

Importance of Financial Governance

財務管治

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Importance of Financial Governance 財務管治

Corporate Governance 公司管治

The system of rules, practices & processes directs and controls an organization for the interests of various stakeholders.



Importance of Financial Governance 財務管治

Financial Governance 財務管治

Alike corporate governance (system of rules, practices & processes), but with a **focus on “Reporting”**



Importance of Financial Governance 財務管治

Corporate Governance 公司管治

Vs

Financial Governance 財務管治

Why an extracted focus from Corporate Governance necessary?



Importance of Financial Governance

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Financial Governance

- A special area of Corporate Governance
- Board ultimately responsible and carrying overall accountability for the finance of the organization
- Financial failure can destroy all gains from other parts of corporate governance



Importance of Financial Governance

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Financial Governance

Why Important?



Importance of Financial Governance

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Financial Governance guards against

- Frauds
- Mismanagement of Finance
- Insolvency
- Inception of “dirty donations”
- Inefficient Deployment & Employment of Resources
- Improper Board, Management & Operation Decisions



Importance of Financial Governance

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Financial Governance also essential for

- Financial Sustainability
- Financing Strategy



Importance of Financial Governance

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Financial Governance

NGOs Vs Business Entities

What makes their differences?



Importance of Financial Governance

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Financial Governance

NGOs Vs Business Entities

Ownership & Purpose



Importance of Financial Governance

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Business Entities:

Private Ownership

Profit Maximization



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NGOs:

Work as trustees
in fiduciary capacity* (信託人)

- * a person serving to handle money and property to benefit another party



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NGOs:

Work for **public purposes**,
despite the sources of the fund
(e.g. even private funds)



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NGOs:

No concept of individual
ownership or gain



Importance of Financial Governance

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NGOs' Financial Governance

- NGOs work as trustees in fiduciary capacity
- NGOs work for public purposes despite the sources of the fund
- No concept of individual ownership or gain



Importance of Financial Governance

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NGO's Financial Governance

*The board has ultimate **legal, moral, and financial responsibility** for the organization.

*The board should **promote, control & oversee** financial governance.



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Board not ever present in the organization and having no hands-on role in financial management,

HOW is it done?



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NGO's Financial Governance

Delegate + Oversee



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Board Governance

Vs

CEO & Management



Importance of Financial Governance

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Segregation of Roles & Duties



Importance of Financial Governance

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Board Governance:
Control, Delegate & Oversee



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CEO & Management:

Work on the basis of the Board's
delegated authority



Importance of Financial Governance

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Not ever present in the organization &
no hands-on role in financial management,

the board needs

sufficient & timely information

to satisfy itself that the finances are in order.



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Sufficient & Timely Information

Focus of Financial Governance:
“Reporting”



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Sufficient & Timely Information

- Regular financial reports
 - Regular variance analysis reports
- (Allow necessary and timely corrective actions)



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Assess Project Viability & Follow-up

*Scenario Analysis (模擬情况分析)

- assessing project viability

*Variance Management (差異管理)

- following up for control



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Scenario Analysis (模擬情況分析)

- Annual Budget (new & recurring projects)
- New Projects / Ad hoc Projects
- Normal/Pessimistic/Optimistic Scenarios & Budgets



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Scenario Analysis (模擬情況分析)

- Assumptions – Realistic?
- Funding Source for Each Project
- Contingency Plan



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Variance Management (差異管理)

- Variance Analysis: Budget (Estimate) Vs Actual
- Absolute/Relative Difference
- Significance of Difference
- Causes/Suspected Causes of Variance
- For Corrective Measures/
Budget Adjustments



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Sufficient & Timely Information

Mind the following:

- * Insufficiency / Shortage
- * **Delayed** Information



Importance of Financial Governance

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Finance Function Staffing

Competent Finance Staff/Managers
help build
good corporate culture &
internal support!



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Competent Finance Staff/Managers

- Good interpersonal skills help communicate finance issues to various staff
- Strongly committed to organization's values
- Thoughtful about the implications on finance & its management of all major decisions



Importance of Financial Governance

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Key oversights for the Board (1)

- Clear policies (for internal compliance)
- Issues to be addressed by the board
- Reader-friendly periodical financial reports
- **Finance Committee** (at least few board members closely overseeing the finance)



Importance of Financial Governance

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Key oversights for the Board (2)

- Independent Audit process
- Policy on conflicts of interest
- Independent Finance Manager
- Finance Manager be involved in decision making & budgeting process at early stage



Importance of Financial Governance

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Importance in Summary

- Board acts as a trustee for various stakeholders
- Financial governance being an oversight mechanism for the board to perform its functions
- Good financial governance allows greater oversight/control and enhances accountability



Importance of Financial Governance

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Financial Governance

Large NGOs Vs Small NGOs

Any Differences?



Importance of Financial Governance

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Financial Governance

Large NGOs Vs Small NGOs

No Differences in Need & Principle



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Thanks!

