Hello, and welcome to the Leadership and Management module on the basics of financial management.

Acknowledgements

Mango is an award-winning UK charity whose mission is to strengthen the financial management and accountability of Non Governmental Organizations around the world by providing innovative, high-quality, in-person trainings, consultancy and recruitment services.

A library of Mango's own publications, as well as information about their services and their Open Training program can be found at the Mango website: www.mango.org.uk.

This e-learning module was produced by I-TECH, based on content from the Financial Management Essentials Handbook developed by Mango. Mango is an award-winning UK charity whose mission is to strengthen the financial management and accountability of Non Governmental Organizations around the world by providing innovative, high-quality, in-person trainings, consultancy and recruitment services. This module provides a small overview of the basic content, but not the full experience of attending one of Mango's practical and participatory training courses, where the motto is "Taking the Fear out of Finance". A library of Mango's own publications, as well as information about their services and their Open Training program can be found at the Mango website. We encourage you to visit this resource of information on financial management and accountability.

Learning Objectives

- Explain the relationship between Financial Control and Financial Management;
- List seven principles of Financial Management;
- Apply principles of Financial Management to case analysis and problem solving; and
- Describe roles, responsibilities, and tools of Financial Management.

When you have completed this lesson, you'll understand why Financial Management is important for organizations, and you will be able to explain the relationship between Financial Control and Financial Management.

You'll also be able to list seven key principles of Financial Management and apply principles of Financial Management to case analysis and problem solving.

Finally, you will be able to describe the various roles, responsibilities, and tools that are needed to ensure strong financial planning and management.

Why should leaders and managers care about Financial Management?

- Effective use of resources to achieve objectives
- Respect and confidence from outside
- Long-term financial sustainability
- Accountability to donors and stakeholders
- Increasingly critical because of competition for scarce resources

To begin the conversation, think about the following question: Why should leaders and managers care about Financial Management?

Financial Management is important for many reasons. First, every organization must make decisions on how to best use its limited resources. In addition, Financial Management enables senior managers to be accountable to funders and governing bodies. Without adequate management of resources, funding can be lost or used inefficiently, resulting in programs and organizations not fulfilling objectives.

No organization can afford to risk its mission by neglecting the responsibility of being a good steward of funds. Good Financial Management practices create trust and offer an advantage when an organization must compete for increasingly scarce resources.

What is Financial Management?

Financial Management entails *planning, organizing, controlling, and monitoring* the financial resources of an organizations in order to achieve objectives.

We now know why Financial Management is important—but what *is* it?

In practice, Financial Management is about taking action to look after the financial health of an organization, rather than leaving things to chance. We accomplish this when we plan, organize, control, and monitor an organization’s financial resources in order to achieve objectives.

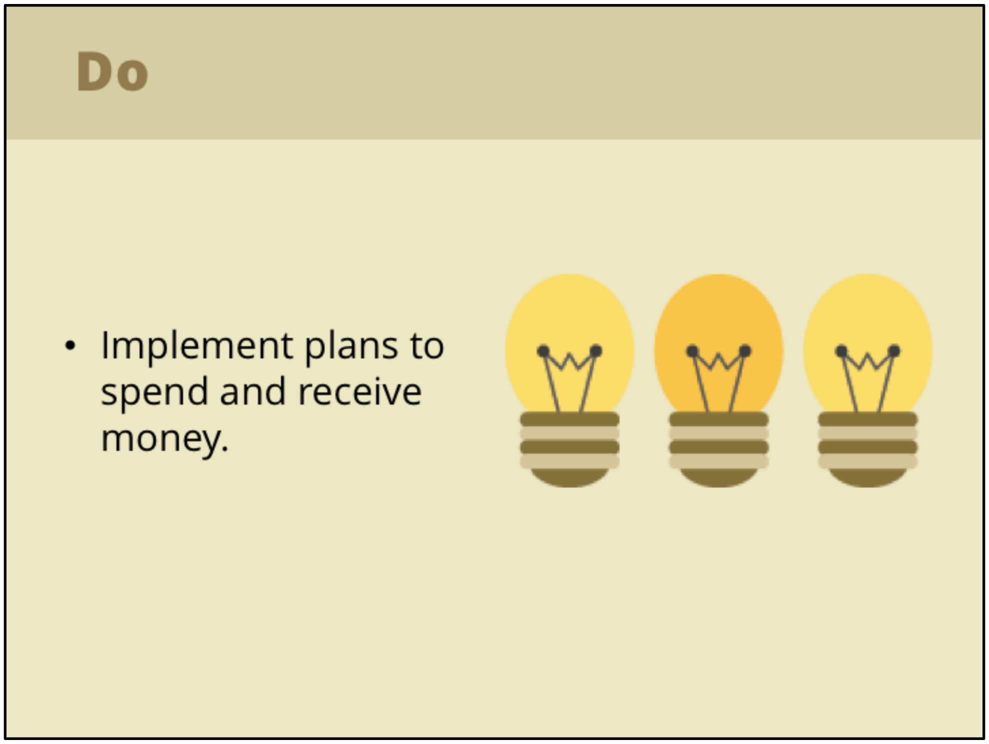
Financial Management Practice

- Managing scarce resources
- Managing risk
- Strategic management
- Managing by objectives (Plan, Do, Review)

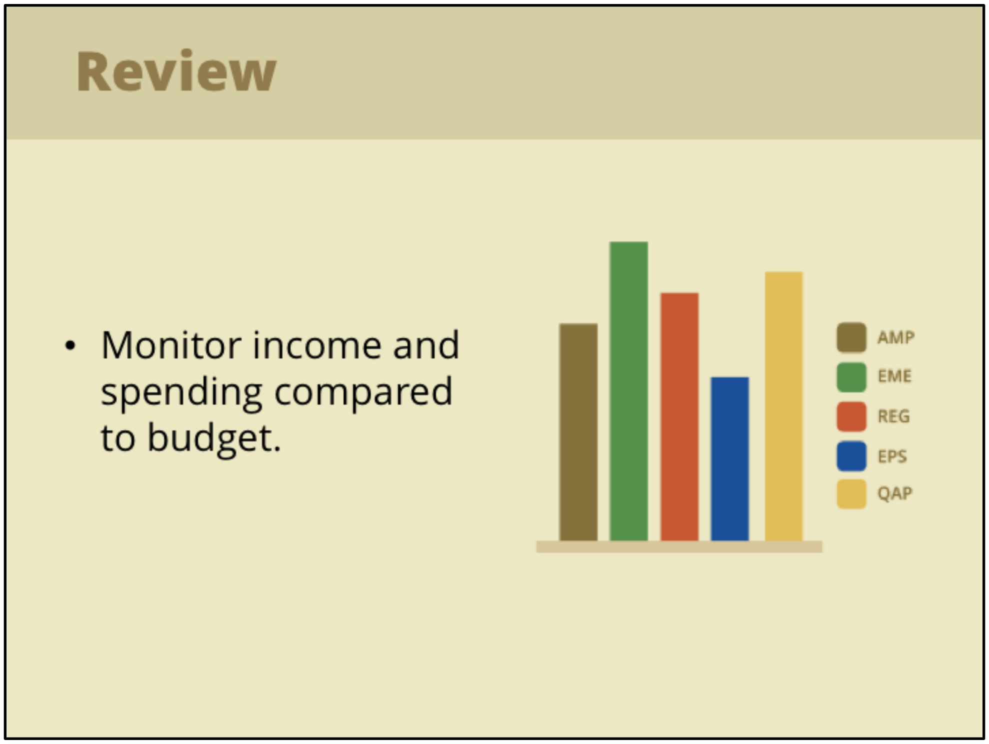
There are a few key elements to keep in mind when we engage in Financial Management activities. First, resources are usually scarce, so we must manage them efficiently and carefully to assure that we achieve our objectives. Second, we need to be aware of both internal and external risks in order to limit the damage they can cause. Third, Financial Management is part of good management as a whole. Finally, decisions should be made strategically and always with our organization's objectives in mind.

Good Financial Management is a cyclical process that consists of planning, implementing (doing), and reviewing. This is something that we will talk about throughout this module—but first, how does the cycle work?

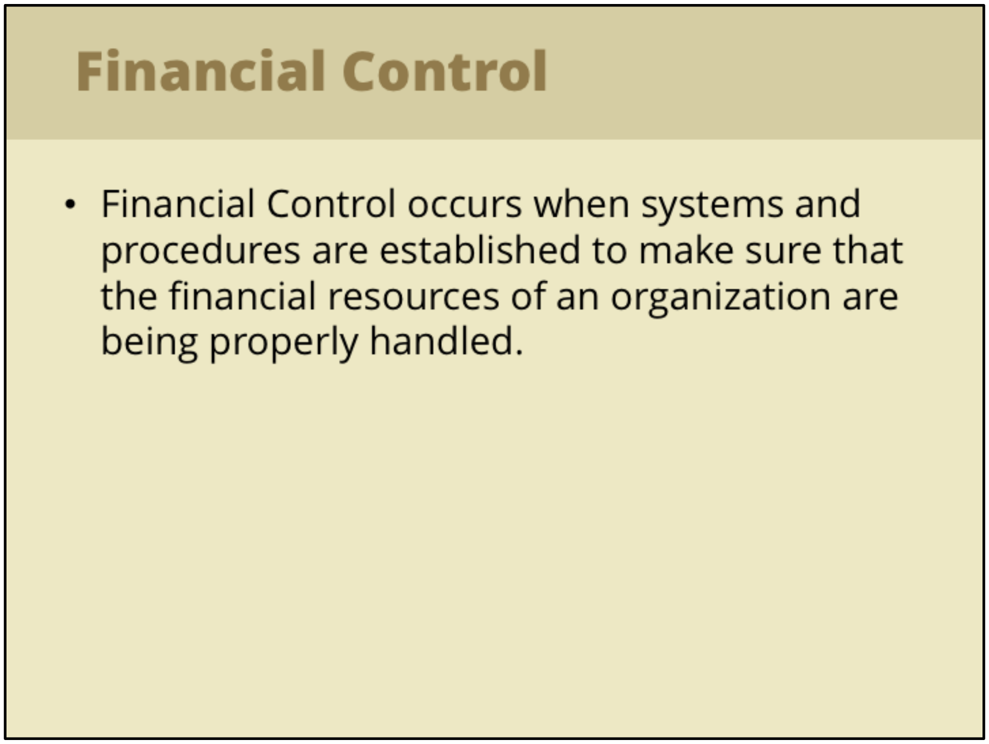
The first stage in the Financial Management process is planning. When an organization or program starts, objectives are set and activities are planned. At this point, you prepare a financial plan to determine where the funds will come from and what the costs will be for these activities.



After you have the funds, activities are implemented to achieve the objectives set out in the planning stage.



When you get to the review stage, you'll compare your program or organization's actual situation with the original plans. For this part of the process, managers use financial and program data to see whether the organization is on target to achieve the objectives on time and on budget. What they find during this stage will then be brought into the next planning stage, which begins the cycle again. So, you can see that Financial Management is an ongoing, cyclical process.



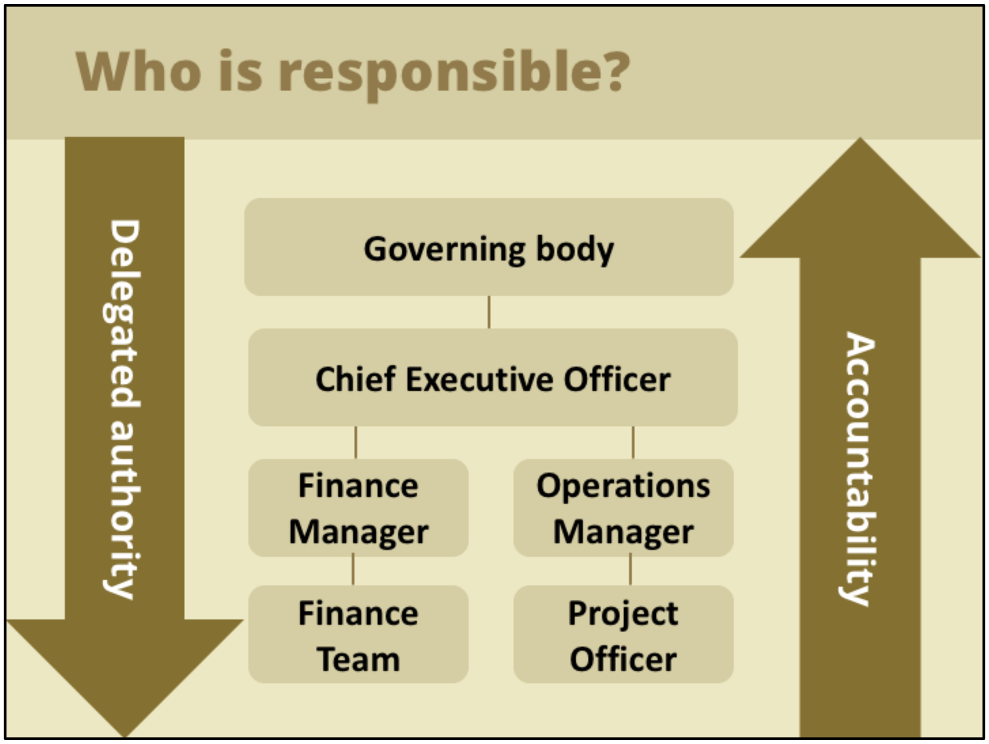
What is Financial Control, and how does it relate to Financial Management?

Financial Management, we have determined, is the planning and monitoring of financial resources to achieve objectives.

At the heart of Financial Management is the practice of Financial Control. Financial Control involves establishing and using systems and procedures to make sure an organization's financial resources are being properly handled. In an organization that lacks Financial Control, it is likely that financial resources will be mismanaged, which may result in a situation that jeopardizes the organization's mission.

Some examples of the outcomes of poor financial control include: assets at risk of theft, fraud, or abuse; funds not spent in accordance with donors’ wishes or the organization’s objectives; and the competence of managers and leaders being called into question.

Now that you have a better idea of what Financial Control is, click the forward button to learn about who is responsible for Financial Management.

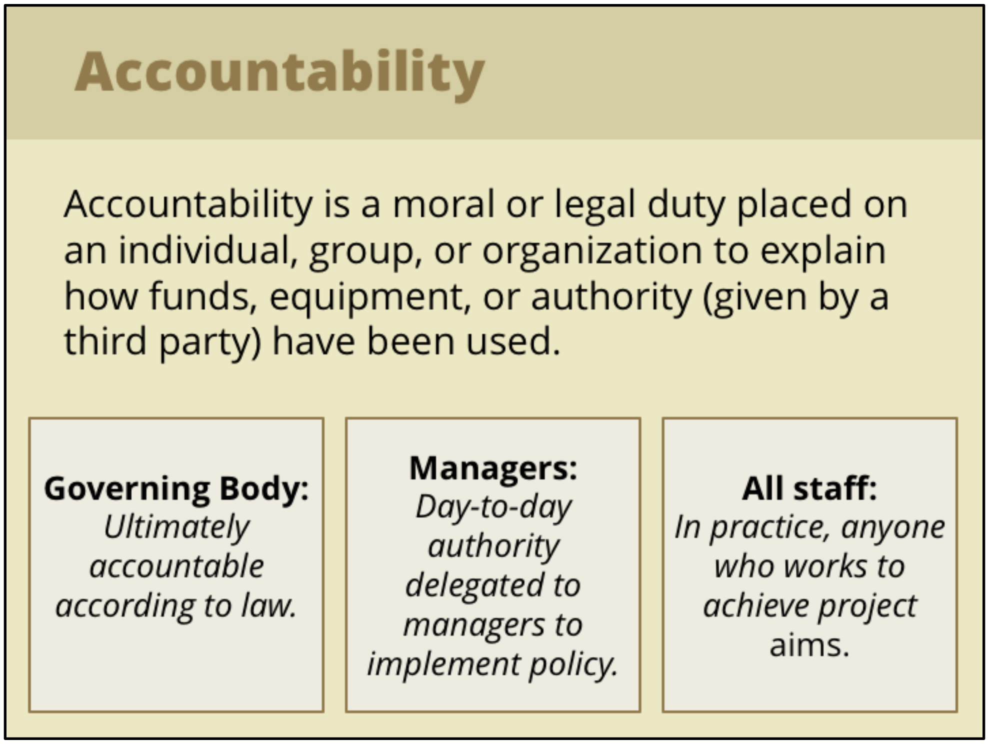


The organizational structure of an entity determines who is legally responsible for Financial Management.

Often there is a governing body and a chief executive officer who oversee lower levels of management, who are responsible for day-to-day operations. Whatever the structure of the organization, authority and accountability generally reside at the top and are delegated down to the managers and the staff.

While the governing body delegates authority, it must also set up monitoring mechanisms to make sure that the instructions they provide are actually carried out.

The figure on your screen demonstrates how the authority for day-to-day Financial Management tasks is delegated down through the management structure. Notice that, at the same time, the accountability process also moves back *up* through the structure as people report back on progress.



Let’s take a moment to discuss the concept of accountability in more detail. Understanding this concept will help you fully grasp the importance of Financial Control functions and overall Financial Management.

When you think about accountability, what comes to mind?

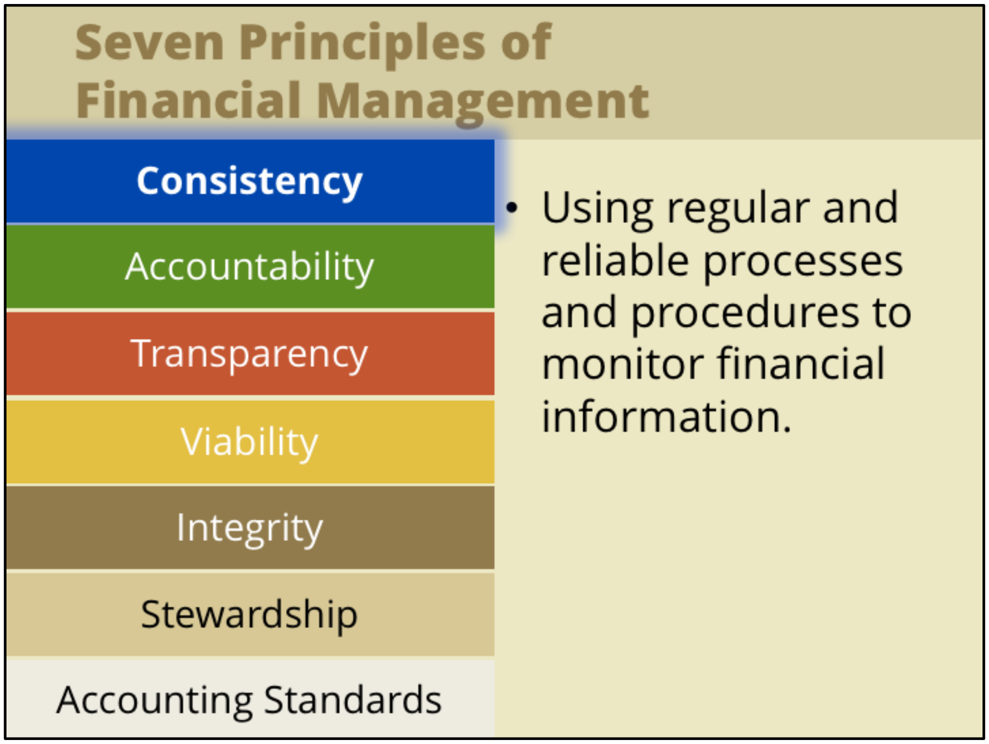
Accountability is the moral or legal duty placed on an individual, group, or organization to explain how funds, equipment, or authority (given by a third party) have been used. When we are accountable, we are responsible for explaining how the funds, equipment, or authority given to our program or organization by a third party have been used.

While the governing body is usually ultimately accountable for the actions of the organization, all of us are accountable to our directors, managers, and supervisors for our work and for the way resources are handled.

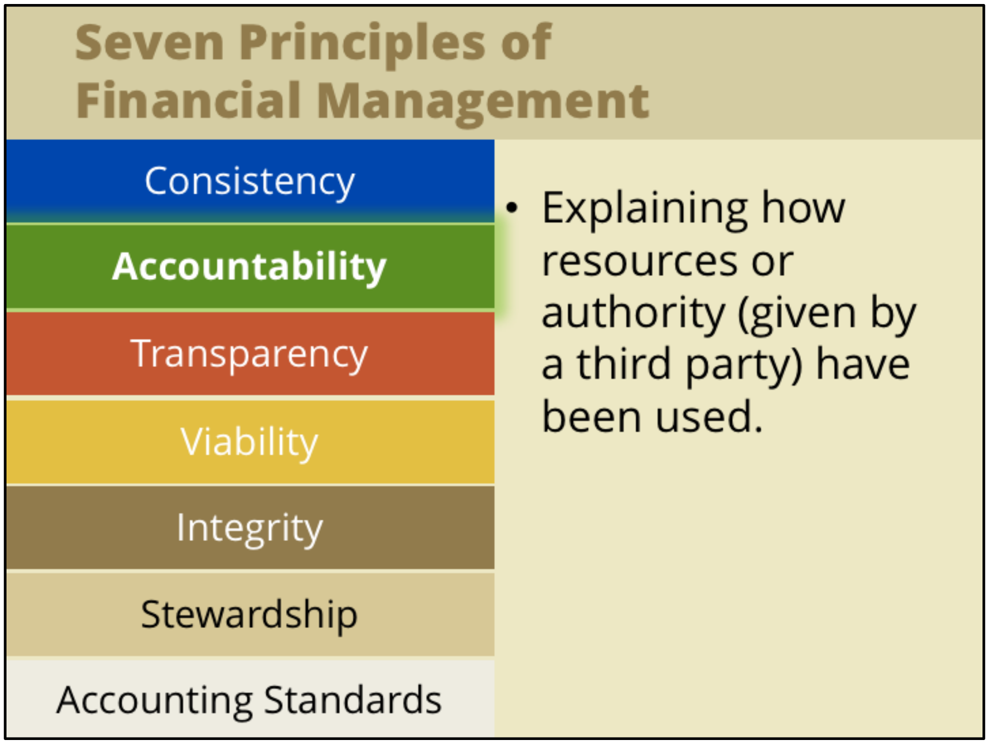
As we learned on the previous screen, Accountability is a key guiding principle of Financial Management.

It is helpful for organizations to identify several of these key principles, which can be used as a standard in developing and maintaining proper Financial Management systems. They provide a high-level guide to good practice, and are goals for everyone in the organization to work toward.

While each organization should identify and endorse its own set of principles, Mango (a UK registered charity focused on Financial Management training) suggests seven principles of Financial Management: Consistency, Accountability, Transparency, Viability, Integrity, Stewardship, and Accounting Standards. Using the mnemonic “CAT VISA” may help you bring these to mind.



The first principle is Consistency, which refers to the use of regular and reliable processes and procedures to monitor financial information. This promotes efficiency in operations and supports transparency, especially in financial reporting. Of course, systems sometimes need to be refined to better serve a changing organization. However, when there is inconsistency in an organization’s Financial Management, it could be a sign that the financial situation is being manipulated.

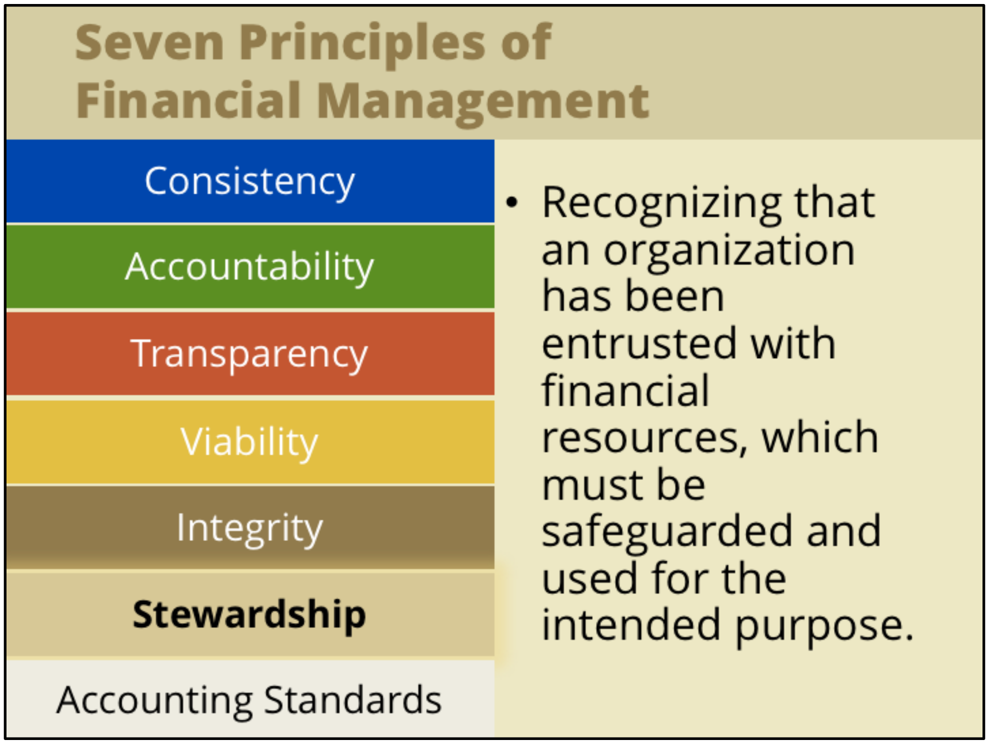


Accountability is the second Financial Management principle. An individual, group, or organization is accountable when it is able to explain how resources or authority (given by a third party) have been used.

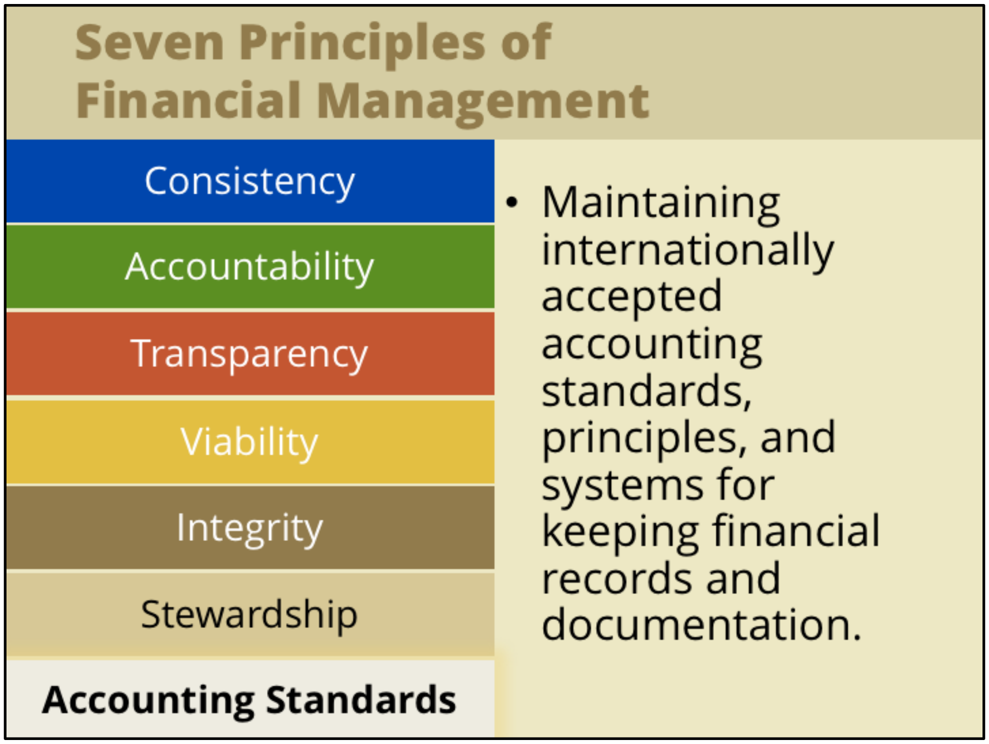
The third principle is Transparency, which requires an organization to make information about plans, activities, and outcomes available to stakeholders. This includes complete, accurate, and timely financial reports that are available to not only the stakeholders, but also to beneficiaries and donors. If an organization is not transparent, then it may give the impression of having something to hide.

Viability is the fourth principle. It is defined as an organization's ability to balance expenditures with available funds. This measure of financial security and continuity is part of what gives stakeholders confidence that an organization will deliver on its objectives and plans.

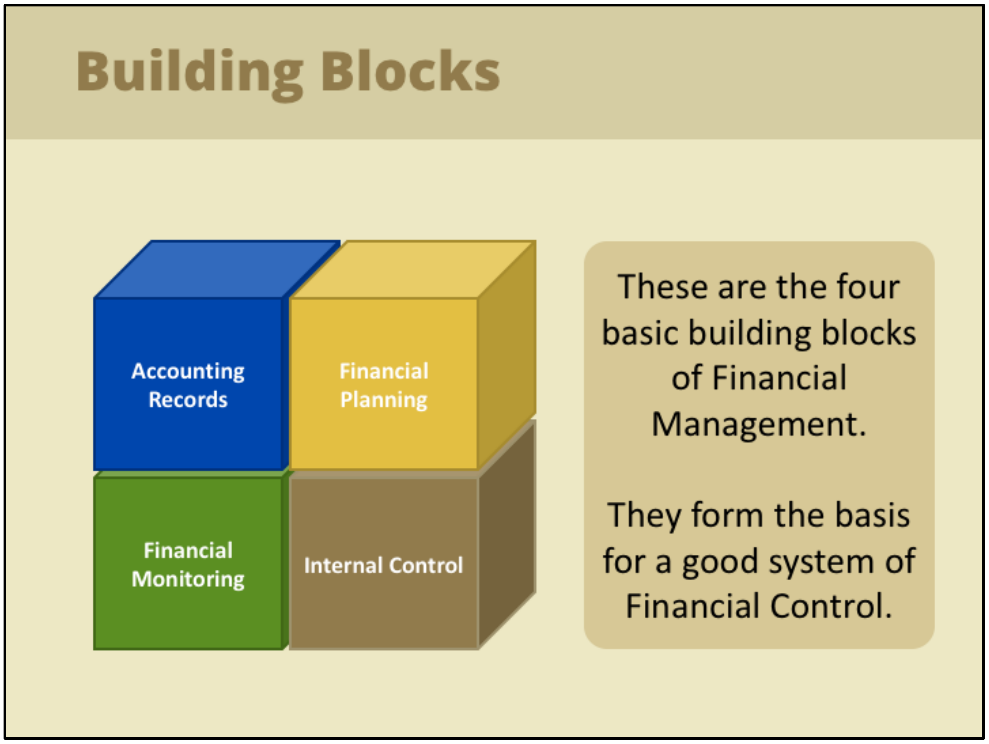
Our fifth principle is Integrity, which is defined as leading by example by following policies and procedures and declaring any personal interests that might conflict with official duties. Integrity is not just something we speak of at the individual level. We can also speak of organizational integrity, for example, when we talk of the accuracy and completeness of financial records.



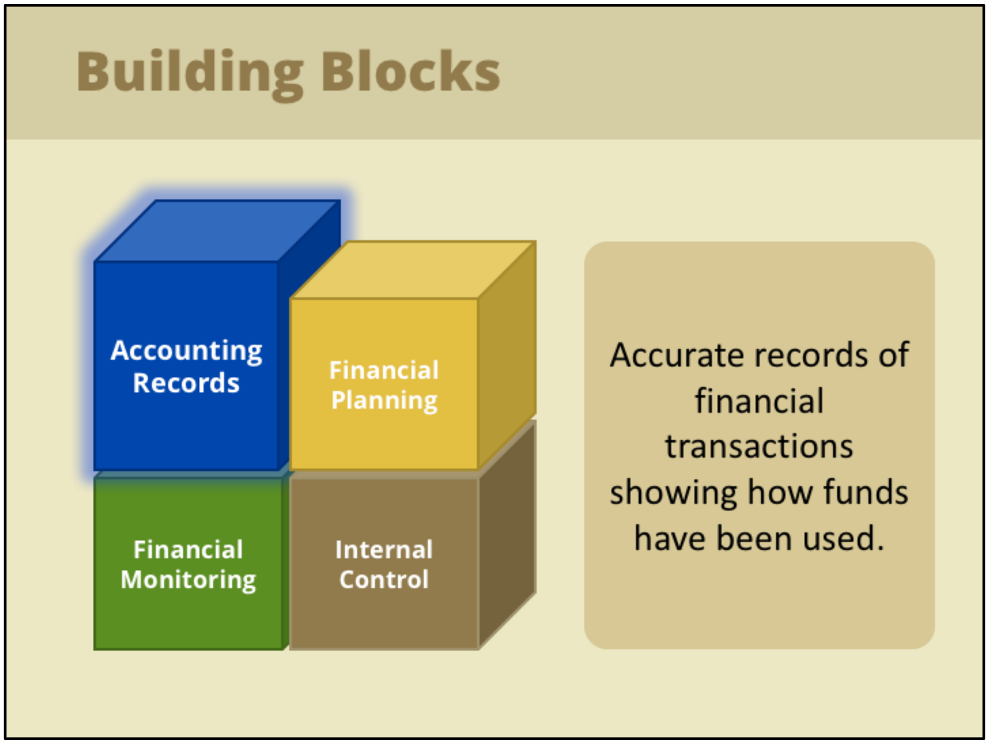
The sixth principle is Stewardship, which requires us to recognize that our organization has been entrusted with financial resources that must be safeguarded and used for the intended purpose. Good stewardship is practiced by planning, assessing risks, and setting up systems and controls.



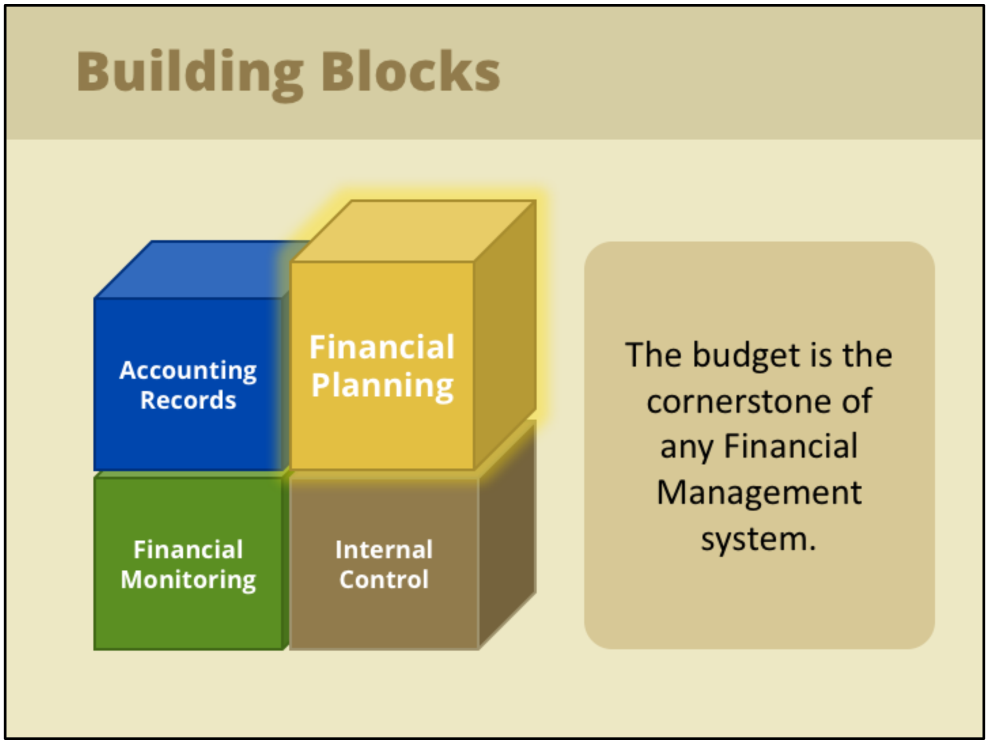
Finally, there is the principle of using Accounting Standards, which means maintaining internationally accepted accounting standards, principles, and systems for keeping financial records and documentation. In addition, this system should be organized, clear, and accessible: any accountant, from anywhere in the world, should be able to understand the organization's system for keeping financial records.



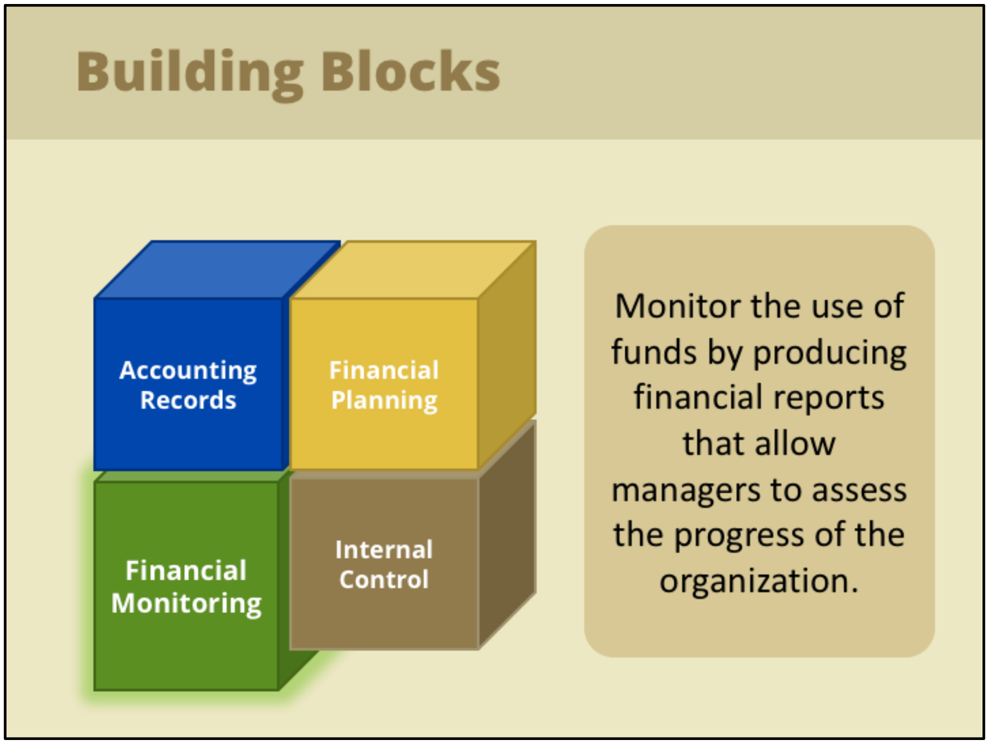
We have now discussed the importance of Financial Management and the need for Financial Control, which together, they allow organizations to meet their objectives and maintain their viability. Now, let's look at how you can build a system of strong Financial Management. There are four basic building blocks in this process. Together, they form the basis for a good system of Financial Control.



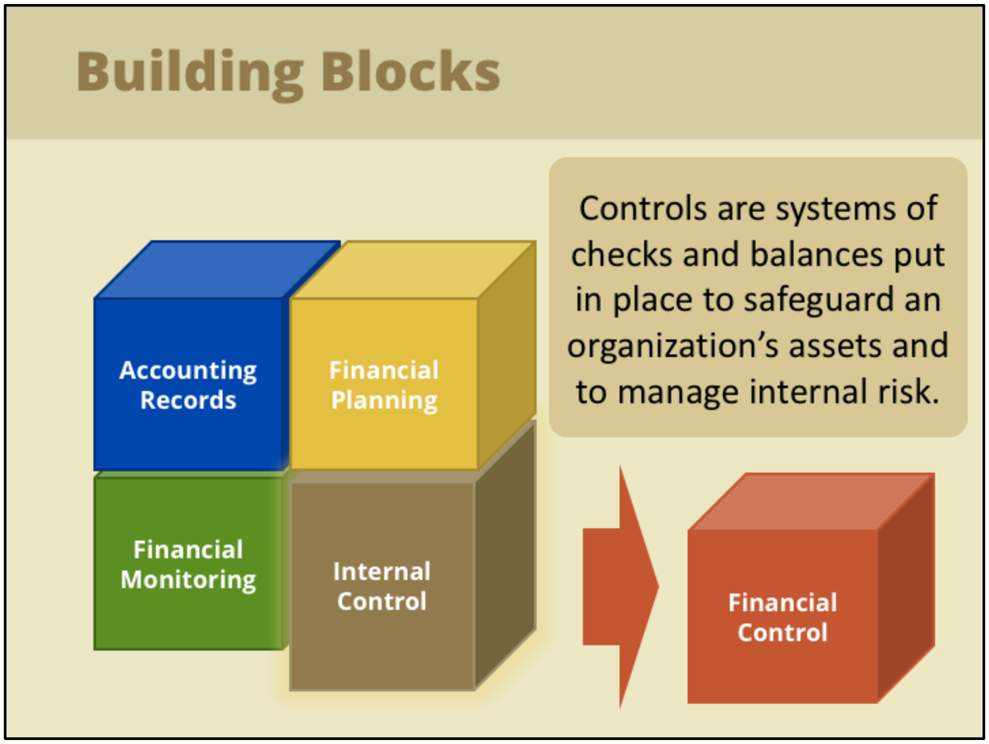
The first building block is your organization's Accounting Records. These must be accurate records of financial transactions that show how funds have been used. Accounting Records show how the organization is being managed and whether it is achieving its objectives.



The next building block is Financial Planning. Linked to the organization's strategic and operational plans, the budget is the cornerstone of any Financial Management system and plays an important role in monitoring the use of funds.



The next building block we will discuss is Financial Monitoring. Provided that the organization has set a budget and has kept and reconciled its accounting records in a clear and timely manner, it is then a simple matter to produce financial reports, which allow managers to assess the progress of the organization.



Internal Control is the fourth building block, and refers to a system of controls, checks, and balances that are put in place to safeguard an organization's assets and to manage internal risk.

The purpose of internal controls is to deter opportunistic theft or fraud and to detect errors or omissions in the accounting records. These controls are part of what protects staff and managers who are involved in financial tasks.

The figure on your screen illustrates that all of the building blocks must be in place continuously.

Effective Financial Control will not be achieved by a partial implementation. For example, there is little point in keeping detailed accounting records if they are not checked for errors and omissions. Inaccurate records will result in misleading information, which in turn could wrongly influence a Financial Management decision.

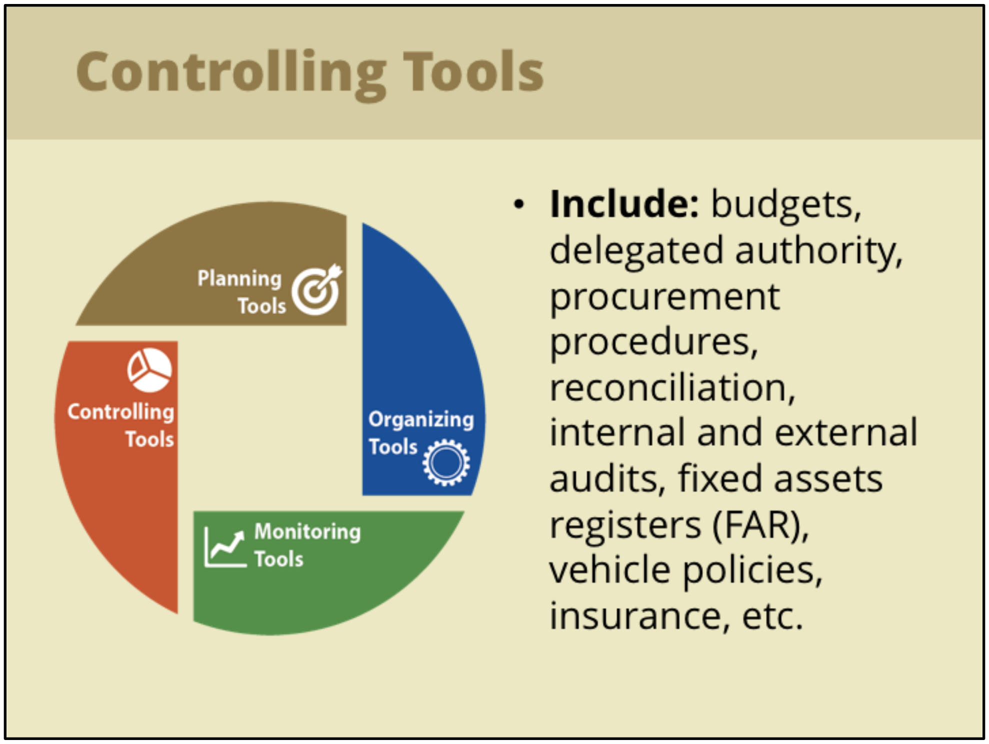
At the beginning of this course, we defined Financial Management as a practice that requires planning, organizing, controlling, and monitoring the financial resources of an organization in order to achieve objectives. You may also recall that Financial Management is part of organizational management as a whole. There are many tools, not necessarily financial that managers can use to help achieve good practice in Financial Management and Control. We can identify these tools under each of the four functions of Financial Management. **Click the forward arrow in the top right of your screen to explore each of these tools in more detail.**

Planning tools: Planning is basic to the management process. It involves looking ahead and preparing for the future as well as what is possible. In the course of putting a financial plan together, managers will consider several possible alternatives and make a number of choices or decisions. It's good to keep in mind that planning must always precede doing.

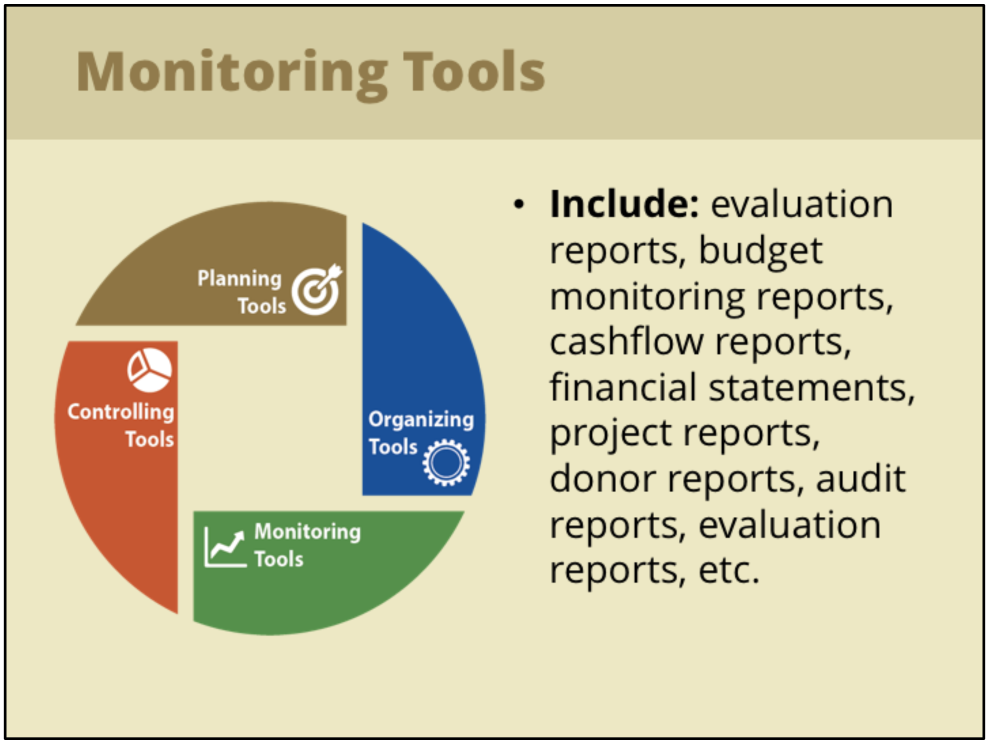
Organizing Tools

- **Include:** a constitution, organizational charts, flow diagrams, job descriptions, charts of accounts, finance manuals, budgets, etc.

The resources of the organization (which may include staff, volunteers, vehicles, property, and money) have to be coordinated to ensure implementation of the overall plan. Staff must be clear about what activities and responsibilities are to be undertaken, when, and by whom.



A system of controls, checks, and balances is essential to ensure that procedures and resources are properly applied during program implementation.



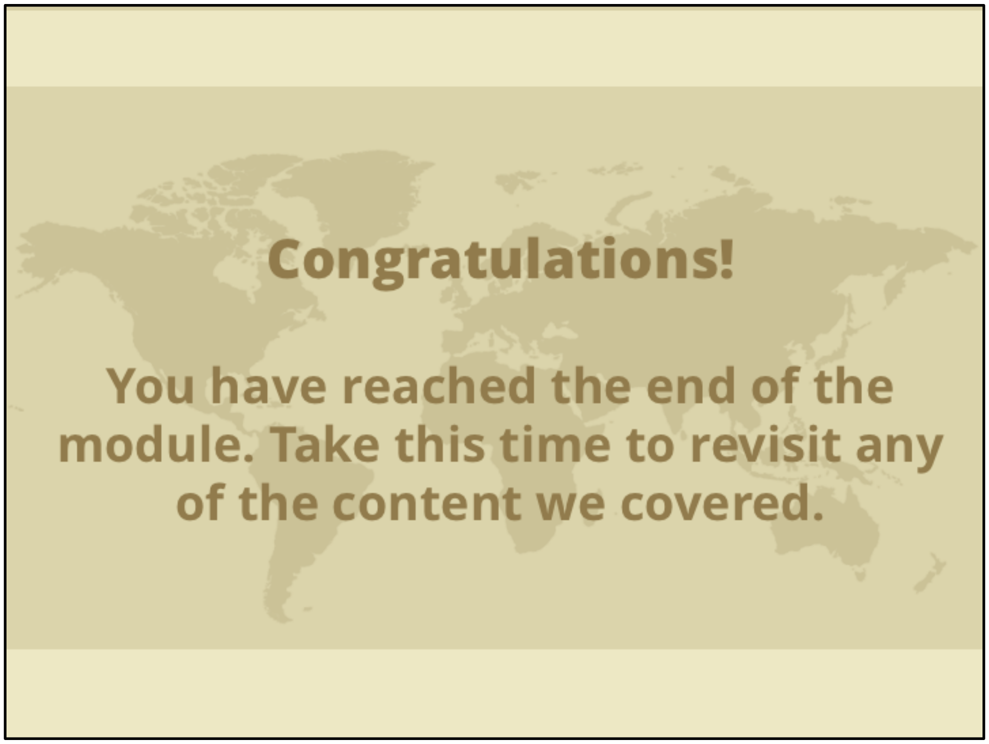
It is necessary to produce regular and timely information for managers and stakeholders so that they can monitor the organization's finances." Monitoring involves comparing the organization's actual performance with its plan (its intended performance). This allows managers to evaluate the effectiveness of the plan, identify weaknesses early on, and take corrective action if it is required.

Lecture Recap

- Why Financial Management is important.
- How Financial Control relates to Financial Management.
- The seven principles of Financial Management.
- Roles, responsibilities, and tools of Financial Management.

To recap what we covered in today's lesson: You should now have a better understanding and awareness of the relationship between Financial Management and the various components of Financial Control, budgeting, monitoring, and management accounting.

Today, you learned why Financial Management is important, how financial control relates to it, the seven principles of financial management, and the roles, responsibilities, and tools of financial management.



Congratulations! You have reached the end of the module. Please take this time to revisit any of the content we covered today