

Features Article 2: Financial Management Practice and Good Governance

1. Introduction

Financial management is one of the basic functions practice in all organisations. It is the way forward and represents the future for best practice organisations. Through this function, bases are determined for authority levels of financial control, budgeting and processing financial resulting information. A financial plan determines cash inflow and outflows of the treasury. Through time and as practice demands, some organisations merge the role of financial management with administration, hence, titles such as head of finance and administration, finance and logistics, or manager of support services.

The governance of an organisation is the practice of putting things together orderly and making an organisation to function effectively.

A good governance system is one that respect and follow the due process of organisational policies and procedures. It should have checks and balances, and there must be segregation of duties. Good governance does not favour concentration of functions on one individual, it encourages cut off points where each employee respects the limits of his or her authority in the organisation.

As far as organisational governance is concern, finance and administration are two separate functions, and separation must come into play, else there is no separation or segregation of duties, since one person is executing or strongly influencing the functions of finance and of administration. This fusion of services, jobs or functions is common with smaller organisations, project tasks charities, management of public affairs in some jurisdictions, and especially in a project concept environment. Actually, what is involved in finance and administration? Perhaps the best way to answer this question is to look at the roles played by both functions in practice.

2) The administrative function

The administrative function of an organisation will be concern with the following:

- Personnel duties of annual leave planning and salaries calculation
- Personnel duties of enforcing disciplinary rules and regulations
- Personnel duties of hiring, performance appraisals, firing and separation of the employees (retirement) from work
- Personnel duties of staff incentive welfare schemes
- Personnel duties of organising staff social events
- Personnel duties of counselling employees and building teamwork
- Administrative duties of drafting contracts and liaising with retain consultants
- Administrative duties of ensuring that regulation, both internal and external are respected
- Administrative duties of ensuring security of organisation's property, etc,

3) The finance function

- Financial planning, policy and advice
- Financial controls
- Financial technical work
- Financial services to other departments, etc,

Looking at the administrative and the finance function, this paper wonders why these two all-important services or functions are under the control of a single executive in some organisations. It is for cost consciousness or performance maximisation reasons. Whatever reasons practitioners may advance in its favour, may not be the best in real world practice.

From the analysis of finance and administration in number two and three above, the administrative function carries more practice elements than the finance function. Administration as a support service to the functioning of the organisation, essentially concentrates mostly on the human resource aspect. Administration recognises the fact that the human resource is the most critical for the success of all organisations. Whether a technological oriented set up or other strategically set up forms of organisations, people are at the heart of every aspect of its functioning.

With smaller organisations or task culture oriented project environments, there may be justified excuses to merge the human resource role with other administrative duties, if it is for a single project that will not go beyond one year. Merging administrative, human resources and the finance function, and assign to one individual makes ridicule of a good governance process. These three distinctive functions, performed by one employee, are the main concerns of this paper. The accountants, especially external accountants or auditors have worries over non-respect of due process. When they visit the organisation at the end of the financial year, their assignment is concentrated on past financial history of the organisation.

4) Financial management and the accountants' safety valves

Since external accountants work is based on organisational history, they are usually in a difficult position to correct past historical records. Through practice accountants have come to the conclusion that no organisation, be they small, medium, large or charities is immune from fraud, errors, theft, etc, for these reasons, accountants insist and advocate on organisational internal controls, which should be financial or otherwise and separation and segregation of duties. The importance of internal controls in financial management should clarify the need for this paper.

5) Definition of internal controls in financial management

The internal control system is defined as "the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the Organisation in an orderly and efficient manner, and to ensure adherence to management Policies, safeguard the assets and secure as far as possible the completeness and Accuracy of records."

5.1) the key points in this definition are:

- Controls are both "financial and otherwise"
- They are "established by the management," and
- Their purpose is "to carry on the business of the organization in an orderly and efficient manner".

5.2) good control environment

The core of any organization is its people, the individual's attributes including integrity ethical values, competence and the environment in which they operate. They are the engine that drives the organization and the foundation on which everything exists. The control environment consists of actions, policies and procedures that reflect the overall attitude of top management. The control environment affects the degree of adherence to policies and procedures. It sets the tone of the organization by influencing the control consciousness of its people.

5.3) Management's philosophy and operating style

Management communicates their philosophy of appropriate behaviour through a code of conduct that discusses general behavioural standards. Managers believe that financial reporting is a priority and that achieving an effective internal control structure is important. They use a variety of methods to exercise control and to monitor activities, such as ensuring that the budgeting system identify differences between cultural and planned activities and take corrective action.

5.4) External Influences

Legislative and regulatory agencies influence the control environment of an organization. Founders, shareholders or donors usually raise management consciousness on issues relating to accurate and prompt reporting. Management should establish specific internal control policies to enable these obligations to be fulfilled. External influences in most cases are aimed to safe guard investors or stakeholders' funds. Where an external influence, especially of taxation, etc, affects the organisation negatively, both stakeholders and management advocates for optimum funds maximisation.

5.5) Segregation of Duties

The purpose of segregating duties is to reduce the opportunities for an individual to be able to both perpetrate and conceal errors or irregularities while performing assigned duties, the optimal

segregation of duties provide that no individual employee should be responsible for more than one of the following duties;

- i) Authorization of transactions
- ii) Recording transactions and
- iii) Executing transactions or having custody of assets.

Such a policy creates a system of checks and balances that increase the likelihood that a misstatement will be identified, and it requires the agreement of at least two employees to avoid complying with established control procedures. An employee will avoid attempting to perpetrate an irregularity if he/she must obtain another employee's consent.

5.6) Key Internal Controls

Key internal control includes:

- Financial controls:- These show how money is handled in the organization, who authorizes payment and what are the checks and balances to stop unauthorized spending and fraud
- Assets control:- These show how assets are obtained, used and maintained
- Administrative controls:- These are designed to guide actions towards meeting the objectives of the project (s), to motivate, counsel, appraise and encourage staff performance
- Systems:- If there are sectional Systems, how do they fit together
- Systems Strength: - How effective are the Systems in place.

An internal control therefore is a quality improvement process that seeks to monitor and improve Management procedure and outcomes through systematic review of Systems against explicit criteria and the implementation of change. Controls are a central activity to the financial management. They are corner stones of efficiently managed resources. They shape and direct actions of employees of the firm. Each employee knows where his or her responsibility starts and ends. Controls are work-motivating factors for high performance. Workers' Morale is high in an organized control environment. They create chances of success and are of benefit to the establishment. The effectiveness of controls influences the value system of the establishment. Values and cultures are at the centre of functioning entities, which gives us an understanding of different operating systems in practice.

6) The practice of finance and administration

This paper attempts to explain the service of finance and administration as is currently practiced in some organisations.

6.1) The Finance function and the 'financial mix'

This paper will define 'financial mix' as the *balance blend of administrative and financial ingredients best calculated to achieve the financial objective of an establishment*. This paper will explain these two key words or activities. Which are related elements of, Finance and Administration, (FA)? Call the financial mix for the convenience of understanding the philosophy of this paper.

6.2) Finance mix as a sub set of the finance function

The finance mix is the first of the two mixes. The financial activity ensures planning, budgeting, monitoring, controlling, analysing and reporting. It ensures that the financial implication of each decision is considered. This activity also installs the financial policies and tools. The financial activity ensures that funds are available when required. Its plans are a leeway for the treasury to manage liquidity. The sub - set offers strategic directions for funds movement and liquidity. Its efficient functioning complements the second sub set.

6.3) Administrative mix as a sub set of the finance function

The administrative activity is the second of the two mixes. It is concerned with the orderliness of workflow activities. These are recording, storing and retrieving of financial information. It is concerned with the proper handling of funds. The uses and allocation of money is determined and so administered. The management of resources and personnel is by this sub set. The proper

functioning of the IT systems is the responsibility of administration. By legal requirements, financial records to be maintain for reference. This sub set oversees the secretarial aspect of documentation. Its efficient functioning compliments the first sub set of finance. The ability of the head to delegate work to assistants is crucial, as delegation create the chance to carry out more assignments that are technical in nature. The worry of this paper is that, even if the head of finance and administration delegate work to sub sectional heads of finance, administration and personnel, these sub heads who are juniors in rank to the incumbent are under the single superior's influence and control. Arguably, three important functions in an organisation are under the control and influence of one individual, freezing out checks and balances, and weakening governance efficiency.

6.4) Core financial management services

6.5) *the finance control role*

In the control role, they work to ensures adherence to policies. They ensure that financial standing orders and regulations are complied. Specifically, they ensure that the following are in place and functioning as follows:

- Proper control policies are in place for company implementation;
- Internal controls of financial and activity plans of the organisation;
- Ensures that all sectional heads are aware of their position on their budgets;
- Ensuring that sectional heads obtain approval for virements, supplementary estimates;

6.6) *Finance technical work*

In carrying out technical work, they will manage the capital fund. Management relies on the finance and administration manager's expertise for finance related decisions. They will allow other unit managers access to financial information. This, they do to release time for more technical work.

6.7) *Financial policy and advice*

This is where the head of service lays the foundation for finance work. It is their responsibility to set out financial systems and procedures, and to advise management on financial policy issues. The head oversee the implementation of those systems and procedures, ensuring that due process rules are effective and ongoing. They involve department managers in working groups when presenting financial reports, and clarify difficulties personally thereby resolving non-financial manager's worries.

6.8) *Financial services to other departments, staff and clients*

The finance head of service need to market the services of their department, and should be market friendly individuals promoting financial services. They should be aware of the client/customer needs from their departments. It is the head of service role to revise the budgets, coordinating other departmental heads, calling for budgetary head swapping where need be and if necessary. The preparation and payment of salaries should be staff friendly, advice on pension planning, and credit consumption is one critical aspect of the leader's duties. Suppliers should receive user-friendly information from the finance department. These promotional approaches will maximise the services provision of financial function.

6.9) *Financial managers and internal controls*

Internal controls are a domain of the head of service. They are building blocks to ensure adherence to management policies. They ensure that due process and orderliness is in place. They check and validate the actions of other company operators. Controls ensure statutory compliance of systems to guarantee conventionalism and best practice.

Controls that remove the possibilities of suspicion falling on honest staff are highly appreciated management tools of efficiency, which safeguard assets, secure the relevance and integrity of information. Internal controls report directly to the higher management, there must be a clear line of independence between the head of service and executive management, which guarantees separation of duties and integrity of the system.

7) The way forward

The organisation's managerial process needs continuous enrichment for good performances, and certified accountants should act as change agents in introducing best practice guides, good organisational governance, and in correcting expected lapses in financial management practice. Yes, it is our domain and we must master its course of change and developments of the practice. The emerging global market environment dictates that no one individual or entity will stay permanent on monopolistic practices. If professional accountants do not take the lead, then the emerging forces will be embarrassing, or better still, the change will be introduced by others. Accountants by their trainings, and Continuing Professional Development practices, are future oriented people.

The practice of financial management should be such that:

No single management executive can monopolise functions, and the practice of combining the functions of finance and administration should cease. Value creation and innovation is a domain to be championed by accountants, who impliedly are best practice financial managers. Projects or organisations that may not last beyond one year, finance and administration as a combined service, be exceptionally practice for time span convenience.

8) Conclusion

For good governance practice, the combined role of finance and administration as is currently practice in some organisations be reconsidered. Good governance calls for separation of duties and functions, to create room for best practice. Where one individual is responsible for employee recruitment, motivation, administration, annual appraisals, and separation of the employee from the work place, then there is a problem or potential problems with the organisation. Organisational controls which accountants, as evaluators of the financial history of the organisation advocate for, will lack integrity if the planning, monitoring, are under the direct influence of one executive. Small or medium size enterprises, charities, or the public affairs if they run several tasks projects that last within shorter durations than one year, but of which their programmes are on a going concern basis, should reconsider the combined roles of the finance and administration function of their organisations. Accountants are key professionals in governance issues who are trained to reinforce controls as the backbone of good financial management, in that right, they should champion the course of separation of duties.

References

- Brock et al.: Accounting (basic principles) Sixth edition, Macmillan/McGraw-Hill, 1990
Gary Dessler: Human resource Management, 9th edition, 2003, Pearson customer publishing, Boston MA.
West Africa, 2 September 1985: Change and accountability
Njini, G. Y. Negotiation as a corporate procurement tool: Unpublished thesis submitted to the Irish University Business School in partial fulfilment of the requirements for the award of Master of Business Administration (MBA) degree.
Njini, G.Y. Executive Accountancy & Decision Making: Unpublished dissertation submitted to the Institute of Cost & Executive Accountants London, in partial fulfilment of the award of Fellowship grade.
Njini, G.Y. Management of small businesses, FOOTSTEPS NO.26,
Njini, G.Y. Business management and community practice: Book, unpublished book.

By Gideon Njini