

THE GOVERNANCE LITE FRAMEWORK

**SPORT AND RECREATION
ORGANISATIONS**

—
FEBRUARY 2020

04

INTEGRITY AND ACCOUNTABILITY

4.1

FINANCIAL ACCOUNTS AND REPORTING

All directors need a base-level understanding of financial accounting and a knowledge of where the organisation is placed financially at any given time.

Financial accounts inform the board about the organisation's recent financial activity, its current financial position and preferably what that might look like in the medium term. It's important every director keeps a close eye on the numbers, asking the right questions so you're confident that the finances are in good health.

Some useful questions can include:

- Where are we compared with our budget and what are the reasons for the main differences?
- Are we paying our debts when they are due and are people paying us on time?
- Do we have money in the bank to pay for everything we need to pay for (are we solvent)?
- Have there been any unusually large purchases that weren't signed off, or is there a large debtor who is not paying?
- Are we spending our money on the priorities we agreed in the plan, and if not why not?
- Where are we going to be in the medium term?
- If planned revenue hasn't come in, what is the balancing action on the cost side?

Governance check – say what information you need

It is up to a board to say what information it wants and in what form.

Get your financial report summarised and preferably displayed graphically against key measures.

Not everyone has financial skills at the level of an accountant. It is useful to have at least one person with those skills around the board table, but all directors should acquire a basic working knowledge of the accounts so they can ask the right questions. If necessary, they should undertake some simple training.

Monthly financial statements are easy to produce using modern software packages. However, boards should receive more than just a standard printout – the report should contain analysis and be clearly presented.

Financial reports

Your financial report will include these components:

Income Statement (also known as the profit and loss (P&L) report) – shows income and expenses for a set period of time in order to calculate the position against budget and allows you to track performance for the year.

Statement of Financial Position (also known as the balance sheet) – displays the various classes of assets, liabilities and equity (the difference between the organisation's assets and liabilities). From the balance sheet the current worth of the organisation can be understood. It also generates other important information such as the current ratio, effectively the short-term ability to pay the bills.

Statement of Cash Flows – shows the changes in the organisation's cash receipts (money in) and payments (money out) during the reporting period. It's a useful tool to use when planning spending. In organisations with lumpy cash flow, projecting forward the cash position is essential.

Aged Receivables – a report that summarises invoices due to be paid to your organisation. 'Aged' refers to the time that invoices have not been paid. It's essential to take early action in following up any payments that are older than one month, to prevent them from never being paid.

Aged Payables – a report that summarises what your organisation owes to other companies for supplies, inventory and services. Paying your debts as they are due is an obligation for all businesses. If this is not happening, it means things are not right: either there is a problem with the people dealing with the accounts and/or, worse, you have a solvency problem (lack of cash).

Audit or review?

It's important to know whether your organisation's accounts have to be reviewed or audited at the end of the financial year. This will depend on what your rules, deed or constitution says but more importantly what the law says.

Legally, if your organisation is:

- over \$500,000 (medium) – your financial statements must be either audited or reviewed by a qualified auditor
- over \$1 million (large) – your financial statements must be audited by a qualified auditor
- a Tier 3 charity³ that is required by law to have an audit or review – you will also have your non-financial information audited or reviewed
- a Tier 3 or 4 charity – you must submit an SSP (statement of service performance). This will be extended to Tiers 1 and 2 in due course.

The process and procedures are laid out by a set of statutory audit and review assurance standards (see link on page 41).

³ Tier 1: over \$30 million annual expenses or has public accountability.

Tier 2: under \$30 million annual expenses.

Tier 3: under \$2 million annual expenses.

Tier 4: under \$125,000 annual operating payments.

Threshold applies to the previous two financial periods, not the current period.

The year-end accounts are signed off by the board and presented to your members or owners at the Annual General Meeting. They are then posted on the Companies Office website for incorporated societies (see below).

It is recommended that you seek professional accounting advice to ensure you are complying with your legal obligations.

Key points (in order of priority)

- Financial accounts enable you to keep an eye on the money for your organisation.
- Make sure you ask questions and get extra help if you're not confident about accounts (this is your duty as a director).
- Each financial statement has a distinct purpose to inform you about various aspects of your organisation's financial position.
- Legislation determines whether your financial statements are to be audited or reviewed.
- The year-end financial statements are presented at the Annual General Meeting.

More information

Sport NZ has plenty of resources and learning opportunities for directors. Each resource sheet includes links to others in the Governance Lite set and to further readings and resources.

Related Governance Lite sections

[1.4 Preparing a budget](#)

[3.7 The Annual General Meeting](#)

Sport NZ resources

Financial management for clubs

<https://sportnz.org.nz/managing-sport/search-for-a-resource/guides/financial-management>

Finance policies and templates

<https://sportnz.org.nz/managing-sport/search-for-a-resource/templates-and-examples/finance-policies>

Accounting for non-accountants – Chapter 1 Understanding financial statements

<https://sportnz.org.nz/managing-sport/search-for-a-resource/tools-and-resources/accounting-for-non-accountants>

Xero – two-month free trial

<https://sportnz.org.nz/managing-sport/search-for-a-resource/tools-and-resources/xero-two-month-free-trial>

Audit and review standards

<https://charities.govt.nz/im-a-registered-charity/annual-returns/new-statutory-audit-and-review-requirements/>

Companies Office website

<https://www.companiesoffice.govt.nz/>

Incorporated societies

<http://www.societies.govt.nz/cms/incorporated-societies>

Charitable trusts

<http://www.societies.govt.nz/cms/charitable-trusts>

4.2 CONFLICTS OF INTEREST

Your legal obligations as a director state that you must not place your own interests ahead of those of the organisation.

Your board has a legal and moral responsibility to manage your organisation in the best interests of the community it serves. This includes behaving ethically in fulfilling your duties to the organisation, in your relationships with each other and to the community you serve.

An important part of this is to declare on an ongoing basis any conflicts of interest that might prevent you from demonstrating the required behaviour.

The New Zealand Institute of Directors (IoD) defines conflicts of interest as: A conflict of interest can arise where two different interests overlap or where a board member has multiple interests, one of which will or might impact the motivation for an act of another.

In small organisations many potential conflicts exist. That doesn't mean they can't be managed but they must be declared. It is best to declare upfront all the interests you have and let the wider group decide if they need to be managed. Usually this includes roles with other organisations, business interests and, importantly in sport, family members who are benefiting from the organisation's activities (often children in elite programmes). Potential conflict also extends to interest in a transaction that may have a financial implication for you, your family or a business you have an interest in.

The IoD provides a useful three-step process to help you remain transparent regarding conflicts, whether they are actual or potential. This includes declaring the conflict at the time you commence as a board member, and at each meeting, and recording this in a conflicts of interest register.

1. **IDENTIFY:** What would a reasonable person think? The board member identifies the conflict or conflicts using the 'reasonable person measure' in relation to their role and responsibilities.
2. **DECLARE:** If in doubt, declare. This is a useful starting point. You can also talk with the chair if you are not sure.
3. **MANAGE:** What is in the best interests of the organisation? The board collectively agrees on how the conflict should be managed. This may involve abstaining from voting, being absent while the matter is discussed, or simply being aware and transparent about the conflict of interest. In extreme circumstances it may mean taking a leave of absence or resigning from the board.

Governance check – record the interest

In all circumstances each conflict is declared to the board and recorded in the organisation's interests register.

Key points (in order of priority)

- An actual or potential conflict should be declared and managed at the start of a meeting and recorded in an ongoing conflicts of interest register.
- Check the register is up to date at the beginning of each meeting.
- If a conflict must be managed, the minutes should indicate how that was done.

More information

Sport NZ has plenty of resources and learning opportunities for directors. Each resource sheet includes links to others in the Governance Lite set and to further readings and resources.

Related Governance Lite sections

[3.2 The agenda](#)

[3.3 The minutes](#)

Governance Lite Toolbox

[4.2 Conflicts of interest register template](#)

[4.2 Conflict of interest disclosure template](#)

Sport NZ resources

Conflict of interest disclosure

<https://sportnz.org.nz/assets/Uploads/attachments/managing-sport/strong-organisations/Interest-disclosure-form.doc>

Register of interests

<https://sportnz.org.nz/assets/Uploads/attachments/managing-sport/strong-organisations/Directors-register-of-interests.doc>

4.3

EVALUATING MEETINGS

The board should set standards for its own performance.

Every board should have a view on the standard it wants to operate at and check in against that. This can be a planned and formal review or a simple five-minute check at the end of each meeting.

Regular reflection will indicate how effective you are as a group and the need to develop further skills either individually or collectively.

Governance check

A quick five-minute review at the end of each meeting is a good discipline, with the following useful questions as a guide:

- *How well did we cover everything today?*
- *Where did we add value to the organisation?*
- *What can we do better?*
- *Did we enjoy ourselves, and if not why not?*

A more formal assessment can be done as part of an annual review. It can be done anonymously for you as an individual and for the group as a whole. It can then be collated by one person, who reports back to the group. It's also useful as part of this to review the chair and their performance.

While it takes courage to ask for and receive feedback, it is something boards expect their management team and staff to do. Role modelling the same approach for the board demonstrates leadership in people, culture and performance.

Sport NZ has resources that can help the board evaluate its performance. For slightly larger groups the online Governance Evaluation System has a full range of assessment modules. For smaller groups within the system there is a Nine Quick Questions module that is useful at any scale.

Key points (in order of priority)

- A regular review of your performance will help keep your meetings productive.
- Regular reviews will help you to track progress.
- The discussion after the review is what's important.
- The review is a tool to identify which skills and processes need improving.

More information

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Related Governance Lite section

[3.5 The annual work plan](#)

Governance Lite Toolbox

[4.3 Evaluating meetings - review](#)

[4.3 Nine essential questions for a board](#)

Sport NZ resource

The Governance Evaluation System
<https://snz.directorevaluation.com/>

4.4 LEGAL COMPLIANCE

The board is required to ensure the organisation, including staff and volunteers, complies with all relevant laws and regulations.

The board has ultimate responsibility for ensuring, on a regular basis, the organisation has practical, thorough and well-understood systems in place for legal compliance. This includes reporting and managing any compliance risks.

This isn't a tick box exercise. It forms part of your organisation's wider risk management responsibilities with a focus on the law. It requires you as a group to ensure the relevant legal areas have been identified, processes and policies are in place, and reporting on compliance is regular and accurate. A key part of this is demonstrating how you manage any instances of non-compliance.

Below is a list of the main areas of compliance in the sport and recreation sector. It is not a comprehensive list, or a summary of your obligations. It is the board's role to add under these headings the various laws and regulations relevant to your sport. A useful example has been included in the toolbox.

Key areas of the law:

- Constitutional
- Employment
- Health and safety, including the wellbeing of people
- Taxation
- Individual rights
- Children and young people
- Commercial dealings
- Match-fixing and anti-doping
- Land use and events
- Buildings.

If you are unsure of what to do, seek advice early.

Governance check – this includes ethical behaviour

Rules and regulations are only part of the compliance mix. It's important to also consider the wider culture of the organisation and the importance placed on ethical behaviour.

- How do you maintain a values-based culture?
- How do you promote responsibility through the organisation?
- How does the board role model ethical behaviour?

Key points (in order of priority)

- You have a core duty to monitor and have oversight of compliance matters.
- It shouldn't be a tick box exercise; it must be relevant to the day-to-day running of your organisation.
- An organisation that complies with the spirit as well as the letter of the law sends a signal to stakeholders that it operates responsibly and ethically.
- If you are unsure, seek advice early.

More information

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Related Governance Lite sections

[3.6 Risk management and the risk register](#)

[4.2 Conflicts of interest](#)

Governance Lite Toolbox

[4.4 Legislative compliance – a checklist for boards](#)

[4.4 The board's role in organisational culture](#)

Sport NZ resource

Module I of Governance IOI – Sport NZ's free online training course

<https://www.sporttutor.nz/pages/coursedescription.jsf?courseId=112261>

4.5 STAKEHOLDERS

The board needs to understand who its important stakeholders are and to have a plan to understand and stay in touch with them.

The board acts on behalf of its owners to create benefit for them. The organisation also has many relationships within the wider community: with funders, local authorities, sponsors, the media and of course with its own staff and volunteers. An organisation that gets out of touch with its various communities is on track for troubled times.

The stakeholder groups will have slightly different interests in your organisation but in general they will range across: are you delivering what you promised, are you behaving ethically and treating people well, are you listening to what the owners/participants/volunteers want?

Not all stakeholders are of equal importance and sometimes their interests may conflict with one another. Too few boards manage their stakeholders in a proactive manner. This needs a written plan outlining the importance of each stakeholder category and the type of relationship the board would like to see. It doesn't need to be complex – one page will cover it.

Governance check – this includes ethical behaviour

Are we only dealing with stakeholder issues when things turn bad and noisy rather than in a planned and proactive manner?

Key points (in order of priority)

- Make a list of your stakeholders.
- Group them into categories.
- Note the current and desired states of the relationship.
- Map some simple communication actions with names and timeframes.
- Have stakeholder relations as a regular agenda item.
- From time to time ask your stakeholders what they think of you.

Your key stakeholders need to be consulted on strategic direction and, most importantly, informed on how you are progressing. If things are not going to plan, tell people promptly and honestly.

Increasingly organisations are including a governance section in the annual report which notes how the board is contributing.

More information

Sport NZ has plenty of resources and learning opportunities for directors. Each resource sheet includes links to others in the Governance Lite set and to further readings and resources.

Related Governance Lite section

[0.1 What is this thing called governance?](#)

Sport NZ resource

Creating a stakeholder communications plan

<https://sportnz.org.nz/assets/Uploads/attachments/managing-sport/strong-organisations/Creating-a-Stakeholder-Communications-Plan.pdf>



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SPNZ 00039
February 2020