s accruals when required,
2. Update depreciation schedule and record journal in JR accounting system,
3. Prepare all standing journals for accrued income, amortised expenses and liabilities,



4. Ensure all project-related income/expenses are reconciled,
5. Analyse prepayments and record expenses accordingly,
6. Ensure all payroll is finalised and reconciles for month prior to closing quarter end accounts,
7. Check that all invoices for payment have been entered into the creditors sub-ledger for the period,
8. Review creditors to ensure no adjustments required,
9. Review debtors sub-ledger to ensure no adjustments required,
10. Ensure that bank statements reconcile to general ledger,
11. Ensure that all payroll clearing accounts are reconciled, e.g. PAYG, EFTs, superannuation and salary sacrificing payments,
12. Annual leave liability entries to be reconciled and journalised,
13. For projects that have not been completed, the unexpended funds are recorded in the balance sheet as liabilities,
14. Reconcile all balance sheet items,
15. Reconcile GST reports to the balance sheet and quarterly BAS returns,
16. Prepare operating accounts, including actual results and YTD (year to date) budget,
17. Material unfavourable variances and abnormal items should be noted in the accounts and reasons noted for FARM Committee,
18. Ensure that all working papers are clear and concise for audit. File to be labelled clearly with a copy of the operating accounts, balance sheet, profit and loss account and cash flow statements,

19. Deliver and discuss company's results with FARM Committee. Should budget not be as expected to be achieved in any area, this must be highlighted to the FARM Committee.

### Budgeting Procedures

- The annual budget should be finalised prior to the commencement of the new financial year. If considered necessary, the budget may be subsequently adjusted,
- The annual budget (1 July – 30 June) must be prepared as directed by FARM Committee, board of directors and CEO,
- It is the responsibility of the CFO to prepare the annual budget parameters including revenue and expenditure, staffing, administration and resource implications,
- The initial annual budget estimates should be based on the current expenditure projections to end of year plus relevant wage increases, revisions to employment awards or contracts, and an assessment of the project increase in operating expenses,
- Expected interest rates and investment options should be evaluated and projections prepared,
- All fixed costs should be reviewed and projected for the twelve-month period including rental premises, insurance, cleaning, office and warehouse equipment etc.,
- All taxes and legislative costs to operate, must be considered including audit costs,
- All annual budget working papers must be documented, including:
  - Assumptions,
  - Papers from board advising strategic and business plan,
  - Papers from CEO to support projected numbers and costs,
- The annual budget will be finalised and submitted to the FARM Committee and board of directors for approval,

- The annual budget for the next financial year should be presented to the board of directors,
- The CFO is responsible for monitoring the organisation's expenditure, reviewing the actual and budgeted expenditures and, reporting on the progress of such expenditure.

### Project Budgeting

- All project budgets must be developed by project managers in collaboration with and approved by, the CFO before finalisation of the annual budget,
- The CFO will allocate each approved project budget a number code, and this will also become the project identification code across all JR systems,
- Project managers are responsible for ensuring projects do not run over budget; that deliverables meet contractual obligations; that the sign-off of invoices, and the provision of the signed invoice to the assistant accountant for processing.

### Preparation for Annual Audit

- A review of all year end balances in the balance sheet and operating statement must be undertaken,
- All balance sheet general ledger accounts are to be reconciled. This would include examining in detail:
  - The bank reconciliation, including sighting a copy of the bank statement,
  - Petty cash reconciliation, ensuring the amounts reimbursed balance with the nominal balance to be held,
  - The debtors accounts, including any amounts not contained in aged debtors reports. This will also include analysis of amounts outstanding greater than 60 days with reports on actions taken,
  - Examine asset register to ensure there are no obsolete items being depreciated,

- Ensure that pre-paid expenses relate to future periods and are recorded in the balance sheet,
- Review the creditors report to ensure all expenses are current and credit notes have been processed where applicable,
- Ensure that all expenses are included as accrued expenses if the amounts have not been included in the accounts payable ledger. Examine accrued expenses to ensure liability had arisen at balance date (i.e. sight documentation),
- Ensure that all contingent liabilities are raised,
- Examine payroll reports to ensure wages/deductions/superannuation and taxation balances in the clearing accounts,
- Examine leave liability reports to ensure provisions are correct and current for period including long service leave which is accrued after five years,
- Ensure that a liability is raised for any net project funds which have not been expended at closing date. A net result should not appear in the general profit and loss,
- The following financial management systems should be checked in particular:
  - Payroll: Check the direct payments report to ensure no additional employees or collusion between staff members,
  - Payroll: Check that amounts paid are recorded in payroll system correctly,
  - Payroll: Ensure that PAYG reconciles,
  - Payroll: Ensure that all third-party payments for packaged employees are currently recorded for fringe benefits tax (FBT) liability where applicable. The FBT incurred by this expense, should reduce the cash residual of the package payable to the employee (if stated in the employment contract),

- Payroll: Ensure that no terminated employees are on current payroll, excepting employees who have been subsequently reengaged on a casual basis,
  - Accounts payable: Ensure that the authorisation procedure is being followed. Ensure that all goods and services paid have been received,
  - Accounts payable: Test data to ensure expense classifications are correct,
  - Accounts receivable: Ensure that all payments are being matched correctly and banked promptly – ensure no delays to cash flow,
  - Accounts receivable: Examine unpaid accounts and action taken – give advice and assist where necessary. Attempts to identify any clients who show signs of becoming slow payers (e.g. timing between payments becoming greater or unwilling to be bound to terms of payment). Potential bad debt cases should be identified as soon as possible to minimise the amounts that could be lost,
  - Ensure that all asset registers are up-to-date by comparing the written down values with the general ledger,
  - Ensure all accrued interest on term deposits or interest on loans is reflected in the accounting records,
  - Ensure taxation and statutory compliance is being met,
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- A review of WorkCover policies will be made by examining the working papers supported by source documentation such as payroll reports, contractor's creditors file (if applicable) – estimates for future periods,
  - A review of the annual payroll will be made by examining the working papers supported by the source documentation such as payroll reports and cash/EFT entries to staff, payments to the ATO, payments to superannuation funds and other deductions made,

- A review of the FBT return will be made by examining the working papers supported by source documentation such as payroll reports, salary packaging arrangements and general ledger reports,
- All internal audit checks should be applied at year end to ensure information presented to external auditors follows the Australian Accounting Standards. A detailed working paper file of all reconciliations and copies of source documentation (where applicable) are included,
- The end of month checklist should be examined to ensure all month end work is being reviewed.

### Accounts Receivable Procedure

- Cheques and cash should be deposited in a timely manner by the assistant account or CFO,
- Ensure that all credit card payments are processed within 24 hours of receipt. An invoice/receipt with the EFT Machine payment receipt needs to be mailed to the client,
- Monies received needs to be recorded in the deposit master file and reconciled with the bank statement on a bimonthly basis,
- Follow the collections procedure (following) to obtain overdue funds.

### Collections Procedures for B2B clients

- Ensure that all credit terms are printed clearly on all invoices and agree with the client's contract for terms of business,
- The collection procedure is:
  - Net payment is required within 30 days from invoice date. Beyond 30 days, further collections procedures will be enacted,

- After 45 days – issue a duplicate invoice with reminder notice,
- After 60 days – contact the debtor by telephone and record on the JR collections database all relevant information such as the person spoken with and any agreed action,
- After 75 days – issue a letter of demand and retain copy. Ensure that the following items are included in the correspondence:
  - Claim the debt owed by the debtor,
  - Give the debtor sufficient details to identify the debt,
  - Allow the debtor a reasonable time to respond (i.e. 14 days),
  - Indicate that if the payment is not received within the time stated, that the debt will be passed onto the company's collect agency for further demand and/or possible legal action,
  - After 90 days – all debtors are passed on to the debt collection agency and no sales orders will be accepted by the sales team until the debt has been paid,
  - All accounts at 90 days and over are to be kept at a maximum of 5% of total receivables,
- The FARM Committee have authority to approve write-off any one debt,
- Any changes to the procedures outlined above must be authorised by the FARM Committee.

### Accounts Payable Procedures

- Payments will be made for invoices authorised by the appropriate project manager or senior manager,
- Statements are not to be paid. They are to be used for reconciliation purposes only, except where a statement and invoice are combined,

- All cheques will show the payee's name in full and be crossed (except petty cash) and will be signed by two signatories,
- All EFT payments will be authorised by the CEO and CFO,
- Petty cash will be reconciled whenever a cheque is required to be drawn or each month. A receipt must be present for each and every disbursement,
- All payments should be made under terms of business and the credit time utilised to the company's advantage,
- All invoices must be job coded and approved by the relevant manager,
- All current month invoices must be entered into the system prior to end of month to allow for the expense to be captured for end of month reporting and cash flow calculations by the CFO,
- The cut-off date for month end processing is as advised by the CFO,
- All corrections to invoices entered in a previous month (e.g. incorrect amount, GST code, account allocation, invoice cancellation) must be brought to the attention of the assistant accountant, prior to processing,
- The accounts payable is to be reconciled each month end.

### Payroll Procedures

- It is the responsibility of the CFO or delegated authority to confirm all conditions of employment including:
  - Basis of employment (full-time, part-time, casual),
  - Annual remuneration,
  - Basis remuneration calculated, i.e. inclusive of superannuation, leave loading and other benefits,
  - Leave entitlements including loading provisions applicable/not applicable,



- Choices available in packaging – if any,
  - Terms of notice required,
  - Superannuation,
  - Date of commencement,
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- It is the responsibility of the CFO to ensure that all employment declarations, superannuation forms and trainee papers are completed and lodged,
  - All payments are to be made by EFT to the employee's nominated bank account on a fortnightly basis,
  - Requests by terminating employees for group and/or separation certificates must be provided promptly,
  - All payroll transactions are to be entered into JR's accounting system. No wages are to be paid in cash and all payments must be recorded. The payroll payments report is to be reconciled to ensure that all group certificates agree with wages paid for the year,
  - Should a payroll amount not be received by an employee, firstly check payments deducted on payroll reports. Request a copy of the employee's bank statement as evidence the payments has not been deposited. Ensure that they pay has not been returned to the company. Contact the bank to report the error and to run a trace on the lost funds. Pay employee again as soon as possible. Ensure that the credit for pay when it is located is recorded to ensure cash paid agrees with wages recorded,
  - The payroll area is not to disclose to other parties' information of a private nature. Should a lending organisation require income information, the CFO may only confirm the amount paid as wages or other details where the lending organisation has already been supplied with this information by the employee.

### Fixed Assets Procedure

- All fixed asset expenditure must be within the board's annual budget,

- Any additional expenditure over \$200,000 must have authorisation from the FARM Committee,
- All assets must be recorded in the fixed asset register and financial accounts,
- All disposals must be at fair market price. Discounts on disposal must be approved by the Chairperson and FBT must be paid,
- All assets are recorded in the asset register with a code relating to the assets' location and description,
- All audit of fixed assets must take place annually by the CFO,
- All assets must be kept in good condition and be productive. Non-productive fixed assets could be reducing funds that could be earning interest,
- A copy of the fixed asset register must be kept offsite,
- The level of insurance cover should be reviewed annually,
- A depreciation schedule must be maintained monthly using the straight-line method to expense depreciation over each asset's expected useful life.

## Tendering and Purchasing

All employees must adhere to John Readings procurement policy and procedures.

## Insurance Procedures

The CFO is responsible for ensuring the following insurance policies are current:

- Business assets,
- Public liability,
- Indemnity cover for directors and employees,

- Work Cover for employees and any paid directors.