Board Responsibilities in respect to Financial Monitoring and Reporting

Critical to the long term health of any organisation is the requirement to maintain sound financial viability through sound financial management practices. The need for such practices applies equally to crown entities as they are for businesses operating in the private sector. For without a sound financial base the primary operational objectives of the entity can not be achieved.

As with all aspects of crown entity operational practices, whilst day to day management of financial processes lies with management, the board has final governance responsibility to ensure that they are carried out efficiently and effectively.

The essence of good financial management in a crown entity is encapsulated by the following:

- Letter of Expectations
- Statement of Corporate Intent ("SOI")
- Memorandum of Understanding ("MOU")
- Annual Budget and Business Plan
- Monthly Reporting
- Risk management
- Annual Financial Report

The first three of these define the essential contract between the Crown Entity and the Crown as to what is to be delivered by the entity. The annual budget and business plan represent the agreed operational and financial plans necessary to achieve the Crown's expectations of the entity. This will be both for one year as well as for a further two years under the business plan. The final three are the processes required to ensure that objectives agreed under the SOI and MOU are being and have been achieved.

Fundamental to all of this process is the need to ensure that financial systems and management practices are maintained on the basis of good practice, given the size and nature of activity conducted by the crown entity.

Board oversight or governance is undertaken through a number of mechanisms. These may not directly involve every board member all the time, but as outlined below **all** board members are required to understand what is required, and to be actively engaged in ensuing best practice is maintained.

Agreement on entity operational objectives

The various agreements between the entity and the crown define both the operational expectations of the crown owner (equivalent to the shareholder in the private sector), as well as determining the financial limitations under which the entity must operate.

All board members must therefore be actively engaged in the process of setting these objectives. Ultimately, even though operational and financial constraints will be set by decisions made by the crown, the board through oversight of management will be responsible for ensuring the objectives are achieved. This is the essence of board governance and is reflected in the fact that the MOU is signed by two members of the board as a board document.

Annual Budget and Business Plan

The annual budget and business plans detail the ways the entity will achieve the requirements set out under the SOI and MOU and the financial outcomes sought by these documents. Whilst the documents are prepared by management they are ultimately signed off by the Board.

All board members must participate actively in the process under which these budgets and plans are developed. This will include participation in strategic and business planning sessions that lead to formulation of the annual budgets and three year business plans. Board members will be able to provide input to this process based on their own expertise and experience. Those members less experienced with financial concepts, whilst relying on others, must satisfy themselves that the process has been completed in a rigorous and comprehensive manner.

Monthly Reporting

Reading and comprehending financial reports is often one of the most challenging aspects of being a board member of any organisation. Monthly reporting provides the record of how the entity is meeting its financial objectives. The report should also contain detail relating to the operational targets set in the SOI and business plans.

Good reporting requires clear presentation of the following:

- Period end profit and loss,
- Period end balance sheet.
- Period end cash flow statement.

Period end will generally be for monthly reporting, but in some circumstances less frequent reporting may be acceptable.

The reports should provide comparisons against budget with adequate explanations for significant variations explained by way notes. Clear presentation involves only reporting those matters which are significant, excluding the immaterial variations which tend to otherwise clutter reports.

The profit and loss statement shows the result of actual entity trading during the period, whilst the balance sheet will show the overall financial position at period end. Both reports will contain cash as well as non cash items, or accruals. On the other hand the cash flow statement is an important document as it combines all cash transactions (excluding accruals), for both profit and loss and balance items and provides a measure of the entity's ability to meet its ongoing cash commitments.

As noted previously reporting against budget is an important governance tool. The budget figures are allocated to periods to allow for comparison against actuals during the financial year. Good reporting practice will also involve preparation of forecasts against the likely year outturn. This is not a substitute for reporting against budget. Instead it provides early warning of how the year actual results may turnout, which in turn should lead to consideration of the steps management is taking to correct any unfavourable trends or to benefit from those that are favourable.

Where variations are significant, additional information should be reported to the board on a regular basis. This may include capital expenditure reports, receivable listing with notes on possible delinquent accounts and foreign exposure reports. Other reports specific to the organisation may also be prepared on a regular basis.

Risk Management

Monitoring an entity's risk profile is generally seen as part of financial oversight necessary to ensure continuing organisational viability. In many cases where an audit committee is established its terms of reference include risk management oversight.

Risk management has often been seen as only ensuring that accounting and financial recording is properly maintained. However risk management goes right across an entity's total operations. For example it includes human resource management, health and safety, asset protection, foreign currency risk, revenue and cost protection as well as maintaining compliance with regulatory requirements and reporting.

As with financial reporting management is responsible for ensuring the risks mitigation processes are in place, and adhered to. The board however in terms of its governance responsibilities is required to ensure that adequate systems are in fact in place. This is achieved by the establishment of reporting protocols that keep the board informed as to how the risk profile is being updated and the risks managed.

Risk management involves monitoring regulatory requirements and in the case of a crown entity ensuring that all ministerial reporting requirements are being compiled with; including maintaining the policy of "no surprises" for the minister.

Where there is not a constituted audit committee the full board will be responsible for overseeing risk management practices. This will mean that all board members will be required to be satisfied that the entity risk profile has been comprehensively analysed and that adequate reporting against the identified risks is in place.

On the other hand, where there is an audit committee, the non audit committee members will rely on formal reporting from the committee to the full board, that the risk management policies are being adhered to.

The external auditors also have a role in ensuring that the financial statements comply with generally accepted accounting practices. The terms of reference for the audit and risk committee will be to liaise with the external auditors and ensure that any problems identified are addressed and resolved. Where there is no audit committee then the full board will retain that responsibility.

Annual Financial Report

The Board and Management are responsible for the preparation of the financial statements and judgements used therein. The financial statements are required to be signed off by two directors of the entity.

The report will include a statement of objectives and service performance which will include reporting against financial performance targets as well as against entity non financial objectives.