



Davidsons
Trust & Financial Success

Understanding Finance from a Board perspective

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Outline of Session

- Duties and responsibilities of board members
- Understanding the fundamentals of Financial Reports
- Reviewing financial reports – what to look for
- Safeguarding Assets

Board Financial Responsibilities

- To safeguard financial assets
- To plan and monitor performance of the service.

In order to meet your responsibility as individual Board members it is important that you understand the business and its financial systems.

Each Board member should have a general understanding of how an entity is funded and cash flowed.

Duties and Responsibilities

- Need to exercise due care and diligence
 - Duty to prevent insolvent trading
 - Liable for failure to meet PAYG and superannuation obligations

Centro – directors ultimately responsible for signing off on financial statements

Cannot rely on the advice of experts and others without undertaking their own due diligence

Therefore need to have an understanding of financials

Understanding the Business

- ***The Key*** to understanding any financial report
- What does it do?
- How is it structured?
- How is it funded?
- What are the key drivers behind the numbers?

Financial Reports

What are they?

- A summary of past performance and financial position
- Received after the event (next board meeting)
- Can't influence the result – it has already gone
- Use it as a guide to achieving a forecast result
 - Understand variances and why they have occurred
 - Be future focused – what is actively being done to turn the result around or to achieve a future result.

You can influence the future – you can't change the past!

Financial Reports

- What should a board receive
 - Summary of performance
 - Usually in the form of a profit & loss statement
 - Financial Position (Balance Sheet)
 - Cash flow statement
 - Other reports??

What other reports?

- Is there a need for additional reports?
- Does the board have all the information they need to understand the financial performance of the organisation?
- Relate back to your understanding of the business and what are the key drivers of performance
- Consider – budgets, forecasting of result, debtor ageing, capital expenditure etc.
- Use of visual aids e.g. graphs to explain trends

Understanding and Questioning

Determining what reports you require will aid in your understanding of financial reports.

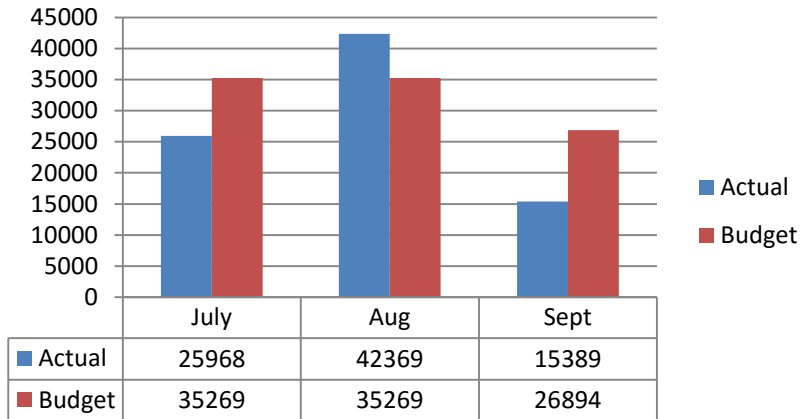
Remember: Financial reports are based on information obtained at a period of time which is past.

You Can't Influence it but you can use it to influence future performance and to assist in meeting strategic objectives

Visual Aids

- Graphical

Profit by Month



- Traffic Lights



Negative

Within 5%

Positive

You found an error – so what!



- What does the error mean?
- Did it make a major difference to what is being reported?
- Will it have an impact on any decision making?

What to look for



Profit and Loss

- Is there something to compare to (budgets etc.)
 - Can you rely on the budget as a comparison tool?
- Has there been an explanation for significant variances
- Is a line item consistently under or over budget
- Does the explanation consider what is being done to rectify (future focus)

What to look for



Profit and Loss

- Is the result in line with your expectations
- Are there significant one-off items (capital grants or donations or a major repair) that has impacted on the result
- Is the result cash flow positive? If not how is capital expenditure being funded?

What to look for



Balance Sheet

- Current assets in excess of current liabilities (solvency)
- Available cash
- Recording of borrowings (Centro)
- Cash backing for Specific Purpose Reserves (Capital donations, unspent capital grants)
- What's coming up – capital commitments, repayment of borrowings

Safeguarding Assets

- Directors must ensure that the assets they have (money, investments, debtors) are looked after and that they don't enter into commitments (suppliers, staffing) unless they are confident they can meet these commitments
 - Solvency – Operating insolvent is a breach of the law. Operating insolvent means the organisation is 'unable to satisfy creditors or discharge liabilities because liabilities exceed assets or inability to pay debts as they mature...'

The Macquarie Concise Dictionary, 1998

Safeguarding Assets

Safeguarding assets requires having regard to:

- Internal controls
 - Delegations policy
 - Cheque signatories and procedure for payment approval including payments by EFT
 - Investment policy (surplus funds)
 - Budgetary control
 - Segregation of duties where possible
- Risk Management
 - Insurance coverage on assets
 - Assessment of operational risks



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