

FINANCIAL GOVERNANCE

Organisations exist for the benefit of their beneficiaries. The organisations governing body is entrusted with responsibility for overseeing the organisation on behalf of the beneficiaries. For this reason, governing body members are often called ‘trustees’. They act as stewards, representing and protecting the beneficiaries’ interests.

The board has ultimate legal, moral, and financial responsibility for the organisation.

The governing body

The governing body may have different names, such as board of trustees, board of directors, executive council, executive committee, etc. The board is often organised with a series of permanent or temporary sub-committees – e.g. for Finance and Personnel matters. Advisory committees are also frequently set up to provide support to a country programme or new project.

The five roles of board members

1. Making sure that funds are used to help beneficiaries effectively
2. Making sure that the organisation has enough funding
3. Making sure that the organisation has effective senior management
4. Making sure that the organisation operates within the law
5. Making sure that the board can handle its responsibilities effectively

1. Making sure funds are used to help beneficiaries effectively

- Ensuring the organisation has practical strategies for analysing and responding to social problems
- Monitoring if the organisation is doing a good job, putting its strategy into practice and achieving value for money
- Approving an annual budget for expenditure, based on the cost of relevant activities
- Making sure that the organisation has appropriate internal controls and accounting systems to ensure that funds are used properly
- Regularly checking that internal controls are followed in practice (e.g. carrying out or engaging internal audits)
- Taking an active role in internal controls as necessary (e.g. authorising large payments)
- Regularly monitoring financial reports, including the income and expenditure statement and the balance sheet
- Monitoring whether the organisation is being accountable to its beneficiaries (e.g. presenting financial reports to them)
- If there is no evidence of dialogue with beneficiaries, then your work may not be meeting their real needs

2. Making sure the organisation has enough funding

- Approving the income section of the annual budget
- Monitoring the amount of income received
- Actively working out how to ensure the organisation will be sustainable, including approving a financing strategy
- Monitoring relationships with donors (e.g. if reports are submitted on time)
- Monitoring fund balances including general reserves
- If any fund balances are in negative, this could have serious implications for your credibility

3. Making sure the organisation has effective senior management

- Recruiting a chief executive with financial management skills for their role (or supporting the Chief Executive to develop these skills)
- Supporting the Chief Executive to develop a culture of good financial management (eg leading by example and encouraging finance and programme staff to work together)
- Making sure that the most senior finance manager is a member of the most senior management team
- Encouraging an open culture that recognises problems and aims to learn from them
- Holding senior managers to account for the results of the decisions that they take and the initiatives they launch
- Everything you want to achieve depends on the people employed to do it. Senior managers have to inspire and support other staff.

4. Making sure the organisation operates within the law

- Understanding the Organisations legal requirements, including Labour laws, Tax laws and Health & Safety legislation.
- Making sure that the management team meets legal requirements (e.g. paying taxes, filing annual reports).
- Appointing external auditors and overseeing the audit.
- Approving the audited accounts and annual reports.
- Filing reports with government departments.

5. Making sure the board can handle its responsibilities effectively

- Appointing a treasurer, with specific responsibilities for financial management and the skills to carry them out.
- Making sure that all board members understand their financial management responsibilities and supporting them to develop appropriate skills.
- Making sure there are no conflicts of interest between the organisation's operations and board members' work or business interests
- Making time at board meetings to discuss the financial management aspect of all major decisions.

Information (Links)

To find out additional information on Financial Governance, please check out these useful links to other resources.

Charity Finance: trustee essential (CC 25)