01

Introduction to Financial Management

Presented by Dr Abenet Yohannes, Ph.D. | Financial Management Training Series

Learning Objectives

By the end of this chapter, participants will be able to:

- Define financial management
- Explain why it is important
- Distinguish it from accounting
- Describe its major components
- Explain the financial management cycle
- Apply key management principles
- Identify elements of internal control
- Explain roles and responsibilities
- Identify common weaknesses
- Recommend actions to improve systems

Opening Reflection

Discuss with the person next to you:

- What does financial management mean to you?
- Who is responsible for financial management?
- What happens when financial resources are poorly managed?
- Is financial management only the responsibility of finance staff?

What Is Financial Management?

Financial management is the process of:

- Planning financial resources
- Organizing financial systems
- Directing the use of funds
- Controlling financial activities
- Monitoring financial performance
- Protecting organizational resources

Its purpose is to help an organization achieve its objectives efficiently, responsibly and sustainably.

A Broader Definition

Financial management involves making decisions about:

- Where funds will come from
- How funds will be allocated
- How resources will be spent
- How transactions will be recorded
- How performance will be monitored
- How financial risks will be controlled
- How results will be reported

A Management Function, Not Just Bookkeeping

Financial management connects:

- Strategy
- Planning
- Operations
- Programme implementation
- Resource allocation
- Risk management
- Compliance
- Accountability
- Decision-making

Financial Management vs Accounting

Financial Management	Accounting
Focuses on planning and decisions	Focuses on recording transactions
Looks forward and backward	Mainly records past activities
Manages resources and risks	Produces financial records
Supports strategic decisions	Supports financial reporting
Includes budgeting and forecasting	Includes journals and ledgers

Accounting is one component of financial management.

Financial Management vs Financial Administration

Financial Management

- Strategic
- Decision-oriented
- Forward-looking
- Focused on performance and sustainability

Financial Administration

- Procedural
- Transaction-oriented
- Focused on processing and documentation
- Ensures compliance with established systems

Both are necessary for effective organizations.

Why Financial Management Matters

Sound financial management helps organizations to:

- Achieve strategic objectives
- Use resources efficiently
- Maintain accountability
- Protect assets
- Manage financial risks
- Comply with requirements
- Make informed decisions
- Maintain operational continuity
- Build stakeholder confidence

Achieving Organizational Goals

Financial management ensures that:

- Priorities receive adequate resources
- Activities are properly budgeted
- Funds are available when needed
- Expenditure supports agreed objectives
- Performance is measured against plans
- Corrective actions are taken promptly

Accountability and Stewardship

Resources Come From

- Donors
- Investors
- Governments
- Customers
- Members
- Communities
- Partners

Resources Must Be

- Used for approved purposes
- Properly authorized
- Accurately recorded
- Adequately protected
- Transparently reported

Financial Management and Decision-Making

Managers require timely financial information to decide:

- Which activities to prioritize
- Whether expenditure is affordable
- Whether budgets require revision
- Whether cash is sufficient
- Whether costs are increasing
- Whether financial risks require action
- Whether operations are sustainable

01

SECTION ONE

Core Components

Core Components of Financial Management

The major components include:

- Budgeting and financial planning
- Treasury and cash management
- Accounting and record-keeping
- Financial reporting
- Internal controls
- Compliance
- Financial risk management
- Asset management
- Audit and assurance

Budgeting and Financial Planning

Financial Planning Determines

- What the organization wants to achieve
- What resources are required
- When resources will be needed
- Where funds will come from
- How performance will be measured

Common Outputs

- Annual budgets
- Project budgets
- Cash-flow forecasts
- Multi-year financial plans

Treasury and Cash Management

Treasury management ensures that:

- Cash is available when needed
- Bank accounts are properly controlled
- Receipts are recorded
- Payments are authorized
- Cash balances are monitored
- Idle funds are minimized
- Liquidity risks are managed

Accounting and Record-Keeping

Accounting systems should ensure that:

- Transactions are recorded promptly
- Correct account codes are used
- Supporting documents are maintained
- Ledgers are complete
- Accounts are reconciled
- Records are traceable
- Reports can be produced accurately

Financial Reporting

Financial reporting communicates:

- Income received
- Expenditure incurred
- Assets and liabilities
- Cash position
- Budget performance
- Project financial performance
- Financial risks
- Compliance status

Internal Controls

Internal controls are policies and procedures designed to:

- Prevent errors
- Detect irregularities
- Protect assets
- Promote accurate reporting
- Ensure compliance
- Reduce fraud risk
- Clarify accountability

Financial Risk Management

Financial risk management involves:

- Identifying risks
- Assessing likelihood and impact
- Establishing controls
- Assigning risk owners
- Monitoring risk indicators
- Reporting significant risks
- Reviewing mitigation actions

Asset Management

Asset management includes:

- Asset acquisition
- Registration
- Coding and tagging
- Assignment
- Physical verification
- Maintenance
- Transfer
- Disposal
- Reporting losses or damage

02

SECTION TWO

Principles of Financial Management

Seven Core Principles

Key financial-management principles include:

1. Consistency
2. Accountability
3. Transparency
4. Viability
5. Integrity
6. Stewardship
7. Value for money

These principles provide a benchmark for assessing the quality of financial management.

Consistency

Consistency means applying the same:

- Accounting policies
- Coding structures
- Approval procedures
- Financial definitions
- Reporting methods
- Documentation requirements

Consistency improves comparability and reliability.

Accountability

Accountability means that individuals and organizations must:

- Explain their decisions
- Accept responsibility
- Demonstrate how funds were used
- Maintain supporting evidence
- Respond to financial concerns
- Correct identified weaknesses

Transparency

Transparency requires organizations to:

- Provide clear financial information
- Disclose relevant decisions
- Explain budget changes
- Report achievements and underperformance
- Make records available to authorized reviewers
- Avoid hiding financial problems

Viability

Financial viability means ensuring that:

- Expenditure remains affordable
- Income is sufficient
- Cash-flow needs are anticipated
- Commitments do not exceed resources
- Reserves are managed appropriately
- Operations can continue sustainably

Integrity

Integrity requires:

- Honesty
- Ethical conduct
- Accurate records
- No manipulation of figures
- Disclosure of conflicts of interest
- Compliance with professional standards
- Consistent application of rules

Stewardship

Stewardship means taking responsible care of resources entrusted to the organization. It requires:

- Protecting funds and assets
- Preventing waste
- Using resources for intended purposes
- Maintaining adequate records
- Reporting losses
- Taking corrective action

Value for Money

Economy

Obtaining inputs at appropriate cost and quality.

Efficiency

Producing maximum outputs from available resources.

Effectiveness

Achieving intended outcomes and results.

Equity

Ensuring resources and benefits are distributed fairly.

03

SECTION THREE

The Financial Management Cycle

The Financial Management Cycle

The financial management cycle connects planning, resource acquisition, spending, reporting and review.

It ensures that financial activities are managed as a continuous process rather than isolated transactions.

Five Stages of the Cycle

1. **Plan**
   Establish priorities and budgets
2. **Acquire**
   Obtain and manage financial resources
3. **Utilize**
   Spend and record funds
4. **Report**
   Communicate financial performance
5. **Review**
   Assess results and take action

Stage 1 — Plan

Planning involves:

- Reviewing strategic priorities
- Estimating costs
- Preparing budgets
- Forecasting cash needs
- Identifying funding sources
- Assessing financial risks
- Setting financial targets

Stage 2 — Acquire Resources

Resources may be acquired through:

- Donor grants
- Sales revenue
- Membership contributions
- Government funding
- Loans
- Equity investment
- Service charges
- Donations

All receipts should be authorized, documented and recorded.

Stage 3 — Utilize Resources

Resource utilization includes:

- Procurement
- Payroll
- Travel
- Programme expenditure
- Asset acquisition
- Supplier payments
- Advances
- Operational costs

Expenditure must be necessary, reasonable, authorized and properly documented.

Stage 4 — Report

Financial reports may include:

- Budget-versus-actual reports
- Cash-flow reports
- Management accounts
- Project financial reports
- Donor reports
- Financial statements
- Asset reports
- Audit reports

Stage 5 — Review

Financial review involves:

- Comparing actual results with plans
- Investigating variances
- Reviewing controls
- Assessing compliance
- Monitoring risks
- Correcting errors
- Revising forecasts
- Improving future plans

The Continuous Cycle

Plan → Acquire → Utilize → Report → Review

Review feeds improved planning — the cycle begins again.

Financial review should influence the next planning cycle.

04

SECTION FOUR

Building Blocks of Financial Management

Four Building Blocks

Strong financial management requires:

1. Financial planning
2. Accounting records
3. Policies and procedures
4. Reporting and monitoring

These elements work together as one financial-control system.

Building Block 1 — Financial Planning

Financial planning includes:

- Strategic financial planning
- Annual budgeting
- Project budgeting
- Cash-flow forecasting
- Resource mobilization
- Contingency planning
- Budget revision

Building Block 2 — Accounting Records

Reliable accounting records require:

- Approved chart of accounts
- Complete journals and ledgers
- Supporting documents
- Correct transaction coding
- Timely posting
- Regular reconciliation
- Secure document retention

Building Block 3 — Policies and Procedures

Financial policies should cover:

- Budget management
- Cash and banking
- Procurement
- Payroll
- Travel
- Advances
- Asset management
- Financial reporting
- Fraud response
- Records retention

Building Block 4 — Reporting and Monitoring

Reporting and monitoring include:

- Monthly financial reports
- Budget monitoring
- Variance analysis
- Cash-flow monitoring
- Management review
- Donor reporting
- Audit follow-up
- Corrective-action tracking

05

SECTION FIVE

Internal Control

Four Actions of Internal Control

Internal control involves four connected actions:

Direct → **Prevent** → **Detect** → **Correct**

These actions form a continuous control loop.

Direct

Directing controls establish expectations before transactions occur.

- Financial policies
- Delegated authority
- Approval limits
- Standard operating procedures
- Budget instructions
- Job descriptions
- Codes of conduct

Prevent

Preventive controls reduce the chance of errors or fraud.

- Segregation of duties
- Pre-approval
- Password controls
- Competitive procurement
- Budget availability checks
- Dual authorization
- Restricted system access

Detect

Detective controls identify problems after or during transactions.

- Bank reconciliation
- Cash counts
- Stock counts
- Variance analysis
- Supervisory review
- Internal audit
- Exception reports
- Document verification

Correct

Corrective controls address identified weaknesses.

- Correcting accounting records
- Recovering unsupported expenditure
- Updating procedures
- Retraining staff
- Strengthening supervision
- Applying disciplinary action
- Tracking audit recommendations

Segregation of Duties

No individual should control every stage of a transaction. Key responsibilities should be separated:

- Requesting
- Approving
- Purchasing
- Receiving
- Recording
- Paying
- Reconciling
- Reviewing

Authorization and Approval

Authorization controls should define:

- Who may approve transactions
- Approval thresholds
- Budget authority
- Required supporting documents
- Exceptional approval procedures
- Delegation arrangements
- Electronic approval controls

Documentation and Audit Trail

Every financial transaction should show:

- What was purchased or paid
- Why the transaction was necessary
- Who requested it
- Who approved it
- Who received the goods or services
- How it was paid
- Which budget and account were charged

Reconciliation

Reconciliation compares two independent sources of information.

- Bank statement vs cashbook
- General ledger vs subsidiary ledger
- Payroll register vs bank transfer
- Asset register vs physical assets
- Supplier statement vs accounts payable
- Budget report vs accounting records

06

SECTION SIX

Compliance and Shared Responsibility

Financial Compliance

Financial compliance means following:

- Laws and regulations
- Donor agreements
- Organizational policies
- Approved budgets
- Procurement requirements
- Tax regulations
- Accounting standards
- Approval limits
- Reporting deadlines

Financial Management Is Everyone's Responsibility

Board & Senior Management

Provide oversight and strategic direction.

Finance Team

Maintain systems, records and reports.

Programme Team

Ensure expenditure supports approved activities.

Procurement & Logistics

Ensure compliant purchasing and asset management.

Human Resources

Manage payroll and personnel controls.

MEAL Team

Link financial inputs with activities, outputs and results.

Finance–Programme Integration

Finance and programme teams should jointly review:

- Activity plans
- Budgets
- Expenditure
- Implementation progress
- Forecasts
- Variances
- Procurement plans
- Programme results
- Financial risks

Financial Information for Managers

Managers should regularly review:

- Budget utilization
- Cash position
- Outstanding advances
- Commitments
- Payroll costs
- Procurement status
- Donor balances
- Restricted funds
- Financial risks
- Audit recommendations

07

SECTION SEVEN

Common Weaknesses and Warning Signs

Common Financial-Management Weaknesses

Common weaknesses include:

- Poor budgeting
- Weak internal controls
- Delayed or inaccurate reporting
- Inadequate reconciliations
- Non-compliance with policies
- Incomplete supporting documents
- Weak audit readiness

Financial Warning Signs

Potential warning signs include:

- Frequent budget overruns
- Long-outstanding advances
- Repeated unsupported transactions
- Missing receipts
- Unreconciled bank accounts
- Duplicate payments
- Unusual supplier relationships
- Delayed reporting
- Shared passwords
- Excessive cash transactions

Root Causes of Financial Weaknesses

Financial weaknesses may arise from:

- Inadequate policies
- Poor staff capacity
- Unclear responsibilities
- Weak supervision
- Limited management oversight
- Inappropriate systems
- Poor communication
- Excessive workload
- Deliberate misconduct

08

PRACTICAL EXERCISE

Group Exercise & Knowledge Check

Group Exercise — Financial Management Assessment

Scenario: an organization reports the following

- Annual budget: ETB 20 million
- Expenditure: ETB 17 million
- No monthly budget reviews
- Bank reconciliations are three months behind
- One staff member prepares and approves payments
- ETB 600,000 in staff advances remains outstanding
- Several vouchers have no supporting receipts
- The donor report is due in five days

Group Discussion Questions

Identify:

1. The major financial-management weaknesses
2. The financial risks
3. The internal controls that are missing
4. Immediate corrective actions
5. Long-term preventive actions
6. The responsible person for each action

Model Answer

Major Weaknesses

- No budget monitoring
- Delayed reconciliation
- No segregation of duties
- Outstanding advances
- Incomplete documentation
- Weak reporting preparation

Immediate Actions

- Complete bank reconciliations
- Review and recover advances
- Verify unsupported transactions
- Separate payment preparation and approval
- Prepare and quality-check the donor report

Preventive Actions

- Introduce monthly financial reviews
- Establish an advance-aging report
- Update approval workflows
- Train staff
- Conduct regular compliance checks

Knowledge Check

1. What is financial management?
2. How does it differ from accounting?
3. What are the seven principles?
4. What are the five stages of the cycle?
5. What are the four building blocks?
6. What are the four actions of internal control?
7. Why is segregation of duties important?
8. What is the purpose of reconciliation?
9. Who is responsible for financial management?
10. What are common signs of weak management?

Knowledge Check Answers

1. Planning, organizing, directing and controlling financial resources
2. It is broader and decision-focused; accounting records transactions
3. Consistency, accountability, transparency, viability, integrity, stewardship, value for money
4. Plan, acquire, utilize, report and review
5. Planning, accounting records, policies and procedures, reporting and monitoring
6. Direct, prevent, detect and correct
7. It prevents one person controlling an entire transaction
8. To identify discrepancies between independent records
9. The board, management and all relevant departments
10. Delayed reports, missing documents, unresolved advances, unreconciled accounts

Action Plan

Assess your organization and identify:

- One budgeting weakness
- One internal-control weakness
- One reporting weakness
- One compliance risk
- One immediate corrective action
- One long-term improvement
- Responsible person
- Completion deadline

Chapter Summary

- Financial management supports organizational objectives
- It is broader than accounting and bookkeeping
- Financial planning must precede spending
- Policies and internal controls protect resources
- Accurate records support accountability
- Financial reports support decisions
- Regular review enables corrective action
- It is a shared leadership responsibility
- Strong systems build trust and sustainability

KEY MESSAGE

Sound financial management is not only a finance-department function.

It is a shared responsibility that connects:

Strategy → Resources → Controls → Performance → Accountability → Sustainability

Thank You

Questions and Discussion

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