

## Aboriginal Participation on Boards Register

*The Department of Planning and Community Development would like to thank and acknowledge the Wathaurung people for allowing the use of the word Wayaperri (meaning 'to meet') for the name of this initiative.*

### Help Sheet 7

#### Overview of your Financial Responsibilities

When you join a Board you accept the obligation to look after any finances that your Board may be required to oversee. In some cases, the Board's financial responsibilities may be quite extensive (for example, for a Board that is responsible for overseeing a large organisation with debts, income, staff, etc.). In other cases (say, for an unpaid advisory Board that does not perform any financial transactions) these responsibilities might be simple or non-existent.

Any Board that oversees a budget, no matter how small, needs to have a good understanding of its financial duties and take them very seriously.

This help sheet is offered not as a definitive guide to your financial responsibilities – these may differ from Board to Board. You should seek legal or financial advice whenever you are in doubt about your roles and obligations and should check the particular legislation under which your Board was formed to see what specific laws and penalties you may be subject to or exempt from.

#### Financial Competence

Although Board members are not generally required to have particular qualifications to be appointed (unless otherwise stipulated by the legislation governing the Board's operations), the law does impose standards of financial competence. This is particularly relevant to the laws of insolvent trading (discussed in the Overview of Your Legal Responsibilities help sheet).

The Board is expected to be capable of understanding the affairs of the organisation or facilities it is governing well enough to reach a well-informed

opinion of its financial capacity. And it must be sufficiently up-to-date with the organisation's dealings to allow it to respond properly to the organisation's changing financial capacity. Naturally, this requires some familiarity with financial reports.

Every year, most Boards must ensure that a financial report is prepared and submitted to the Government. The preparation of such reports is not always simple and many Boards seek professional help in doing so. Generally, these reports must include:

- A review of the year's operations and details of any important changes;
- Information regarding the organisation's primary activities;
- Details of any circumstances that could affect, or has affected, the organisation's operations or likely developments in future years;
- Names of Board members and the period for which they have filled the position;
- Information regarding Board members' fees;
- All earnings from the organisation and related organisations;
- Information regarding the solvency of the organisation, including income and expenditure.

Different or additional reporting requirements may exist for your particular Board, depending on the law or rules under which it operates.

It is worth noting that individual Board members are not required by law to attend to the financial affairs of the organisation personally, but they must ensure that they engage people who are competent enough to handle the requirements of the specific situation. It is not sufficient to appoint someone qualified only to do basic accounting where only the resources of a large accounting firm could cope with the task at hand.

You should also know enough about financial matters to be able to understand the workings of the budgets and accounts. If you do not know what words like "revenue," "assets" and "income" mean, you will need to do a lot more homework before taking on any Board role that requires overseeing a budget.



## Warning Signs

It is your job as a Board member to ensure that the organisation your Board is overseeing remains financially healthy so it is of vital importance that you remain vigilant to any situations that may spell trouble.

Below we have listed some warning signs or indications that may help you to recognise when your Board may be heading towards financial difficulties. By no means do any of these situations mean there is a problem, rather they indicate circumstances in which questions should be asked.

### **Any deviation from the budget approved by the Board at the start of the financial year**

Changes to the budget can mean a change to the organisation's bottom line – and if this is the case, you need to know about it. However, bear in mind that a budget is really no more than a plan, and things don't always go exactly to plan. You need to make sure you are receiving regular updates on how the organisation is performing in relation to the budget so you can keep on top of problems if and when they crop up.

### **An unexpected reduction in revenue in comparison with previous years**

Unexpected is the operative word here. Reductions in revenue are not of themselves a reason to be alarmed; income streams are often lumpy. However, being aware of fluctuations (particularly if they are not anticipated in the budget) will ensure you can be one step ahead of any potential problems and take steps to overcome them.

### **An unexpected increase in costs in comparison with previous years**

This could include a telephone bill that is usually \$100 a month that suddenly jumps to \$500, or a wages bill that suddenly becomes much more expensive than usual. As in the case of reduced revenue, it is the unexpected nature of the increase that should set the alarm bells ringing, rather than the increase itself.

### **The incurring of any unusual and unexpected but significant expenses**

A large cost that appears out of the blue can throw a budget right out of whack. When this happens it is important to confirm that the expense is a one-off and that it can be covered.

### **A failure to obtain independent valuation of major assets**

The key feature of this statement is the word "independent". Changes in the value of any assets that come under your Board's responsibilities need to be assessed "at arm's length" by a third party before any changes are made to the accounts.

### **Significant variation in the amount of liability (or debt) in comparison with previous predictions**

Spiralling debts are often the first sign of ill-health. If the organisation is spending too much, it's vital to get to the bottom of the problem sooner rather than later.

### **Failure to achieve budget in three successive months or budget periods**

Such a situation could mean that the organisation is failing to meet agreed targets relating to costs and/or revenue, or that the budget is unrealistic. The performance of the organisation should be reviewed or more realistic targets set and monitored.

### **A reduction in the value of net assets**

Net assets are the value of total assets minus total liabilities. Any change in the net assets, therefore, indicates a change in the organisation's value.

### **Poor performing fundraising activities**

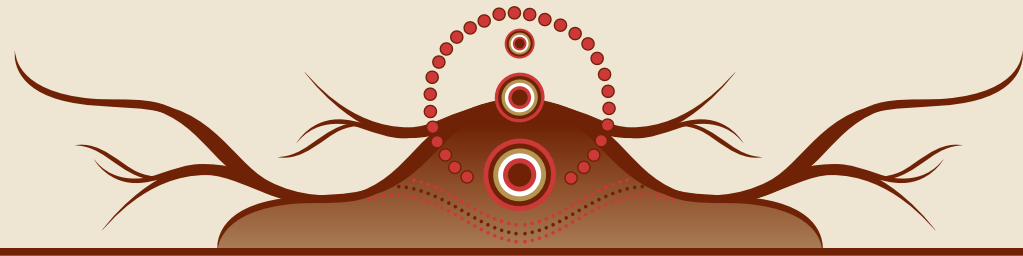
Some Government Boards derive at least part of their income from fundraising activities. If these activities are not bringing in the expected revenue, it may be time to start pulling in belts or thinking about other alternatives.

### **A lack of clarity as to the source of funds**

It is wise to know exactly where your organisation's funds are coming from as there may be conflict of interest, legal or ethical considerations to take into account.

### **Late reports**

Late reporting is often an indication of deceptive behaviour, misleading practices – deliberate or otherwise – or an attempt to avoid accountability. Even at its most benign, late reporting still constitutes a failure of duties and may prevent you from detecting a problem early enough to fix it. It is therefore vitally important that the cause of the delay is uncovered immediately and that processes are put in place to prevent it happening again.



#### **Vague answers to questions regarding financial capacity**

Board members are duty-bound to ask questions and continue asking them until they are completely satisfied with the answers. If you are being put off by the person responsible for ensuring your organisation's financial health, you would be foolhardy if you did not find out why.

#### **Keeping you and your Board safe**

##### **Directors and Officers Liability Insurance**

Some Boards will take out directors and officers' liability Insurance to provide protection for Board members sued individually for acts of negligence by the Board. It is important that you find out what sort of insurance is provided for you, the level of cover provided and if you will continue to be covered after you have left the Board.

##### **Professional Indemnity**

Professional indemnity insurance covers individuals against claims for breach of "professional duty" arising out of any negligent act, error or omission committed or alleged to have been committed by the insured in the conduct of the insured's professional activities. Again, find out if you need this sort of coverage and if your Board will provide it.

##### **Fidelity (Fraud) Insurance**

Fidelity insurance provides cover for your organisation against misappropriation of funds by employees or committee members. The need for such insurance is generally weighed up against the cost, the level of the budget and the level of risk.

For more help sheets visit the following website and follow the links to Wayaperri:  
<http://www.dpcd.vic.gov.au/indigenous/>

Queries should be directed to [wayaperri@dpcd.vic.gov.au](mailto:wayaperri@dpcd.vic.gov.au)