



BOARD COMPETENCE AND SKILLS

2nd Board Master Class

CPA Jones Kimeu

Pullman Hotel/Deira/DUBAI

2nd December, 2021

Interest

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Diverse Board Skills

2

Financial Reporting

3

Legal/Establishing Financial Controls

4

Assessing and Managing Finance Risks

5

Compliance to Policies and Procedures

6

Strengthening Finance & Audit
Function



CLOSE

Brain Teaser...!

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Knee

Lights

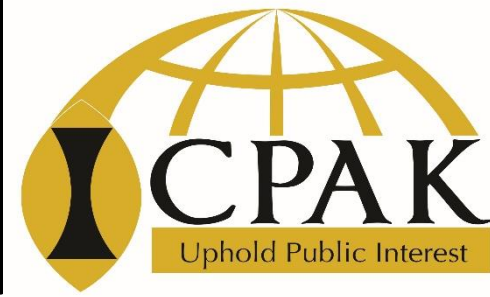
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PHD

MASTERS

UNDERGRADUATE

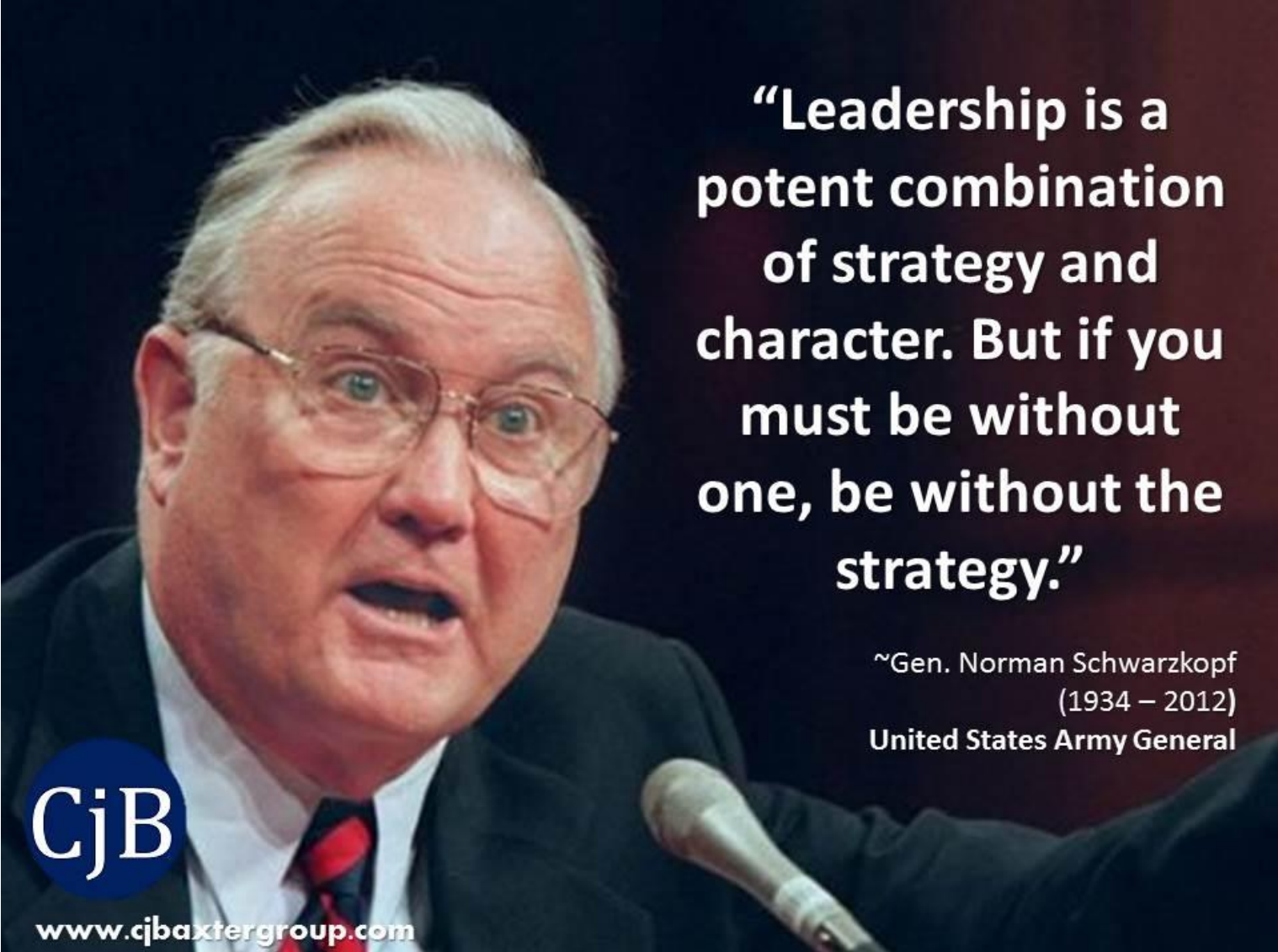
Role of Board..?



Bill Gates

We believe the world changes when the boldest thinking is directed at the toughest problems





“Leadership is a potent combination of strategy and character. But if you must be without one, be without the strategy.”

~Gen. Norman Schwarzkopf
(1934 – 2012)
United States Army General

CjB

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What is a Board Committee?



“A group of the unwilling, picked from the unfit to do the unnecessary!!”



“The Camel is a horse designed by a Committee.”



TEAM ROLES/SKILLS



1. Fair Mediator
2. Informed Observer
3. Driven Achiever
4. Completer/Finisher
5. Creative Innovator
6. Concerned Perfectionist

7. Empathic Supporter
8. Loyal Trouble Shooter
9. Dominant Driver
10. Lively Initiator
11. Patient Listener



Directors behaving Badly



There are many different types of problem Directors and Managers, including:

- The Pet Rock:
- The Windbag:
- The Deer in the Headlights:
- The Pit Bull:

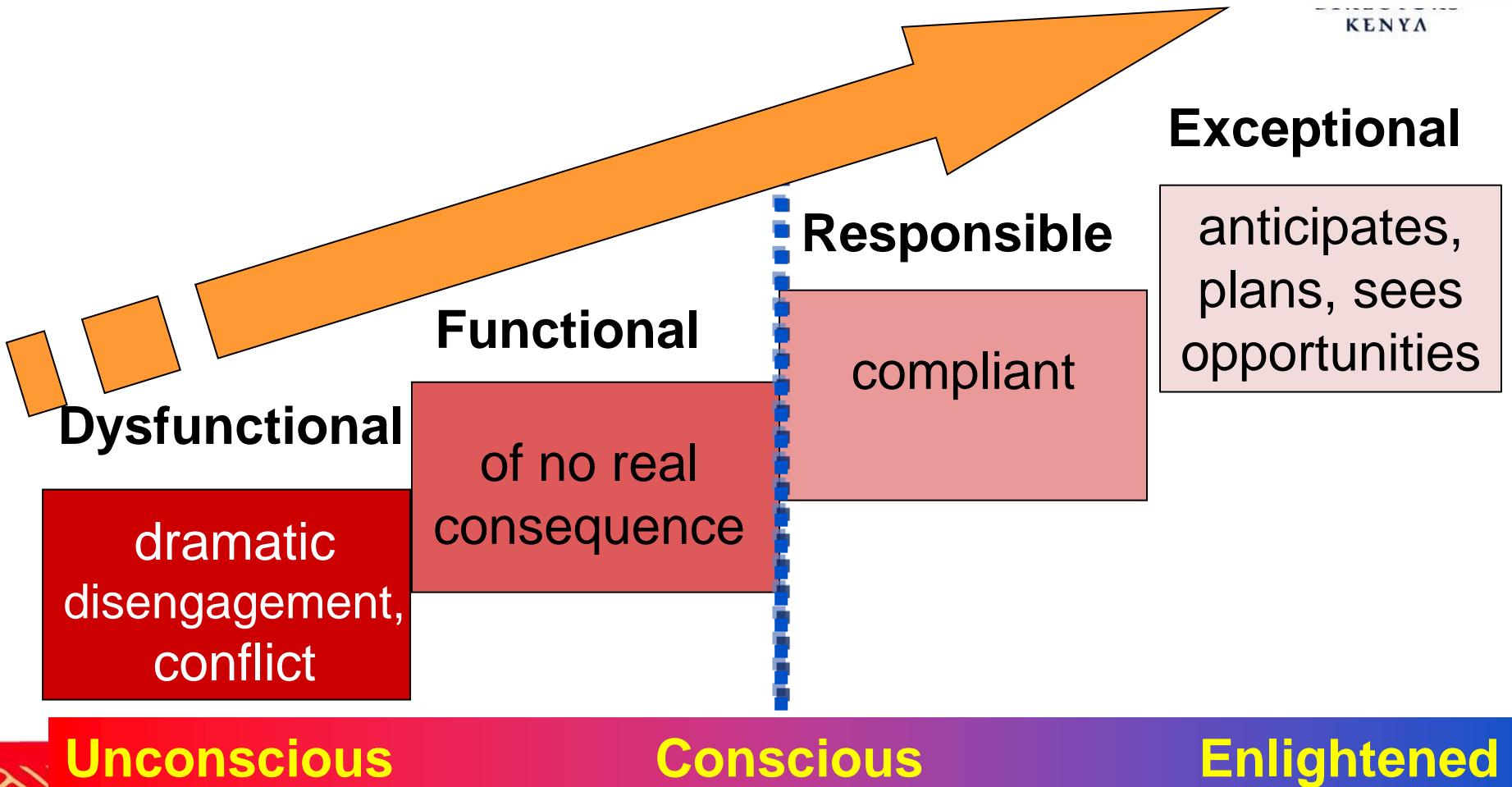


- **The Pet Rock:** Somebody who hasn't said anything at the table in months, maybe years;
- **The Windbag:** Somebody who dominates discussion, pontificating on nearly every agenda item and frustrating other board members who can't get a word in edgewise;



- **The Deer in the Headlights:** Somebody who lacks the experience, skills, or business acumen to understand the complexities of the company's business and struggles with the issues on the board agenda; and
- **The Pit Bull:** the most toxic of all problem people, they adopt a hostile, aggressive, or bullying style

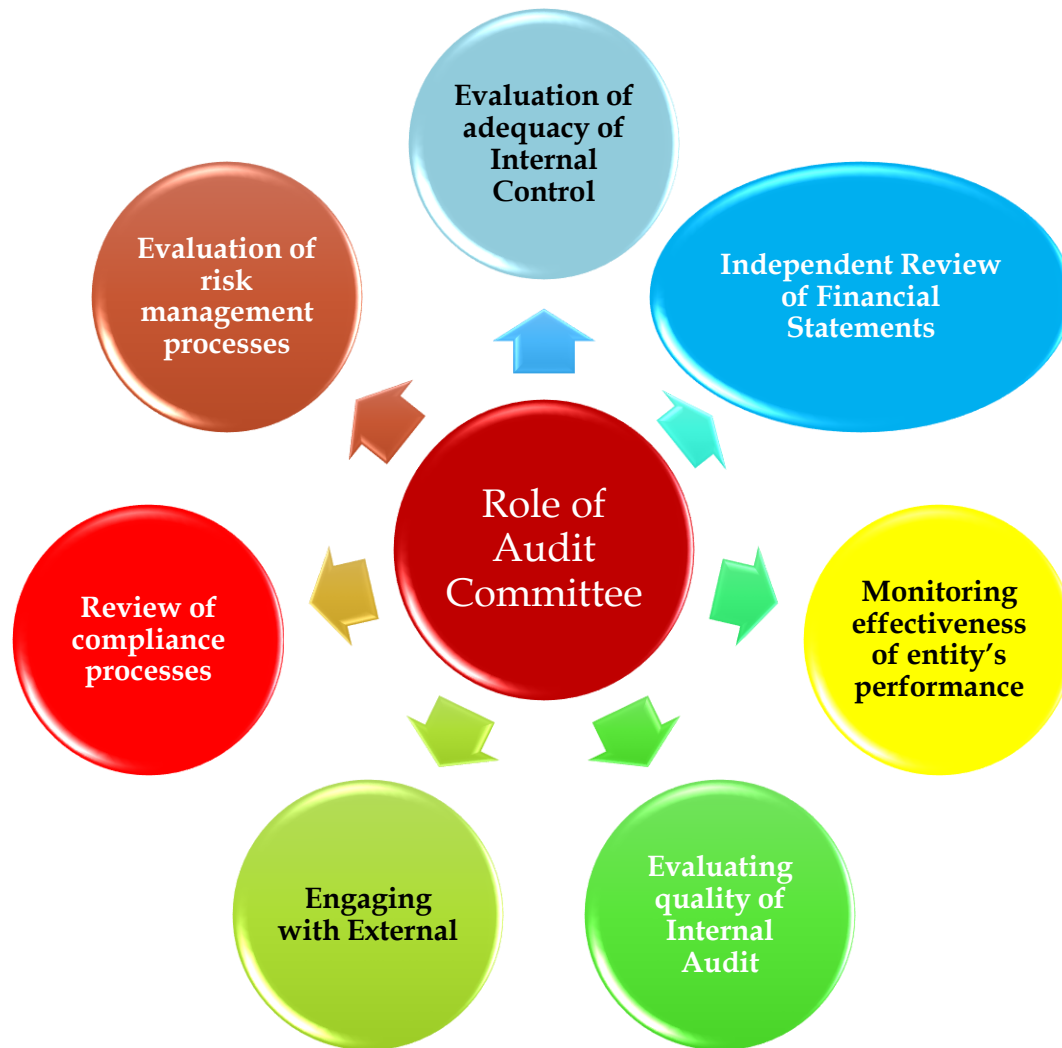
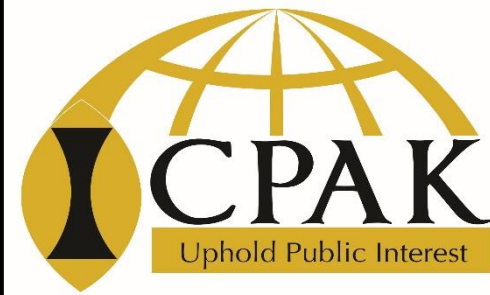
Effective Boards and Board Members Develop in stages



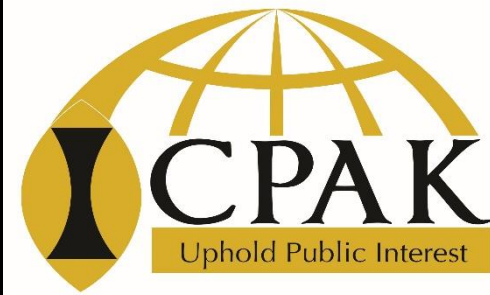
UNDERSTANDING FINANCIAL STATEMENTS



PFMA 2012/Reg.2015: Role of the Board



Strengthening Finance & Audit Function



Ref. PFMA 2012 & Regulations 2015

- **Qualified Accounting and Financial team;**
- **Qualification, knowledge and experience**
- **Right skills mix – including ICT qualifications;**
- **Job description alignment – roles and responsibilities**
- **Ethics and integrity**



- Each Board should have sustainability goals
- The Sustainability goals should be linked to strategy



External Environment Analysis

INTEGRATED REPORTING

- Financial Report
- Strategic Objectives
- Opportunities and Risks
- Sustainability Report
- CSR Report
- Expected challenges and prospects for the business
- Etc.

**Strategy, Governance,
performance, Objectives**



FINANCIAL DUTIES OF DIRECTORS



DIRECTORS RESPONSIBILITIES..?



- Prepare financial statements for **each financial period** that **give a true and fair view** of the **financial position** of the entity;
- Ensure that the entity maintains **proper accounting records**; and
- **Explain the transactions** of the entity with **reasonable accuracy**.



DIRECTORS RESPONSIBILITIES..?



- Assess the entity's **ability to continue as a going concern**, and make a representation on the same to shareholders and public

- **Format of Representation:**

“Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company’s ability to continue as a going concern.”



DIRECTORS RESPONSIBILITIES..?



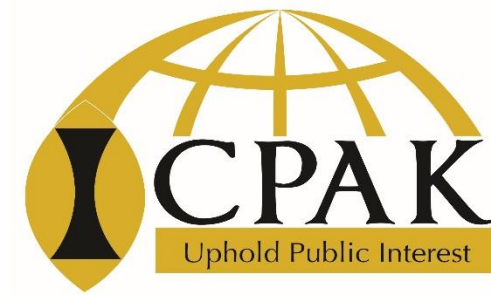
- **Safeguard assets** of the entity;
- Take **reasonable steps to prevent and detect fraud** and other irregularities;
- Prepare and present financial statements **in accordance with International Financial Reporting Standards (IFRS)** and in the manner required by the Kenyan Companies Act & other relevant Act (Insurance Act, Banking Act, Cooperatives Act) and regulatory requirements (CMA, CBK, NSE & SASRA).

DIRECTORS RESPONSIBILITIES..?



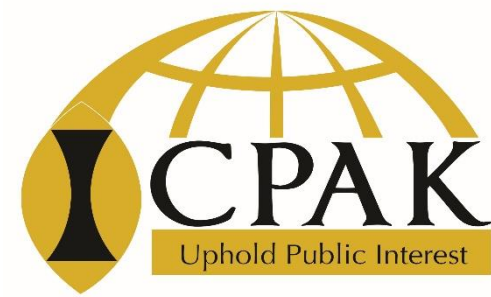
- Various regulators, Securities and Exchange Commission (SEC), Financial Reporting Council (FRC), Capital Markets Authority (CMA), JSE and others, are responsible for **mandating the corporate governance rules and skills requirements of board members.**
- To apply these skills, board members need to ensure they are knowledgeable about the **economics of the company and its business model.**

Financial Roles



199. Except as otherwise provided by this Act, a person Penalties for offences. who is found guilty of committing an offence under this Act for which no other punishment is given , that person is liable on conviction to a term of imprisonment not exceeding five years or to a fine not exceeding ten million shillings, or to both.

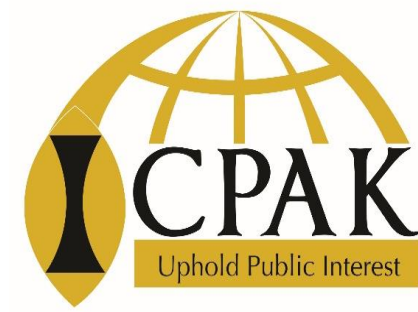
Interpreting F/statements..



IFRS's require organizations to prepare five (5) key statements

- 1. The statement of financial position;**
- 2. The statement of comprehensive income;**
- 3. The statement of cash-flows (optional);**
- 4. The statement of changes in equity;**
- 5. Notes to the financial statements.**

Statement of Cash Flows

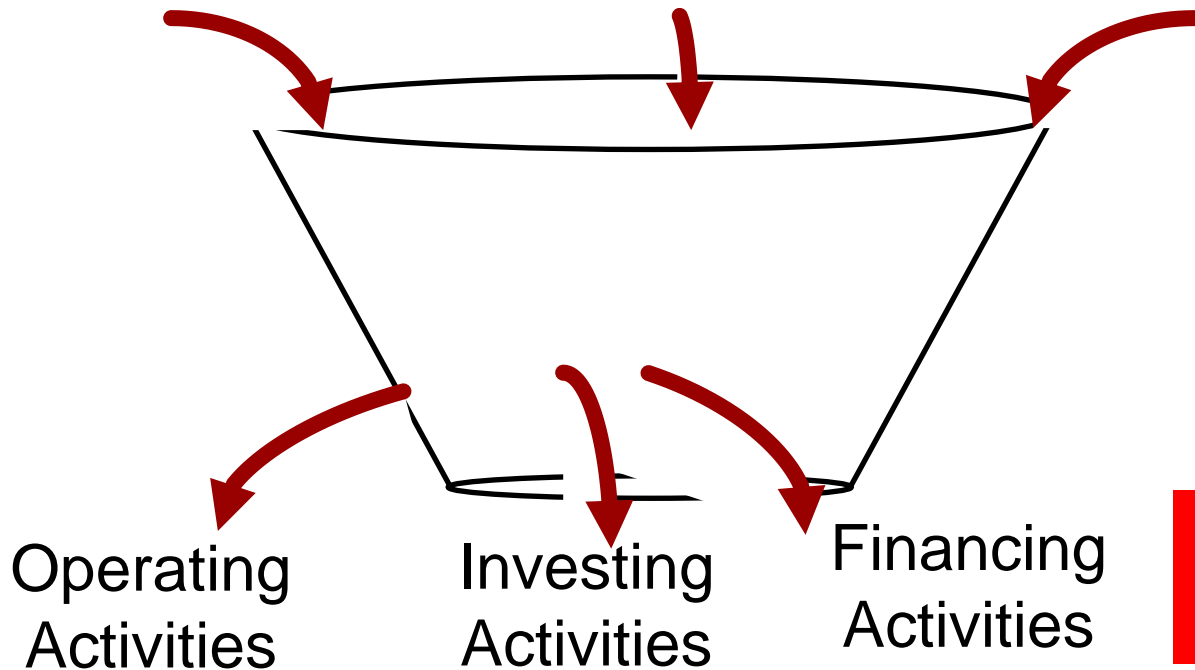


CASH INFLOWS

Operating
Activities

Investing
Activities

Financing
Activities



Operating
Activities

Investing
Activities

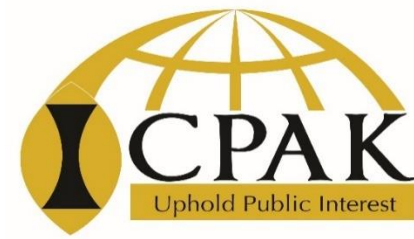
Financing
Activities

CASH OUTFLOWS

Common ratios include:

- Growth ratios.
- Leverage ratios.
- Profitability ratios.
- Liquidity ratios.

Group Quiz



- 1. Which financial report is a “snapshot” of the financial status of a business and is given a specific date?**
- 2. Which financial report is a “moving picture” of the business/enterprise for a period of time?**
- 3. What does a balance sheet balance?**
- 4. What are the two kinds of accounts found on an Income Statement?**
- 5. On what financial report(s) is the “cash” account found?**
- 6. If the bank wanted to know your “Net Worth” what report would they ask**

REMEMBER

Directors have been entrusted with the **absolute power of and over** the company— but **to those entrusted with much, much will be demanded?**

Can you account for the stewardship of entrusted power, assets and resources?



What then?...So you must....



- i. Satisfy yourself that a sufficient process has been established and followed to prepare the accounts;
- ii. Ensure the board has enough time to consider the accounts;
- iii. Analyze the accounts and identify treatment of key last period and post-balance date issues

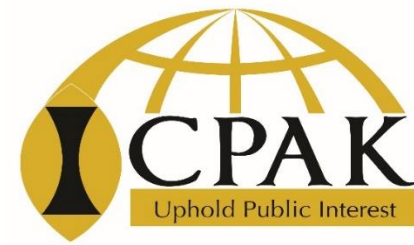
Legal liability



- Directors are personally and jointly liable for the activities of the organization
- Third party can sue the organization and the individual directors
- May have challenges receiving funding.

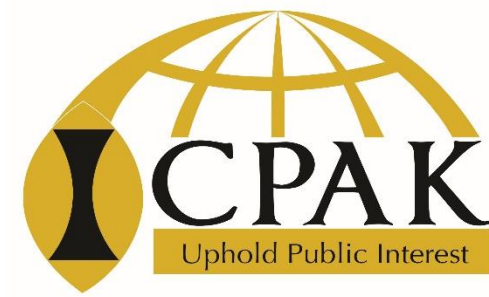


Statutory duties



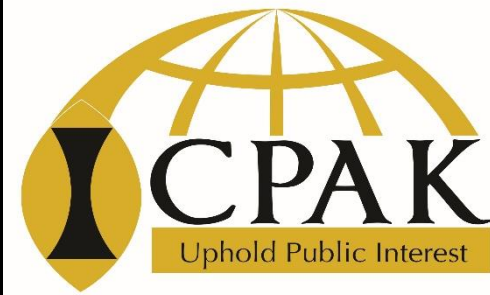
- To act **within powers** in accordance with the company's constitution and to use those powers only for the purposes for which they were conferred
- To **promote the success** of the company for the benefit of its members
- To **exercise independent** judgment
- To exercise **reasonable care, skill and diligence**
- To **avoid conflicts** of interest
- **Not to accept benefits** from third parties

Individual responsibility



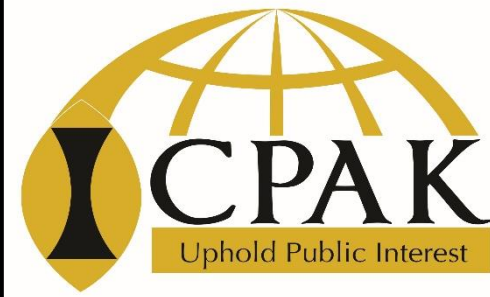
- **Reading and understanding financial reports;**
- **Understanding the board's financial policies;**
- **Participating in approving the annual budget, operations, audit, annual financial report and financial statements.**

Establishing Financial Controls



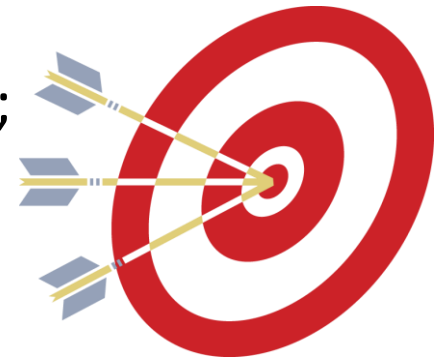
- Finance Policy Framework
- Finance Processes and Procedure Manual
- System of Internal Controls (7 broad categories)
- Adherence to Financial Reporting Standards – IFRS, IPSAS, GAAP etc
- Safeguarding all assets
- Financial Performance reviews

Financial Risks



Financial Risks include risks from:

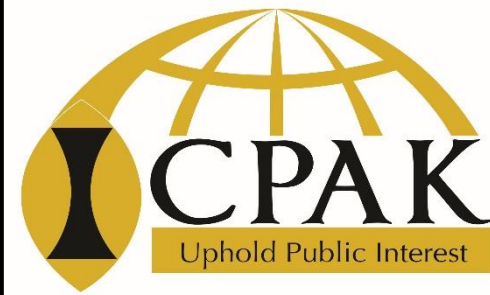
- Price (e.g. asset value, interest rate, commodity);
- Liquidity (e.g. cash flow, call risk, opportunity cost);
- Credit (e.g. default, downgrade);
- Inflation/purchasing power;
- Hedging/basis risk,
- Taxes;
- Financial Market risks,
- Valuation risk, and
- Currency fluctuations



**Price
Risks
include:**

- **Asset value Risk**
- **Commodity risk**
- **Interest risk**

Financial Risks (cont..)



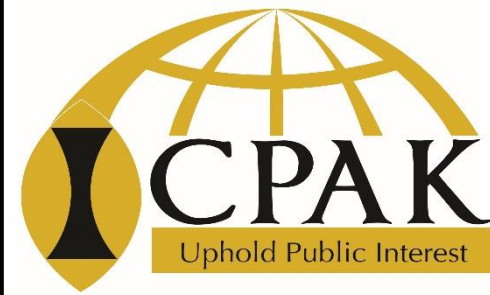
Credit Risk include:

- **Default Risk**
- **Downgrade risk**

Other Financial Risks

- **Inflation/purchasing power;**
- **Hedging/Basis risk**
- **Taxes**
- **Currency Fluctuations**

Inflation/Purchasing power?



- Price risks
- Interest rates
- Purchasing Power
- Hyperinflation

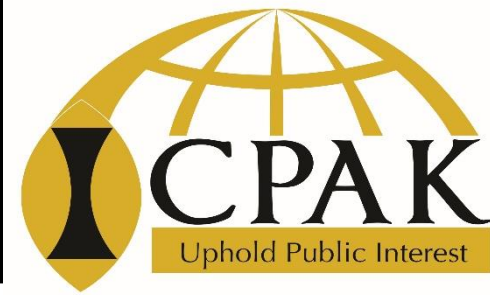
4 Types of inflation risks



- **Avoid a High Concentration of Long-Term Bonds in Your Portfolio**
- **Own Investments That Can Increase Cash Flows**
- **Own Commodities That Move Independently from Currencies**

3 ways to manage Inflation Risk..

Detecting Financial Distress

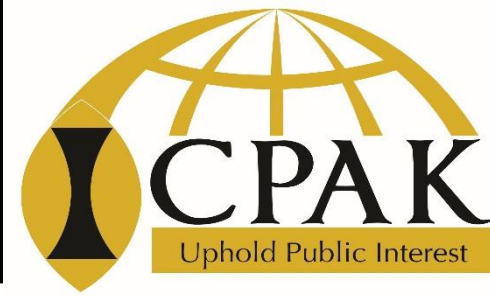


Signs of Financial Distress

- Cashflow Statements
- Receivables
- Payables
- Working Capital
- Interest payments/Defaults



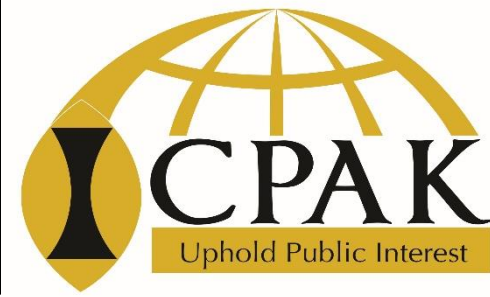
Detecting Financial Distress



Signs of Financial Distress (Conti..)

- Debt to Equity ratio
- Third party Audit reports
- Downturn in Economy
- sudden slashing of prices
- sudden departure of key executives or board directors

Detecting Financial Distress



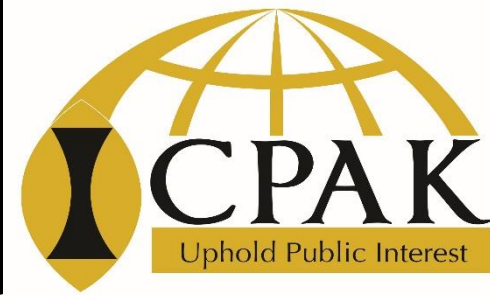
Not paying Creditors on a timely basis

The company is being sued in collection matters.

The company has suffered a significant event that will not recur.

The company's bank or secured lender has threatened to shut down business operations.

Detecting Financial Distress



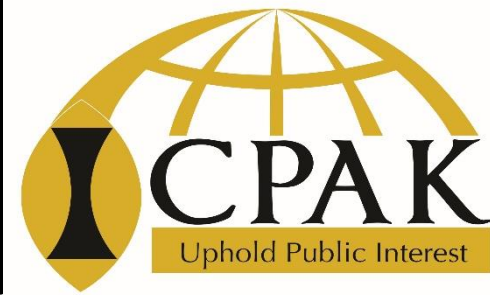
A union has threatened some type of action against the company.

A major supplier has threatened to terminate services to the company.

The company cannot perform its contracts on time or cannot perform at all.

The liabilities of the company are far greater than its assets.

Detecting Financial Distress



The company's business model is no longer viable.

Turnaround specialists.

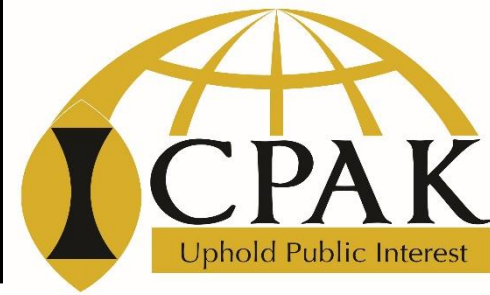
Attorneys specializing in advising distressed companies.

Accountants specializing in assisting distressed companies.

Under Receivership

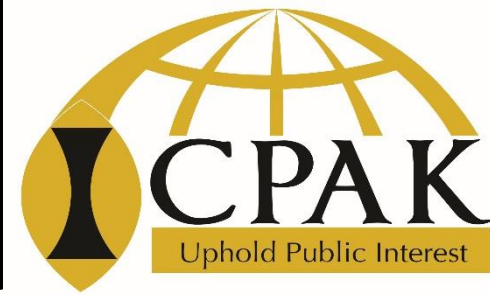
ADVERSE Audit Opinion

Detecting Financial Distress - The Bottom Line



- Typically, when an organization is struggling, the warning signs are there.
 - **Your best line of defense as an investor, supplier, customer or employee is to be informed.**
- Ask questions, do your research and be alert to unusual activities.

QUOTABLE QUOTES



“In looking for people to **hire**, you look for **three qualities: Integrity, Intelligence, and Energy**: And if they don’t have the **first**, the **other two will kill you** “

Warren Buffet





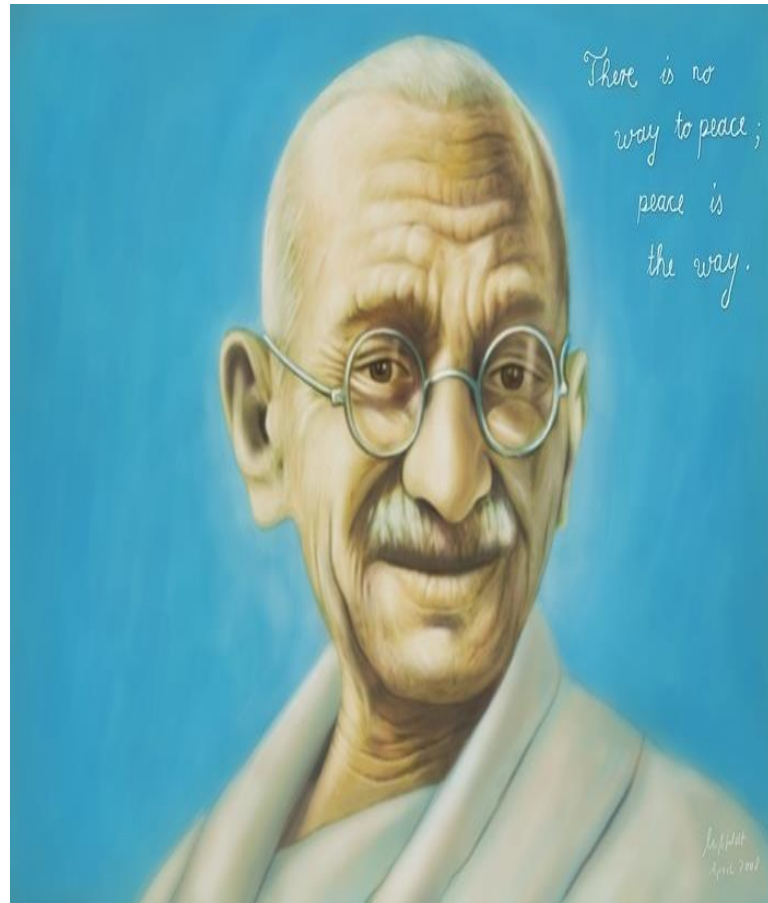
Leadership is all about people. It is not about organizations. It is not about plans. It is not about strategies. It is all about people-motivating people to get the job done. You have to be people-centered.

— *Colin Powell* —

AZ QUOTES

Lest we forget....

- “We must become the change we want to see”
- ***Mahatma Gandhi***
(Mohandas Karamchand Gandhi 2 October 1869 - 30 January 1948)





Thank You

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