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Financial management

Effective financial management is a critical foundation for managing your resources wisely. It can promote economic development and self-determination for your group.

Effective financial management can help your group:

- **use resources effectively and efficiently**
- **achieve objectives and fulfil commitments to stakeholders**
- **be more accountable**
- **gain the respect and confidence of funding agencies, partners and your community**
- **look after your members**
- **access resources**
- **prepare for long-term financial sustainability**
- **comply with legal obligations.**

Two-way financial management

Aboriginal and Torres Strait Islander culture promotes a 'collective' economy, focusing on community benefits.

This is different from a western 'capitalist' economy which emphasises private ownership and profit.

Operating in both economic environments can be challenging, so it's important to balance regulatory requirements with cultural expectations.

Components of effective financial management

It's helpful to think about financial management as a whole system, or a story.

Effective financial management involves the following components:

Planning and budgeting

A budget outlines all the expected income and expenses of your group. A budget is usually done for a financial year. This shows you what you can afford to do.

When you budget, your group should:

- **consider any changes to your income or funding streams**
- **consider any potential risks and opportunities**
- **ensure your board and CEO review the budget and plan for the future**

Setting policies and procedures

Setting policies and procedures helps to minimise financial risk and make roles and responsibilities clear.

Financial management policies should clearly state:

- **who allocates and approves resources**
- **who proposes and who approves spending**
- **who can make financial decisions, and when**
- **who checks bank statements and reconciles bank accounts – this should be someone who is not involved in spending or receiving money.**

Record keeping and reporting

Your records must meet monitoring and reporting requirements. All transactions – money coming in and going out – must be recorded.

If you receive funding, you also need to know and follow the reporting responsibilities of your funding bodies.

Financial reporting tells the story about the money in your group, including:

- **what comes in and goes out**
- **the state of your finances**
- **how you are managing and spending this money.**

Most groups have both internal and external reporting duties and responsibilities.

Internal reporting monitors performance and provides evidence that your organisation is not trading while insolvent.

External reporting is when these reports are made available to the public, members and communities.

Financial statements

To meet your reporting requirements, your group should use these key financial statements:

Balance sheet

This statement provides a snapshot of your group's financial health at a specific point in time.

It lists all the assets (things your group owns) and liabilities (debts or obligations) it has.

Income statement

Also known as a profit and loss statement, this report shows how your group is performing financially over a certain period.

It highlights the money coming in (revenue) and going out (expenses). By subtracting expenses from revenue, you get the profit or loss for that period.

Cash flow statement

This statement tells you how your money is moving. It's divided into three categories:

1. **Operating activities**
2. **Investing activities**
3. **Financing activities**

Financial responsibilities

The board

The board is responsible for managing your funds, resources and assets. In this way, the board acts as a trustee for its members. This means it has the authority to make decisions about your assets, finances and resources.

It's the board's job to:

- **set the strategic direction**
- **approve budgets**
- **make overall decisions about funding and resources**
- **monitor your group's financial performance.**

CEO

The board and the CEO need to work together as a team to manage your finances and make informed decisions.

It's the CEO's job to make sure the board understands the 'money business' of your group. This means making financial information easy to understand for your board members.

The board and CEO should have a clear process on how they work together to manage finances and meet their responsibilities.

Directors and managers

Directors and managers have financial management and accountability legal duties.

Managers handle day-to-day finances, while directors hold ultimate financial responsibility.

Directors must review matters carefully and not delegate their duties. They need to understand financial statements and reports and cannot only rely on managers' advice.

The 4 key financial duties for directors are:

1. **Keeping proper records.**
2. **Financial reporting.**
3. **Monitoring the financial position.**
4. **Preventing insolvency.**

To fulfil these duties, directors and managers should:

- **stay well-informed about the group's financial position**
- **ask questions when needed**
- **seek training if required**
- **get external experts' opinions if necessary**
- **avoid decisions leading to insolvency.**

Tip:

Many groups hire external professionals to assist with reporting – for example, an accountant. You can also use also use computer software to help with:

- **keeping records**
- **allocating responsibilities**
- **tracking outcomes**
- **reporting.**

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For more information, visit: aigi.org.au/toolkit or contact us at: aigi@aigi.com.au