

# NPO GOVERNANCE TOOL BOX SERIES

Vol. 4, Issue 3 July, 2013

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## BOARD COMMITTEES – FINANCE COMMITTEE



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# BOARD COMMITTEES

Vol. 4, Issue 3, July, 2013

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## FINANCE COMMITTEE

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### **1. INTRODUCTION**

It is the fiduciary responsibility of the Board of an organization to be accountable for the finances. In other words, the Board is expected to oversee the financial affairs of the organization and is accountable to the donors, government, community and society at large. Therefore, the Board has the ultimate responsibility for the financial affairs of the organization.

This would mean that there should be a lot of hands-on work for the Board members to keep a strict oversight on the financial affairs of the organization. However, there may be issues of capacity and time at the Board members' end to effectively discharge this responsibility. Not all Board members would have the financial management accumen. Secondly, since the Board members provide voluntary service to the organization, they may not have adequate time to devote to detailed financial oversight. Therefore, the Board sometimes appoints a Finance Standing Committee consisting of some Board members and specialists. A Standing Committee is an on-going Committee with a clear mandate whereas adhoc (which denotes specific purpose) Committees are setup for a particular task/time period and after the task is accomplished, they stand dissolved.

The Finance Committee is generally a Standing Committee of the Board that works with the senior staff team (Chief Functionary and Head Finance) to monitor the finances of the organization.

## **2. WHY DO WE NEED FINANCE COMMITTEE?**

The Finance Committee supports the Board in fulfilling its fiduciary responsibilities.

- It can protect the organization from legal challenges;
- It provides oversight to financial management;
- Protects the organization from actual as well as apparent conflict of interest;
- Acts as the Boards's eye and ears in financial operations;
- Acts in advisory capacity in financial operations;
- Can be helpful in recruiting strategic finance staff;
- Can facilitate audit process;
- Can interpret the audit report for the Board;
- Can liaise with the auditors.

## **3. RESPONSIBILITIES OF FINANCE COMMITTEE**

The major responsibilities of the Finance Committee are:-

- To oversee the financial affairs of the organization;
- To oversee annual audit process;
- Oversight of the financial management;
- To ensure that there is clear linkage between Program and Finance;
- To report to the Board about the financial management of the organization on regular basis.

#### **4. WHO CAN BECOME THE MEMBERS OF A FINANCE COMMITTEE?**

The following individuals can become the members of the Finance Committee:

- Treasurer (Ex-officio Chair);
- Two Board members;
- Two/three persons having expertise in NPO finance management/related fields (from outside the Board) like Chartered Accountants (CA), Advocate, Bankers, Finance Head and other persons with related experience;
- Chief Functionary and Head Finance participate as invitees.

#### **5. HOW TO CREATE AND MANAGE FINANCE COMMITTEE?**

##### **5.1 Create a mandate**

It is very important to clearly develop a Terms of Reference (ToR) for the Finance Committee. Generally, the ToR or the mandate of the Finance Committee is determined by the Board. The mandate would depend upon the willingness of the Board to delegate the financial responsibilities. One important issue to be kept in mind is that the ultimate responsibility for the organization rests with the Board. Therefore, strategic and critical decisions should not be delegated to any of the sub-committees of the Board. The Finance Committees should have more of supervisory and advisory role rather than a critical decision making role. A sample ToR for Finance Committee is enclosed as per *Annexure A*.

## **5.2. Choose the members**

There should be a clear guideline for choosing members of the Finance Committee. The Board should select the Finance Committee in its Annual General Meetings (AGM) every year. The composition of the members of the Finance Committee should be a combination of Board members, staff, as well as certain subject matter experts. A broad combination of the Finance Committee has been mentioned in point no.4.

## **5.3. Establishing processes**

The Board should determine the number of times the Finance Committee should meet. Generally, the Finance Committee meets three to four times a year. The minutes of the meeting should be clearly recorded and circulated to all the Board members for information. Major actions taken by the Finance Committee should be placed before the next Board meeting for ratification.

## **5.4. Induction plan**

There should be a clear induction plan for the new members of the Finance Committee. For the induction process, the Chair of the Finance Committee (generally the Treasurer) and the Chief Functionary should be involved. Certain key documents i.e. finance policy, human resource policy and other major policies, audited financial statements for last three years, annual activity report and any other relevant papers need to be provided. The induction process can happen before the first Finance Committee meeting.

## **6. ROLE OF CHAIR OF FINANCE COMMITTEE**

As mentioned earlier, generally the Treasurer acts as the Chairperson of the Finance Committee. Therefore, the following roles are envisaged as the Chair of the Finance Committee:

- Chairing the meetings;

- Finalizing the agenda with the Chief Functionary and Head of Finance;
- Ensuring that clear and proper minutes of the meetings are recorded;
- Ensuring that decisions are implemented in appropriate time and reported back to the committee;
- Keeping the Board informed about the issues and decisions of the Finance Committee, at periodic intervals.

## 7. CONCLUSION

Although, the entire Board carry the overall responsibility of the organization, the Finance Committee provides a leadership role in the area of financial transactions. Further, Finance Committees can also be assigned with ensuring compliance and /or developing policies that further serve to protect the organization and manage its exposure to financial risks. An organization with a good financial systems i.e. where policies and procedures pertaining to risk mitigation are in place is an indicator of an organization that is actively developing strategies to carefully use the financial resources, necessary to support activities towards the fulfillment of its mission and vision.

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***Watch out for the next issue on “Board Committees – Human Resource Committee”***



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## *Annexure A*

### **Terms of Reference (ToR) Template**

#### **I. Budgeting and Financial Planning**

- Develop an annual operating budget with staff;
- Approve the budget within the Finance Committee;
- Monitor adherence to the budget;
- Set long-range financial goals along with funding strategies to achieve them;
- Develop multi-year operating budgets that integrate strategic plan objectives and initiatives;
- Present all financial goals and proposals to the board of directors for approval.

#### **II. Reporting**

- Develop useful and readable financial report formats with staff;
- Work with staff to develop a list of desired reports noting the level of detail, frequency, deadlines, and recipients of these reports;
- Work with staff to understand the implications of the reports;
- Present the financial reports to the full board.

#### **III. Internal Controls and Risk Management**

- Create, approve, and update (as necessary) policies that help ensure the assets of the organization are protected;
- Ensure policies and procedures for financial transactions are documented in a manual, and the manual is annually reviewed and updated;
- Ensure approved financial policies and procedures are being followed;
- Assess risks, devise action plans, implement those plans and monitor the mitigation plan.

#### **IV. Audits and Investments**

- Identify and shortlist auditor;
- Review the draft audit report presented by the auditor;
- Present the audit report to the entire Board;
- Reviewing the management recommendation letter from the auditor and ensuring follow up on any issues mentioned;
- Draft an investment policy;

- Ensure provisions of the investment policy are followed;
- Take necessary actions like timely review of the policies, etc.

*Annexure B*

**Finance Committee Agenda Template**

<b>S.No.</b>	<b>Topic</b>	<b>Duration</b>	<b>Methodology</b>	<b>Preparation Material</b>
1	Welcome & Roll Call	8:30 – 8:45	Welcome by the Chair (who is generally the Treasurer)	Minutes of the meeting
2	Confirmation of Minutes of the previous meeting	8:45 – 9:00	Discussion presided by the Chair	Minutes of the meeting
3	Matters arising from the Minutes	9:00 – 9:15	Discussion presided by the Chair	Minutes of the meeting
4	<b>Planning and Budgeting Process</b> <ul style="list-style-type: none"> <li>• Review of existing operational budget</li> <li>• Review of annual financial statements</li> <li>• Review of Budget v/s actual expenditure</li> </ul>	9:15 – 10:15	<ul style="list-style-type: none"> <li>• Update and explanation by the Finance Head</li> <li>• Discussion presided by the Chair</li> </ul>	<ul style="list-style-type: none"> <li>• Current year Budget</li> <li>• Financial Statements</li> </ul>
5	<b>Tea/Coffee Break</b>	10:15 – 10:30		
6	<b>Planning and Budgeting Process (contd...)</b> <ul style="list-style-type: none"> <li>• Review the variance analysis between budget and expenditure</li> <li>• Develop annual operational budget for the next year</li> <li>• Present the financial goals, proposals and</li> </ul>	10:30 – 12:00	<ul style="list-style-type: none"> <li>• Discussion presided by the Chair</li> <li>• Presented by the Head of Finance</li> </ul>	<ul style="list-style-type: none"> <li>• Current year Budget</li> <li>• Financial Statements</li> <li>• Variance Analysis Report</li> </ul>

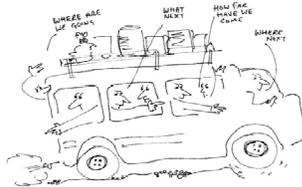
	budget for the next Financial Year to the Board			
7	<p><b>Reporting</b></p> <ul style="list-style-type: none"> <li>• Review the existing quarterly/ half-yearly and annually reporting financial report formats</li> <li>• Compare the organization’s format with various donors formats</li> <li>• If needed, finalize the best, comprehensive financial report format to be followed and seek the Board’s approval</li> <li>• Present the latest financial report to the Board</li> </ul>	12:00 – 13:00	<ul style="list-style-type: none"> <li>• Brief explanation on the existing financial formats</li> <li>• Discussion presided by the Chair</li> <li>• Key input from Chief Functionary and Head of Finance</li> </ul>	<ul style="list-style-type: none"> <li>• Existing financial report format</li> <li>• Financial Report</li> </ul>
8	<b>Lunch</b>	13:00 – 13:45		
9	<p><b>Internal Controls and Risk Management</b></p> <ul style="list-style-type: none"> <li>• Review the implementation of finance policy, the human resource policy, and other policy documents</li> <li>• Review the implementation of</li> </ul>	13:45 – 14:45	<p>Discussion presided by the Chair in coordination with the Finance Head</p> <p>(For this part of the meeting, the HR Head can be a special Invitee)</p>	<ul style="list-style-type: none"> <li>• Finance Manual</li> <li>• HR Manual</li> <li>• Manual on Risk Management</li> </ul>

	<p>existing risk management policy</p> <ul style="list-style-type: none"> <li>Review additional risks observed, during the reporting period and the mitigation plan</li> </ul>			
10	<p><b>Investment</b></p> <ul style="list-style-type: none"> <li>Review the investment policy</li> <li>Review investments made in the current year</li> <li>Analyze adherence to the provisions of the policy</li> </ul>	14:45 – 15:45	Discussion presided by the Chair	<ul style="list-style-type: none"> <li>Investment Policy</li> </ul>
11	<b>Tea/Coffee Break</b>	15:45 – 16:00		
12	<p><b>Audit</b></p> <ul style="list-style-type: none"> <li>Review of the audit report</li> <li>Review management letter issued by the auditor and follow up on these issues by the organization</li> </ul>	16:00 – 16:30	<ul style="list-style-type: none"> <li>Presented by Head of Finance</li> <li>Presented by the auditor</li> </ul> <p>( The auditor can be invited for this session as a special invitee)</p>	<ul style="list-style-type: none"> <li>Audit report</li> <li>Existing Auditor’s Agreement Financial Statement</li> </ul>
13	Any other matter with the permission of the Chair	16:30 – 17:00	Discussion presided by the Chair	
14	<b>Closure</b>	17:00	Closure by the Chair	

**\*The Time allocated is only indicative.**

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