

Board members can be held accountable for company losses

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The recent resignation of Eskom board chairperson and non-executive director, Ben Ngubane, has once again shone a spotlight, not only on governance at the embattled power utility, but also on the role board members and directors play in their respective positions.

According to a [study](#) by the Centre for Corporate Governance at the Institute of Directors in Southern Africa (IoDSA), board composition is probably the single most important governance factor determining an organisation's future success. Appointing members for political reasons, blurred lines of accountability and a lack of industry knowledge and financial skills are cited as key challenges for the composition of boards.

"Board members have a lot of responsibility," says Associate Professor Mark Graham from the University of Cape Town's Graduate School of Business (GSB). "For example, all board members need to be able to understand financial statements. It is no longer good enough to simply have one person on the board who is a chartered accountant, for instance, and skilled at reading and interpreting these documents."

IoDSA's Parmi Natesan has [said](#) that directors have such an important role to play, and the issues they face are so complex, that a new cadre of professional directors is required.

Graham agrees and says this is why a new GSB programme called [Understanding Financial Statements for Directors](#), which he convenes, has been created. It is aimed specifically at senior people in business, to enable and empower them to ask the right questions when it comes to financial statements - and more importantly - to understand the answers as well.

Graham says the Centro case in Australia, where a court found that each director of the company was liable for incorrect classification of debt - and could be held liable for losses suffered as a result - was a big wake-up call for board members in South Africa as well.

"The South African Companies Act requires local directors to exercise a similar level of scrutiny," he says. "This means board members cannot hide behind a lack of financial skills or know-how when it comes to the way statements are compiled and presented."

The programme Associate Professor Graham convenes is intensive, interactive and shows board members the financial statements of well-known local listed companies to illustrate key points in a practical way. Emphasis is placed on understanding the language of financial statements and giving board members insights into how different industry and company financial statements look.

"Often doctors or engineers will be appointed to boards and while they may be experts in their field, their financial skills may not be up to speed. But someone who understands the financial statements of a business, understands the business in a way that is not otherwise possible," says Graham.

Over the past few decades, the process behind drafting financial statements and the guidelines governing their contents have changed significantly, he says, with the documents becoming increasingly complicated; "Not all information is equally significant and it can be vital to be able to discern what is imperative and what is not, especially for new board members trying to find their way through a maze of numbers."

"Our programme helps board members and directors to make better decisions for the benefit of their companies and to

ensure the future success of their businesses. We also give people more resources to use in their industries and the financial tools they need to really understand financial statements and become competent and capable board members.”

For more information on the [Understanding Financial Statements for Directors](#) Programme at the UCT Graduate School of Business please contact the Executive Education department on 0860 UCT GSB or email execed@gsb.uct.ac.za.

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