

FORMING A FINANCE / AUDIT COMMITTEE

The responsibilities of the Honorary Treasurer are too much for any one individual. Try forming a Finance/Audit Committee to ensure the financial situation is properly attended to.

Many not-for-profit organisations elect or appoint an individual to the position of Treasurer and that person is deemed responsible for the financial management of the organisation.

There are, however, too many examples where the functions of the Treasurer have been too much for one person, or there have not been the checks and balances on this position allowing the Treasurer to commit fraud, or remain ill-suited for the task at hand.

The responsibilities of the Honorary Treasurer are too much (and too important) for any one individual. It is more prudent to constitute a Finance/Audit Committee (sometimes called a Finance/Audit/Risk Committee if enterprise risk is added as a responsibility), where there is the Treasurer as Chair, with one or two other Board members, as well as a possible outside independent highly skilled finance person, on this Committee.

The following are two types of job descriptions, one for the individual Honorary Treasurer where the Board/Committee of Management do not wish to create a committee, and the other for a Charter for the Finance/Audit Committee.

JOB DESCRIPTION FOR HONORARY TREASURER (Example)

MAIN TASKS:

1. On behalf of the organisation, ensure that the organisation's current and future financial obligations are met.
2. To identify strategic implications arising from the relevant financial reports and lead the Board/Committee of Management in discussion of these implications.
3. In conjunction with the Chair to lead the organisation in ensuring that it fulfils its responsibilities for the governance of the organisation.

MAIN DUTIES:

1. Ensuring that the organisation's financial obligations are met.
2. To make sure that it operates within the legal and financial guidelines set out in current legislation and the organisation's own standing orders and policies.
3. To ensure that adequate financial controls are in place.
4. To ensure all financial dealings are accounted for.
5. To ensure that grants and other funds received for specific purposes are appropriately spent.
6. To work with and support financial management staff in order to be satisfied that the financial information presented is comprehensive and accurate.

7. To identify (with key stakeholders) any additional financial risks facing the organisation (i.e. not identified by the financial management staff) and recommend appropriate action.
8. To advise the organisation on the financial implications of its strategy and policy objectives, and the strategic implications of its financial policies.
9. To chair an annual meeting with external auditors (and any other delegated members of the organisation) to discuss the Auditor's report and accounts: to report formally on this to the main organisation.
10. To manage the process of appointment of Auditors to the organisation.
11. To work with Directors to ensure they understand the strategic implications of the budget, Profit and Loss variances, Balance Sheet ratios and rolling cash flows.
12. To ensure that the organisation has a satisfactory system for holding in trust for the stakeholders of the organisation any monies or property to ensure that where appropriate monies are invested for the greatest benefit to the organisation within the constraints of the law and ethical investment practices.
13. With the Chair and Chief Executive to ensure that all Directors receive appropriate advice, training and information relating to their role.

CHARTER FOR FINANCE AND AUDIT COMMITTEE (Example)

MANDATE

The role of the Finance and Audit Committee should be established and defined by a Board resolution. The detailed terms of reference should be set out in a formal charter which is approved and minuted by the Board, which incorporates:

- Committee's objectives and responsibilities and the scope of its activities
- Committee's delegated authority
- Committee's membership
- Committee's access to company information
- The Board's monitoring of committee's performance

OBJECTIVES

Assist the Board to discharge its responsibility to exercise due care, diligence and skill in relation to the organisation's:

1. Financial Management

- Review and provide advice on alignment of Operational Plan and budget to strategy
- Determine cash reserves, key ratios and working capital requirements
- Review related party transactions

2. Risk Management

- Protection of the entity's assets
- Approve and monitor a Financial Risk Management policy
- Identify and agree on highest financial risks that have the potential to significantly impact the organisation
- Approve and monitor financial risk treatment strategies
- Advise on KPIs for the CEO that reflect the financial risk management role

3. Internal controls

- Ensure that the financial systems and processes within the organisation are efficient and effective
- Ensure that the controls are in place to protect the organisation against loss due to fraud, mismanagement and misrepresentation

4. External audit

- Facilitate the maintenance of the independence of the external auditor
- Consider the scope and quality of the external audit
- Review services provided by external auditor to the entity and others that may lead to actual or perceived lack of independence
- Be directly responsible for the appointment, compensation, and oversight of the work of the auditor

5. Compliance

- Compliance with constitution in relation to financial policy
- Compliance with applicable financial laws, regulations, standards and best practice guidelines
- Application of accounting policies

6. Policies and procedures

- Ensure appropriate policies and procedures are in place. Specifically Finance Management, Finance Risk Management, Information & Technology and any others as approved by the Board
- Developing delegated authority levels for CEO and senior management

7. Reporting

- Establish financial reporting requirements for Board to monitor achievement against strategic plan
- Agree and monitor key organisational financial ratios
- Agree format, content and timing of Board financial reports
- Review financial reports to regulators requiring board approval
- Improve the quality of internal and external reporting of financial information
- Improve the correlation between related financial and non financial information and reports

8. Communication

- Providing a formal forum for communication between the board and senior financial management

DELEGATED AUTHORITY

The Finance and Audit Committee is a formally appointed committee of the board of directors and is responsible to the board.

It does not have executive powers or authority to implement actions in areas over which management has responsibility.

It does not have any delegated financial responsibility, nor does it have any management functions.

The committee's role is to report to the board and provide appropriate advice and recommendations on matters relevant to the Charter in order to facilitate decision making by the board.

Establish procedures for the "receipt, retention, and treatment of complaints" received by the Association from members or the general public regarding accounting, internal controls, and auditing; and

Have the authority to engage independent counsel or other advisors as it determines necessary to carry out its duties.

MEMBERSHIP

Numbers

- 3 - 5 members

Composition:

- Comprised of no more than 3 Board members (staff members may not serve on the Audit Committee even though they may be members of the Board)* and at least one external specialist who has the requisite high level financial skills required by the Board.

Independent:

- Not receiving, other than for service on the Board, any consulting, advisory, or other compensatory fee from the Association, and as not being an affiliated person of the Association or any subsidiary or chapter thereof, other than as a member of the Association.

Skilled:

- At least one who is a financial expert (professional certification, education and/or prior business experience interpreting and analysing financial statements) in addition to the external specialist.

* Ideally should not include Chair or CEO of organisation, or if Chair on Board they should not be Chair of this committee

ACCESS TO COMPANY INFORMATION

The committee shall have right to obtain financial information from any employee and any relevant external party. They also have the right to institute special investigations as well as access to the internal and external auditors and the right to oversee and co-ordinate the internal audit activities with those of the external audit. They also have a duty to carry out or arrange investigations requested by the Board.

MONITORING OF COMMITTEE'S PERFORMANCE

The Board should determine the appropriate level of funding to be provided to the Finance and Audit Committee to enable it to carry out its duties.

The Finance and Audit committee needs to be subject to a comprehensive periodic review:

- Against the committee's Charter and include surveys of board directors, committee members, internal and external auditors, senior financial and other management, members, regulators and other appropriate parties
- Undertake an annual review of terms of reference

MEETINGS

At a minimum, the Finance and Audit Committee shall meet at least quarterly with the senior financial staff and/or CEO to review internally prepared financial reports; and at least once per year with the auditor to review the Auditor's report.

A portion of the meeting with the auditor will be in-camera (without staff).

The committee chair, or any 2 committee members has the power to call a committee meeting. A quorum is at least 3 members.

Source: <http://strategicawarenessessentials.com/blog/2015/12/23/treasurer-vs-finance-audit-committee>
