## FINANCIAL ADMINISTRATION AND CONTROL

**FINANCIAL ADMINISTRATION**

**Definition**: The implementation and management of financial policies set by the BoD.

The term financial administration refers to the financial processes and institutions involved in financial control. The scope of financial administration encompasses the preparation of estimates, appropriation of funds, expenditure control, accounting, audit, reporting, and review and so on.

Financial Administration aims at safeguarding the fiscal integrity of an organization. It provides a financial environment that is secure, encourages the accomplishment of the mission and vision of the organization, provides timely and accurate information, and assists all levels of management in making prudent financial decisions. In short, a sound financial administration system ensures that:

• Financial records are complete and safeguarded;

• Financial information is accurate, reliable and useful for management reporting; and

• Financial management methods support short term and longer term organization strategic objectives.

Effective financial administration will facilitate monitoring and improving managerial performance and evaluating the financial effects of management decisions.

The epitome of financial administration is the Board of directors. The board may delegate the function to a finance committee. The day to day financial administration function may be carried out by the chief finance officer.

The following are the tools used in the administration of finances in an organization:

* Multi-annual operating and financial plans of the organization’s departments/ branches or Government ministries and agencies;
* Overall spending limits set by the organization for branches/departments or by the Government for the ministries;
* Annual Budget and supplementary budgets;
* Auditing of finances; and
* Report on the final accounts.

**Operating and financial plans as well as spending limits**

The purpose of the multi-annual operating and financial plans is to produce the necessary information for implementing and supervising the implementation of the organization policies. A further aim is to ensure that the organization’s operating guidelines are incorporated in the internal steering processes.

In a restrictive sense one may consider budgeting as planning since its basic concern is to facilitate the formulation and adoption of policies and programs with a view to achieving the goals of an organization.  But planning, in a broad sense, includes the concerns in terms of whole range of organization policy and it demands a time frame and a perception of the inter relationships among policies.  It looks at a policy in the framework of long-term economic consequences.  There is a need to coordinate planning and budgeting. Financial Administration, under this phase, should consider the sources and forms of finance, forecasting expenditure needs, desirable fund flow patterns and so on.

**Spending limits/ expenditure control**

Operating and financial plan information on the spending limits of the administrative branches/ departments together with data on revenue, and debt form one of the cornerstones in financial policy-making. There is an imperative need for careful utilization of scarce resources. Executive control is a process aimed at achieving this ideal. Limits on spending are useful in ensuring organizational resources are utilized efficiently, and that management can effectively manage expenses.

**The budget and supplementary budget**

The budget and the allotment establish the authority to receive and expend a given amount of resources. The budget represents an accepted plan to accomplish a set of goals with specified revenues and expenditures. Should there be need for any essential changes to the budget, supplementary budget proposals can be prepared. A report on the execution of the budget must be prepared.

**Financial policies**

A company's senior officers (such as the [board of directors](http://financial-dictionary.thefreedictionary.com/Board+of+Directors)) set the policies regarding financial administration/ control and its managers (and sometimes the officers themselves) are responsible for administration.

**Policies Regarding Financial Administration**

* [Accounting and Budget Control](http://www.uwsa.edu/fadmin/gapp/gapp7.htm).
* [Auxiliary Enterprises Support Services Chargeback](http://www.uwsa.edu/fadmin/fppp/fppp42.htm).
* [Banking](http://www.uwsa.edu/fadmin/fppp/fppp38.htm).
* [Breach of Fiscal Integrity](http://www.uwsa.edu/fadmin/fppp/fppp16.htm).
* [Budget Transfers](http://www.uwsa.edu/fadmin/fppp/fppp5.htm).
* [Charging Fuels and Utilities - Auxiliary Enterprises](http://www.uwsa.edu/fadmin/gapp/gapp3.htm).
* [Collections and Write-offs](http://www.uwsa.edu/fadmin/fppp/fppp39.htm).
* [Financial Management of Auxiliary Operations](http://www.uwsa.edu/fadmin/fppp/fppp43.htm).
* [Inter-Institutional Financial Transactions](http://www.uwsa.edu/fadmin/fppp/fppp18.htm).
* [Internal Services Chargeback](http://www.uwsa.edu/fadmin/fppp/fppp24.htm).
* [Official Functions](http://www.uwsa.edu/fadmin/fppp/fppp6.htm).
* [Physical Plant Services Chargeback](http://www.uwsa.edu/fadmin/fppp/fppp25.htm).
* [Position Management Policy](http://www.uwsa.edu/fadmin/gapp/gapp40.htm).
* [Position Management Procedures](http://www.uwsa.edu/fadmin/gapp/gapp40a.htm).
* VAT, [Sales and Use Tax](http://www.uwsa.edu/fadmin/fppp/fppp2.htm).
* VAT, [Sales and Use Tax Exemptions.](http://www.uwsa.edu/fadmin/fppp/fppp36i.htm)

(Adapted from: University of Wisconsin System)

**FINANCIAL CONTROL**

Financial controls are the means by which an organization’s resources are directed, monitored, and measured.

A number of elements must be in place for effective financial management of a company or project to take place, among them, financial control. Effective [financial control](http://www.qfinance.com/dictionary/financial-control) is defined as keeping costs to an agreed level, ensuring that a project is developed within budget. Critically, all managers should take responsibility for financial management and should not assume that this falls within the remit of the accounts team alone. Strategic or long-term planning is also a critical building block for effective [financial control](http://www.qfinance.com/dictionary/financial-control). This planning can help you to decide where your financial priorities lie and how much of your total budget can be allocated to different areas of the company or project.

Good financial and [accounting systems](http://www.qfinance.com/dictionary/accounting-system) are paramount: it is essential that management has current, accurate, and relevant financial data to ensure sound [decision-making](http://www.qfinance.com/dictionary/decision-making). In addition, this information must be presented in a useful form that addresses the needs of individual managers. [Internal controls](http://www.qfinance.com/dictionary/internal-control) should be robust and should be rigorously overseen. This could apply, for example, to the handling of cash by employees. Devolving the management of budgets can bring advantages in terms of flexibility, but there must be a clear reporting structure, so that, for example, it is easy to identify who is responsible for making spending decisions.

Income-driven budgeting, whereby expected income is determined and expense levels are set within this constraint, is a key way of ensuring that there is effective [financial control](http://www.qfinance.com/dictionary/financial-control) of a project. Some organizations estimate their expected income by increasing or reducing the previous year’s income by a set percentage. However, a more prudent method is to start from zero and build the income forecast from the bottom up.

**Advantages of financial control**

* Effective financial management and control is a critical determinant of the failure or success of a project or company.
* Effective [financial control](http://www.qfinance.com/dictionary/financial-control) ensures that the company or project is run as efficiently as possible, ensuring that its full potential is realized.

**Components of a good financial control system**

* Proper accounting and [management information systems](http://www.qfinance.com/dictionary/management-information-system).
* Robust [internal controls](http://www.qfinance.com/dictionary/internal-control) to cover issues such as cash handling.
* A clear reporting structure and that all members of staff know who is responsible for setting a particular budget and who can authorize spending.
* Well trained and experienced finance managers/ accountants

**Audit of financial administration and control**

Most organizations and governments have introduced a program of ***Financial Control and Administration (FCAs)*** audits, aimed at improving the quality of financial administration by assisting and encouraging better practices in areas of financial management and administration, such as asset management and accounts processing.

Most of the areas examined in the FCA program are not likely to be covered directly by financial statement or performance/ operational audits, either because they are not likely to be significant or " material', or they have too narrow a focus, in a single entity context.

**Audit Scope and Focus**

Rather than simply identifying shortcomings or minor matters dealing with administrative processes, FCA audits are concerned more with whether appropriate platforms and mechanisms for control have been properly implemented.

Essentially, the audits focus on those core, or 'housekeeping', activities that are considered vital for good management. These include financial policies and guidelines, instructions, information systems, monitoring processes, systems development, integrity and ethical checklists, and audit trails.

Better practice guides are developed during audit. The content of these guides is drawn from a variety of sources, including;

* A control model developed during the planning phase of each audit.
* Any best practice implemented by agencies that is identified during the course of the audit; and
* Research into best practice in the practice in the private sectors.

**IMPLEMENTING FINANCIAL CONTROLS**

Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud and protecting the organization’s resources, both physical and intangible. These **internal control** procedures reduce process variation, leading to more predictable outcomes.

**Best practices: financial controls to consider**

Topics to consider include, but are not limited to: segregation of duties like A/R and A/P, check writing, access to accounting software systems, access to credit cards and ATM cards, and inventory management

These best practices can serve as a guideline for an organization’s financial control implementation.

**Management Policies / Staffing**

• Knowledgeable accounting and finance staff are in place to ensure that relevant accounting standards are reviewed and implemented throughout the organization to accurately report financial data.

• Senior management ensures that the control processes surrounding accounting and financial data are effective through proactive involvement in financial and accounting matters.

• Accounting staff has direct reporting line to the CFO, who in turn is part of senior management.

• Comprehensive global General Ledger (G/L) frameworks and a detailed Chart of Accounts exist.

• Corporate policies are in place for G/L and Chart of Accounts management, financial statement closing process, reconciliations, aging and charge-offs, inactive accounts, and suspended accounts.

• Management team reviews and evaluates financial performance and ensures that finance and accounting staff has appropriate knowledge and skills.

• A clear segregation of duties exists between the following functions: sales, order placement, receiving, invoicing, accounts payable, and account reconciliation.

**Accounts Receivable (A/R), Credit, and Collections (Refer to revenue collection topic for more controls)**

• Strive to ensure that all funds intended for the organization are received, promptly deposited, properly recorded, reconciled, and kept under adequate security.

• Require credit reporting on all customers prior to credit issuance.

• Require periodic review of key customers to ensure ongoing credit worthiness.

• Establish limits of authority for credit issuance and terms (system or otherwise).

• Limit system access to alter credit limits and/or terms only to appropriate personnel.

• Require manager approval for adjustments to and/or write-offs of A/R balances.

• Sequentially number credit memo adjustments to A/R balances.

• Require monthly reconciliation of the General Ledger to the Cash and A/R subsidiary.

• Reconcile bank statements to the General Ledger on a monthly basis.

• A central point of contact is designated for all incoming mail.

• Access to alter or create records in the customer master file is limited to appropriate parties.

• Account statements are mailed and/or emailed to customers.

• Support files are maintained in a secured area and restricted to appropriate personnel.

**Accounts Payable (A/P) / Purchasing**

• Strive to ensure that funds are disbursed only upon proper authorization of management, for valid business purposes, and that all disbursements are properly recorded.

• Policies and procedures governing accounts payable and purchasing processes exist.

• System access to create, edit, or delete purchase orders is restricted to appropriate personnel.

• The ability to add, modify, or delete vendor records in the vendor master file is restricted to appropriate individuals.

• Manager approval is required for all new vendors or major modifications to vendor information.

• Vendor master file is periodically purged of old and obsolete vendors.

• A three-way match between the invoice, Purchase order, and receiver must be present before payment is released to the vendor.

• Management approval is required for adjustments to A/P balances (credit notes) and restricted to appropriate personnel.

• Check stock is appropriately secured and access is restricted to appropriate personnel.

• Owner or CFO signature is required on all manual check disbursements.

• Check sequences and gaps are investigated.

• Bank statements are reconciled to the general ledger monthly and reviewed by management.

• Major supplier statements are reconciled to the A/P subsidiary ledger.

• Support files are maintained in a secured area and restricted to appropriate personnel.

• Wire transfers are owner executed through a password-protected internet process.

• Clear expense reimbursement guidelines are maintained. Accountant reviews expense reports in detail and reimburses only with valid receipt and approval of manager.

• Credit cards are only issued to employees with clearly defined needs (e.g. extensive travel). One general company credit card exists for non-management personnel, and access is only allowed through permission from the accountant and manager and through a formal purchase order.

**Payroll**

• Strive to ensure that payroll disbursements are made only upon proper authorization to bona fide employees, that payroll disbursement is properly recorded and that related legal requirements (such as payroll tax deposits) are complied with.

• Policies and procedures governing payroll processes detailing timelines, responsibilities, actions, responsibilities, etc exist.

• Access to add, modify, and delete records from the employee master file are restricted to appropriate personnel (CEO, and, if needed, company owners). Managerial approval is required for modification to significant data (i.e. salaries, etc).

• Support files are maintained in a secured area and restricted to appropriate personnel.

**Fixed Assets**

• Strive to ensure that fixed assets are acquired and disposed of only upon proper authorization, and that they are adequately safeguarded, and properly recorded.

• Policies and procedures governing fixed asset-related processes detailing timelines, responsibilities, actions, responsibilities, etc exist.

• Assets are secured appropriately.

• Book to physical reconciliation is conducted annually to validate condition and existence.

• Access to the fixed assets register is restricted to appropriate personnel.

• Managerial approval is required for asset disposals and write-offs.

• Asset acquisitions are approved in advance of purchase.

• Asset valuations are periodically reviewed by management for continued relevance.

• All supporting paperwork is obtained prior to entry into the fixed asset register.

• Support files are maintained in a secured area and restricted to appropriate personnel Inventory

• Strive to ensure that inventories are received and/or shipped only with proper authorization and documentation, properly recorded, and appropriately safeguarded.

• Policies and procedures governing inventory-related processes detailing timelines, responsibilities, actions, responsibilities, etc exist.

• Inventories are appropriately secured.

• Book-to-physical or cycle counts are periodically conducted to validate condition and existence.

• Inventory is only received with valid support paperwork (i.e. PO).

• All inventory receipts are verified for quantity and condition against the bill of lading and the packing slip and record on pre-number receiver forms or a log.

• Management reviews and reconciles the receipts log to system receipts on a daily basis.

• Support files are maintained in a secured area and restricted to appropriate personnel.

• Management review and approval of inventory write-offs is required.

• System access to process inventory adjustments is restricted to appropriate personnel.

• All inventory shipments are required to be accompanied by a valid order.

• Management periodically reviews open work orders, inventory aging reports, etc.

• All shipments are recorded in a shipping log, and management reviews and reconciles to the system on a daily basis.

**Financial Closing or Reporting**

• Strive to ensure that financial data is recorded, consolidated, and reported accurately, timely, and in compliance with GAAP.

• Policies and procedures governing financial closing processes detailing timelines (Cut-off), responsibilities, actions, responsibilities, etc exist.

• Segregation of duties within the account reconciliation, journal posting, and management review/approval processes exist.

• Management approval is required for all non-standard, adjusting, and/or manual journal entries.

• A budgeting and forecasting process is established. Trend analysis is used (horizontal and vertical) in order to sanity check results and research and resolve any unusual variations.

• The ability and/or access to post journal entries is limited to appropriate personnel.

**Accounting Software**

• Password-protected accounting software exists and access to information and editable fields is limited to appropriate personnel.

Refer to internal controls over the revenue process in the topic REVENUE COLLECTION.

**FINANCIAL CONTROL IN SMALL COMPANIES**

*For a small organization, the following practices may be considered*

• Establish a clear segregation of duties between A/R and A/P, check writing and check signing.

• Limit system access to appropriate personnel.

• Reconcile bank statements, credit card statements, etc to the General Ledger on a monthly basis.

• Designate a central point of contact for all incoming mail.

• Require credit check on customers prior to credit issuance.

• Consider hiring an outside accountant/bookkeeper to assist with and review financials.

• Consider outsourcing payroll.

*References/ Further reading*

1. University of Wisconsin, *University of Wisconsin System, Financial administration,* [http*://www.uwsa.edu/fadmin/*](http://www.uwsa.edu/fadmin/)
2. Minnesota State Colleges and Universities, *Minnesota State Colleges and Universities Board Policies*, <http://www.mnscu.edu/board/policy/7-03.pdf>
3. Australian National Audit Office, *Audit of Financial Control and Administration (FCAs) – Australia,* <http://www.asosai.org/journal1998/audit_of_financial_control_and_administration.htm>
4. B Corporation, *Resource Guide: Implementing Financial Control,* [*http://www.bcorporation.net/resources/bcorp/documents/B%20Resources%20*](http://www.bcorporation.net/resources/bcorp/documents/B%20Resources%20) *%20Implementing%20Financial%20Controls.pdf*
5. Q- finance, *Ensuring Effective Financial Control: Checklist, http://www.qfinance.com/operations-management-checklists/ ensuring-effective-financial-control*