



5. Facilitated development session: Financial management for boards and management committees





Introduction

The aim of this governance development session is to review the financial reports received by the board or management committee and to ensure that all members of the board or management committee can read and understand the financial information they receive.

The group will need a copy of a sample set of the organisation's financial reports, and the facilitator will need a copy of the previous two to three years' annual financial reports (including balance sheet) and any current year budget.

This development session should be facilitated by a person who has a sound background in financial management and basic accounting. This may be an experienced person within the organisation or an external facilitator.

Timing of this program: 2.5–3 hours

FACILITATOR'S NOTES

15 min

1. Purpose of the session and overview of roles and responsibilities of the board or management committee

Explain the purpose of this session

The purpose of this session is to assist the board or management committee to understand their responsibilities in maintaining the financial health of the organisation and to ensure that they receive and understand the financial information they need. In this session, the board or management committee will review the way they currently oversee the financial management of the organisation, and the types of information they receive, and look at ways of improving these processes.

The session will also cover the basic components of financial management, and assist board and committee members to develop 'financial literacy' — the ability to read and understand financial reports.



Provide the group with a brief overview of the board or management committee's role and responsibilities in financial management

The board or management committee is responsible for ensuring sound financial management of the organisation. This involves making sure that:

- funds are safeguarded by the use of proper funds-handling systems (preventing fraud or mismanagement)
- proper financial records are kept of all financial transactions (accounts)
- a plan for annual income and expenditure is developed and monitored throughout the year (budgets)
- the organisation remains financially viable, can pay its bills, and does not continue to 'trade' if it cannot meet its debts (insolvency)
- the overall financial situation of the organisation remains healthy over time (the balance sheet).

45 min

2. Review of current financial management and reporting

Ask the group to talk about the financial information they currently receive:

- How often do they receive financial information?
- What reports do they receive?
- How easy are these reports to understand?
- What types of information do the reports give them?
- What types of information do the reports not give them?

Using *worksheet one*, work through the checklist with the group, asking them to talk about how they currently ensure sound financial management and how this could be improved.

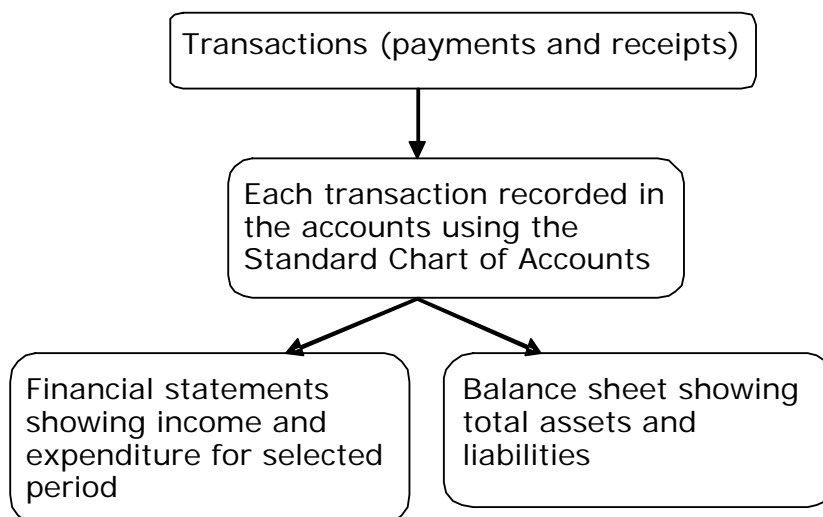
Identify in particular the items where improved information or reporting is needed and where improved understanding or financial management knowledge is needed.



30 min

3. Accounts and financial statements

Using the following diagram, briefly review the components of a simple accounting system:



Ask the group to look at their organisation's own financial statements, and assist the group to read the main components of:

- the monthly or quarterly statement of income and expenditure (identifying the types of income and expenditure items used, totals for the period, surplus or deficit for the period)
- any year to date or budget variance report that they receive (if they are using a standard report from an accounting package, this may not have been customised for the organisation, and may contain information that is irrelevant, such as a report giving a percentage breakdown of items, or misleading, such as a variance report against a budget generated by the accounting package)
- the balance sheet (explaining assets, liabilities and residual equity, and showing the group how to identify the cash position).



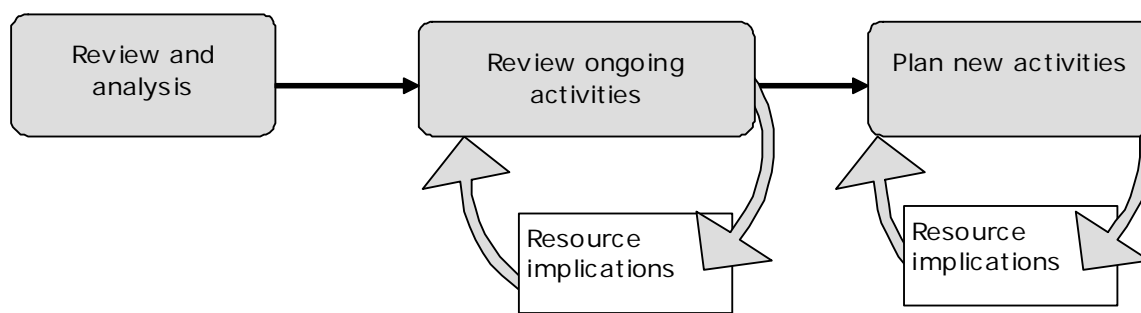
30 min

4. Budgets and budget monitoring

Review the steps involved in resource planning and budgeting (refer to *Info sheet: Resource planning* and *Info sheet: Basic budget development*).

An organisation's budget needs to be developed in conjunction with the planning of its activities. Planning of activities needs to take into account available funds and resources, and the organisation's budget should be the financial result of its plan — that is, the income and expenditure that will be involved in carrying out its plan.

At each point in the planning process — in the review of existing or ongoing activities and in the planning of new activities — the resource implications need to be assessed.

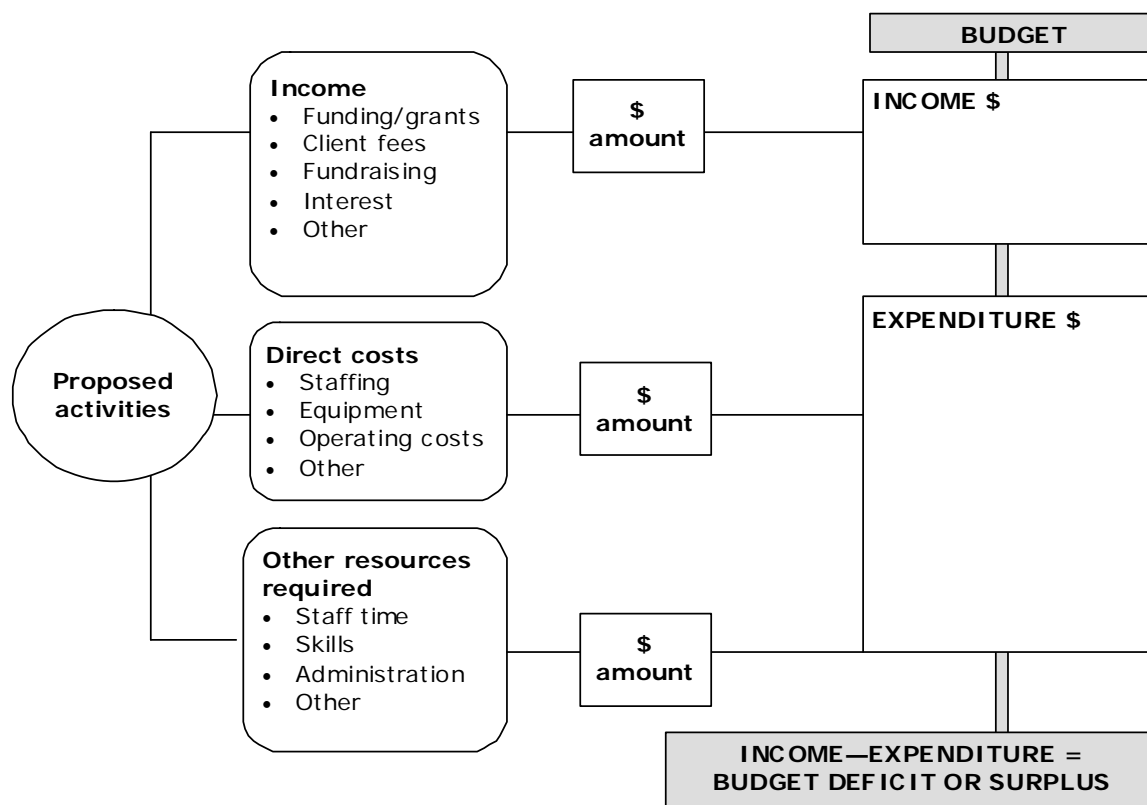


The resource implications of any plan usually consist of two types of resources:

1. **direct funds** — the estimated costs of conducting activities (including the core costs of keeping the organisation running), and the estimated income that the activities will attract
2. **other resources** — resources that may be used by activities such as staff time (increasing workload for individuals), a need for skills that are not available within the current staff, improvements required in technology, or an increased call on administration. Although it is less usual, some activities may also attract resources (for example, skilled volunteers, 'in kind' sponsorship).



The following diagram shows how these estimates form the basis of a budget:



The budget is an estimate of the expected income and expenditure for the year. These estimates should be done on an accrual basis¹, which takes into account all the money (either income or expenditure) that belongs to that period. This may or may not differ from a cash budget (which counts only the receipts and payments that actually occur as transactions). The accrual budget gives the more accurate picture of the period being planned.

A draft budget should be prepared by someone with expertise in budgeting and a good knowledge of the organisation's activities. In assessing the budget for approval, the board or management committee should check the following:

- that the amounts allocated to different items are realistic, and that there is adequate justification for how the figures for both income and expenditure items were estimated

¹ **Accruals** are amounts that are 'earned' or 'spent' in a period, but for which the cash transactions have not, or will not, take place within that period. For example, staff 'accrue' their entitlements, so that at any one period the organisation will owe staff amounts for holiday leave loading, long service leave etc. that staff have 'earned'.



- that figures take into account inflation and cost increases (such as those for wage or rent increases)
- that the *accruals* are included — amounts that are unspent from the previous year, but are still *owed* (such as accrued long service leave) and amounts that will need to be set aside from this year's budget to pay for things in the future (such as relief staff to cover leave accrued during this year, funds to cover replacement of equipment)
- that income covers expenditure, and that all income is allocated to an item (this may include being set aside for future expenses).

It is important to ensure that the budget:

- is not based on what the organisation would like to happen, but on what is likely to happen
- does not spend funds before they are received or, at least, contracted
- is not based on simply allocating income to various expenditure items without conducting proper estimates.

Show the group the budget template incorporating the standard chart of accounts (*Tool: Budget template and example*). If the organisation is not already using this as a basis for its budget, ask the group to discuss adapting this template to their specific circumstances.

Show the group the financial report template (*Tool: Financial report template and example*) and explain how the template is used to monitor the budget through the 'variance' columns for the month and year to date. If the organisation's current financial statements are not linked to a budget reporting in this way, ask the group to discuss adapting this template.

30 min

5. Financial health

Give the group copies of the annual statements of income and expenditure and accompanying balance sheets for the past three years. If possible, extract the information to single spreadsheet so that columns for each year's figures make comparison across the years easier.

Work through the income and expenditure statements, assisting the group to identify the pattern of income and expenditure over this period, and whether the organisation has been operating within its income.



Then work through the balance sheets, assisting the group to identify:

- how assets and liabilities have changed over the period
- the impact of the operating surplus or deficit on their cash situation from year to year
- whether current assets are available to meet all current liabilities
- whether sufficient funds are set aside for longer term expenses, such as replacement of equipment
- the overall financial position of the organisation (as reflected in its residual equity and the liabilities against that equity).

If problems are identified, ask the group to discuss any action that might be needed to address these.

Reference materials

- *Standard chart of accounts*
- *Info sheet: Balance sheets*
- *Info sheet: Resource planning*
- *Info sheet: Basic budget development*
- *Tool: Budget template and example*
- *Tool: Financial report template and example*



WORKSHEET ONE: Financial management — Board or management committee role and responsibilities

Responsibility	How the board or management committee currently does this	How this could be improved
<p>Preventing fraud or mismanagement: Making sure that money is being used properly (spent as planned and agreed by the board/committee) — having safe systems for approving spending and banking money</p>		
<p>Accounts: Making sure that the banking and bookkeeping is done properly — reconciled accounts, having annual audits</p>		
<p>Setting a budget for the year:</p> <ul style="list-style-type: none"> ▪ knowing how much money will be received over the year and where the money will come from ▪ deciding how much will be spent, and on what ▪ making sure money is set aside for longer term bills ▪ making sure that the organisation does not spend more than it receives. 		
<p>Monitoring the budget by checking each month:</p> <ul style="list-style-type: none"> ▪ how much money was received by the organisation? ▪ how much money was spent by the organisation? ▪ what the money was spent on? ▪ whether the amounts that were received and spent are different from what was planned (the budget) ▪ what difference this will make to the overall finances 		
<p>Solvency: Making sure that the organisation will stay solvent:</p> <ul style="list-style-type: none"> ▪ that all the bills can be paid ▪ that there is sufficient money in the accounts to cover future bills and expenditure ▪ that there are sufficient funds to run the programs and meet contractual obligations. 		
<p>Balance sheet: Making sure that the organisation will stay financially healthy from year to year.</p>		