

Best Practice Guidance Notes

Guidance Note 1

As part of the Institute's ongoing efforts to provide members with guidance and information on key issues, the Institute has developed a Best Practice Guidance Notes series which presents guidance for members written by members.

What is best practice?

Best practice is about gaining maximum value from standard operating policies and procedures. Best practice should be simple and easily understood by all users – accountants and non accountants alike. The focus should be on clarity, accountability and integrity.

The challenge for today's finance executive is to ensure policies are clear and coordinated to promote the desired outcomes.

Tax compliance

Consideration needs to be given to the following taxation issues:

- > **Income tax:** ensure receipts and travel diaries satisfy the record keeping and substantiation requirements to claim an income tax deduction
- > **GST:** ensure a valid tax invoice supports the item of expenditure to enable any GST paid to be claimed
- > **FBT:** where expenditure items are subject to Fringe Benefits Tax (eg. entertainment), ensure appropriate reporting systems are in place to capture this together with the payroll system for any reportable fringe benefits.

Travel and Expense Policy

Policies are a critical element of the governance structure for any business, reflecting the expectations and obligations of both management and staff. The challenge for today's finance executive is to ensure policies are clear and coordinated to promote the desired outcomes.

This Guidance Note provides best practice guidance for a Travel and Expense Policy. It covers what to include in the policy as well as strategic guidance on the overall structure of a Travel and Expense Policy ('Policy').

Choosing your approach

The approach you take with your Policy involves making some upfront decisions.

1. Thick vs Thin

Even before starting, it's best to know in advance whether you want your Policy to be an extensive 'War and Peace' or a 'Top 10' list. Knowing this in advance will help you scope out how comprehensive your Policy will be and the range and depth of each topic covered.

2. Principles based vs Prescriptive

The Policy may either provide general principles to guide preferred behaviour or it may be prescriptive requiring specifically defined behaviours. The preferred approach will often be defined by the management style or structure of the organisation.

3. Pre vs Post checking

The number of expense claims and the timing of available resources you have will often dictate pre or post checking of invoices/receipts. Pre checking involves verifying all receipts before processing and is the ideal control environment to minimise errors. Post checking involves employees submitting claims in a self assessment environment with an internal audit function to monitor compliance.

4. Technology vs Manual

Whether you are currently manually collating forms or have a fully integrated online system, technology has a role to play to improve the efficiency and effectiveness of expense claim processing. However, systems require an investment of resources (such as time, money and staffing) which may not be a priority for your organisation.

5. Centralised vs Decentralised

The centralised or decentralised structure of an organisation will provide guidance on how a new or updated Policy is communicated. Depending on the size of your organisation, this will either be the responsibility of a centralised department; decentralised to each of the business units; or something in between. Making this choice upfront is a strategic priority to ensure the right stakeholders are engaged throughout the process.

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Top tips

- > Spend the time required to define your approach
- > Provide a clear delegated authority list that fits on one page for easy reference
- > Understand the internal compliance risk requirements
- > Use corporate cards wherever possible for all expenses
- > Whoever approves the expenses has the cost allocated to their budget
- > Use a credit card service provider with online capability to code expenses direct to the general ledger
- > Provide easy access to the Policy (eg. within three clicks on the company intranet)
- > Refer to the Department of Foreign Affairs & Trade (DFAT) website for information on travel to high risk countries
- > When employees submit expenses, ensure they sign off to confirm compliance with the Policy.

These Best Practice Guidance Notes are an initiative of the Institute's Victorian Corporate Advisory Panel and have been prepared by the following contributors:

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Policy content

The choices made in how to approach your Policy will greatly influence what content is needed to address these choices. While every organisation will be different, it is considered best practice that the following elements are included:

- > Policy control details: basic information such as date of issue, Policy sponsor, contact person should appear on all Policies so employees can understand the context in which the Policy has been issued.
- > Definitions: a definitions section will clarify key words and phrases used in the Policy that can be tailored to your business. This will promote greater understanding for how the Policy is to be applied.
- > Allowable expenses: clearly define allowable expenses with additional guidance on how this process will work in practice, and the approval process employees need to adhere to. See allowable expenses framework below.
- > List of non allowable expenses: an effective way to minimise areas of grey is by establishing specific non allowable expenses, allowing managers to update their Policies (by amending the list if required) to close any known 'loop holes'.
- > Delegated authorities: a clear list of delegated authorities should support the Policy to ensure employees know who they can approach to get approval for their expenses. If a dollar limit applies, this should also be included. This element is critical to ensure the Policy is workable by having the appropriate people sign off at the business unit level.
- > Consequences of non compliance: employees need to be aware of what happens when there is a breach. This may be a '3 strikes' system and/or a range of disciplinary actions depending upon the severity of the breach. This element is important to promote the right behaviour and deter any non compliance.

Allowable expenses framework

The illustrative framework below lists a number of key attributes that can be used for preparing a Policy for each allowable expense:

Attribute	Comments
Scope	Identify the specific type of expenses and/or the situations this covers
Approval	State whether pre or post approval is required
Procure	State who is permitted to make purchases. This may be the employees themselves, centralised internal coordinator(s), a manager or a combination of these
Preferred suppliers	Identify whether there are any pre-negotiated arrangements with preferred suppliers or a 'best price on the day' policy will apply
Spend amount	State any limits that will apply which can be: <ul style="list-style-type: none">> Prescriptive in either setting a dollar amount or benchmark standard (eg. all travel will be booked economy class); or> Principle based requiring the employee's judgement to interpret principles (eg. all expenses must be 'reasonable')
Other	Include other relevant items that require consideration. For example: <ul style="list-style-type: none">> Airline travel: travel diaries; reward programs> Accommodation: mini bar; in house movies; room service> Rental car: infringement notices> Entertainment: reporting for FBT purposes.

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