Terms of Reference – Financial Oversight Committee

Prior to non-profits hiring professional staff such as CEOs, bookkeepers or accountants, the Finance Committee of the Board played an important role not only in monitoring the financial performance of the organization but in many cases controlling its financial operations. The need for and role played by the Finance Committee came into question once professional staff were employed and wanted and needed greater control of all aspects of organizational performance, especially budgeting and financial management. Over time, in most non-profits, the role the Finance Committee became limited to reviewing the monthly or quarterly financial statements before they were presented to the Board.

Advances in technology, especially computers and financial software, and the financial knowledge of CEOs and accountants meant that accurate, easily prepared and easily understood financial statements could be provided to the Board without the necessity of a review by the Board’s Finance Committee.

This has led many Boards to ask, “Why do we even need to have a Finance Committee?” Some organizations simply eliminated this committee, some kept it with a limited role of reviewing the financial statements to identify real or potential issues that may not have been flagged by the CEO, and others kept the committee because they thought they had to have one.

None of these options contributes to a Board’s governing effectiveness. There is a legitimate role for a Finance Committee that facilitates the Board’s effectiveness in carrying out its monitoring and oversight responsibilities where it relates to the organization’s financial performance. The new terms of reference for the Board’s Finance Committee are outlined below.

Oversight and monitoring of an organization’s financial operations and financial risk are two of the major fiduciary responsibilities and obligations of a Board of Directors. To assist the Board in ensuring it has the appropriate and relevant information, tools and processes to fulfill its responsibilities and meet its fiduciary obligations, the Board will create a Financial Oversight Committee to be chaired by the Treasurer.

The Committee is charged with several responsibilities, chief among them being the education of the Board regarding (a) what is to be monitored; (b) frequency of monitoring; (c) what is acceptable as proof of Chief Executive compliance and fulfillment of Board direction and policy regarding financial operations and financial risk; and (d) the information, tools and processes to be used by the Board in conducting its oversight and monitoring. The Committee will also be responsible for ensuring that the Board is fulfilling its oversight and monitoring duties and responsibilities.

The Chair and members of the Financial Oversight Committee will have no authority or power to make decisions or establish policy. The Committee can make recommendations to the Board but cannot act on its behalf without the Board’s permission to do so.

It is important that this Committee understand that it does not play a role in telling the Chief Executive how or what she/he is to do in carrying out the financial operations and financial risk management of the organization. The Board will provide direction and policy to guide the Chief Executive. The Committee’s job is to help guide the Board in carrying out its oversight and monitoring responsibility of the organization’s financial operations and financial risk management.

It is the responsibility of the Board to establish the terms of reference for the Financial Oversight Committee and to ensure that its Chair and Committee members are knowledgeable about and clearly understand their roles, responsibilities, authority and reporting relationship.

An additional responsibility of the Board is to ensure that the Chief Executive clearly understands and demonstrates through her/his performance that they do not play any role in telling the Board or the Committee what and how it should carry out its oversight and monitoring of the organization’s financial operations and financial risk.

Roles and Responsibilities

1. In consultation with the Board and the Chief Executive, establish the format the Chief Executive will use for the monthly or quarterly financial reporting to the Board.
2. Identify for the Board any variances (e.g., unanticipated expenditures that exceed what was budgeted in a category or unexpected revenue) in the monthly or quarterly financial report if this information is not provided by the Chief Executive. This will involve the committee reviewing the Chief Executive’s financial report prior to it being discussed at the Board meeting.
3. Provide the Board with a draft schedule of the financial policies that are to be monitored at the Board’s monthly or quarterly meetings for Board approval.
4. Establish, in consultation with the Board, the evidence required for monitoring of financial performance management and financial policy compliance by the Chief Executive and ensuring that these requirements are communicated in writing to the Chief Executive in a timely manner.
5. In consultation with the Board, establish the requirements that must be met by the Chief Executive with respect to financial risk management, the indicators the Board will use in monitoring financial risk, and ensuring that these requirements are communicated in writing to the Chief Executive.
6. Develop for Board consideration and approval the evidence-based format for financial management and financial risk compliance reporting by the Chief Executive, the timing of when these are to be submitted to the Board and establish a process to be followed by the Board in performing monitoring of compliance. Ensure these are communicated to the Chief Executive in writing and that the Board performs the functions as per the established monitoring schedule.
7. On a regularly scheduled (semi-annual or annual) basis, review all Board policies related to financial budgeting, financial management and financial risk, and make recommendations to the Board regarding suggested new policies, changes to existing policies and/or deletion of financial related policies that are no longer relevant or are inappropriate.
8. Ensure the Board has communicated in writing to the Chief Executive, recommendations from the auditor’s report that they want the Chief Executive to implement.
9. Ensure the Board’s oversight and monitoring schedule includes the monitoring of the auditor’s recommendations that the Board has instructed the Chief Executive to implement.
10. At the end of each Board year, conduct a review of its own performance through the year and provide a report to the Board in which it identifies any changes it thinks should be made to its terms of reference.