



SETSCoP Governance Training

Finance for Non-financial Directors & Managers

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SETSCoP Governance Training

- Webinar 4 – Finance for Non-financial Board Members
- Webinar 5 – Legal issues in Governance
- Webinar 6 – Strategy & Risk for Boards



Objectives (and more importantly non-objectives)




- Non-objectives

- To make you an account accountant
- To make you financially literate (a one hour webinar is only a start)

- Objectives

- To raise your awareness around the need to be financially literate to be a Director and a Manager.
- Demystify some accounting and financial terms.
- Point you in the direction of what sorts of things you need to know to accomplish your duties as a Director.
- Highlight ways to increase your financial literacy as a Director and a Manager



Why?

Many Directors believe that because the Board and the organisation has members who come from a financial background, and/or they have a CFO or Finance Directors, and/or they external auditors; then “they” can deal with the numbers. I am here because of other reasons.

However.....as we have discussed

Duties of care and diligence



- It is an objective assessment against what a reasonable Director would do.
- It examines decision-making.
- Balances foreseeable risk vs potential benefit that could be reasonably expected.
- Core obligations of Directors are:
 - ✓ Become familiar with the operations of the business.
 - ✓ Stay informed (ask questions) re the activities of the company.
 - ✓ Monitor generally the company's affairs and policies.
 - ✓ Maintain a familiarity with the company's financial position.
 - ✓ This includes reading the financial statements, board papers, asking questions, making own enquiries where appropriate. This demands a level of financial literacy.
 - ✓ Have a reasonable informed opinion of the company's solvency positions and its financial capacity.

This requires directors to critically analyse and employ detailed attention to matters before them and not rely on “others” or simply “follow the crowd”

We are going to cover today...

- ✓ Accounting vs. finance vs. economics
- ✓ Financial statements
- ✓ Budgets
- ✓ Financial reporting requirements
- ✓ Directors' declaration
- ✓ Internal controls
- ✓ Audits and auditors
- ✓ Solvency
- ✓ Where to next..





Accounting vs finance vs. economics

Accounting:

- keeps score;
- very rigid governed by many rules GAAP, ATO, AASB, IFRS etc;
- generally, looks at the past;
- Explicit.

Finance

- supports decision-making;
- more flexible and perhaps interesting to some;
- generally, looks into the future.

Economics

- looks at and searches for cause and effect and tries to predict the future;
- generally, looks into society and how forces impact productivity;
- Implicit.

Three financial statements

Income Statement (Profit & Loss)

- Show the performance of a business for a given period.
- Summarises income (revenues), costs & expenses.
- Results in a Surplus (Profit) or Deficit (Loss).
- Usually compared against budget and last year (LY)

Balance Sheet (Statement of financial position)

- Show the strength of the firm Assets & Liabilities of the firm.
- Results in the Net Assets (Owners Equity).
- Shows at a specific point in time.

Cash Flow

- Shows the cash in flows and out flows.
- Results in the Net Cash position for period. Or sometimes called liquidity.
- This is the value created (or destroyed) by the firm.
- Can be a statement of cash flows or rolled out as a forecast.

Profit and Loss								
ACME Settlement Limited								
Income Statement 30th June 2021								
	June 2021		Budget		Last Year	Year to Date		
Income								
Grant Income	\$	21,000	\$	28,000	\$	19,000	\$	252,000
Contract Income	\$	117,000	\$	370,000	\$	546,000	\$	4,070,000
Donations	\$	10,000	\$	11,000	\$	11,000	\$	120,000
Social Enterprise	\$	15,000	\$	50,000	\$	75,000	\$	180,000
Total Income	\$	163,000	\$	459,000	\$	651,000	\$	4,622,000
Less Cost of Sales								
Cost of Goods Sold	\$	11,000	\$	20,000	\$	30,000	\$	132,000
Total Cost of Sales	\$	11,000	\$	20,000	\$	30,000	\$	132,000
Gross Profit								
	\$	152,000	\$	439,000	\$	621,000	\$	4,490,000
Less Expenses								
Accounting	\$	904	\$	904	\$	904	\$	10,844
Air Tickets (Domestic)	\$	1,000	\$	1,100	\$	900	\$	12,000
ASIC	\$	273	\$	273	\$	273	\$	3,276
Bank Fees	\$	158	\$	158	\$	158	\$	1,892
Computer Expenses	\$	1,000	\$	5,985	\$	889	\$	12,000
TAB Technology Fee	\$	630	\$	840	\$	840	\$	7,560
Credit Card Fees	\$	185	\$	185	\$	172	\$	2,220
Depreciation	\$	3,672	\$	3,672	\$	3,672	\$	44,064
Donations	\$	200	\$	200	\$	200	\$	2,400
Entertainment	\$	614	\$	614	\$	614	\$	7,372
General Expenses	\$	318	\$	318	\$	246	\$	3,815
Hire Car & Taxi	\$	656	\$	656	\$	656	\$	7,867
Insurance	\$	500	\$	495	\$	490	\$	6,000
Interest Expense	\$	3,210	\$	2,572	\$	1,907	\$	38,520
Legal Fees	\$	-	\$	2,000	\$	-	\$	2,000
Marketing	\$	5,000	\$	5,000	\$	5,000	\$	60,000
Meeting Expenses	\$	6,000	\$	6,000	\$	6,000	\$	72,000
Office Expenses	\$	2,000	\$	2,200	\$	2,200	\$	24,000
Parking	\$	120	\$	100	\$	100	\$	1,440
Postage	\$	200	\$	200	\$	200	\$	2,400
Printing & Stationery	\$	1,200	\$	1,200	\$	1,300	\$	14,400
Subscriptions	\$	2,500	\$	2,500	\$	2,500	\$	30,000
Superannuation	\$	18,600	\$	19,089	\$	21,816	\$	223,200
Telephone & Internet	\$	3,000	\$	3,200	\$	3,500	\$	36,000
Training	\$	20,000	\$	-	\$	-	\$	240,000
Travel - National (Meals & Accom)	\$	500	\$	2,535	\$	2,535	\$	6,000
Wages and Salaries	\$	155,000	\$	159,075	\$	181,800	\$	1,860,000
Xero Accounting Subscription	\$	804	\$	804	\$	804	\$	9,644
Cost of Doing Business	\$	228,243	\$	221,874	\$	239,673	\$	2,740,913
Net Profit								
	\$	(76,243)	\$	217,126	\$	381,327	\$	1,749,087

Income statement (profit & loss)

- A summary of the income and expenses from the first day to the last day of the reporting period.
- Period is generally; month, quarter, year

The maths

Income received

less:

Costs of Goods Sold (COGS)

Equals: Gross Profit

less: Expenses (Costs of Doing Business CODB)

Equals: Net surplus (or deficit)

Income statement NFP considerations



- It is incorrect to assume that a NFP cannot produce a surplus (profit)
- The only difference is a NFP cannot distribute its surplus back to its members.
- It is important for NFP to generate a surplus
- A surplus is redirected back to investing in the development of its services and capabilities that support it in delivering on its social purpose.
- Need to be clear on how grant funding is treated (see Balance Sheet discussion).

An Important point: Large amounts of short term income can distort the view

Balance Sheet ACME Settlement Limited As at 30 June 2021			
		30 Jun 21	30 Jun 20
Assets			
Current Assets			
Cash in Bank	\$	50,000	\$ 30,000
Accounts Receivable	\$	200,000	\$ 120,000
Total Current Assets	\$	200,000	\$ 120,000
Non-current Assets			
Land 3 Anzac Ave	\$	1,200,000	\$ 1,200,000
Computers	\$	100,000	\$ 150,000
Total Non-current Assets	\$	1,300,000	\$ 1,350,000
Total Assets	\$	1,500,000	\$ 1,470,000
Liabilities			
Current Liabilities			
Accounts Payable	\$	75,000	\$ 50,000
Credit Cards	\$	10,000	\$ 5,000
PAYG Withholdings Payable	\$	156,000	\$ 120,000
Superannuation Payable	\$	23,000	\$ 23,000
Unrecognised earnings	\$	300,000	\$ 100,000
Total Current Liabilities	\$	564,000	\$ 298,000
Non-Current Liabilities			
Loan ANX Bank	\$	800,000	\$ 1,000,000
Long Service Leave	\$	25,000	\$ 20,000
Total Non-Current Liabilities	\$	825,000	\$ 1,020,000
Total Liabilities	\$	1,389,000	\$ 1,318,000
Net Assets	\$	111,000	\$ 152,000
Equity			
Previous Year Earnings	\$	(41,000)	\$ 20,000
Retained Earnings	\$	111,000	\$ 152,000
Total Equity	\$	111,000	\$ 152,000

Balance sheet (statement of financial position)

- A summary of what the business owns and what it owes
- It is at a point in time e.g the date at the end of a reporting period

The maths

- **Assets**
- **less: Liabilities**
- **Equals: Net Assets**
- **Equals: Equity**

Example of balance sheet questions/considerations

Assets

- Do the assets exist?
- What are the assets worth (valuation of property)?
- What are depreciation and impairment issues?

Liabilities

- Recognition of the work (monies received in advance) required to be completed under a grant?
- What is the impact of Current Liabilities (paid in 12mths) vs. Non Current Liabilities (paid > 12mths)?
- Have we provided enough (provisions) ? For example:
 - Staff long service leave (Non-current)
 - Staff annual leave (Current)

An important point: Current Assets should cover the Current Liabilities by 1.5 times

Cash flows

(cash flow statement and cash flow forecast)

- A summary of cash inflows and cash flows
- A CF statement is at the end of a reporting period a CF forecast rolls out into the future
- Starts and ends with the bank balance

PAYMENTS/INFLOWS	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
Grants rec'd	\$ 300,000	\$ -	\$ 120,000	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ -	\$ 80,000	\$ 700,000
Contracts rec'd	\$ 22,000	\$ -	\$ 35,000	\$ -	\$ -	\$ -	\$ 22,000	\$ -	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ 179,000
Social Enterprise Receipts	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 10,000	\$ 10,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 220,000
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL INFLOWS	\$ 342,000	\$ 20,000	\$ 175,000	\$ 20,000	\$ 120,000	\$ 10,000	\$ 32,000	\$ 20,000	\$ 70,000	\$ 120,000	\$ 70,000	\$ 100,000	\$ 1,099,000
PAYMENTS/OUTFLOWS													
Accounting	\$ -	\$ -	\$ -	\$ 100	\$ -	\$ -	\$ 704	\$ -	\$ -	\$ 100	\$ -	\$ -	\$ 904
Bank Fees	\$ -	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 1,100
Cleaning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computers and software	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt repayments	\$ 1,586	\$ 1,586	\$ 1,586	\$ 1,586	\$ 1,586	\$ 1,586	\$ 1,586	\$ 1,586	\$ 1,586	\$ 1,586	\$ 1,586	\$ 1,586	\$ 19,032
Equipment hire/lease	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Freight and postage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Credit Card Fees	\$ -	\$ 370	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 370
Marketing and advertising	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000	\$ 500	\$ 500	\$ 500	\$ 500	\$ 3,000
Motor vehicle expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Power	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent and rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Repairs and maintenance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Salaries and employee expenses	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 720,000
Stationery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subscriptions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sundries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tax (GST)	\$ -	\$ -	\$ -	\$ 26,000	\$ -	\$ -	\$ -	\$ 25,000	\$ -	\$ 25,000	\$ -	\$ -	\$ 76,000
Telephone	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ 15,000
Uniforms	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Water	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Web site hosting and maintenance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Training	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000
Xero	\$ -	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74	\$ 74	\$ 811
Meeting Expenses	\$ -	\$ -	\$ -	\$ 550	\$ 550	\$ 550	\$ 550	\$ 550	\$ 550	\$ 550	\$ 550	\$ 550	\$ 4,950
ASIC, Travel, Entertainment, Genera	\$ -	\$ -	\$ 196	\$ 196	\$ 196	\$ 196	\$ 196	\$ 196	\$ 196	\$ 196	\$ 196	\$ 196	\$ 1,958
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL OUTFLOWS	\$ 66,586	\$ 67,130	\$ 61,956	\$ 88,606	\$ 67,506	\$ 62,506	\$ 63,210	\$ 88,506	\$ 68,006	\$ 88,106	\$ 63,006	\$ 63,006	\$ 848,125
NET CASH FLOW	\$ 275,414	\$ (47,130)	\$ 113,045	\$ (68,606)	\$ 52,495	\$ (52,506)	\$ (31,210)	\$ (68,506)	\$ 1,995	\$ 31,895	\$ 6,995	\$ 36,995	
Opening bank balance	\$ 350,000	\$ 105,000	\$ 57,870	\$ 170,915	\$ 102,309	\$ 154,804	\$ 102,298	\$ 71,089	\$ 2,583	\$ 4,578	\$ 36,472	\$ 43,467	\$ 80,461
CLOSING BANK BALANCE	\$ 105,000	\$ 57,870	\$ 170,915	\$ 102,309	\$ 154,804	\$ 102,298	\$ 71,089	\$ 2,583	\$ 4,578	\$ 36,472	\$ 43,467	\$ 80,461	

The maths

- Opening bank balance
- *plus:* Cash inflows
- *less:* Cash outflows
- *Equals:* Net cash
- Closing bank balance

Important cash flow discussions



- Generally, an organisation can generate cash in three ways:
 1. From investments
 2. From the sale of assets
 3. From its operation
- The amount of surplus cash from the operation (as opposed to cash generated from investments or the sale of assets etc) should be more than the net surplus on the income statement.
- This is known as **self generation**. It is a “reality test”.
- It is a key indicator with regard to solvency.

An important point: An organisation can produce a surplus and still go broke.

Budgets

- If completed properly budgeting is a valuable tool for planning and measuring performance with respect to the financial element of the NFP organisation.
- It must be aligned to the strategic plan the culture, and be completed with rigour and understood by all.
- Applies to income, expenses and capital.
- The benefits of budgeting far out way the challenges and all NFP organisations should have a budget to some extent.
- At year end, the situation, assumptions and context of 12 months previous used to prepare the budget can be quite different than at year end. (It can be reasonably assumed no one preparing a budget commencing 1st July 2019 would have budgeted for a global pandemic).
- **An important point: Budgets are not real money!**

This bring us back to the delegations policy from our previous webinar....



The relationship with management...

- The relationship between the Board and management is critical for good governance.
- Greyness as to the roles of each will cause problems.
- Solving this must start with an open discussion between the Board and the CEO as to the role of each.
- The Board delegates some of its powers to management
- For **clarity** all Boards should have a 'Delegations of Authority Policy'.
- It usually comprises a 'Limits of Authority' table or matrix.
- These documents also form the basis of audits when examining the strength of internal controls.

	Senior Manager	CEO	Board
Capital Expenditure budgeted	<\$10,000	>\$10,000 to <\$100,000	>\$100,000
Capital Expenditure Unbudgeted	NA	<\$10,000	>\$10,000

Types of decisions found in the DOA policy

- Operating expenses can then be broken down further, such as:
 - Marketing and advertising
 - Travel
 - Conferences
 - Freight
 - Utilities
 - Donations
- Capital expenses, often broken down by type:
 - Property
 - Plant & equipment
 - Motor Vehicles
 - IT
- Engagement of consultants, sometimes by type:
 - HR/IR
 - Recruitment
 - IT
 - Management
- Staff hiring & firing, by type and level
 - CEO
 - Managers
 - Direct labour
 - Indirect labour
 - Contract
- Entering into leases
 - Property
 - Motor Vehicles
 - Plant & equipment
- Staff remuneration
- Stock purchasing
- Lending and borrowing
- Customer credit limits
- Engagement of lawyers
- Writing off of assets
- Writing off of bad debts

Financial reporting requirements



Any member who asks for the financial report

ACNC requires that:

- ✓ Keep records
- ✓ Report information annually, as follows:

Size	Information statement	Financial Statement	AGM
Small revenue < \$250K	Operations, programs & basic financials	Optional	Only if stipulated in the model rules
Medium revenue >250K to \$1M	Operations, programs & basic financials	Must submit a reviewed or audited financial statement	Only if stipulated in the model rules/constitution*
Large revenue >\$1M	Operations, programs & basic financials	Must submit an audited financial statement	Only if stipulated in the model rules/constitution*

* Companies Limited by guarantee must hold an AGM within 5 months of the EOFY

Director's declaration

- Applicable for companies limited by guarantee (Corporations Act 2001)
- The declaration must state:
 - i. whether, in the directors' opinion, the financial statements and notes to the accounts are drawn up in compliance with accounting standards;
 - ii. whether, in the directors' opinion, the financial statements and notes to the accounts are drawn up to give a true and fair view; and
 - iii. whether, in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



Before signing financial statements...



The following principles should be applied¹:

- ✓ **Scepticism**: directors must question the information provided to them. There is no defence for wilful blindness;
- ✓ **Accounting knowledge**: directors are expected to have financial literacy and basic accounting knowledge;
- ✓ **Accountability and control**: it is up to directors to ensure the executive has systems, protocols and controls to ensure sound corporate governance.
- ✓ **Culture**: director's stewardship should drive a culture of compliance within the company.

¹ Greg Medcalf *Company Director Magazine* September 2014, Australian Institute of Company Directors

Internal controls

Internal controls are the rules, policies and processes that are adopted for the purpose of:

- ✓ Protecting the assets
- ✓ Ensuring financial information is accurate and reliable
- ✓ Ensure compliance for operational and financial requirements
- ✓ Achieving the organisation's objectives





Audits and auditors

Two types both coordinated by the Audit Committee;

1. Internal

- usually only larger NFPs
- Program of audit signed off by the Board and/or the audit committee
- Examines internal; controls against the DOA policy.

2. External

- as required by ACNC and ASIC
- Review vs full audit
- Must be independent
- Provides an “opinion” for the purpose of enhancing the level of confidence in the financial reports.

Solvency

- All Directors have a legal duty to prevent trading whilst insolvent
- Simply insolvency is:
 - “The organisation short of cash and cannot pay its debts as and when they fall due”
- Directors must maintain a vigilance for indications of insolvency or decisions that may cause insolvency by:
 - Reading the financial statements and management accounts
 - Obtain professional advice.



Solvency – key questions to ask

- ? Do we really know when debts are legally due—not just when we expect to pay them?
- ? Do we have sufficient cash to pay debts when they are legally due?
- ? If not, do we have other cash-like assets, such as term deposits, to cover debts when due?
- ? Have we formally negotiated longer supplier payment terms that match our normal payment cycle?
- ? Do we get regular and accurate cash flow projections at board meetings?
- ? Do we check what happened in reality against the cash projection at the last board meeting?
- ? Do we have bank facilities that can be drawn down if we need them or other cash guarantee facilities?
- ? Are we sure we are solvent at least through to the next board meeting?



So what have we learnt...

Budgets are fantasy

Sales or income are flattery

Profit is reality

But CASH is King



What should you do now?

- Ask questions.
- Do not blindly go with the flow
- Seek external opinions
- Meet with your finance team regularly
- Raise your levels of financial literacy (remember you do not need to be an accountant to be on a Board)
 - ✓ Full educations Certificate, Diplomas, etc etc.
 - ✓ AICD.
 - ✓ Shorter vocational training from a range of providers that do full finance for non-financial roles training programs.
 - ✓ Informal learning (SETSCoP Business Guides).
 - ✓ Seek help from friendly financial literate people.





The next webinar (25th May) ...

Legal issues in Governance

Here we discuss...

A broad understanding of the legal environment with regard to governance

Future webinars will focus on Director skills:

- Strategy & Risk

7th June

Further information...

Australian Institute of Company Directors (AICD)

www.aicd.companydirectors.com.au

Governance Institute of Australia

www.governanceinstitute.com.au

SETSCoP Business Guides Governance Series

<https://setscop.org.au/resource-type/governance-of-not-for-profits/>

Australian Charities and Not-for-profit Commission (ACNC)

www.acnc.gov.au

Your local state government office

- Victoria – Consumer Affairs Victoria
- Queensland – Office of Fair Trading
- New South Wales – NSW Fair Trading
- South Australia – Family and Community
- Tasmania – Consumer Building and Occupational Services
- West Australia – Consumer Protection
- Australian Capital Territory – Access Canberra
- Northern Territory – Licensing NT

Questions?

