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CommonwealthBank

Indigenous Business Banking

Now you’re a BoardMember

A practical guide for Indigenous board members

Now you're a Board Member: A practical guide for Indigenous board members.

Published by Our Community Pty Ltd.

Our Community Pty Ltd
PO Box 354
North Melbourne VIC 3051
Australia

Please note:

First published in November 2019.

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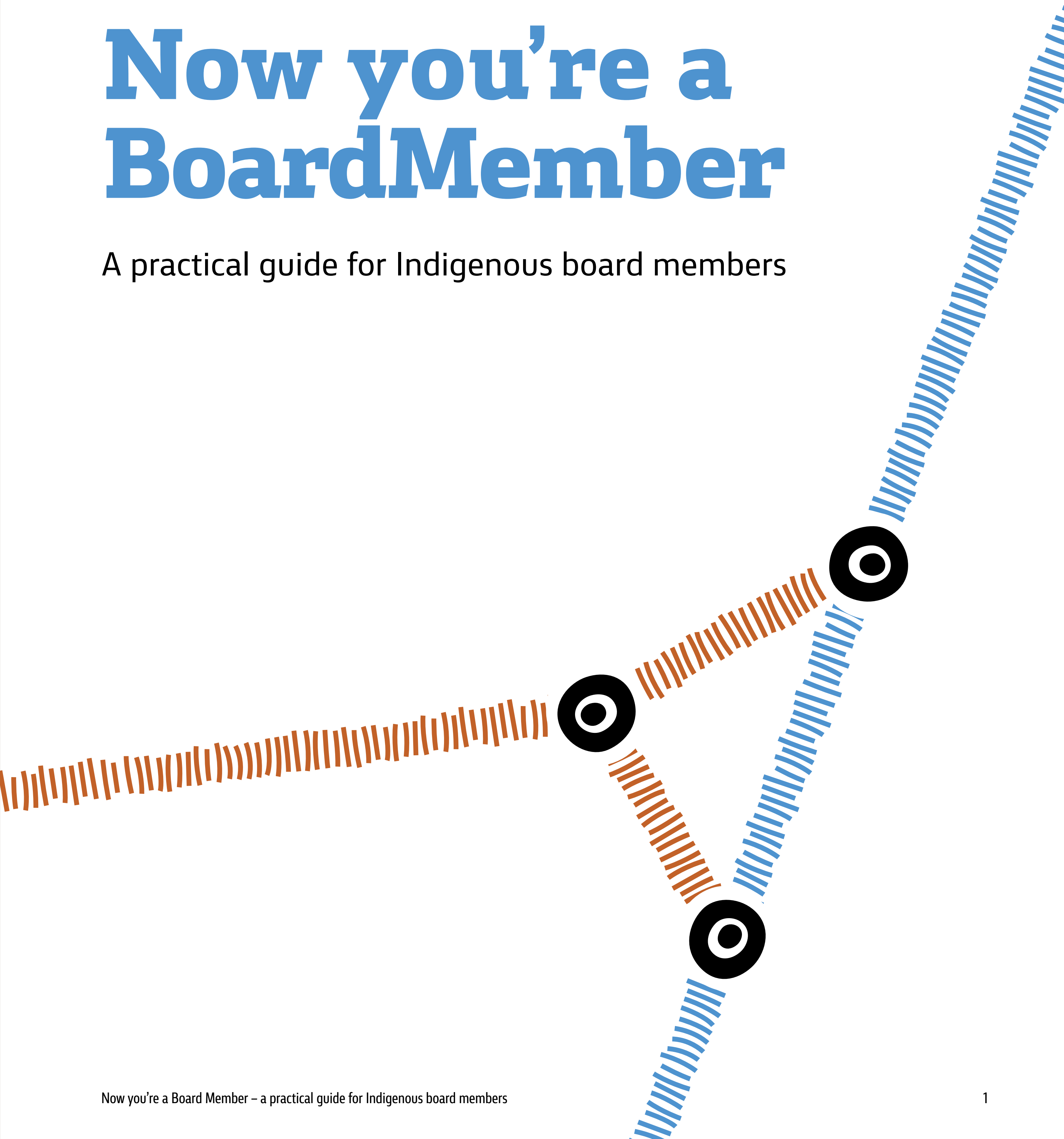

COMMUNITY SMART

This guide is part of Community Smart, a national financial literacy program developed by Commonwealth Bank and the Institute of Community Directors Australia.

Good governance and strong financial management are essential to the strength and sustainability of all organisations*. Through Community Smart, we're working to help strengthen governance and financial management for Indigenous Australians, Indigenous organisations, their staff and their board** members.

* Organisation in this guide includes corporation, business or company.

** Board in this guide includes "Board", council or committee of management.

Welcome to the world of board membership

If you are a newly appointed board member, or someone who is interested in learning more about what being a board member is all about, then this guide has been developed for you.

Over the past few years, we have seen a steady increase in Indigenous-owned and run corporations, with almost 3,050 corporations registered under the CATSI Act as at 30 June 2018 (an increase of around 5% on the previous year). This is a much welcomed indicator of how Aboriginal and Torres Strait Islander peoples are continuing to make inroads towards greater economic participation and financial independence. However, this growth has seen many Aboriginal and Torres Strait Islander people taking on board member roles for which they may have limited experience. They find themselves in challenging situations, especially when balancing cultural responsibilities and expectations with mainstream legal obligations as a board member.

That is where this guide comes in. It has been designed as part of the Community Smart program, produced jointly by Commonwealth Bank and the Institute of Community Directors Australia. This guide is an example of our commitment to improving banking, financial strength, financial education and understanding of Indigenous peoples and organisations across Australia.

We have created this as a starting point where you can explore how boards' work, your role, your responsibilities and what is legally required of you. The easy to follow approach of the guide enables you to adopt the contents to your own circumstances. You may find that you need to seek more information than is contained on the following pages to gain a deeper understanding of the different topics we cover.

An acknowledgment of thanks to the Elders, Indigenous business leaders and community members who so generously shared their knowledge and insights into the complexities Indigenous board members can face, and for their ongoing support in the development of this guide. A special note of thanks also to the legal team at Dentons for their support in the production of this guide and their guidance and assistance in putting often complex legal terms into a user-friendly and understandable language. And to CommBank's Indigenous Advisory Council, thank you for your knowledge and guidance as we continue to challenge ourselves to be a simpler bank.

We hope you find the information in this guide useful and that it provides you with a road map towards helping make your job as a board member a little easier. We look forward to continuing to work alongside our First Nation Peoples as we continue to develop other guides and resources to better support your needs and the growing needs of the sector.

Regards

Simone Kenmore
Executive Manager
Indigenous Business Banking

Denis Moriarty
Group Managing Director
Our Community

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1. Getting started

Congratulations on your appointment to the board. To get started in your new role it's important that you know what's happening within the organisation. There are a number of documents you can ask to see which will help you to understand what's going on:

- Mission/Vision/Purpose statement
- Constitution/Rule Book
- Board standing orders (meeting rules)
- Strategic/Business plan
- Policy manual
- Current year-to-date budget
- Recent annual reports
- Recent audited financial statements
- Deed of indemnity and access

The page opposite provides more information about each of the above documents and how they are used.

You might also find it helpful to ask for:

- Background (biographical) information about board members and/or key staff.
- An individual/mentor to help you through the early stages of being a new board member.
- A separate meeting with the chairperson of the board or the chief executive officer/managing director who can let you know what's going on and any other details that may not have been written down.
- Meeting schedule and calendar of upcoming events.
- Details about the organisation's operational and committee structures.
- Background information on the business/organisation.

Hints and tips

- Read as many of the above documents as you can so you're prepared for your board meetings.
- If you don't understand something in the agenda or in the documents provided – please ask questions for further explanation.

2. Explaining the documents

Item	Whatisit?	How is it used?
Mission/ Vision/ Purpose Statement	Describes the purpose of a business or organisation and why it exists.	• Focuses and directs an organisation's activities to help it work towards achieving its objectives/goals/reason/purpose for existing.
Constitution/ Rule Book	A legal set of rules which describes how a business or organisation should operate, how to approach change and how to restructure when things go wrong.	• A legally binding agreement between shareholders and the organisation/business. (A shareholder is a part owner of the business. Shareholders can be any person, organisation or institution that owns at least one share of a company's stock). • The Constitution/Rule Book should include details of acceptable and unacceptable behaviours and work practices.
Board Standing Orders	Controls how board meetings and sub-committee meetings are run.	Standing orders can contain a range of information which outlines how a board operates, such as: • How often it meets. • How members are elected. • Who can attend meetings. • How meeting minutes are distributed. • How meetings are conducted.
Strategic Plan	An outline/plan of a business/ organisation's goals and how it will achieve these goals.	• Helps the organisation set priorities, plan its resources and identify activities to achieve its goals and mission. • Explains why the organisation/business is pursuing its goals, what it does, why it does it and identifies how progress is identified/measured.
Policy Manual	Explains how a business/organisation operates and the steps (procedures) to be followed when completing work.	• Helps ensure work is conducted in a consistent way and work standards are maintained. • A useful training tool for new employees when teaching how work should be performed.

Item	Whatisit?	How is it used?
Budget	Details expected money in and money going out over a set period of time, for example over 12 months.	A budget is an important tool for all organisations. It can help: • Identify the expected cost of running the business. • Plan spending including how much the business can spend each month, how much the organisation can afford to pay in wages and salaries. • Identify how much money the business needs to make to cover its expenses. • Keep project costs on track and enable early identification of unexpected cost increases. • Identify when the business needs to borrow money from a bank or financial institution. The budget will help identify funding shortfalls and provide an indication of the business' cash flow.
Annual Report	Outlines a business/ organisation's activities and finances over 12 months.	• Used by shareholders and others to provide information about the business' finances and activities. • Most state and territory governments in Australia require organisations to prepare and file a copy of the annual report with the appropriate legal/regulatory body/ stock exchange. • For more information go to: www.cpaaustralia.com.au/~/media/corporate/allfiles/document/professional-resources/reporting/guide-to-understanding-annual-reporting.pdf
Deed of Indemnity and Access	Indemnifies (protects) the director and gives the director access to company records.	• Usually covers current and former directors and officers. • Should provide directors with an indemnity (protection) for all liabilities incurred to the extent permitted by law. • Provides directors with a right to access the organisation's records.

3. Understanding your rights as a board member

To help you carry out your duties as a board member you have a range of rights and entitlements. These are:

1. to delegate your power/authority;*
2. to access organisation information records and documents and to receive information in a timely manner;
3. to access independent professional advice and information;
4. to reasonably rely on information or advice given or prepared by a reliable and competent employee, officer, director, committee or professional; and
5. to be heard (to have your views and concerns heard at board meetings and to have your views recorded in the minutes).

*Boards often give (delegate) their powers (authority) to other individuals and parties. For example, the board may delegate powers or functions to any of the board members, to a board committee and to the organisation's CEO.

Hints and tips

- Remember, even when a board delegates its power or authority to another individual or party, the board is still accountable (held responsible for) the powers it has delegated.

4.Understandingyourobligations and duties as a director

Your obligations and duties as a board member are usually referred to as your Legal and Fiduciary responsibilities.

As a board member you have an individual duty to act in the best interests of the organisation.

This means that you must consider the interests of the organisation as a whole, rather than the interests of particular members. It is important that, while you act collaboratively with fellow board members and engage with members in a positive way, you bring an independent perspective to the decisions you make as a board member. If you find yourself in a situation where you have a conflict of interest, or there is a possibility of a conflict of interest, you must promptly disclose this to your fellow board members.

What is a conflict of interest?

A conflict of interest occurs when your personal interests conflict with your responsibility to act in the best interests of the organisation. The term 'personal interests' does not need to be your own interest, but may also arise from the interests of your family, friends, or other organisations you are involved with.

The conflict can be a potential or actual conflict of interest, or a situation that could be seen to be a conflict.

Conflicts of interest can involve financial or non-financial interests of the staff member and the interests of a business partner or associate, family member, friend or person in a close personal relationship with the staff member. You should take steps to identify, manage and monitor conflicts of interest.

Allowing decisions to be made when there is a conflict of interest may lead to disciplinary action.

Kin and family conflicts of interest

Family and kinship responsibilities and obligations can bring additional pressure to your position on the board, for example you may:

- be expected to share financial or other organisation resources with family members
- give preferential employment opportunities within the organisation to family and kin
- be expected to give contracts and business to family members
- feel uncomfortable speaking out or challenging decisions in board meetings – especially where Elders or community leaders are present.

You must let your colleagues know when a conflict comes up. Once you've done that you can't speak about the motion (related activity) and you may have to leave the room while the issue is being discussed. Where a conflict exists you need to reveal/disclose it to the board (including the chair) and then make sure any dealings on the matter are carried out at 'arm's length'.

You need to avoid bias (or favouritism) and also the appearance of any bias.

You must be able to show that all transactions and decisions have been made in the best interests of the organisation.

Business conflicts of interest

- Where there is a contract for the supply or purchase of goods or services, ideally there will be a tender process with clear criteria (set without your input). There must be transparency and members of the organisation should be able to check on the situation.
- Where there are any related party dealings, or where a board member or a family might be seen to gain from the group's decision, disclose the issue (the media may distort it). You can put information online, mention it in the annual report and explain why you all took the decision you did.

Practical questions

Are the following scenarios considered potential conflicts of interest?

1. When a director or officer enters into a transaction with another organisation that benefits the officer to the detriment (or harm) of the organisation?
2. Director receives gifts from persons with whom the organisation does business? Gifts include both tangible items and non-tangible assets (like transportation and lodging costs).
3. A director uses the organisation's confidential information for their own advantage, including documents relating to trade secrets and insider trading?
4. When a close family member is hired based on their relation to the director or officer?

The answer to each of the above questions is **YES**.

Steps to avoid a conflict of interest

To avoid a conflict of interest you should:

1. Make sure there is a process in place for identifying and managing conflicts of interest.
2. Have all board members declare any potential conflicts of interest when first starting their role.
3. Always notify other board members about any potential conflicts of interest which arise.
4. Explore training as an opportunity for directors to become familiar with how to manage and deal with conflicts.
5. Think about any real, perceived or potential future conflicts of other board members.

This means that you must not:

1. Act in a way that treats the organisation's property as your property.
2. Use the organisation's property to do favours for any family, or kinship groups as this will see you acting in a manner that puts you in conflict with your obligations to the organisation.
3. Fail to notify other board members about potential conflicts.

Practical steps to take

Step 1: Identify and establish conflict

- Assess the situation and the circumstances of the situation to determine if a conflict of interest exists.
- Once a conflict is recognised, it should be declared in writing to supervisors/the board (if a written declaration is not immediately practicable it should be verbally declared).
- Keep a record of the declaration and any decisions made or actions taken regarding the conflict.
- Complete a 'Declaration of Interests' form.

Step 2: Manage

Once declared, the supervisor or board members must determine whether a conflict of interest exists and make a decision as to the action(s) required to address the situation.

How to deal with conflicts will depend on an assessment of individual circumstances, but may include:

- recording the conflict in a register (ideal for low-risk and potential conflicts of interest)
- placing restriction of the conflicted person's involvement in the matter
- recruiting a third party to oversee part or all of the process that deals with the matter
- removing someone from their involvement in the matter
- the person relinquishing their interest that is creating the conflict
- the person resigning from their position with the organisation.

Step 3: Monitor

Ongoing monitoring and regular reviews of identified conflicts of interest allow changes to be made to the management strategy (or plan) if the need arises.

It is critical that the organisation regularly reviews and assesses the:

- original situation that gave rise to declaring the conflict of interest
- initial decision on how to deal with the conflict
- strategy/plan put in place to manage the conflict of interest
- actions taken in implementing the management strategy
- perceptions held by others that the conflict of interest is having an improper influence on the matter
- reassessments and management decisions made about the continued management of the conflict of interest
- changes made to the conflict management strategy/plan and its implementation.

Formal records should be kept of all reassessments, decisions made and actions taken in relation to all conflicts of interest.

5. Insolvent trading

This part of the guide is critical to understand.

An organisation is insolvent if it is not able to pay its debts when they are due and payable.

Directors have a duty to prevent the organisation trading if it is insolvent.

This means that before you incur a new debt, you must consider whether you have reasonable grounds to <u>suspect</u> that the organisation is able to pay this debt.

If you breach your duty and the organisation is trading whilst insolvent then you can be **personally liable** for the debt that the organisation has paid or incurred.

You may also be disqualified from managing an organisation.

There are different examples of conduct which can be described as an insolvent transaction, such as:

- uncommercial transactions
- unfair preferences.

Case example

Insolvent Trading

A director of a demolition company entered into a contract to provide demolition services for $345,000 on 30 August 2013.

The demolition service was provided and a debt was incurred by the building company before the company was placed into liquidation.

After the company was placed into liquidation, the liquidator sued the director for insolvent trading, claiming that the director knew, or had reasonable grounds to expect, that the company was insolvent, and could not pay for the demolition services.

The liquidator established that when the demolition services was provided, that the company was unable to pay its debts.

For example, when the company was placed into liquidation, it owed more than $3.1 million to other creditors from as early as 30 June 2013.

The court found that as the company was unable to pay its debts from 30 June 2013, that it was insolvent from that time.

The director was not able to prove any defence because they did not show that they had reasonable grounds to expect that the company was solvent when they entered into the demolition contract at 30 August 2013. The director was therefore liable to personally pay $327,332 on the basis that they were liable for insolvent trading.[1]

1. Inner West Demolition (NSW) Pty Ltd v Silk [2018] NSWDC 136

Key principles to take into account in performing your duty as a director to prevent insolvent trading:

- Stay informed about the organisation's financial position and affairs.
- Regularly assess the organisation's solvency and investigate financial difficulties immediately.
- Obtain appropriate professional advice to help address the organisation's financial difficulties where necessary.
- Consider and act in a timely manner on the advice.

Possible defences which may be available to directors if an organisation was trading insolvent

1. At the payment time, the person had reasonable grounds to expect, and did expect, that the organisation was solvent at that time and would remain solvent even if it made the payment.
2. At the payment time, the person had reasonable grounds to believe, and did believe, that a competent and reliable person (the other person) was responsible for providing to the first person adequate information about whether the organisation was solvent, and that other person was fulfilling that responsibility. Due to the information provided to the first person by the other person, the first person expected that the organisation was solvent at that time and would remain solvent even if it made the payment.
3. At the payment time, because of illness or for some other good reason, the person did not take part in the management of the organisation.
4. At the payment time, the person took all reasonable steps to prevent the organisation from making the payment, or there were no such steps the person could have taken to prevent the organisation from making the payment.

Operation of the Safe Harbour regime as a defence to insolvent trading

- The Safe Harbour provisions within the Corporations Act allows directors to continue trading when insolvent if, and only if, it commences a restructuring plan within a reasonable time that is reasonably likely to lead to a better outcome.
- The restructuring plan needs to be prepared by an appropriately qualified entity.
- A better outcome is an outcome better than the immediate appointment of an administrator or liquidator.
- This protection is designed to allow sensible risk-taking by directors attempting to turn around a financially struggling organisation. The Safe Harbour regime does not apply if:
  - » the organisation fails to pay employee entitlements as and when they fall due
  - » the organisation fails to give Income Tax returns, notices, statement (and does not comply with their continuous disclosure obligations if ASX listed)
  - » you are a creditor of the organisation.

Warning signs of insolvency

- Difficulties in collecting debts
- Cheques being returned dishonoured
- Legal action has been threatened or commenced in relation to outstanding debts
- Refinancing or raising money
- Board members are resigning, saying they are concerned about the financial position of the organisation
- Not paying taxes.

Do you suspect that your organisation is insolvent?

- Seek professional advice
- Do not incur further debts
- Possibly cease trading
- Obtain financial support.

6. Directors' duties and liabilities

Common law (law developed by judges) imposes special duties on directors and other officers of a corporation. Directors and other officers owe these duties to the whole corporation – this means to all its members and also to stakeholders (such as funding bodies and creditors).

The directors have full authority over the corporation and are ultimately responsible for its management. This is why the directors' duties exist. They are legal duties that keep the directors loyal and accountable to the corporation – in other words, answerable to the corporation's members – and also to stakeholders.

The duties apply individually – that is to say, each director, officer or employee to whom they apply is personally responsible (and therefore accountable) for meeting them.

What are a director's general duties?

At common law and under the Corporations Act, directors may be liable for civil penalties if they do not:

- exercise their powers and discharge (carry out) their duties with the degree of care and diligence of a reasonable person in the same circumstances. The directors' decisions meet this standard if all the following requirements are satisfied:
  - » the judgement is made in good faith;
  - » they do not have a material interest in the subject matter of the judgement;
  - » they make an informed decision; and
  - » they rationally believe that the judgement is in the best interests of the organisation.
- manage and conduct the business in the best interests of the organisation. This is decided according to the relevant circumstances including the type of organisation, its size and the composition of its board;
- take reasonable steps to put themselves in a position to monitor the management of the organisation, and obtain a general understanding of the business and the effect that changing economic circumstances may have on it. As such, directors must attend board meetings and take a diligent interest in the organisation's affairs;
- act in good faith, for the benefit of the organisation and for proper purposes (directors cannot exercise their powers for an ulterior purpose);
- avoid situations in which there is a real possibility of a conflict of interest; or
- properly use information. Directors must not use information gained through their position to gain an advantage for themselves or cause detriment (harm) to the organisation.

If a director does not meet the above requirements, the courts can declare a breach and impose a:

- monetary fine;
- disqualification order to disqualify a director from managing organisations; and
- compensation order to compensate the organisation for damage suffered by it.

Directors can be criminally liable if they:

- exercise their powers and discharge their duties recklessly or dishonestly. Directors must not intentionally or recklessly use their position to gain an advantage for themselves or for others, or cause detriment (harm) to the organisation; or
- fail to prepare accurate financial accounts.

If a director is criminally liable, they may be fined or imprisoned for up to five years (or both).

What other laws should a director be aware of?

- **Common law:** A director can be criminally liable under the common law relating to theft and fraud.
- **Securities law:** The Corporations Act prohibits insider trading, which can result in civil or criminal liability.
- **Insolvency law:** A director can be personally liable if they allow the organisation to incur a debt while the organisation is insolvent, or the debt causes the organisation to become insolvent. If the director is aware of these situations, or a reasonable person would have been so aware, the director will be civilly liable. If the director suspected that the organisation was insolvent (or would become insolvent), and their failure to prevent insolvency was dishonest, the director may be criminally liable.
- **Health and safety law:** A director can be civilly and criminally liable for breaches of the work health and safety laws (WHS laws). In all states and territories, except for Victoria and Western Australia, directors will also have a positive duty to ensure that their organisation is meeting its duties under the WHS laws, and they may be held personally liable if they are found to be in breach of this duty.
- **Environmental law:** A director may be civilly and criminally liable for the organisation's contravention, or the breaking of, environmental legislation. Generally speaking, a director may be liable unless:
    » the director did not have knowledge of the contravention
    » the director was not in a position to influence the conduct of the organisation in relation to the contravention
    » the director used all due diligence to prevent the contravention.

  Liability varies under different state legislation and may include significant financial penalties and imprisonment.
- **Competition law:** Under trade practices legislation, directors can be civilly and criminally liable if they breach the Competition and Consumer Act 2010 (Cth). The most relevant provision prohibits conduct that may be misleading or deceptive. Directors' conduct can be deemed to be that of the company, therefore exposing the company to criminal and civil sanctions.
- **Other:** Directors can be civilly and criminally liable if:
    » they continue to act as a director while disqualified under the Corporations Act; or
    » they destroy or falsify organisation documents.

Can a director's liability be restricted or limited?

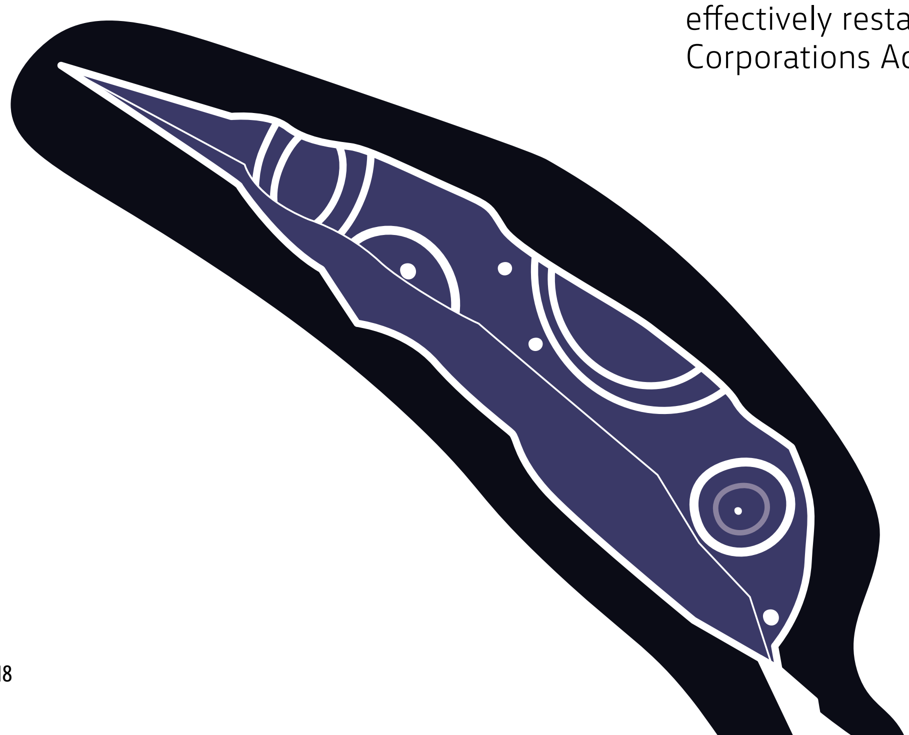
Generally, liability cannot be restricted or limited in relation to the issues referred to on the previous pages. An organisation **cannot** indemnify a director against a liability to the organisation.

Can a director obtain insurance against personal liability?

An organisation can insure and pay premiums for its directors if the insurance policy does not insure against either:

- conduct arising out of an intentional breach of a director's duty to the organisation; or
- a claim for improper use of information or position.

An officer may take out policies that cover breaches of the kind referred to above; however, it is common that a policy (regardless of who pays for it) will exclude intentional breaches of duty.



Directors of Not-for-Profits

If you are a director of a Not-for-Profit registered under the ACNC, separate ACNC governance standards impose similar duties on directors to those set out in the Corporations Act.

The ACNC has five governance standards.

Governance standard five is set out in regulation 45.25 of the ACNC Regulations.

This standard sets out the following duties:

A. to exercise duties with a degree of care and skill

B. to act in good faith in the entity's best interests

C. not to misuse their position

D. not to misuse information

E. to disclose perceived or actual or material conflicts of interests

F. to ensure that the financial affairs are managed in a responsible manner

G. to not allow the registered entity to operate whilst insolvent.

Largely, governance standard five effectively restates directors' duties in the Corporations Act.

7. The law from state to state

Relevant laws will depend on how your organisation or business has been set up (e.g. under Native Title, the Corporations Act), the type of organisation (a not-for-profit, a for-profit), ownership arrangements (Indigenous or non-Indigenous organisations), as well as relevant state and territory legislation.

The table below includes links to the main regulatory bodies and laws which may apply to your organisation. There are also a range of Fact Sheets available at www.oric.gov.au/resources/factsheets which provide further information on the CATSI Act and running corporations.

Name	Details	Furtherinformation
Australian Charities and Not-for-Profits Commission (ACNC)	The national regulator of charities and other not-for-profit organisations.	www.acnc.gov.au/
Corporations (Aboriginal and Torres Strait Islander) Act 2006 (CATSI Act)	This Act establishes the role of the Registrar of Indigenous Corporations and enables Aboriginal and Torres Strait Islander groups to form corporations.	www.oric.gov.au/
Corporations Act 2001	Some parts of the Corporations Act apply to Aboriginal and Torres Strait Islander corporations because the CATSI Act says they should apply or because of the broad definition of 'corporation' in section 57A of the Corporations Act.	www.asic.gov.au/
Australian Securities and Investments Commission (ASIC)	ASIC is the corporate, markets, financial services and consumer credit regulator. The Commission administers the Australian Securities and Investments Commission Act 2001 (ASIC Act), and carries out most of its work under the Corporations Act 2001.	www.asic.gov.au/
Office of the Registrar of Indigenous Corporations (ORIC)	The Registrar administers the Corporations (Aboriginal and Torres Strait Islander) Act 2006.	www.oric.gov.au/catsi-act/about-catsi-act

8. Neglecting your duties

If you abuse or neglect your duties as a board member the results will depend on how serious the breach is. Possible outcomes for you as a board member include:

- Criminal prosecution – if found guilty by a court of breaching a duty to the criminal standard the person may be fined and/or sent to prison.
- Disqualification – banned from managing or serving as board member of a corporation.
- Civil penalties – if you fail to exercise reasonable care and diligence the Registrar may apply to a court for a 'declaration of contravention'. The decision of the court provides conclusive evidence of the breach. Depending on the seriousness of the situation, the court may order you to pay a penalty of up to $200,000 for each contravention. The court may also order you to pay compensation to the corporation for any damage it has suffered.
- Action by the organisation – the organisation may remove or dismiss the person involved in a breach. They may take their own civil action to compensate for any loss resulting from the breach.

9. Understanding the finances

Every board member has responsibility for what happens. You have to know what a 'reasonable person' would want to know. Lack of knowledge about the accounts is not an excuse under the law so make sure you:

- know enough about finance to understand what the financial statements are telling you, and to see where there are inconsistencies, errors or warning signs
- ensure the organisation is pursuing its mission (your main job is to find out how this can be done and then make sure that it happens)
- make sure the organisation's assets are preserved and **NOT** misdirected, misused or frittered away.

If you are on the board of a for-profit organisation you're required to maximise shareholder value – that is to make decisions that increase profit and raise share price.

Your job on the board is to govern, to use your best jugement and ensure the organisation continues to deliver on its mission. If you don't understand how the finances work you'll be at risk of getting caught up if anything goes wrong.

Hints and tips

- You must ask questions if there are any gaps.
- You must handle the organisation's money with care and attention.
- If you don't understand something – ask questions.

10. The financial statements

As a board member you'll see a range of financial statements. You need to have a basic understanding of accounting to understand what the financial statements are telling you about the financial health of the organisation.

At each board meeting the organisation's treasurer will report on the finances. As part of the treasurer's report you should receive the following financial documents:

1. statement of financial performance (profit and loss statement)
2. statement of financial position (balance sheet)
3. comparison of budget versus actual expenditure
4. a forecast to the end of the year
5. details on expense variations and other assumptions which have been made
6. cash flow statement
7. current bank account balances.

Make sure that a second person other than the treasurer has confirmed the truth and accuracy of what the treasurer is reporting.

Hints and tips

- If you don't understand something – ask questions.
- If you have any concerns, or something doesn't make sense – ask for further explanation.
- If you are not satisfied with any answers ask the finance manager/treasurer to provide answers at the next board meeting – or put forward a motion to change things.
- Always make sure a second person has confirmed the accuracy of what the finance manager/treasurer is reporting to the board.

The treasurer's report will outline any financial changes for example:

- Are budget assumptions/expectations being met?
- How the statement of financial position (balance sheet) compares with budget predictions?
- Details and explanations of any major differences and discrepancies.

11. What accounting system is the organisation using?

There are generally two types of accounting systems: cash accounting and accrual accounting.

Cash accounting

- This is the simplest form of accounting and is used by most small organisations and businesses.
- Cash accounting tracks money in and money out of the business on the day it is received or leaves the business.

Example

On Monday a business receives $100.
This amount is entered into the accounts as income (money in) under Monday's date.

On Tuesday the business receives $50.
This gets entered into the accounts as income (money in) under Tuesday's date.

Hints and tips

- Ask what type of accounting system the business or organisation is using to help you better understand the finances.

Accrual accounting

- Most large organisations and businesses use accrual accounting as it provides a more accurate and correct picture of the organisation's financial situation.
- It takes into account money due to be received for products/services provided, as well as actual cash already received.
- Expenditure (money out) is recorded when it takes place or when the expense occurs - not when the money physically leaves the organisation when someone is paid.

Example

On Monday a business receives $10,000.
This amount is recorded as income NOT when you receive the money but later when you have provided the services you are charging for.

Over the following pages we'll take a closer look at some of the key financial statements or accounts you are likely to see.

12. Statement of financial position – balance sheet

The balance sheet shows an organisation's assets and liabilities – what the organisation has (what it owns) and what its debts are (what it owes) on a set date. It will show the organisation's performance and whether the organisation can cover its legal and contractual liabilities, in other words, if it can cover all of its costs.

When you subtract the organisation's debts from its assets, what remains is known as the organisation's Net Assets.

The following examples show what you can learn from the statement of financial position (balance sheet).

Keep in mind the goal of your analysis, specifically:

- Does the organisation have a strong balance sheet?
- Is it liquid (funds that can be used easily)?
- How do its current assets compare to its current liabilities (quick ratio)?
- Are the asset values realistic?
- Are the liabilities complete?
- Are there positive or negative trends emerging?
- Does it support the performance reported in the income statement?

Statement of financial position – balance sheet
Example one

	30/6/2018	30/6/2019
ASSETS		
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 (allowance) for depreciation	98,057	101,613
Written down value	35,948	61,304
1 **TOTAL ASSETS**	**159,230**	**215,002**
LIABILITIES		
Creditors and accruals	3,987	4,121
2 Provision for long service leave	43,695	48,123
TOTAL LIABILITIES	**47,682**	**52,244** 3
4 **NET ASSETS**	**111,548**	**162,758**
GENERAL FUNDS		
Balance 30 June	140,534	131,195
Surplus/Deficit	-28,986	31,563
BALANCE	**111,548**	**162,758**

What can we tell about the organisation from this statement?

1. The organisation has built up its total assets over the 12 months ($159,230 to $215,002).
2. Provision for long service leave has increased ($43,695 to $48,123) indicating the organisation is taking active steps to cover future long service leave payments.
3. Assets are well in excess of its liabilities ($215,002 - $52,244 = $162,758).
4. Overall, the balance sheet looks very strong. The organisation is in a good liquid position with its cash position able to cover its liabilities (cash is almost x3 the liabilities).

Questions to ask

- What have we done in the past cycle to help grow and how may we better invest/utilise the profits?

Statement of financial position – balance sheet Example two

	Assets	2018 $'000	2019 $'000
	Current		
3	Cash and cash equivalents	90,271	101,554
	Trade and other receivables	17,112	14,533
	Inventories	969	1,017
	Other assets	977	720
	Current assets	**109,329**	**117,824**
	Non-current		
	Trade and other receivables	27,509	12,233
	Other financial assets	10,032	7,323
	Property, plant and equipment	250,623	259,045
	Intangible assets	1,493	1,154
	Non-current assets	**289,657**	**279,755**
1	**Total assets**	**398,968**	**397,579**
	Liabilites		
	Current		
	Trade and other receivables	8,147	7,460
	Provisions	6,960	6,960
	Borrowings	89	85
	Other liabilities	373	752
	Current liabilities	**15,569**	**15,257**
	Non-current		
	Provisions	1,063	1,308
	Non-current liabilities	**1,063**	**1,308**
1	**Total liabilities**	**16,632**	**16,565**
	Net assets	**382,354**	**381,014**
	Equity		
	Reserves	64	5,212
	Retained earnings	382,290	375,802
2	**Total equity**	**382,354**	**381,014**

What can we tell about the organisation from this statement?

1. The organisation has assets well in excess of its liabilities.
2. Overall, the balance sheet looks very strong.
3. Current assets (an asset with a maturity of less than (<) 12 months) are well in excess of current liabilities showing strong signs of wealth for the year ahead. This is a sign of solvency (see page 13 for more details).

Questions to ask

- What has caused the reduction in 'Trade and other receivables'?
- Should the organisation be keeping so much cash or should it be spending the cash to achieve its objectives?
- Why haven't current provisions changed (it's unusual not to see larger changes in the numbers over 12 months)?

13. Statement of financial position – profit and loss statement

The statement of financial performance shows money coming into the organisation and money going out. It reflects the organisation's yearly performance only and will explain how and why the numbers have changed. To understand the statement of financial performance you need to compare actual spending with the budget that has been approved by the board.

- Is spending above or below what was expected?
- Is income (money coming into the organisation) living up to expectations?

Statement of financial position – profit and loss statement Example one

		2016/2017	2018/2019
1	Grants	71,000	116,500
	Seminars and consulting	36,885	38,219
	Donations	51,831	55,257
	Therapy Camp	43,440	47,683
	Membership	2,933	2,833
2	Sponsorships	15,000	53,500
	Earned income	11,329	19,663
	Interest and sundries	4,934	2,683
	TOTAL INCOME	**237,352**	**336,338**
	Renaming project launch	3,889	-
3	Equipment	3,328	41,489
	Depreciation of office equipment	3,124	3,556
	Rent/insurance	30,575	29,799
4	Salaries, superannuation and WorkCover	153,089	196,036
	Camp expenses	14,239	11,541
	Gas, electricity, etc.	1,809	2,515
	Office expenses	11,458	12,167
	Postage/freight	547	295
	Travel	11,159	5,875
	Staff training	1,100	1,504
	TOTAL EXPENDITURE	**234,317**	**304,777**
	DEFICIT/SURPLUS	**3,035**	**31,561**

What can we tell about the organisation from this statement?

1. Grants have significantly increased from $71,000 to $116,500.
2. Sponsorships have also significantly increased from $15,000 to $53,500.
3. The organisation has spent a large amount of money on equipment.
4. There has been a large increase in Salaries, wages and Workcover (from $153,089 to $196,036).

Questions to ask

- What has the organisation committed to deliver as a result of the increase in 'Grants' and 'Sponsorship'? Are the additional funds a 'once off' commitment?
- Is the increase in 'Wages, salaries and Workcover' the result of employing additional people or mainly from salary increases?
- Why has there been such a large increase in 'Equipment' spending? Has something been purchased, written-off or is this an error?

Statement of financial position – profit and loss statement Example two

		Actual 2017/2018	Actual 2018/2019
	INCOME		
	Sales/services	268,953	295,632
	Interest and sundry items	49,643	35,465
1	**TOTAL INCOME**	318,596	331,097
	EXPENSES		
3	Legal Fees	5,649	12,342
	Accounting	6,430	6,600
	Marketing and advertising	12,348	13,200
	Gas, Electritiy and Water	3,200	4,828
	Insurances	3,849	4,500
	Postage	4,000	2,690
	Printing and stationery	8,960	6,325
	Vehicle operating costs	15,000	16,298
3	Salaries and wages	125,697	187,459
	Workers' compensation	4,320	9,025 (3)
	Rent	45,000	45,000
	Depreciation of office equipment	15,357	15,450
	Telephone/internet	10,453	11,301
	Staff training	20,658	9,329 (4)
	Travel	14,347	15,497
1	**TOTAL EXPENDITURE**	295,268	359,844
	DEFICIT/SURPLUS	23,328	-28,747 (2)

What can we tell about the organisation from this statement?

1. While total income has increased (from $318,596 to $331,097) there has also been an increase in total expenditures (from $295,268 to $359,844). This has resulted in an overall deficit (loss) of $28,747. Total expenditure has increased by approximately 22%.
2. The organisation has recorded an overall loss (deficit) of $28,747, compared to a profit the previous year of $23,328.
3. The rise in expenditure is mainly the result of an increase in Legal Fees (from $5,649 to $12,342); Salaries and Wages ($125,697 to $187,459); and Workers' Compensation (from $4,320 to $9,025).
4. Spending on staff training has decreased from $20,658 to $9,329 (approx. 55% decrease in spending on staff training).

Questions to ask

- Is the increase in legal fees linked to the increase in 'Workers' compensation' costs, or is there legal action pending?
- Why has the amount of money being spent on 'Staff training' decreased by almost 55%?
- Is the reduction in Staff training linked to the increase in Workers' Compensation claims?
- What is driving the increase in 'Salaries and wages'?
- Why is the increase in 'Salaries and wages' disproportionate (inconsistent) with the increase in Sales/services?

14. Statement of cash flow

The statement of cash flow will let you know what is happening with 'short-term' money. Short-term money refers to items such as cash and term deposits. If you're a board member of a not-for-profit organisation the statement of cash flow isn't compulsory.

An organisation must be in control of its cash flow (the day-to-day money which is used to pay the bills). Many organisations get into financial difficulties due to cash flow problems. The statement of cash flow is an important statement to help stop small problems from becoming bigger problems.

You can use the statement of cash flow to see what's happening with investments, borrowings, creditors (people who owe the organisation money), and other expenses.

The statement of cash flow will show if your operating expenses exceed your operating revenue i.e. the organisation is spending more than it is earning. This situation may be acceptable temporarily, but cannot be maintained if the organisation is to survive.

Hints and tips

- Make sure the organisation's treasurer/finance manager has a cash flow budget for the year ahead which estimates money coming in and going out.
- Check that the money coming in and the money going out matches up every month or there is a valid explanation if there are differences.

Statement of cash flow
Example one

	2018	2019
Cash flow from operating activities		
Receipts from customers	27,130	30,150
Payments to suppliers and employees	-25,040	-27,600
Dividends received	250	100
Interest and bill discounts received	270	300
Borrowing costs	-240	-270
Income taxes paid	-810	-900
Proceeds from court settlement	-	180
1 **Net cash provided by operating activities**	**1,560**	**1,960**
Cash flow from investing activities		
2 Payment for subsidiary, net of cash acquired	-	-550
Payments for property, plant and equipment	-1,200	-350
Proceeds from sale of property, plant and equipment	10	20
Net cash used in investing activities	**-1,190**	**-880**
Cash flow from financing activities		
3 Proceeds from issue of shares	200	300
Proceeds from borrowings	240	200 3
Repayment of borrowings	-80	-90
Dividend/distributions paid	-1,080	-1,200
Exchange rate changes	-30	-40
Net cash used in financing activities	**-750**	**-830**
4 **Cash at the beginning of the financial year**	**500**	**120**
Cash at the end of the financial year	**120**	**370**
Cash	**25**	**40**
Deposits at call	**180**	**530**
Bank overdraft	**-85**	**-200**
	120	**370**

What can we tell about the organisation from this statement?

1. Net cash from day-to-day operating activity has increased ($1,960 - $1,560 = $400).
2. The organisation purchased a subsidiary.
3. There was an increase in funds borrowed ($200). The organisation also raised additional capital (funds) through the issuing (selling) of shares.
4. Cash at the end of the year has substantially increased, however this is a result of borrowing ($200) and from the issuing of shares ($300).

Questions to ask

- Is the borrowing and raising of funds to fund day-to-day operations or has it been used for payment of the subsidiary which has been purchased?
- Why has the organisation borrowed and raised funds when it has a surplus of cash at the end of the financial year?

Statement of cash flow
Example two

	2018 $'000	2019 $'000
Operating services		
Receipts from:		
Donations and appeals	12,750	13,199
Bequests	7,258	9,378
Government grants	26,628	28,829
Client contributions	4,150	3,958
Sale of goods	57,445	56,994
Dividend income	234	822
Interest income	3,927	4,795
Other income	2,219	1,586
Payments to clients, suppliers and employees	(109,112)	(109,881)
1 **Net cash provided by operating activities**	**5,499**	**9,680**
Investing activities		
3 Purchase of property, plant and equipment	(24,836)	(19,126)
Proceeds from disposals of property, plant and equipment	13,387	17,876 3
Purchase of investments	-	(143)
Proceeds from disposals of investments	-	3,000
Net cash provided by / (used in) investing activities	**(11,449)**	**1,607**
Financing activities		
Proceeds from bank loans	-	-
Repayment of bank loans	-	-
Net cash from / (used in) financing activities	**-**	**-**
Net change in cash and cash equivalents	(5,950)	11,287
Cash and cash equivalents, beginning of year	96,132	90,182
2 **Cash and cash equivalents, end of year**	**90,182**	**101,469**

What can we tell about the organisation from this statement?

1. Cash flow from 'Operating services' has almost doubled (from $5,499 to $9,680).
2. Cash and cash equivalent has increased by $11,287 ($101,469 - $90,182). This result has been driven by an increase in cash from operating activities and from the sale of investments.
3. The organisation spent less money on purchasing property, plant and equipment (from $24,836 to $19,126). It also disposed of more equipment in 2019 (from $13,387 to $17,876).

Questions to ask

- Do the cash flows from operations match your understanding of the organisation's operations?
- Are activities sustainable (i.e. net operating inflow vs outflow)?
- Are the investments expected or is the organisation selling off assets?
- Why did the organisation sell its investment ($3,000) and what was sold?

15. Project budgets

As well as the organisation-wide overview you'll get from the statement of financial performance, you'll also need to know what's going on financially in each separate area of the organisation. For example, is a specific project or event making money or not.

If you have money that's linked to particular projects it's important to have a project-by-project, or section-by-section breakdown. There may be times where project grants can only be used for a nominated project and not used for other projects or business activities. This breakdown of information may not be provided by your treasurer/finance manager to your board. If your treasurer doesn't provide this information, you will still need to check at intervals where money is coming in and going out across the organisation. You need to know which sections are self-financing and which aren't (or which activities are being subsidised by other areas of the organisation).

16. How efficient is your organisation?

Your role as a board member is to build on the information that comes out of the documents you'll be looking at and then help guide the organisation's strategy.

Your first concern is going to be the 'bottom line'. Are you generating enough income to cover the work you need to do? Are you losing money? Are you making a profit? If you're losing money – do you have the reserves to cover it?

Questions to ask

- How efficient is the organisation?
- How effective?
- How profitable?
- How much of the income (money coming in) goes on different aspects of the business, for example administration, wages, service delivery?

Administration is an essential and unavoidable part of the work you do. The aim isn't to minimise your administration costs, but to reach the lowest cost that still allows you to maximise your impact/organisation's operations.

Overhead costs

	Administration	Client Services
AGM costs	916	-
Therapy equipment	-	12,577
Office equipment	28,912	-
Depreciation on office equipment	3,556	-
Rent	6,182	18,546
Salaries	35,426	141,705
Superannuation	3,188	12,754
WorkCover	593	2,370
Camp expenses	-	11,541
Cleaning	499	-
Computer costs	600	-
Gas, electricity etc	629	1,886
Insurance	5,071	-
Printing and stationery	2,055	900
Postage and freight	295	-
Security	811	-
Subscriptions	548	-
Telephone and internet	2,471	-
Repairs and maintenance	152	-
Travel	5,875	-
Staff amenities	185	-
Videotaping	-	-
Web page design and maintenance	2,142	-
Staff training	1,504	-
Bank fees	124	-
Sundries	763	-
TOTAL EXPENDITURE	**102,497**	**202,279**
Percentage	34%	66%

17. How effective is your organisation?

Knowing how much is being spent on administration doesn't tell you all you need to know about how the organisation is managing to deliver on its mission or purpose. You also need to know how much it costs to do each task and whether you could be doing things for less.

Average costs will help you make informed decisions:

Statement of average cost per client

	1 Expenditure ($)	2 Client Numbers	3 Cost per client ($)
2017/18	262,064	227	1,154
2018/19	304,776	298	1,023

What are the numbers telling us?

1. Expenditure has increased from $262,064 to $304,776.
2. Client numbers have increased over the same time frame.
3. Overall the organisation has reduced its dollar cost per client (from $1,154 to $1,023). This change could indicate increased efficiency within the organisation, or it might be a result of a cut in services to clients.

	1 Expenditure ($)	2 Client Numbers	3 Cost per client ($)
2017/18	233,078	28,986	8.04
2018/19	336,339	31,563	10.66

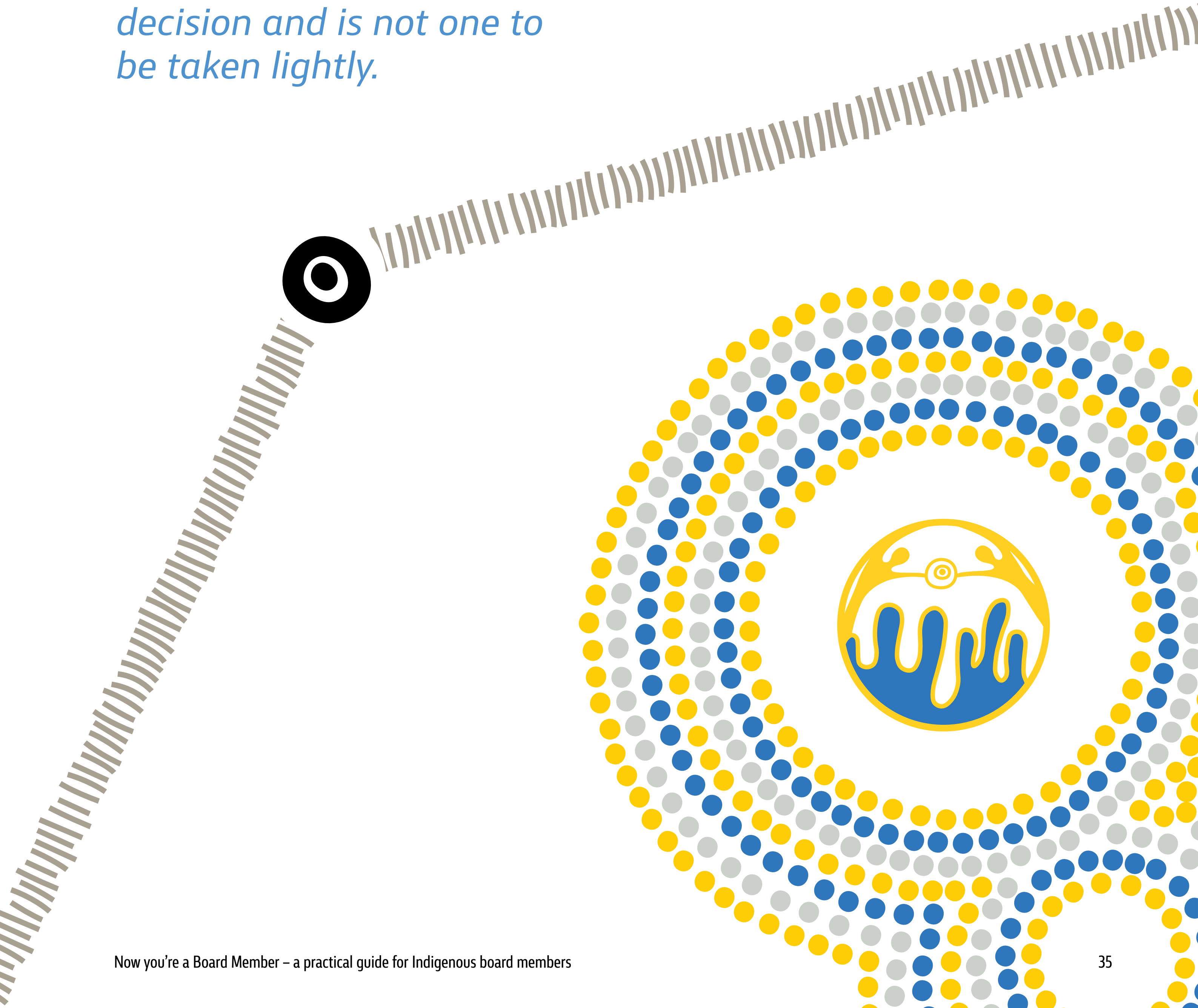
What are the numbers telling us?

1. Expenditure has increased (from $233,078 to $336,339).
2. Client numbers have also grown over the same time frame (28,986 to 31,563).
3. There has been an increase in dollar cost per client ($10.66 - $8.04 = $2.62). This increase could be the result of increased fees or additional services may have been made available to clients.

18. What's the profit margin?

A positive difference between income and expenditure is a good thing – it helps the organisation build up its capital reserves, (money in the bank) buy capital items (buy equipment/vehicles e.t.c.) or service/pay debt.

Running a deficit may not always be a bad thing if it's essential for the fulfilment of your organisation's mission. However, it is a big decision and is not one to be taken lightly.



19. The annual budget

Each year the board will approve the organisation's annual budget. The board must sign off on what's going to be bought and what's going to be spent. Any purchasing/spending not approved is improper, unauthorised and grounds for dismissal.

What is budgeting?

Budgeting is the process of planning your organisation's finances for 12 months. It includes all the activities expected to be undertaken in the next 12 months expressed in terms of money.

The treasurer/finance manager will present the budget to the board. Preparing the budget will involve many people including the chief executive officer (or managing director); the chair as well as consultation with the head of every section of the management team.

The annual budget is usually reviewed by a budget/finance subcommittee who look at the records of revenue and income, and records of expenditure. The subcommittee will estimate the likely increases and decreases for the year ahead, look at the timing of costs and payments and run some scenarios.

Remember: You still need to review the budget and must not assume that the numbers being presented are okay.

Questions to ask

- Does anything need explaining?
- Does the budget include any accounting concepts that you don't understand?
- Are there any sharp differences on last year's figures that aren't explained?
- Does anything need correcting? Are all the sums right? Do spot checks to see if the numbers in the columns and rows add up.

20. Reviewing the budget

The board must receive the draft budget with enough time to make changes (at least two meetings before the end of the financial year). If the draft budget is presented at the last meeting of the financial year you may need to accept the budget or face going into the next financial year with no approval to spend anything.

There should be reasoning to explain every figure in the budget. One of your jobs as a board member is to get the treasurer/finance manager to defend his/her reasoning for the numbers being presented.

You have an opportunity to look at items in more detail in the organisation's business plan.

Hints and tips

- Question income and expenditure projections.
- If you're projecting additional spending don't automatically write in a higher projected income so that the budget balances – discuss where the additional income is going to come from.
- Be cautious about locking the organisation into long-term spending. Run some scenarios on what would happen if you lost any of your main funding / income. Are staff contracted until the end of the project or for a fixed period of time? How long would it take for you to change your practices to cut costs?

21. The business plan

The organisation's business plan provides more detail on how the organisation is going to achieve its strategic plan – it explains how you're going to get from where you are now to where you want to be.

A business plan looks ahead three or five years and should be refreshed regularly by inputting actual figures and modifying projections based on actual experience.

Sample business plan outline

Executive summary

- Who is the organisation and what's its big idea? Include a snapshot of the organisation's financial position.

Business and services

- Mission statement: what are the organisation's aims? What does the organisation want to achieve in the short, medium and long-term (for example in one, three and five-plus years)?
- People: people are an organisation's most valuable resources. Describe your staff, partners, volunteers and board, skills, assets and funders.
- Premises and resources: what does the organisation have to work with?

The market

- Why do you want to do what you are proposing to do? What need is being met? Give the context for projects.
- Risk/opportunity: Why now? Why here? Why you?
- Clients/customers/users: who they are, and why do they need what you're offering?
- Competition: who else is doing it? Describe who else is offering similar services and say why you're different.
- Strategic alliances: who can help you? Note also that some competitors may double as partners.

Service delivery

- How do you plan to do it?

Marketing and promotion

- How are people going to know you exist? How are you going to make them want what you offer?

Financial and capital requirements

- What are you going to need? How much will it all cost? Separate capital costs (assets you need to buy) from revenue costs (running costs).
- Sales and financial summary: detail your pricing policy and projections. Forecast how much income you expect to generate and set out your plans for raising the shortfall.

Existing funding

- How much have you raised from other sources.
- How will you ensure that the funding services are stable/sustainable (i.e. why would they continue to fund you)?

Sample annual budget

		Actual 2017-18	Budget 2018-19
	Grants – Government/Corporate	-	5,000
1	Grants – foundations	116,500	125,000
	Consulting	38,219	40,000
	Donations	55,257	55,000
	Therapy Camp	25,203	28,000
	Tea party	22,480	22,000
	Membership	2,833	3,000
	Sponsorship	53,500	55,000
	Interest	2,664	3,200
3	Earned income	19,663	25,000
	Sundries	19	-
	TOTAL INCOME	**336,338**	**361,200**
	AGM costs	916	1,000
4	Communications equipment	122,577	15,000
	Office equipment	28,912	18,000
	Rent	24,728	24,728
2	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
	Utilities (gas, electricity)	2,515	2,500
	Insurance	5,071	5,500
	Photocopying/printing/stationery	2,955	3,000
	Postage/freight	295	300
	Telephone and internet	2,471	2,600
	Repairs and maintenance	152	200
	Travel	5,875	6,000
	Web page design and maintenance	2,142	2,200
	Staff training	1,504	1,500
	Bank fees	124	150
	Other expenditure	5,863	6,300
	TOTAL EXPENDITURE	**304,776**	**350,898**
	Deficit/Surplus	**31,562**	**10,302**

Questions to ask

- Has the increase in 'Grants - foundations' been locked in, or is this grant money the organisation needs to find over the course of the year? What will be the impact to the budget if the grants are not found?
- What is driving the increase in 'Salaries'? Salaries have increased by $52,000 but the budget is only showing a $25,000 increase in income.
- What is driving the increase in 'Earned income'?
- Why has there been such a big drop in 'Communications equipment' costs?

22. Keeping the organisation focused

Strategic plan

Organisations can sometimes drift off track and put too much effort into non-core activities. Board members are supposed to notice this and take steps to bring the organisation back on track.

When considering new ventures or activities think about what the organisation is doing. Do not proceed with a new venture/project unless you're satisfied that all likely risks have been thought about and that the organisation's primary mission will not be compromised.

Board members keep the organisation focused on the right direction through regular reviews of the strategic plan. This plan is the organisation's compass – setting out where you want to be in the future to fulfil your objectives and mission. The world is constantly changing and it's important the strategic plan is regularly reviewed to take into account the changes taking place.

Sample strategic plan: summary table

What you want to see	Your specific goals	What this involves
Mission 1 Widely available excellent communication therapy in Victoria	To increase community awareness to enlarge customer base	Active PR, social media investment and targeted advertising
	To increase therapy resources to meet increased demand	Employ two additional therapists and move to larger premises
	Increase client support	Employing additional 0.5 admin officer
Mission 2 Increase educated communication therapists	Offer short courses at tertiary institution	Liaise with Fabtown University
	Offer training places to 30 trainees per year	Liaise with Fabtown University
	Upgrade in-house training programs	Organise courses
Mission 3 Larger and more reliable communication therapy information base	Set a more accurate estimate of demand	Conduct epidemiological study
	Record best practice	Analysed clinical records
	Develop improved methods	Compare therapies

You'd regard yourself as successful if you	When will this happen?		
	2018	2019	2020
Increased client base by 10%	6%	8%	10%
Had total of 8 clinical staff and had offices with 10 rooms	6 clinical staff and 5 rooms	7 clinical staff and 5 rooms	8 clinical staff and 10 rooms
Had total of 1.5 admin staff	1.0 admin	1.5 admin	1.5 admin
Negotiated contract with Fabtown University		✔	✔
Negotiated contract with Fabtown University and prepared training material		✔	✔
Wrote curriculum and prepared training material	✔	✔	
Employed consultant and conducted study	✔	✔	✔
Designed study, employed research assistant and distributed findings		✔	✔
Designed study and employed research assistant			✔

23. Managing money

Fraud is more common than many of us think. Someone in the organisation needs to be across the figures in detail – invoice by invoice, bill by bill – asking at each point if transactions are consistent with the budget and with good management practices. Usually that person is the CEO or general manager.

As a board member you still have responsibilities in this area. Financial controls are critically important – if you get them wrong they can bring down the entire organisation. You cannot just take the treasurer's or the CEO's word that things are going well. You must satisfy yourself in detail that proper policies and procedures are in place. You must be satisfied that the CEO and treasurer/finance manager are implementing those procedures thoroughly and you must ask the treasurer/finance manager for regular reports.

24. Financial controls

Cash handling

- Don't let the same person take in the cash, process it, record it and then do the bank reconciliation (also known as a 'separation of duties').
- Record all cash receipts when you receive them.
- Deposit all cheques into the organisation's bank account.
- Give receipts for any cash donations.
- Cash registers are a great way of ensuring every sale is recorded.
- Treat cash registers as an unlocked safe and keep people away from it.
- Have cash registers reconciled regularly and by a different person from the person who uses it for sales.
- Check receipts against bank deposit slips.

Staffing

- Have a screening policy for your employees.
- Verify that they did the work they said they did.
- Get explanations for any gaps in employment.
- If they're working with money run a police check.
- Verify their qualifications.
- Check their references.
- Make sure supervisors take their duties seriously to check documents that pass in front of them – for example, purchase orders that need approval.

Checks

- Reconcile bank accounts against cheques, and invoices against assets – follow up any discrepancies.
- Organise spot checks on outgoing invoices, cash payments and cash receipts.

Access

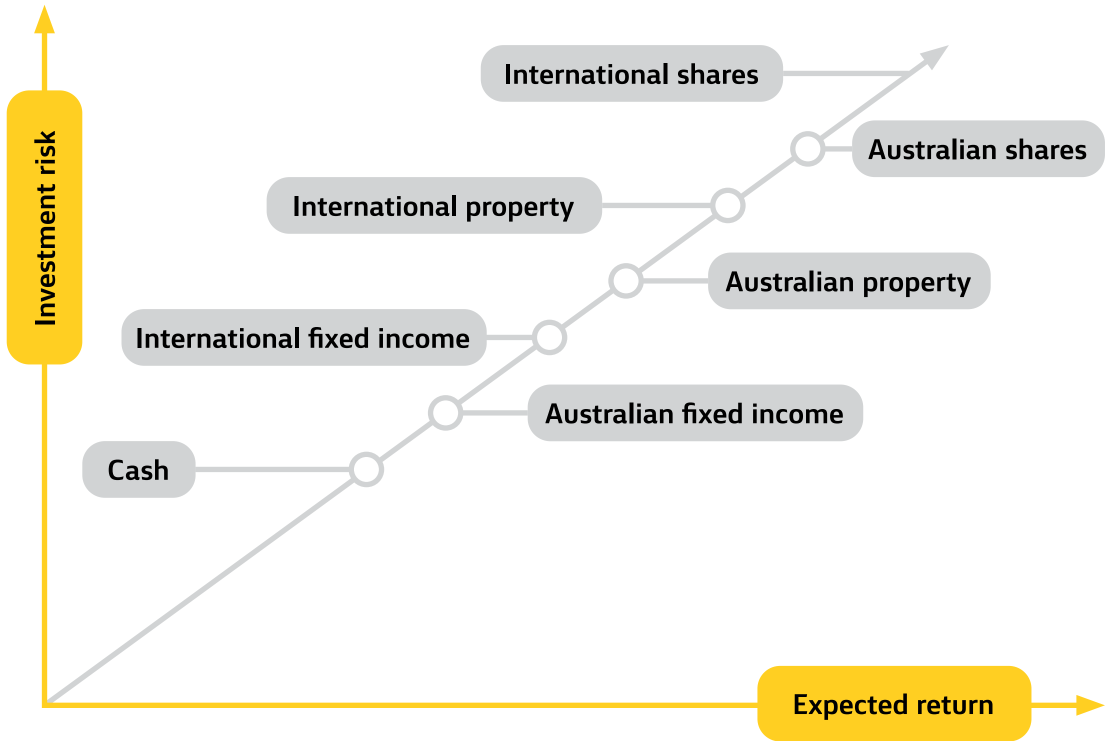
- Restrict access to premises/sites, cash registers, computer systems and safes to people who need access to them to do their job.
- Set in place a data system that records when items have been changed.
- Consider camera surveillance after hours for security and as a deterrent.

Other financial controls

See the Our Community Policy Bank www.ourcommunity.com.au/boards/boards_article.jsp?articleId=1453 for more financial control policies.

25. Where do we invest?

One component of a careful approach to investment is known as 'diversification'. This means having money invested in a number of different investment vehicles. As a board member you won't be asked about individual investments (that's the job of the treasurer, the investment committee and the CEO). You do need to set the level of risk that you're comfortable with as a board, and you'll then need to review the organisation's investment portfolio occasionally to make sure the treasurer/finance manager is keeping to the strategy that's been agreed. Any significant change to that strategy needs to be specifically approved by the board.



The triple bottom line

Risk isn't the only consideration. There may be reputation, environmental as well as social responsibilities you need to consider. For example, tobacco and poker machine companies usually pay good dividends however, many organisations may look at the harm done by smoking and gambling and decide not to invest in these type of businesses.

The increased focus on corporate social responsibility has led to organisations reporting on their society and environmental investments as well as their financial activities.

Economic, social and environmental outcomes are known as the 'triple bottom line'. You may sometimes have to balance one against the other using your best judgement. Good practice is to consider your economic, social and environmental impact as part of your policy making, emphasise it in your work culture and feature it in your annual report.

26. Deciding the CEO's salary

One of the main duties of the board is acting as the boss to the CEO. At regular intervals you'll need to assess the CEO's performance via measures set in place when they were hired.

Occasionally you may also need to hire a new CEO to replace the old. When you hire a new CEO you need to work out what they'll be paid. Things to consider here are:

- what similar CEOs are paid. (To find out what other organisations are paying you can use your network or pay a commercial company that specialises in executive salaries)
- what you think is 'fair'. This will mean you need to consider:
  - what qualifications are needed
  - what experience is needed
  - what the previous CEO was paid
  - the size of the organisation.

If you pay too little you may not attract any suitable candidates. If you want to guard against paying too much, think about linking some parts of the CEO's salary package to performance measures so the person doesn't get the full benefits unless they take the organisation forward.

27. Bringing about change

You're on the board to exercise independent judgement. You might decide that something has gone wrong, or is going wrong, but the rest of the board has voted for it. What do you do then? You'll need to get the original decision changed. A decision of the board can only be changed by the board. If other board members don't share your concerns you will need to persuade them.

If you can't get them to change their minds what can you do?

- Make sure your concerns are noted in the board meeting minutes and ask that your vote against the decision is recorded. Remember, if the matter is critical and you stay on the board, if the matter ends up in court you may still be liable – even though you voted against the motion.
- You may decide to leave the board.

28. Where to takecomplaints

What do you do if you believe your organisation is actively being misled? You might believe the chair and the CEO are acting without authorisation from the board, or even against the board's instructions. Are meetings being stacked, minutes changed and/or conflicts of interest taking place?

Complaints can be referred to the Regulator/ORIC/ASIC/ACNC if there has been a breach of the Associations Act. If the breach is the organisation's own constitution that comes under contract law and it is up to you to take the matter to court yourself which can be a time consuming, expensive and unpredictable process.

29. Keeping track of meeting outcomes

Board minutes are an important legal record of business proceedings. They detail how and why a board came to the decisions it made. It's important that minutes are retained and shared with all board members so everyone who attended the board meeting has a clear understanding of the outcomes and expectations.

Who takes the board minutes?

The secretary of the board usually takes minutes during the meeting. These written minutes should be distributed and reviewed by each board member before the next meeting. If you need to make a change to the minutes (for example if an action or outcome has been incorrectly recorded), this change needs to be made prior to the next meeting. Updated minutes need to be reviewed at the start of each board meeting and accepted by the board as a true and accurate reflection of the previous meeting.

What should the board minutes include?

There is no set level of content and format for board minutes, however they do need to contain enough information to describe how board members came to their decisions. As a minimum, board minutes usually contain the following information:

- the name of the organisation
- date and time of the board meeting
- the name and position of who called the meeting to order
- details of who attended the meeting
- details of all motions (proposals) made
- if there were any conflicts of interest
- whether people (abstained/ did not vote and why
- the time the meeting ended
- the name of who recorded the minutes.

Hints and tips

- Make sure you receive a copy of the minutes as soon as possible after each meeting.
- Take time to carefully review the minutes, remember these are a legal document of what took place.
- Make sure you question anything you don't believe has been correctly recorded.

30. Explaining the terms – glossary

Accrual accounting	Recognises income only when it has been earnt and records expenditure when it is incurred (not when it is actually paid). For example, your organisation is paid $10,000. You record it as income in the accounts – not when you receive the cheque – but only later, when you have provided the services you are charging for. You debit the accounts on the date you write cheques – the day you promise to pay people – not the often much later date, when they have received and deposited the cheque.
Agenda	A list of meeting activities listed in the order they are to be discussed.
Annual General Meeting (AGM)	Held once a year and during which the directors of the organisation present the annual report to shareholders. Shareholders are able to vote on current issues, including appointments to board and executive pay levels.
Annual Report	Presented each year usually at the Annual General Meeting (AGM). The annual report contains information for shareholders about the organisations performance and direction.
Australian Securities and Investments Commission (ASIC)	Australia's corporate, markets and financial services regulator.
Arm's Length	Buyers and sellers act independently without one party influencing the other.
Asset register	Lists all of the organisation's physical assets including office equipment, motor vehicles, furniture, computers, communication systems and other equipment.
Audit	An independent examination of an organisation's books, accounts, statutory records and documents to discover whether the financial statements and non-financial disclosures present a true and fair view. It also enables the organisation to ensure the accounts are being properly maintained as required by Law.
Bottom line	The final results. An organisation that is growing its net earnings or reducing its costs is said to be "improving its bottom line".
Breach	Failure to follow a rule or law.
Budget	Information about how much money the organisation has to work with.
Capital expenditure	Money spent on items that will last longer than one year for example, computers, furniture, equipment, cars, land and buildings. Operating expenditure is treated differently from capital expenditure in the accounts. In a budget, the cost of capital expenditure is spread over the expected life of the asset. The idea is that putting the whole cost into one year's accounts would give a distorted view of your profit and loss, so a depreciation charge is made each year instead.

Cash accounting	This is the simplest form of bookkeeping and most small organisations use it. It works on the basis of tracking the actual dollars in and dollars out as if they were actual physical money. For example, on Monday someone pays the organisation $100 – this gets entered in the accounts as income under Monday's date. On Tuesday, the organisation pays someone $50 – this gets entered in the accounts as an expenditure under Tuesday's date. Cash accounting is also known as *Receipts and Payments Accounting*.
Chief Executive Officer (CEO)	A person appointed by the board to run the organisation. Some organisations will have a managing director or general manager instead of a CEO.
Compliance	Following a rule, policy and standard. Regulatory compliance refers to steps an organisation takes to comply with relevant laws, policies, and regulations.
Conflict of interest	The person cannot take advantage of their position on the board. Board members need to make sure there is a separation between those making funding decisions and the recipients of that funding.
Creditors	People the organisation owes money to. This can be people/organisations you've borrowed money from or for goods and services you have bought but not yet paid for.
Current assets	Anything the organisation owns that it is planning to turn over within a year. It includes cash in the bank, petty cash and inventory, and accounts receivable (money owed to the organisation).
Debtors	People who owe your organisation money – this includes people you may have lent money to as well as people who have received your goods and services but not yet paid you.
Diversification	A risk management technique which spreads investments over a range of different assets, managers and markets.
Double-entry book keeping	How professionals keep the accounts. It involves writing everything down twice (as a credit to one account and a debit to another). This means a different account is kept for every purpose. Its advantage is that it makes it easier to catch mistakes or misappropriations. Its disadvantage is that you have to think like an accountant (money in the bank counts as a debit for example and not a credit).
Equity	The organisation's net worth. It is what your organisation would be worth if you cashed in all funds and assets. It includes accumulated funds and any reserves you've put aside as a backstop.
Fiduciary duty	To act only in the interests of the organisation.
Insolvent trading	An organisation is insolvent if it is not able to pay its debts when they are due and payable.

Intangible assets	Includes items such as goodwill, brand value and franchise rights. These don't usually feature largely in the accounts as they are difficult/impossible to 'sell' to anyone else.
Ledgers	Ledgers include all relevant details of every transaction including the amount, the date, the receipt number/purchase order, who paid or was paid the money, its purpose and the account it falls under. Organisations should have a ledger for each account including assets, liabilities, equity and income and expenditure, all coming together in the general ledger. You can also have separate ledgers for large projects.
Liquidation	Selling the assets of an organisation to pay outstanding debts. This is part of the process of dissolving/winding up an organisation.
Liquidator	The person appointed to wind-up the affairs of an organisation. They are responsible for collecting all assets belonging to the organisation and settling claims for payment of outstanding debts.
Liable	To be legally responsible for something.
Minutes	Minutes are a written record of what was discussed and decided in each board meeting. Minutes must be kept of every meeting and include the following information: • day, date and time of the meeting • the type of meeting being held – board meeting, Annual General Meeting, e.t.c. • who attended the meeting and who was not there • details of decisions made.
Motion	A formal step to introduce a matter for consideration by a group.
Nepotism	Showing favouritism or bias to an individual, group or business.
Net assets	Total assets minus total liabilities.
Non-current assets	Anything the organisation's is not planning to convert rapidly or that can't be turned into cash quickly. Examples of non-current assets include cars, trucks, equipment and buildings.
Notice	A notification of when a meeting is to take place including why the meeting is being held and a summary of what will be covered.
Operating expenditure	This is money used to run the organisation's day-to-day operations including money for overhead expenses, salaries, supplier bills and maintenance.
ORIC (Office of the Registrar of Indigenous Corporations)	An independent statutory office holder who administers the Corporations (Aboriginal and Torres Strait Islander) Act 2006. The Registrar's office supports and regulates corporations by: • advising on how to incorporate • training directors, members and key staff in good governance • ensuring compliance with the law • intervening when needed.

Policy	Written rules which outline how the organisation is to be managed.
Prescribed Bodies Corporate (PBCs)	Corporations that are formed to hold or manage native title.
Proxy	Giving someone the authority to act or vote on your behalf.
Receipts and payments accounting	Cash accounting is sometimes known as receipts and payments accounting.
Registered Native Title Bodies Corporate (RNTBC)	When a Prescribed Bodies Corporate (PBC) is entered onto the National Native Title Register they become a registered native title body corporate (RNTBC) under the Native Title Act 1993.
Restricted funds	This may include grants to fund particular projects or programs of work. These funds cannot be used to cover costs in other areas of the business.
Revenue	The total income your organisation receives.
Rule book	Details how a corporation should be run.
Separation of duties	Having more than one person complete a task and is used in business to help prevent fraud and errors.
Short-term money	Short-term money refers to items such as cash and term deposits.
Spot check	Inspecting a random sample for accuracy.
Subsidised	One area of the business which funds the operating costs of another area of the business.
Treasurer	The person responsible for an organisation's finances. In some organisations this position can be known as a finance manager/director.
Triple bottom line	An accounting framework and performance measure which takes into account social, environmental and financial impact and performance.
Two-way governance	Respecting and balancing Indigenous cultural expectations with the requirements set out by government and/or funding bodies.

Useful links and resources

ORIC – www.oric.gov.au

ASIC – www.asicgov.au

Australian Indigenous Governance Institute – www.aigi.com.au

Australian Charities and Not-for-Profits Commission (ACNC) – www.acnc.gov.au

CommonwealthBank

ourcommunity.com.au
Where not-for-profits go for help

Committed to Indigenous Australians

At CommBank we strongly believe in the principle of shared values and highly value our relationships with Australia's First Nation Peoples. We acknowledge the traditional owners of this Land and show respect for Elders as the custodians of Country and Culture, and we remain firmly committed to reconciliation.

Our aim is to promote social, economic and financial inclusion, as well as the achievement of economic financial independence for Aboriginal and Torres Strait Islander peoples. Under the guidance of Elders Aunty Lilla and Aunty Mary from BlackCard, we have built a national team of culturally trained Indigenous Business banking specialists. This training has provided us with a deeper understanding of Aboriginal culture, as well as the unique opportunities and challenges faced by Indigenous businesses and communities.

When combined with the skills and insights from across the wider Commonwealth Bank Group, this gives us the ability to deliver personalised, tailored services using Aboriginal terms of reference. It is a service which is delivered by our dedicated local bankers who have a strong focus on customer service, support, technology innovation, operational excellence, trust and respect.

A partnership with a difference

By providing efficient and innovative financial services, products and solutions, we work to support and economically empower Indigenous businesses. It is this commitment to applying our values to the way we work – with foresight, sensitivity, respect and experience – that we hope you get to experience with us.

The Our Community group provides advice, connections, training and easy-to-use tech tools for people and organisations working to build stronger communities. Our partners in that work are not-for-profit organisations and social enterprises; government, philanthropic and corporate grant makers; donors and volunteers; enlightened businesses; and other community builders.

A Certified B Corporation and multi-award-winning social enterprise, Our Community's offerings include:

- **OurCommunity.com.au** – Where Australia's 600,000 not-for-profits go for help. It's where community groups can learn how to accelerate their social impact.
- **Institute of Community Directors Australia** – The best-practice governance network for the members of Australian not-for-profit boards, committees and councils, and the senior staff who work alongside them.
- **FundingCentre.com.au** – The best place to go to get and store information on grants and fundraising in Australia.
- **GiveNow.com.au** - Australia's first and favourite giving platform – Donate Now.
- **Good Jobs: Great HR** – This is the first resource for community workers looking for a job and for community groups wanting to improve their human resource practices and policies.
- **SmartyGrants** – Software, data science and intelligence for revolutionary grantmakers.
- **The Innovation Lab** – Where Our Community seeds ideas to do old things better and new things first.

Communities

- **Our Community House** - A co-working space for the not-for-profit sector where data science and creativity come together to catalyse positive social change.

This guide features elements of CommBank's Indigenous Business Banking design. It's our way of acknowledging cultural respect and understanding of Australia's First Peoples' sixty thousand plus year old culture and its history.

The work is based on an original design by a young artist Daikota Nelson, a proud Dja Wurrung woman who grew up and still lives on her traditional country in Castlemaine, Central Victoria.

The visual tells the story of caring for this great Land, and of the power of positive and lasting relationships. When viewed as a whole, the design represents all nations, tribes and individuals who inhabit and travel this great island nation. The underlying theme behind the work is that of the power and mutual benefits that can be achieved by Indigenous and mainstream Australians working together, supporting one another – based on a foundation of mutual respect and trust.

The design features a stylised map of Australia, overlaid with CommBank's logo. The outer path and footprints connecting the five larger circular elements symbolise the continuum of Indigenous Australians caring for the Land and the joining of mainstream Australians on this journey.

The scattered gum leaves around the outer edge of the work represent a welcoming to the Land; a cleansing and blessing for all – as we continue on our journey learning from one another, enriching our lives and growing from the experiences we share and the relationships that we form.

ourcommunity.com.au
Where not-for-profits go for help

INSTITUTE OF COMMUNITY DIRECTORS AUSTRALIA
▸Knowledge ▸Connections ▸Credentials

CommonwealthBank