

Detailed Summary: Finance for the Not-for-Profit Director

Introduction

Facilitated by Roslyn Jackson, this session provides foundational financial literacy for not-for-profit (NFP) directors. It emphasizes that financial literacy is a legal requirement and a journey, especially for those new to finance. Directors are encouraged to engage in one-on-one learning during induction and to understand the financial story of their organisation.

Legal Obligations of Directors

Directors have five key financial duties under the Corporations Act and relevant state legislation:

1. **Duty Not to Trade While Insolvent:** Directors must monitor cash flow and use forecasts to assess solvency.
2. **Prepare Financial Reports:** Includes balance sheet, income statement, cash flow statement, and statement of changes in equity.
3. **Auditing Requirements:** Vary based on revenue thresholds.
4. **Provide Reports to Regulators and Members:** Reports must be submitted to the ACNC and shared with members.
5. **Maintain Proper Accounts and Records:** Ensure internal controls are in place to protect assets and ensure compliance.

Financial Reporting and Auditing

Financial statements must be accurate, consistent, and aligned with the organisation's operations. Directors should understand the implications of financial decisions and ensure proper documentation and transparency. Internal audits are essential for independent assurance and risk management.

Internal Controls and Records

Internal controls include policies and procedures to safeguard assets and ensure compliance. Internal audits help verify that controls are effective and being followed. Even infrequent audits (e.g., every two years) are better than none.

Basic Accounting Concepts

Key concepts include:

- **Accrual Basis:** Recognises income and expenses when they occur.
- **Going Concern:** Assumes the organisation will continue operating.
- **Consistency:** Accounting methods should remain consistent.
- **Materiality:** Only significant items need detailed reporting.

Financial Statements Overview

- Balance Sheet: Snapshot of assets, liabilities, and equity.
- Income Statement: Measures revenue and expenses over a period.
- Cash Flow Statement: Tracks actual cash in and out.
- Statement of Changes in Equity: Tracks changes in equity over time.

Strategic Financial Management

Financial data should inform strategic decisions. Directors should evaluate fundraising, grants, sponsorships, and service diversification. Consider cost-benefit of applying for small grants and explore strategic alliances or mergers for efficiency.

Director's Role in Financial Oversight

Directors are not expected to be accountants but must ask questions and understand financial reports. Early engagement and curiosity are key to fulfilling care and diligence duties. Use induction sessions to build confidence in financial matters.

Summary and Resources

Financial literacy is essential and develops over time. Financial statements tell the story of the organisation's performance. Directors should ensure consistency between management accounts and year-end reports. Resources: AICD's Not-for-Profit Resource Centre and Director Tools.