

6. Transparency and Accountability

Speaker Key:

EL Ellen Leabeater

KS Katherine Sainty

DM David Martin

PB Phil Butler

EL Welcome to the Community Colleges Australia podcast on board governance. I'm Ellen Leabeater. Today, you'll hear what transparency and accountability mean, especially in relation to the financial status of an organisation.

Katherine Sainty, from Sainty Law, joins me again, and David Martin, from Western Riverina Community College will also be on the podcast, talking about his experiences. Katherine Sainty begins, explaining the difference between integrity, accountability, and transparency.

KS Integrity is being honest and having strong moral principles—moral uprightness. Of doing the right thing. And accountability, which goes with integrity, is the willingness to take responsibility for your own actions.

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And the key to these two qualities is transparency. The organisation needs to demonstrate integrity in the way in which it discharges its responsibilities, in the way in which it pursues its objectives, it looks after members or shareholders. And the directors need to demonstrate this as well.

EL So, board members need to be accountable to themselves. Do they also need to be accountable to each other?

KS Yes, but that's a difficult exercise. I think that you need to ensure that you discharge your own responsibilities, and the chairman, or chairwoman, needs to ensure that the members of the board are pulling their weight, and that the business of the company, and the strategic direction of the company, is being properly managed and looked after.

So, you have a responsibility to discharge these duties yourself. The chair makes sure that everything is going along smoothly.

But I suppose you're right in saying that you do need to look at your fellow board members and make sure that they too are acting appropriately, and speak up, in an appropriate fashion, if you don't think they are.

EL In your experience, working on not-for-profit boards, are most people aware of what they need to do, or do you need to give them a nudge sometimes?

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KS Not-for-profit boards, and for-profit boards, are generally a little different. In companies that are commercial companies with a commercial imperative, I think that you find the directors do tend to pull their weight.

And there is a... sort of a fair degree of name and shaming, so that if you are required to read your board papers and sit on sub-committees and produce board reports yourself, it's clear when you're not doing that, and if you're not transparent, I think that is often observed by your fellows.

The responsibility on the chair's quite heavy, because it's for them to not just identify where people are not pulling their weight, but also encourage people to pull their weight.

It's slightly different in the not-for-profit environment, because there you are not paid, and you are often doing it for love, or you are doing it because you've got a particular expertise.

And you are also often time-poor, because it isn't your day job. And so, you find that in a not-for-profit board, you have a more patchy level of contribution, that some people contribute more than others a lot of the time.

I think that the transparency issue there that's important, is that you or the chair needs to identify just what it is that an individual is prepared to bring to the board, when they are approached to join. And that that's clarified, and is articulated, and then it's delivered on.

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EL Something mentioned by the Australian Institute of Company Directors, is a dashboard. What is that, and why should a board have one?

KS Basically, a dashboard's just a device to help you identify and plan. So, you ideally plan what your organisation's going to be achieving in a particular period—it might be a year; it might be a five-year period—and then that plan has subcategories of tasks that different people are doing.

And it might be that they're allocated to committees, or they might be allocated to individual directors. Those tasks will have deliverables and timelines associated with them, and other KPIs that might be relevant.

So, all you're doing is applying traditional project management and reporting skills to the role of the board. I think it's a fabulous idea, because the board as a performing entity, has not usually had to do that sort of self-examination. And... particularly in the not-for-profit sector. And it's a very valuable way to make sure that you're progressing at a good pace in the direction that you've agreed to set yourself.

EL So, what about finances? How important is it to know your finances as a director?

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KS If an organisation is not financial, an organisation can't do business, can't discharge its objectives and it can't perform according to its responsibilities. So, financial issues are paramount.

Not everybody is financially literate, and that's why it's really important on boards to make sure that you do have at least a couple of people who understand financial matters. Can read balance sheets and profit and loss statements, can understand the implications of various things in those statements, and keep an eye on, particularly, the cash flow.

So, yes, the business, the management, needs to keep the board fully informed of the financial position, and that ends up being one of the important reporting exercises at board meetings.

For bigger organisations, they have to have their financial situation and accounts audited, and of course that's another level of oversight, where an external, independent party comes in and makes sure that the accounts show a true and fair view of the position of the organisation at the relevant balance state.

The risk, if you don't understand the financial implications in relation to an organisation you're running, is that you put yourself in a position where you're not able to pay your debts as and when they fall due.

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Classic examples are things like tax liabilities, if an organisation is used to focusing on cash flow, money in, money out, might be running at a fairly tight margin, a quarterly tax bill can be quite alarming, where the tax office is asking for payment of monies that you haven't put aside. And you have to look and say, what will we do to pay these tax bills?

If you haven't been monitoring your accounts properly, you won't know that that's coming along the path.

EL Whose responsibility is it to make sure that financial reports are complete and accurate?

KS Well, the management prepares the reports, and submits them to the board. And, annually, the board has to sign off on those reports. And, that means that they have to say, I am happy that the reports show the correct position of the company.

Now, it's going to be difficult to do that if you haven't any idea what the reports say. And if you haven't been involved in the day-to-day putting together of the reports. So, that's why it's important to have financial literacy in some of your board directors.

So, just to reiterate. The responsibility is management to put accounts together, and for board to make sure that those accounts are done correctly, and give a fair and true position. And then they have to sign off on those, and submit them to ASIC or basically the AGM.

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EL So, if you're a board member, and the numbers don't add up, that's problematic?

KS I think it's... this is the issue of transparency. If things were not looking good, in the accounts that were submitted month-on-month, you would be wise to raise any concerns in real time.

So... and what normally happens, is that management gives a set of accounts for each board meeting. And if the board's meeting monthly, then you'll a set of management accounts which show you an interim position at that point in time.

And what you need to be doing is looking to see that the revenue's tracking against budget, the expenses aren't exceeding budget, and that the company seems to be paying out and receiving money in at the rate that you would expect it to be, in terms of the objectives, business plan, the budget.

If things don't look right, you need to raise that. It's one of your responsibilities. And the discipline of looking at the accounts each month is a really good one, because that means that you can then watch for trends, and you can be comfortable with what you're reading.

EL Katherine Sainty, principal at Sainty Law. Now you'll hear from David Martin, CEO of Western Riverina Community College, and a director of Community Colleges Australia for the last six years.

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When we're talking about financial literacy, just how much do you need to know, and where are the resources to go to if you can't find...?

DM In terms of governance training, there's so much material out there, particularly in terms of financial literacy. But certainly, if you find yourself on a board and you don't have it, then you should actually be asking the board, to say we need some governance training around financial literacy.

And if the board, or the CEO, or someone's resistant to that, well that's kind of a fair warning, you know, that maybe that things aren't all in order.

EL What about fiduciary responsibilities? Would you be able to explain what fiduciary responsibilities are?

DM Well, as I take it to mean, which is, certainly that you're providing the level of governance for an organisation, whilst it's not managerial, so within the terms that you are required to be compliant to all, as in terms of ACCC legislation, so whatever's... if you're a director of Carls Mayer[?], and you're a director of a not-for-profit community-based organisation, your responsibilities are exactly the same, regardless of whether you're being paid for it or not.

That may be a significant overview of what those responsibilities are, and they're probably vast and averse, but you know really, to put it in a nutshell, you really need to be aware of what ACCC legislation is.

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EL Is there a board member whose responsibility in terms of the finances is a bit more than say, other board members?

DM Well not really, because, I mean, whilst the treasurer may hold the role of the treasurer, it's only their role to present that to the board. So really, you need to also question the treasurer, because they can't... they may not necessarily always be right.

And I certainly have been in situations where the treasurer... not has been challenged, but has been questioned and they've gone, yes, you're absolutely right, we've missed that.

You know, so, whilst the treasurer may be in charge of the finances, and presenting those reports, but his duties are equally split amongst however many directors there are.

EL Have you been on boards where people have come onto the board, and not had that financial literacy?

DM Oh, for sure. Yes.

EL What would you do to help?

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DM Well, I mean, certainly you would be guiding them through that, and also organising some training. And like, you do some in house, you know, kind of reading, or, you'll be a little bit subtle about, you know, and take them aside, and actually explain how the balance sheet works and the profit and loss... you know, so at least that they can begin to have a little... and have some good understanding.

And again, once again, them asking, getting to ask questions... I know people who've been on boards for a long time, and probably didn't come from a... you know, having any great financial training background, but, you know, after about two or three years on a board, you know, they really begin to understand how to read the balance sheet and read the books.

EL So, if you are a potential board member, you're thinking about joining a board, what are some of the questions you should be asking some of those board members, just to make sure that you're not getting into bed with someone who's... with a board that's not quite, you know, right?

DM Well, if I reflect upon my... on the organisation I work in, and while I've worked there for about 14 years, and I was a little bit like the blister who turned up after all the hard work.

And the organisation had been into, you know, basically was insolvent, and you know, or verging on the insolvent. They were... the chair who moved into that role at the time, was told everything was fine. After about eight months, you know, they started to look at it, and go, hang on, everything's not right here.

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And, you know, they owed thousands of dollars to the tax department, they hadn't paid, they hadn't paid superannuation and all of these things. So.... And that was a relatively new board, who probably didn't ask enough questions when they started, you know, and so things were allowed to carry on for a period of time.

And then, it wasn't until... so we're coming back to that sense of, you know, if you'd gone in there and been aware of what the... what the actual financial situation was, and the poor record keeping and all that sort of thing.

So, number one, is you want to know that the organisation's financially stable. You also want to know how engaged the directors are. Because, you know, a lot of people like to collect directorships and say I'm a director of that and director of that, and don't actually work in that role... like they don't actually contribute, it's more about having as many badges as they can... or building resumes, or whatever else.

So, I think you probably want to know that, one, it's a cohesive and it's a moving forward board. But then again, that's a reason to probably also do it maybe as a challenge.

EL You mentioned solvency. So, what is solvency?

DM So financially solvent. So, you... it is illegal under ACCC to trade whilst insolvent. So, if you cannot pay your debts at any particular point in time, you are insolvent. And therefore, you're in contravention of the act.

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EL How do you tell if a business is solvent?

DM When their debts outnumber their assets.

EL Okay...

DM And financial assets, yes. And it's nearly, you know, in terms of liquidity. So, if you really can't pay your debts on that particular day, all of them, you are not probably travelling well.

EL And that's something a board should be concerned about.

DM Yes. And it's different to... it's different to saying, having half a million dollars in a term deposit, and I can't pay that because all our money's locked away. It's having no money, you know, or you're waiting for money to come in so you can pay something. Just because it's on your books, it's more about having the cash there.

EL Right. So, if a board does find that the company is insolvent, what do they do? Is it the board's responsibility?

DM Yes, official. Absolutely.

EL Not the CEO's?

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DM Both, and equally responsible. Yes. So, if you're splitting the legalities between whether a CEO is responsible, legally responsible or not... or is equally as responsible as the board, the board and the CEO are as... whilst the CEO, depending on the constitution of the organisation, but if... it may give voting right to the CEO, some may not. And they may act as ex officia, but equally responsible.

So, whatever decisions the CEO is making, then the board is also equally responsible.

EL If you do find out your company is trading insolvent, and you don't do anything about it, that's when you get disqualified?

DM Yes, yes indeed. Yes, so if you find that your... if you've got really good processes in place, you will know a mile out that, you know, that you're heading in that way.

And so, it's a really good thing for boards to actually see, wind up expense, you know, the amount of money it would cost to pay all your debts, as opposed to money in the bank. And, you know, that's a really good report to ask a CEO to present on a monthly or a bi-monthly or quarterly meeting basis.

So, you could see... and that... remembering that that's just not your daily trading accounts. It's redundancies, it's everything that would cost you to wind up a business. It has to be taken into that accounts.

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EL David Martin, CEO of Western Riverina Community College. In the next episode, we'll be continuing our discussion about finances, this time looking at how to make a profit, and the board's role in fundraising.

PB I'm arguing that they should. I think there's an active role, whatever it happens to be, for all board members. Because funding the organisation, and looking at full support is so important.

EL That's the next episode on the CCA podcast series on board governance. You can find the full list of episodes at cca.edu.au.

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