

DAMN GOOD ADVICE FOR BOARD MEMBERS

This document has been produced by the Institute of Community Directors Australia and supported by the Commonwealth Bank. It is designed for Board Members and Committee Members of Not-For-Profit organisations to make their job easier by reviewing the advice through the booklet.

Most of the information you will already be aware of and will have in practice, but some will be educational. It will all be a check list that what you are doing is correct.

There is also a second booklet titled “Damn Good Advice for Treasurers”. This booklet is for Treasurers of Not-For-Profit organisations, and is also a useful book for all Board or Committee members to read through to understand the role of the treasurer.

There are 25 questions and answers through the booklet. This document is a summary of each section.

1. How did I get here? (p 8)

You're on the Board or Committee because you were elected by your fellow members at an AGM. Some of you may have been asked to fill a vacancy and some of you are ex officio. You were elected because your fellow members thought you would do a good job. You are also in the role because you are happy to be part of it.

Australians think it is a good idea for people to come together in their communities to run particular not-for-profit organisations that aren't suitable for government and aren't profitable for business.

The way you fit into your community is important for your health. Exercising is good, eating well is good, but neither is as good as having a supportive network of family, friends and colleagues to interact with.

“Controlling for your blood chemistry, age, gender, whether or not you jog, and for all other risk factors, your chances of dying over the course of the next year are cut in half by joining one group, and cut to a quarter by joining two groups.”

R Putnma, “Social Capital Measurement and Consequences”, *Canadian Journal of Policy Research* 2(1):41-51,2001

2. Where can I get the information I need? (p 10)

As a Board or Committee you have the total control over everything. You can see anything, stop anything, instruct anybody anywhere in the organisation. You are the boss.

As an individual board or committee member, on the other hand, you have no clout. You cannot look, interrogate, have official dealings – anything- without going through the proper channels. That is the Board or the Committee.

The Board or Committee is in place to govern, not to manage. Most of the time the organisation ticks along steadily and efficiently. Where there are difficulties, the Board or Committee is united on the need to deal with them, and any questions you might have will be shared by others around the table.

You just have to know the rules, both written and unwritten.

3. What does the law say? (P 13)

Like all members of the board or committee, you've been entrusted with the responsibility to look after the organisation. The trust you've accepted - what is called a fiduciary relationship – means you have a number of duties. You have to act in good faith and with due care and diligence. You have to do the work, know the rules, don't take things for granted and ask questions if you don't understand something.

You have to act in the best interests of the organisation. You can't trade while insolvent. You can't take advantage of your position on the committee. You need to avoid not only bias, but the appearance of bias.

If this all sounds a bit scary be reassured – the requirements of board or committee membership is largely common sense and common decency. If you are doing a conscientious job, and to the best of your ability, you're very unlikely to get tripped by the law.

4. What am I here for? (p 16)

Overseeing the finances may not be the most important task you have as a board or committee member but that doesn't mean you can ignore it. Every board or committee member has undivided responsibility for what happens and this includes the financial dealings. Ignorance of the accounts is no excuse. You are obliged to know enough about finance to know what the financial statements are telling you. You are obliged to ask questions if there are gaps. You are obliged to treat the money as if it is yours and everybody else will expect the same attention from you as if it were theirs.

You are on the board or committee first and foremost to pursue the organisation's mission. You are also representing the public to ensure that everything is legal, moral, wise, is in line with the constitution and consistent with the mission statement. You have the fiscal responsibility to see the organisation's assets are preserved rather than misdirected or frittered away.

5. What do we have to work with? (P 18)

Finance is a vital part of delivering the organisation's services and mission. You have to know how people record and discuss financial matters. You have to understand the fundamentals of accounting, beginning with the financial statements. You have to understand what the accounts are trying to tell you.

6. How are we going? (p 21)

To understand a statement of financial performance, you'll need to know roughly what falls under each heading in income and expenditure. You'll need to compare actual spending with the budget that's been approved by the board or committee. You'll need to check what you see is living up to expectations.

7. That's all the statements, right? (p23)

A statement of cash flow is designed to tell you what your are doing with your money. If you are not in control of your cash flow minor problems can escalate. Check that you have a cash flow budget for the coming year that estimates when money is coming in and going out and ensure the two match up every month and there are no embarrassing gaps.

8. How do I keep track? (p 25)

At every meeting the treasurer reports on the finances. You should get:

A statement of financial performance

A statement of financial position

A comparison of budget versus actual

A forecast to the end of the financial year

Commentary on variances and other assumptions

A cash flow statements

An up to date download of the current bank account balances

9. How does each are measure up? (p 28)

If your Society has fund raising for different projects and the accounts are kept separately (eg Young Arts, Church recording etc) you should know how each area is performing. If it is under-performing that doesn't mean it should be closed down. As a not-for-profit organisation, cross subsidy is within your jurisdiction. It is just an area you should be aware of.

10. How efficient are we? (p 31)

Your first concern is the bottom line! Are you making enough income to cover expenses? If you are losing money do you have enough in reserve to cover the loss this year? How much money is spent on administration?

11. How effective are we? (p 34)

Knowing how much you spend on administration doesn't tell you all you need to know about how you are managing your mission. How much money is spent on each area needed to run the lectures. Sometimes the members en masse are not entirely logical and can get agitated in regard to some areas of expenditure..

It is better to tell the members how you spend the money and then defend your decisions with logic.

12. What's our profit margin? (p 36)

Not-for-profit organisations sometimes get a little shy talking about profit. Not-for-profit just means profit isn't your whole purpose – it doesn't mean you can't make a profit. A positive outcome is a good thing. It helps you build up a reserve for bad times.

13. Whats the cost of our fund-raising? (p 38)

If you are raising funds other than by membership subscriptions then you need to be aware there is legislation in certain states you must look at before undertaking any action. This legislation can be found on www.fundingcentre.com.au/help/fundraising-legislation .

Look at the costs of any fund-raising venture before you start and consider the risks involved if it fails.

14. How do we handle the annual budget? (p 40)

The Board or the Committee has to approve the budget every year. Budgeting is simply the process of planning your organisations finances. It's all the activities you plan to undertake in the next 12 months expressed in terms of money.

The budget is not the job of one person. Ideally it includes the treasurer and the chairman with input from the heads of every section of the management team. It is then presented to the board or committee for endorsement. The draft budget for the ensuing year must be presented at least a couple of months prior to the end of the financial year so any changes suggested can be made and endorsed.

15. Are we doing the right things? (p 43)

It is possible for an organisation to drift off the track and find itself putting the bulk of its efforts into non-core objectives or activities. It is the job of the board or committee to keep its eye on the mission statement and bring the activities back on course.

16. Are we going to go broke? (p 48)

Most of the budgeting process is a guessing game and sometimes you get it wrong. There should be reasoning to justify every figure in the budget, and one of the jobs of a board or committee member is to get the treasurer to defend his or her reasoning. However you cannot predict the future. There really aren't any guarantees. Be cautious in your budget forecast Ensure you are pessimistic about how much income will come in and increase your expenditure projections.

Don't just look at the projections for one year ahead. Draw up a business plan, spelling out where you want to be in the next 3 – 5 years. Refresh it regularly.

17. Are we managing our money carefully? (p 51)

Fraud in not-for-profits isn't found to be common because much community sector fraud goes unreported as organisations that have found it in their ranks don't want to spread the news around as it affects their membership and/or donations. Someone in the organisation has to be on top of the figures in detail, invoice by invoice, bill by bill, asking at every point whether transactions are consistent with the budget and with good management practice.

In some ways not-for-profits are more vulnerable to fraud than commercial businesses because everyone is inclined to see everyone as a band of enthusiasts serving a common cause. "Trust everyone", says the old Persian proverb, "but tie up your camel!"

Financial controls are mission critical. You need to satisfy yourself that proper policies are in place and appreciate the importance of implementing those procedures rigorously. The treasurer must give regular reports.

18. Whats our fund-raising strategy? (p54)

Many people who serve on not-for-profit boards or committees are ambivalent about money. They may feel they are not there for the money – they are there for the cause. Without the money the cause wont be accomplished.

Raising money falls into four broad categories:

1. Diverse. The six pillars of fund-raising are donations; grants; business partnerships; membership/alumni/friends; special events; and earned income. Ideally you should not be dependent one one single source.
2. Appropriate. Analyse your strengths and weaknesses, your resources and your options. Then use what you have to the best of your ability.
3. Flexible. Be ready to shift from one method to another if things are not working. Don't wait till you are in panic mode.
4. Ethical. Work out in advance how and who you will take money from, Be clear about fund-raising methods. Spend the money on what you told them you would spend it on. Ensure you give value for money. Don't misrepresent yourself.

19. Should I give? (P 58)

This segment relates more to charitable organisations. However there are areas of ADFAS that do fall into this category with our support of Young Arts, the Patricia Robertson Scholarship Fund and other non-core activities.

Remember you are not begging for money. You are not a beggar. Beggars spend the money on themselves; you spend the money on other people or causes. Beggars ask for money without strings; you ask for money with involvement. Beggars sell their failures; you sell your success. You are sold on your cause; analyse the reasons why – then sell it to your friends and acquaintances.

20. Where do we invest? (p 62)

As an individual you may be a risk taker and may invest in high risk investments which can return handsome profits. They can also return disastrous losses. An individual has time to ride the bad times out.

As a board or committee member you must be prudent, even conservative. You must put the value of the organisations assets ahead of maximising income.

21. What should we pay the CEO? (p64)

This section is not applicable as we are all volunteers. However as we grow and do start to employ staff, the message is to pay the market salary to your employee. Just because we are a not-for-profit organisation, doesn't mean our employee must make sacrifices too. We want to employ the best person in the market place and retain their services and their talents for the greater good of our mission.

22. What's the worst thing that can happen? (p 66)

Trading while insolvent! One of the things – in fact *the thing* – your organisation must not do is spend money you have not got and have not got any prospect of getting. This is known as “Trading while Insolvent”. Insolvent trading is illegal and can attract penalties.

Once you owe money you can't pay your creditors may well decide to come in and take it, hitting the board or the committee as well as the individuals on that board or committee. You may well assume that the reason we were incorporated was to prevent the individual board or committee members from being sued. The catch is that protection is the case if the board or committee has not been negligent. Once you trade while being insolvent, that action points to negligence. Your assets are then on the line.

It is the responsibility of every board or committee member to ensure that systems are in place to prevent the organisation from trading while insolvent.

23. What sort of questions should I be asking? (p 68)

There are two kinds of questions: questions about things you don't understand and questions about things you do understand.

The first kind of question covers your progress to financial literacy. If you know you are a novice, spend some time, one on one, with the treasurer or somebody else you know is knowledgeable educating yourself.

The second kind of question comes when you understand how things work and you can see something in the accounts that looks a little odd. The answer may be simple and satisfying, or it may be evasive and leaves you thinking there may be funny business going on. The important thing here is that you will all be much better off if the board or committee has done its duty and put tight policies and procedures into place and it is very difficult to “cook the books”. That means you are more likely to be able to trust the figures.

24. How can I bring about change? (p 70)

Part of your job description is to check for anything untoward. A larger part is to check for stupidity. You must ask yourself, "is this a good idea?" You're on the board or committee to exercise your independent judgment.

If the board or committee has voted for something against your "better" judgment you don't have the power of veto. You have two options. The first is to lobby the board or committee members and have the original decision reversed at the next meeting. If that doesn't work and the decision is not central to the organisations success, then grin and bear it, but at all costs support the unity of the decision and don't air your displeasure away from the committee table. Taking the wrong course may be bad enough, but taking it in a state of disunity is worse.

The second course of action, if you deem it really important, is to break away and organise opposition to this action within the general membership. You may need to put forward your name and a supporting group to replace the current board or committee at the next AGM.

If this does not work and you feel the organisation is headed for disaster, your best action is to walk from the organisation and take your enthusiasm and experience to another organisation where you will feel more comfortable.

25. Who can I complain to? (p 72)

This segment deals with an organisation that is not just misguided, but is actively misled. It cites a complete breakdown of the organisation. The chairman acts without authorisation from the board or committee, meetings are stacked, minutes are doctored, the constitution is ignored etc. You can refer the organisation to the regulator. They will take notice if there has been a breach of the act.

Glossary. (page 76)

This booklet covers the different legal formats in all Australian States. Therefore there are a number of names which are functionally the same thing. For ease of reading one common set of names have been used through the booklet.

Explanation of Technical Terms. (p 77 & 78)

These pages explain the financial jargon used by accountants and treasurers.

Where can I get this booklet?

You can order a free copy of the booklets by going into

ourcommunity.com.au

Then type into the search area “damn good advice for board members”.

Scroll down to “free financial help sheets and resources”.

Open that up and it will show you where to order a free hard copy

Peter Windeyer
Assistant Treasurer
Association of ADFAS Executive
May 2015