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What questions should trustees ask about finance?

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As a trustee, your role involves keeping on top of the legal and regulatory sides of an organisation, just as much as the financial. While finance is my day job, and one that I truly love, I know that for most trustees the thought of poring over accounts is not what draws them to the role. But what does it take to become a good trustee...?



As trustees it is our job to constructively challenge. This means that asking questions is a key part of the role and that there is no such thing as a stupid question, especially in the area of finance. If you are unclear about something, you can guarantee that someone else around the board table will be thinking the same, so ask the question. Trust your gut; if something doesn't stack up, then ask.

Asking questions will also support the treasurer or your finance lead on the board. As trustees we are collectively responsible. The treasurer can be drawn into the detail from time to time, so questions from other trustees can help pull in the strategic perspective or anything that might have been missed.

Firstly, understand how your activities are funded and where costs arise. Key questions to consider are:

- What are your main sources of income? What do they fund?
- Are you dependent on too few incomes streams? Are there opportunities to diversify?
- What is your cashflow profile? Is cash received in advance or arrears? What challenges does this present?
- Is cashflow from funders conditional on reports, audits? How might this affect cashflow?
- How long do contracts/funding agreements last for? If contracted income, when might the service be retendered?
- Which income streams are restricted and unrestricted?
- Which of our costs are flexible? Which costs are fixed? How quickly can you – either expand or contract?
- Which activities cover their costs and which are subsidised?

Once you understand your model, you need to consider what the board needs in place to actively manage the finances. Planning and monitoring processes need to be well established; as well as having a sufficiently skilled team.

Planning

In smaller organisations this may simply be an annual budgeting process, for larger organisations you'll want multi-year forecasts. Think about mapping your financial plan beyond the current year, even though the further out you project the broader it will be.

- Is your budget prepared in advance of the financial year and approved by trustees?
- Is there clear ownership of budgets and financial targets beyond the finance team?
- Are budget holders genuinely accountable for financial performance?
- Have you considered rolling forecasts which continue to look at least 12 months ahead, rather than simply the rest of the financial year?

Monitoring

Reviewing regular financial information is vital to recognise how a charity is doing and should be produced and provided monthly for your team. Treasurers should also be engaging with this data on a monthly basis, whilst the board and any subcommittee are likely to receive this quarterly.

Trustees are busy people and won't always be able interpret the numbers themselves. Financial information therefore should be accompanied by a helpful narrative linked to delivery that helps identify any problems or opportunities on the horizon.

- Do you receive management accounts on a regularly and timely basis?
- Does this include information on income and expenditure as well as cashflow?
- Are these accompanied by sufficient explanation (including analysis of differences between budget) to allow management and the board to take action?



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- Might you benefit from having a pipeline report which identifies potential income sources, likelihood of receipt and timing?
- What are the underlying drivers you need to monitor and manage to achieve financial success?
- When did you last consider your reserves policy? Do you think your current level of reserves reflects what you need? If you have not achieved your reserves requirement, do you have a plan to build these up? If you have funds over and above your free reserves requirement, could you make use of designated funds?

Skills

What should you look for when appointing a trustee with a financial background or recruiting to a paid post? Clearly trustees require a financial skills set, but the ability to communicate is also crucial. They need to be able to explain finances by connecting them to the delivery of charitable objectives. It's also important to consider if there is any requirement for finance training for non-finance staff and trustees.

A good treasurer can support the rest of the board to understand the numbers but the finances should not be left solely to the treasurer or finance committee chair; all trustees need to understand enough to be able to ask questions and feel confident when approving the year-end accounts. I hope some of the questions here will provide you with a start.

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