

## **Financial Stewardship: A Critical Board Responsibility**

By Teresa Barrett

Financial stewardship is critical to success for the association's strategic direction. And financial stewardship falls to the Board.

The Board, as a whole, has general and specific responsibilities to the organization's membership and those sponsors who provide funds for the operation of the organization. The Board will account to members and other key stakeholders through annual and periodic reports on its activities and finances, annual audited financial statements and operating in an open and transparent manner.

While a Board may carry out its duties directly or delegate tasks to committees to assist in its work, the Board itself is ultimately accountable for the work of its committees and for overseeing and coordinating their efforts – the establishment of clear terms of reference for a committee, and holding it accountable, is critically important. When it comes to financial stewardship, this accountability needs to be a significant Board priority.

General governance tasks within the financial scope include:

- Maintaining sufficient independence from management and adequate knowledge about the organization to ensure that the Board can make reasonably objective judgements about the reliability and validity of management reports on finances and general operations;
- Seeking or securing sufficient resources for the organization to adequately finance its operational and capital requirements;
- Accounting to members, other financial contributors and key stakeholders for the services of the organization and expenditure of funds;
- Anticipating, mitigating and ensuring proper management of risks to the organization, its staff, Board members and volunteers;
- Approving a mandate within which pay and benefits agreements with staff are to be negotiated;
- Regularly reviewing the organization's services to ensure that they are consistent with the purpose of the organization and that its programs are effective and relevant to members' needs; and,
  - Ensuring prudent and proper management of the organization's resources.

In addition, Board policies should be in place to guide Board members and staff, at a minimum, in the following areas:

1. Protection of funds and assets (including size of operating surplus)
2. Improper influence on conduct of audits
3. Ensuring that the financial affairs of the association are conducted in a responsible and transparent manner with due regard for fiduciary responsibilities and public trusteeship

A majority of Board members needs to understand the financial position of the organization to make decisions and serve as an accountable governing body. If the decision-making process or the intentions of Board members are flawed or conflicted, there is an increase of risk. By complying with the by-laws and other guiding principles and/or policies, and acting as objective leaders, an association can avoid risk, such as fraud.

Asking questions is critical when examining a financial report or statement – individual Board members must not assume other Board members know the answers, or resist asking questions out of fear of looking foolish or nit-picky in the eyes of others. Financial reports to the Board should allow easy identification of variances in key business units, such as membership, ad sales and conference revenues and expenditures. Not everything goes to the budget plan down to the exact dollar. There *will* be variances. What Board members need to understand is if the explanations for the variances are acceptable and if there are any trends that the Board has to consider and plan for over the longer term.

Typically, a not-for-profit Board should be presented with, and, clearly understand, the following financial reports:

1. Financial statement to date, showing actual vs. budget and variance notes
2. Balance sheet (assets/liabilities)
3. Accounts receivable
4. Investments
5. Fixed assets

Here's a simple checklist of what Board members should know and understand before motioning to approve such financial reports:

1. Strategic messages of the organization (e.g. mission, vision and values); these will help Board members be disciplined in serving as leaders of the association, and identify what are the likely factors that can prevent achievement of mission, vision and values;
2. Roles and responsibilities (information from by-law and governance documents);
3. Understand and practice fiduciary responsibilities and financial stewardship;

4. Competencies or skills acquired for Board members to have financial knowledge, such as attention to detail and ability to identify and analyse trends;
5. Raise issues concerning financial reports during discussions and the decision-making process;
6. To establish a relationship with the auditor and the audit process;
7. Understand risk management and liability of not upholding fiduciary responsibilities;
8. Act objectively and in the best interest of the organization;
9. Obtain outside expert advice wherever necessary, and
10. Establishing a trusting relationship between other Board members and management staff

We all know that Board members need to understand their role and responsibilities – they have an important job to do. If there exists among Board members a lack of financial competence, it is important that the organization focus on filling that void in the Board member recruitment