



MONITORING THE FINANCES

PURPOSE

To clarify essential financial data for the board, and some of the questions the board should be asking, to maintain the financial health of the organisation.

OVERVIEW

The Board cannot afford to compromise on the quality and timeliness of financial information. Financial reports are needed to support decision making by board members, to inform future planning and to be satisfied as to the organisation's solvency.

Financial reports must meet a number of criteria:

- > The report must provide high quality information
- > The material should be framed in such a way as to ensure that board members understand the content
- > If it is a small organisation without experienced financial staff, the information on which the report is based should be overseen by a board member with financial skills (although this does not absolve ALL board members from responsibility for understanding financial reports)
- > There should be a clear deadline for providing the reports to board members before meetings

KEY FINANCIAL REPORTS TO BE PROVIDED TO THE BOARD:

1. INCOME AND EXPENDITURE STATEMENT (PROFIT AND LOSS STATEMENT):

- > Is produced monthly, with year-to-date statements. It should include comparison against the budget and with forecasts for the remainder of current year
- > If activity is reasonably similar from one year to the next, the report should also include a comparison with the previous year's figures
- > Allows board to identify trends over time and flag any 'red' issues
- > Can include useful profitability ratios, such as:
 - o Gross profit margin = Sales minus Cost of Goods Sold divided by Sales (expressed as %)
 - o Return on assets = Net income divided by total assets

2. BALANCE SHEET:

- > Provides a snapshot of the financial position at a single point in time
- > Is produced monthly, with year-to-date figures
- > Measures short term liquidity – Can you pay your debts???
- > Useful ratios:
 - o Current ratio = current assets divided by current liabilities
 - o Quick ratio = (current assets minus inventories) divided by current liabilities

3. CASH FLOW STATEMENT:

- > Is produced monthly, with year-to-date statements. It should include a comparison with the budget, also with forecasting for the next six months (longer if possible)

- > Provides:
 - o A record of cash / spend changes in balance sheet and income statement
 - o Information on liquidity and solvency
- > May be a requirement for funding applications
- > Shows cash flow from:
 - o Operating activities
 - o Investing activities
 - o Financing activities

FIVE FINANCIAL ISSUES FOR A BOARD

1. SOLVENCY:

Are we going to survive? Can we pay debts when due?

What to do:

- > Understand and monitor cash positions to support viability
- > Know how to read & understand your financial statements
- > Know the implications
- > Use tools to monitor your financial stability (e.g. WIN Forecast – 3 way modeling accounting program that reports P/L, Balance sheet and Cash Flow)
- > Develop a 'worst case' scenario
- > Nominate a board member with financial skills who can interpret reports and mentor board members who may have less financial experience

2. INTERNAL CONTROL SYSTEM

Internal checks that provide accurate information and prevent unauthorized financial transactions.

What to do:

- > Understand internal policies and procedures (look at transaction flow, level of segregation by members – even important within a small organisation)
- > Monitor payment / disbursement policies (they are worth nothing unless monitored)
- > Understand the strengths and weaknesses within the framework
- > Management override
- > Understand the external auditor's role –
 - o Know what information is standard and what you need to be asking for
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 - o The auditor should present final audit report to the board in person
- > Request that the auditor or an external accountant attend board meetings once a year (independent of the book keeper)

3. ACCOUNTING AND FINANCE POLICIES:

Understanding the policies in place, making them relevant to the organisation.

What to do:

- > Review of policies, for example
 - o Investment policies – how should surplus cash be dealt with (this should not be just a year-end consideration)
- > Review grants policies

4. ACTIVITY-BASED ACCOUNTING:

Assigning revenue and costs to individual activities and tasks.

What to do:

- > Understand the cost drivers so event Profit & Loss statements are meaningful – which in turn impacts on management decisions
- > Link financial reporting to the business plan – relating to revenue and cost drivers.

5. BOARD REPORTING FRAMEWORK:

Providing appropriate and sufficient financial information to the Board, with sufficient time before meetings, to enable informed decision making. If necessary, identify one board member with financial skills who can oversee the information on which the reports are based and who can interpret the information for others.

Prepared from material presented by Diana Borin, Director Accounting Advisory Services and Hamish Doley, Partner, Middle Market Advisory, KPMG

SOURCE

- > Fishel, D, The Book of the Board, Federation Press, Sydney, NSW (2003; 3rd edn. 2014)

ABOUT POSITIVE SOLUTIONS

[Positive Solutions](#) offers a range of services to non-profit boards throughout Australia. [Board development workshops](#) and detailed board reviews can be tailored to the needs of each organisation. To find out more about how Positive Solutions can help you, contact: info@positive-solutions.com.au or call 07 3891 3872.

THE BOOK OF THE BOARD

[The Book of the Board](#) is Australia's standard reference book for board and committee members of non-profit organisations. Authored by Positive Solutions Director, David Fishel, and currently in its third edition, The Book of the Board provides clear guidance on the role of the non-profit board, formal and legal responsibilities, and the ways in which the board can maximise its effectiveness for the organisation.

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