

# Board Builder

Ten things every Board member should  
ask their Treasurer

Vanessa Nolan-Woods & Julianne Price



# Disclaimer

---

This presentation has been prepared without taking account of the objectives, financial situation or needs of any particular individual. Before acting on the information in this seminar, you should consider its appropriateness to your circumstances and, if necessary, seek appropriate professional advice.

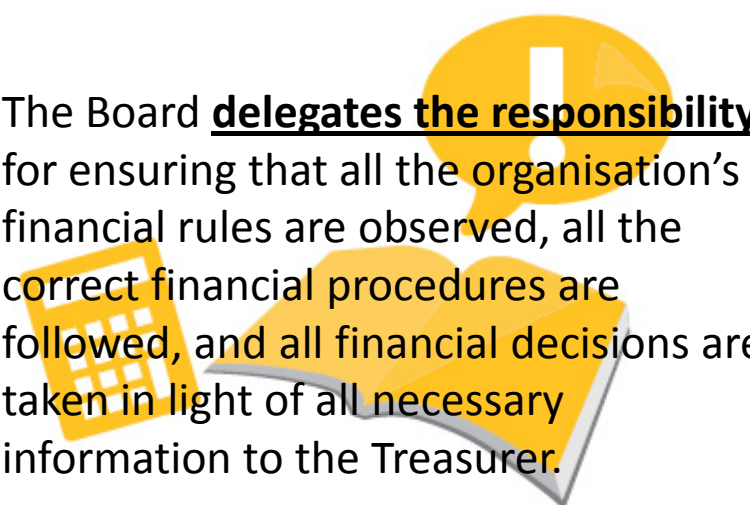
# The Treasurer and Board need to work together effectively to ensure financial health

---

*What is are the responsibilities of a Treasurer versus a Board Member?*

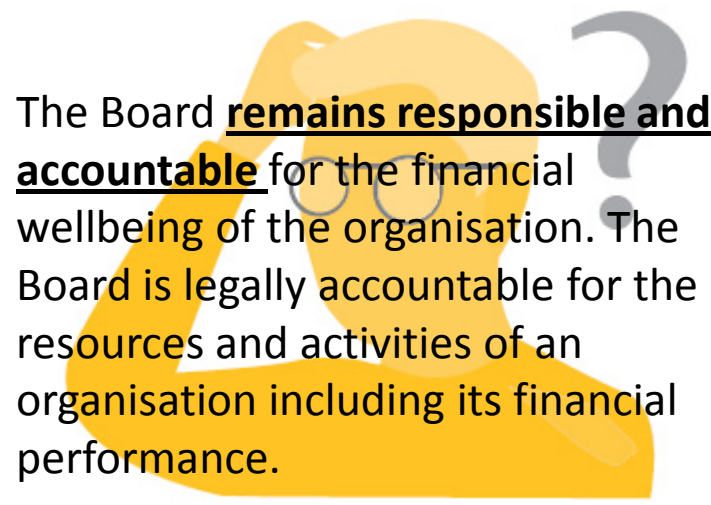
## ***Role of the Treasurer***

The Board **delegates the responsibility** for ensuring that all the organisation's financial rules are observed, all the correct financial procedures are followed, and all financial decisions are taken in light of all necessary information to the Treasurer.



## ***Role of the Board***

The Board **remains responsible and accountable** for the financial wellbeing of the organisation. The Board is legally accountable for the resources and activities of an organisation including its financial performance.



# 1. How are we travelling?



## Statement of Financial Position (Balance Sheet)

### Key tips:

Assets can include short term assets (bank deposits) and long term assets (property).

Liabilities may include short term (bills) and long term liabilities (bank loans).

### The bottom line is Net Assets

- “what we own” less “what we owe”

	30/6/2012	30/6/2013
<b>ASSETS</b>		
Cash at bank	116,363	147,926
Funds on hand	189	233
Debtors	6,730	5,539
Equipment (at cost)	134,005	162,917
Less: Provision for depreciation	98,057	101,613
Written down value	35,948	61,304
<b>TOTAL ASSETS</b>	<b>159,230</b>	<b>215,002</b>
<b>LIABILITIES</b>		
Creditors & accruals	3,987	4,121
Provision for long service leave	43,695	48,123
<b>TOTAL LIABILITIES</b>	<b>47,682</b>	<b>52,244</b>
<b>NET ASSETS</b>	<b>111,548</b>	<b>162,758</b>
<b>GENERAL FUNDS</b>		
Balance 30 June	140,534	131,195
Surplus/deficit	-28,986	31,563
<b>BALANCE</b>	<b>111,548</b>	<b>162,758</b>

# Critical reports for Treasurer's and Board Members



## Statement of Financial Performance (Income & Expenditure)

### Key tips:

Understand what falls under each heading in income and expenditure

Compare actual spending with the budget

Compare if income is living up to expectations

	Actual 2011-12	Actual 2012-13
Grants – Foundations	71,000	116,500
Seminars & Consulting	36,885	38,219
Donations	51,831	55,257
Therapy Camp	24,940	25,203
Tea Party Donations	14,227	22,480
Membership	2,933	2,833
Sponsorship	15,000	53,500
Earned Income	11,329	19,663
Interest & Sundries	4,934	2,683
<b>TOTAL INCOME</b>	<b>233,079</b>	<b>336,338</b>
Renaming Project Launch	3,889	0
Equipment	3,328	41,489
Depreciation on Office Equipment	3,124	3,556
Rent	24,728	24,728
Salaries, Superannuation, & Workcover	153,089	196,036
Camp expenses	14,239	11,541
Computer costs	616	600
Gas, electricity, etc.	1,809	2,515
Insurance	5,847	5,071
Photocopies/printing/stationery	2,783	2,955
Postage/freight	547	295
Telephone & internet	2,640	2,471
Travel	11,159	5,875
Video & Website	29,888	2,142
Staff training	1,100	1,504
Sundries	3277	3998
<b>TOTAL EXPENDITURE</b>	<b>262,063</b>	<b>304,776</b>
<b>DEFICIT/SURPLUS</b>	<b>-28,984</b>	<b>31,562</b>

# Critical reports for Treasurer's and Board Members



## Project Budgets – Income Streams

### Key tips:

#### Project Cost-to-Income

- Total cost / total income
- Measures efficiency of initiatives to generate income

#### Estimating overhead costs

- Fair share accounting, pro rata or actual costs

#### Allows for project analysis

- Some funds (e.g. grants) may be only able to be spent on specific activities
- This can show an overall surplus but a deficit when these funds are allocated specifically to activity

Actual 12-13	Core Operations	Goodworks Funded Project	Therapy camp	Fundraising event	Total
Grants - Government	0				0
Grants - Foundations	16,500	100,000			116,500
Seminars & Consulting	38,219				38,219
Donations	55,257				55,257
Therapy Camp	0		25,203		25,203
Tea Party Donations	0			22,480	22,480
Membership	2,833				2,833
Sponsorship	51,000		2500		53,500
Interest	2,664				2,664
Earned Income	19,663				19,663
Sundries	19				19
<b>Total Income</b>	<b>186,155</b>	<b>100,000</b>	<b>27,703</b>	<b>22,480</b>	<b>336,338</b>
Equipment	28,489	13,000			41,489
Rent	24,728				24,728
Salaries	168,536	25,500		2000	196,036
Camp expenses	0		11,541		11,541
Gas, Light, etc	2,515	748			3,263
Insurance	5,071	1,508			6,579
Photocopying / Printing / Stationery	2,955	878		500	4,333
Telephone & Internet	2,471	735			3,206
Travel	5,875	1,747			7,622
Web Page Design & Maintenance	2,142	637			2,779
Other costs	9,953	2,959		250	13,162
<b>Total Expenditure</b>	<b>252,735</b>	<b>47,712</b>	<b>11,541</b>	<b>2,750</b>	<b>314,738</b>
<b>Deficit/Surplus</b>	<b>-66,580</b>	<b>52,288</b>	<b>16,162</b>	<b>19,730</b>	<b>21,600</b>

# Critical reports for Treasurer's and Board Members



## Cashflow Statement

### Key tips:

#### Operating Activities

- Cash receipts from sales or for services
- Payroll and employee payments
- Payments to suppliers
- Rent and utility payments
- Tax payments

#### Investment Activities

- Purchase of, or proceeds from sale of, property, plant & equipment
- Purchase of, or proceeds from, stock, investments or other securities

#### Financing Activities

- Proceeds from loans
- Instalment payments on loans or other repayment of debts
- Dividend payments, purchases of treasury stock or returns of capital

	2013 \$'000	2012 \$'000
<b><i>Cash flows from operating activities</i></b>		
Receipts from customers	30,150	27,130
Payments to suppliers and employees	-27,600	-25,040
Dividends received	100	250
Interest and bill discounts received	300	270
Borrowing costs	-270	-240
Income taxes paid	-900	-810
Proceeds from court settlement	180	
<b>Net cash provided by operating activities</b>	<b>1,960</b>	<b>1,560</b>
<b><i>Cash flows from investing activities</i></b>		
Payment for subsidiary X, net of cash acquired	-550	
Payments for property, plant and equipment	-350	-1,200
Proceeds from sale of property, plant and equipment	20	10
<b>Net cash used in investing activities</b>	<b>-880</b>	<b>-1,190</b>
<b><i>Cash flows from financing activities</i></b>		
Proceeds from issue of shares	300	200
Proceeds from borrowings	200	240
Repayment of borrowings	-90	-80
Distributions paid	-1,200	-1,080
Exchange rate changes	-40	-30
<b>Net cash used in financing activities</b>	<b>-830</b>	<b>-750</b>
<b>Cash at the beginning of the financial year</b>	<b>120</b>	<b>500</b>
<b>Cash at the end of the financial year</b>	<b>370</b>	<b>120</b>

## 2. Do we have the finances we need at the times we might need them?

### Building the budget

Past income & revenue

Past expenses

Likely increases/ decreases

Business & Strategy plans

Timings of costs & payments

Scenario modelling

### Annual Budget

	Actual 12-13	Budget 13-14
Grants - Government	0	5,000
Grants - Foundations	116,500	125,000
Seminars & Consulting	38,219	40,000
Donations	55,257	55,000
Therapy Camp	25,203	28,000
Tea Party Donations	22,480	22,000
Membership	2,833	3,000
Sponsorship	53,500	55,000
Interest	2,664	3,200
Earned income	19,663	25,000
Sundries	19	0
<b>Total Income</b>	<b>336,338</b>	<b>361,200</b>
AGM costs	916	1,000
Communication Equipment	12,577	15,000
Office Equipment	28,912	18,000
Rent	24,728	24,728
Salaries	177,131	222,000
Superannuation	15,942	24,420
Workcover	2,963	1,800
Camp expenses	11,541	12,000
Cleaning	499	500
Computer Costs	600	1,200
Gas, Light, etc	2,515	2,500
Insurance	5,071	5,500
Photocopying /Printing/Stationery	2,955	3,000
Postage/Freight	295	300
Telephone & Internet	2,471	2,600
Repairs & Maintenance	152	200
Travel	5,875	6,000
Web Page Design & Maintenance	2,142	2,200
Staff training	1,504	1,500
Bank fees	124	150
Other expenditure	5,863	6,300
<b>Total Expenditure</b>	<b>304,776</b>	<b>350,898</b>
Deficit/Surplus	31,562	10,302

*What does a good budget look like?*

### Timely

- Plenty of time for changes and questions from the Board

### Clear assumptions

- The numbers and an explanation of the drivers

### Alternatives

- Gives limited options for critical areas

### Best guess but no surprises

- Provides solid view on likely events inside and past the current budget

### Doesn't drive complacency

- Just because it is budgeted doesn't mean it will happen

### Is passed in good time

- The Board needs to make changes then decide

### 3. Are we financially healthy? Are we trading while insolvent?

#### Former school directors to court

- *Trading while insolvent - allowing the organisation to spend money that it hasn't got, and has no prospect of getting in*
- *Insolvent trading is*
  - *illegal*
  - *can attract financial penalties*
  - *creditors may seek remuneration from the Board!*

College may have been insolvent since 2007.

Mowbray College recorded losses every year from 2007 almost \$5 million.

In last year's letter Mr Downey said the school might have directors for breaching their duty under the Corporations Act trading while insolvent.

**Sydney Morning Herald**

nsed to appear in the  
the failed school,

en-Wakefield and Kevin

- *It's the responsibility of every Board member (and especially the Treasurer) to ensure that systems are in place that will prevent the organisation from trading while insolvent*
- *Any breach of this requirement can create financial risks for individual Board members, which is why they have to be able to read and understand the budget papers at least far enough to know whether the organisation is solvent*

## 4. Does your treasurer have the time, skills and resources to do their job?

---

*The Treasurer has a number of responsibilities critical to the success of your organisation*

### Keeping the accounts

- Account for every dollar that comes in and goes out of the organisation

### System management

- There are systems in place to govern financial transactions and people know and follow them

### Planning

- Understand and assign dollar values to each element of the strategic plan of the organisation

### Budgeting

- Be able to project expenditure and income for the year and monitor the performance to plan

### Reporting

- Report to the Board on the financials and ensure the Board clearly understands the numbers

### Fundraising

- Review fundraising plans to check cost-benefit ratios and financial commitments

### Monitoring risk

- The Treasurer often oversee the organisation's general risk management systems and insurance

### Banking

- Understanding the banking requirements and work with the bank to meet these needs

### Tax

- Understand government-related payments you need to make and concessions that might be available

### Ending up

- Ensuring the organisation is in good financial shape and can be handed to the next Treasurer successfully

## 5. Does your Treasurer have the systems to provide accurate, timely and secure information?

The Treasurer should have ownership of using and maintaining the following:

- **All Ledgers** (records of payments/income for each of your accounts, with a General Ledger to sum it all up)
- **Financial correspondence**
- **Bank statements**
- **Outstanding bills**
- **Paid bills and receipts**
- **Insurance policies**
- **Cash book** (record of your cash receipts and payments)

### Guiding principles for financial management systems

- **Consistency:** financial systems must remain consistent over time
- **Accountability:** ability to explain and demonstrate how a financial outcome has been achieved
- **Transparency:** the organisation must be open and make information available
- **Integrity:** individuals must operate with honesty
- **Financial stewardship:** the organisation must take good care of financial resources and demonstrate they are used for intended purposes
- **Accounting standards:** the organisation's system for keeping financial records and documentation must observe accepted external accounting standards

# 6. Is your Treasurer safeguarding the money in your organisation?



## Pre-Check employees and volunteers

- Verify qualifications, references & past experience
- Check any employment gaps
- Run a police check



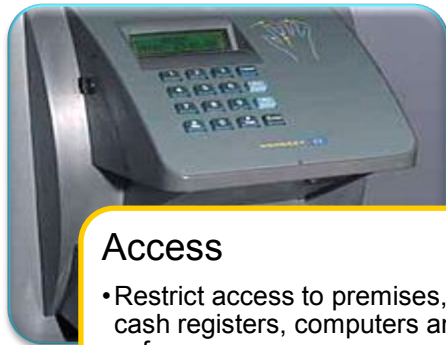
## Monitoring

- Spot checks
- Close contact with important processes
- Don't jump to conclusions but be vigilant



## Supervision

- Are the supervisors doing their job?
- Approvals are important, are they checking or just signing?



## Access

- Restrict access to premises, cash registers, computers and safes
- Set in place a data system that records when items have been altered



## Checks

- Keep up your standard reconciliations – bank accounts against cheques, budgets against actuals – and follow up any discrepancies
- Organise spot checks on outgoing invoices, cash payments, and cash receipts



## Policies

- Financial management & control policies spelling out:
  - who can sign cheques
  - what expenses can be reimbursed
  - what constitutes an acceptable use of computers, vehicles and equipment

# 7. Show me how our systems are guarding against fraud and user error?

***Fraud = Motivation + Opportunity***

## ***Protect your people:***

### **Background checks**

- Anybody who handles significant cash amounts should probably have a criminal records check

### **Build into training**

- Include fraud prevention and detection procedures in relevant staff/volunteer induction and development activities

### **Follow up**

- Make it clear that all complaints of suspected fraudulent behaviour will be investigated and, if warranted, reported to police



## ***Reduce Opportunity:***

### **Segregation of duties**

- Different people to authorise purchase and receive goods

### **Control processes**

- Two authorised people for outgoing payments
- Protect system access to those who need it
- Formulate and circulate a Fraud Risk Management Policy



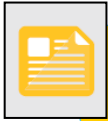




### **Signatories for cheques**

- Need to be available at short notice for payments
- Select more than two for coverage

## ***Key tip:***

***Encourage annual leave can be a key way of identifying fraudulent activity***

## 8. Do we guard against risks to our organisation?

	Financial	<ul style="list-style-type: none"><li>• shortfalls in cash, cost blowouts, failed investments, theft, fraud</li></ul>
	Physical	<ul style="list-style-type: none"><li>• threats to the safety of your staff, volunteers, members and visitors posed by animals, vehicles, events, fire, food and drink, machinery</li></ul>
	Professional	<ul style="list-style-type: none"><li>• threats posed to others by the advice and actions or inactions of your staff</li></ul>
	Environmental	<ul style="list-style-type: none"><li>• passive smoking, standing water, hazardous objects/ substances, unsafe trees</li></ul>
	Employee	<ul style="list-style-type: none"><li>• threats posed to your staff and volunteers by clients and/or poor internal processes and procedures</li></ul>
	Legal	<ul style="list-style-type: none"><li>• conflict of interest, failure to comply with relevant laws and regulations</li></ul>
	Reputational	<ul style="list-style-type: none"><li>• reputational damage caused by stuff-up or scandal</li></ul>

# 9. How are we mitigating the right risks to our organisation?

Likelihood (in 12 month period)	<b>5</b> Almost certain ≥80%	L	M	M	H	VH
	<b>4</b> Likely <80%	L	L	M	H	VH
	<b>3</b> Possible <50%	I	L	M	H	VH
	<b>2</b> Unlikely <25%	I	L	M	H	VH
	<b>1</b> Rare <10%	I	I	L	M	H
		<b>1</b> Low	<b>2</b> Minor	<b>3</b> Medium	<b>4</b> Major	<b>5</b> Extreme

Impact



Key risks requiring detailed plans, controls and potential Board supervision



Potential risks to be monitored and controls in place to address



Important risks requiring detailed plans, controls and senior management attention



Limited risks with controls useful to avoid

# 10. Can we access additional funds if we need them in the future?

Donations

Grants

Business Partner

Membership

Special Events

Investments

Bank

What

Cha

- |
- |

Cap

- |
- |

Cap

- |
- |

Coll

- |
- |

Con

- Are there other factors – internal & external
- Strategic review – 5 forces



?

# Things to look out for – early warning signs

Financial Management	<ul style="list-style-type: none"> <li>Deteriorating working capital</li> <li>Decreasing profitability</li> </ul>	<ul style="list-style-type: none"> <li>Unpaid rent or leases</li> <li>Uninsured property</li> <li>Overstated stock values</li> </ul>
Internal Operations	<ul style="list-style-type: none"> <li>Loss of key personnel</li> <li>High Staff turnover (particular in finance, accounts area)</li> </ul>	<ul style="list-style-type: none"> <li>Unable to produce timely and accurate financial information</li> <li>Management not returning phone calls</li> </ul>
Creditors	<ul style="list-style-type: none"> <li>Legal action taken by creditors</li> <li>Creditors outstanding beyond terms</li> </ul>	<ul style="list-style-type: none"> <li>Repayment arrangements</li> <li>ATO penalty notices</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>Suppliers refuse to supply or have changed to COD terms</li> </ul>	<ul style="list-style-type: none"> <li>Sudden change of supplier</li> </ul>
Banking	<ul style="list-style-type: none"> <li>Requests for 'temporary' increases in funding</li> <li>Issuing of post-dated and dishonoured cheques</li> </ul>	<ul style="list-style-type: none"> <li>Breach of overdraft limits</li> <li>Poor relationship with present bank, including inability to borrow</li> </ul>
Debtors	<ul style="list-style-type: none"> <li>Loss of key contracts</li> </ul>	<ul style="list-style-type: none"> <li>Slow debtor recoveries and increased bad debts</li> </ul>