Finance Thought Paper ©:
A guide for Board Members & Treasurers

As associations wrap-up their financial year to 30th June 2020 and the ongoing uncertainty from the COVID-19 pandemic continues to leave many associations unsure of their immediate outcomes, the focus of the Board on financial management is of even greater importance than normal. This paper aims to provide some guidelines for where Boards should focus their thinking and planning in the coming months from a financial perspective. **In particular, if you do not yet have a budget for the financial year 2020/2021 then this should be an immediate priority.** It does not have to be complex, but it does need to be carefully considered, constantly reviewed and be the basis for important decision-making moving forward. Our advice regarding ongoing financial management should cover the following areas:

1. **Know what you have and where it is**
2. **Have a clear strategy for what you want to achieve in 2020 / 2021 to provide value to members**
3. **Build a budget based on sound assumptions**
4. **Clearly identify where the risks lie in your budget and how you will manage them**
5. **Understand how your budget will affect your cash-flow**
6. **Have a plan to review financials at every opportunity**
7. **Review your control systems to ensure the security of your assets**

Know what you have and where it is

Effectively this means understanding your organisation's Balance Sheet and what it does (and does not) contain. Failure to understand what assets and liabilities your organisation owns is the fundamental reason why financial problems arise. TAS recommends the Balance Sheet is reviewed at every Board meeting. In particular:

1. Ensure your bank accounts are secure and all reconciliations performed monthly

2. Check the "true" recoverability of your debtors – if your membership debtors are on the Balance Sheet, have a policy for recognising their likely recoverability. If they are not, make sure you know what "unfinancial" members are still sitting off the balance sheet and have a process for collection and policy for write-off.

3. If you have any debtor advances, such as seed money for a conference, check that it is secure ie: in a trust account

4. Know if you have any finances sitting with third-parties (such as Conference Organisers), ensure that they are secure. This is particularly important in today's market where the ongoing viability of many commercial ventures is under threat. Don't gamble with members' money – keep it close!

5. Understand your liabilities – what they are and when they are due

Have a clear Board strategy for what you want to achieve in 2020 / 2021 to provide value to members

In these times of great uncertainty, the Board needs a clear plan for what it wants to achieve in 2020/2021. This plan should probably not be over-ambitious but should focus on offering a clear and easily understandable member value proposition for the year. Any plan for 2020/2021 will probably be more fluid than usual and will need to factor in the increased risk due to uncertainty. The budget should be clearly designed to accommodate the plan and the inherent risk and should be formally approved by the Board prior to the start of the financial year.

Build a budget based on sound assumptions

The best budgets are:

1. Realistic; based on as much fact as possible
2. Supported by clearly documented assumptions underpinning the numbers
3. Conservative not creative
4. Simple and can be easily understood questioned) by any Board member or senior executive
5. Follow a documented procedure to ensure they are done well in advance of the period in question, are approved in a timely manner and are "owned" by the Board
6. Designed to match to your actual reporting system (ideally loaded alongside)
7. Regularly reviewed (see below)

A key thing to remember when budgeting is that there are no "right or wrong" budgets, only "good and bad" ones!

Clearly identify the risks in your budget and how you will manage them

Every budget should be accompanied by a summary of the major risks inherent in the numbers.

Generally, these risks will be in areas which are to some extent "out of the control" of the Board. Typically, these will be on the income side – reduced membership renewals, fewer delegate numbers, declining sponsorship revenue or even unknowns such as a pandemic. It is worthwhile therefore documenting for the Board what the effect might be of a significant movement in the key income metrics, such as a 10% decline in membership renewals. The Board should be conscious of what the effect may be of a significant change, how it may effect the figures and when key decisions need to be made. Your risk profile should also identify whether the likely risks have a high, medium or low chance of eventuating. **Note however, that this does not mean producing a stream of different budgets. Ideally you have one clear concise budget accompanied by some key "what if" scenarios summarising the effect of significant changes**.

Whilst the current COVID-19 pandemic and its effects were impossible to have assessed in advance, every Treasurer and Board should by now have re-worked their organisation forecasts to try to assess the implications of the changing circumstances. This will be particularly important for organisations where there is a major reliance on face-to-face meetings to drive income into the organisation.

Understand how your budget will affect your cash-flow

Ideally every budget should be accompanied by a cash-flow forecast. At the end of the day, the survival of your business will not just be about income and expenses, but also about having enough cash at the right times to meet your liabilities as and when they become due. Failure to achieve this may put Directors at personal risk of insolvent trading laws. Additionally, having a cash-flow forecast enables you to identify periods when you may have surplus cash for investment purposes. Although current interest rates are low, a few thousand dollars invested and managed effectively can deliver important additional income to the organisation.

A cash-flow forecast need not be complex and can be easily modelled alongside your budget using simple Excel spreadsheet formulae. It is simply a question of clearly identifying how your cash moves as opposed to income and expenses. For instance, an organisation with annual membership renewals will see significant spikes in cash at renewal times which steadily declines throughout the year. Making sure you have a schedule to manage this cash-flow against your expenses as and when they become due is vital.

Have a plan to review financials regularly *(ideally monthly)*

Every Board and every Board member needs to understand their personal responsibility for the financial well-being of the organisation they represent. It is not simply the Treasurers role to look after the finances, as has been seen by a number of recent court cases (Centro for example). As a result, the Board should regularly review the financial results of the organisation (ideally monthly) using timely and accurate reports prepared by qualified personnel. Whilst the Treasurer may own the numbers, every Board member has a responsibility to understand them and question them. Enough time must be allocated at every Board meeting to properly review and analyse the financial results. Other decisions made throughout the meeting are likely to be impacted by the financial results.

Not only should there be a review of the financials against budget at every meeting, we would recommend a quarterly re-forecasting of the budget to predict the likely outcome for the period in question, based on actual results to date and future expectations (which will be constantly changing).

Review your control systems to ensure security of your assets

Unfortunately, it is a well-known fact that when “disaster” strikes for individuals or organisations, the risks of financial misbehaviour and even fraud increase significantly. We would therefore recommend at this time that Boards carry out a full review of their financial procedures and processes to ensure they are safeguarding the assets of the business. Ensure the following:

1. Authorities for approving contracts, purchases and payments are reviewed and are clearly documented so that everyone is notified of, and is aware of, their levels of responsibility

2. Check all authorities are correctly lodged and up to date with relevant authorities (banks, ATO, ASIC etc)

3. A minimum of two authorised and ideally segregated representatives should sign off on any payments

4. Insurances are in place and current for all key business areas (Directors and Officers Liability, Business Assets, Business Interruption, Workers Compensation, Travel etc).

5. Conflicts of interest in relation to Board and senior executive staff are clearly documented, particularly in relation to supplier agreements
6. There is a process for obtaining competitive quotes for all major contracts / purchases on a regular basis
7. Assets held by third parties (such as Conference Organisers) are secure and would not be at risk should the third-party face financial difficulties
8. Ensure there is proper scrutiny and sign off for all supplier invoices and credit card expenses before payment is made

Conclusion

In summary we would advise all Boards and Treasurers to give extra time to focus in 2020 / 2021 on the value proposition for members, the security of assets, the budget and the risks to the budget and how they might affect the well-being of the organisation. Make sure you have a plan to review and update your forecasts and ensure your Board members fully appreciate their responsibilities towards the financial management of the organisation. If you need any help or further assistance with any of these concepts The Association Specialists has the expertise to guide you through the processes.