

BUILDING EFFECTIVE INDIGENOUS GOVERNANCE

4-7 November 2003
JABIRU – NORTHERN TERRITORY

TOPIC: **Financial Management and Business Systems:
The Backbone of an Effectively Resourced Capacity for
Governance.**

ACKNOWLEDGEMENT:

Before I begin, I would like to acknowledge the traditional owners of this country that we are in today (the Mirrar people) and thank the organiser's for the invitation to speak to you.

INTRODUCTION:

As part of my introduction, I would like to qualify from the beginning that I have no accounting or financial background, so like many people, I find figures boring and when presented in pages and pages of numbers, confusing. **But I acknowledge in my role I must have an understanding of them.**

The title given to this session is **Financial Management and Business Systems – the backbone of an effectively resourced capacity for governance**, however financial management without understanding governance and having a strategic direction, in my view is like a body without a heart and brain.

These three key areas are fundamental to building Indigenous capacity at organisational, community and regional levels:

- **Governance (heart)**
 - Determines the way in which we do things

- **Strategy (brain)**
 - Determines what we do

- **Finance (backbone)**
 - Determines how we do things

In my mind, the term “**Effectively Resourced Capacity**” means a community/organisation, which has **access to and effectively utilises** three important resources in achieving their vision:

- **People**
 - Has harnessed the skills and knowledge of its people
- **Finance**
 - Has sufficient financial resources and applies them efficiently
- **Information**
 - Understands their environment and has access to information

PEOPLE:

As identified by the Review of the Aboriginal Councils and Associations act 2002, because of the socio-economic status of Indigenous Australians, there is often a significant knowledge and power imbalance between Directors of the corporations and the senior management. This means that the senior management of these corporations may have a disproportionate influence on the directors and hence the management of the corporation.

Both Directors and senior management accountability for financial management is an important priority. Effective financial management preserves and protects assets of the organisation and maintains and improves the quality of service provided.

Boards must closely monitor the performance of management in achievement of financial performance targets; ensuring proper financial systems are in place, ensuring compliance with accounting standards and government financial directions and delegations authority granted by Board.

Financial skills within many indigenous organisations are limited. Add to this, the lack of financial budgeting knowledge within indigenous communities as a whole, addressing financial skills shortages in communities has no easy quick fixes.

FINANCE:

It goes without questioning, that organisations cannot achieve their goals without sufficient financial resources. However, inappropriate use can undermine community and stakeholder confidence in the organisation.

Without appropriate financial control, organisations perform badly, may lose credibility within their community and with government bodies. Financial Accountability Controls or Internal Controls monitor and guide the appropriate use of funds and identify risks to the organisation's viability.

Internal controls include the **policies** and **systems** needed for effective financial management:

1. Financial policies govern and control the internal environment of the organisation and guide senior management in the appropriate application of resources. Such policies include Risk Management and Delegation Authority.

- **Risk Management**

Risk Management strategies are part of the system of internal control. A Risk Management plan should ensure:

- The reliability and accuracy of information
- Compliance with applicable laws, policies, plans, procedures, contracts and delegation authority
- The safeguarding of assets
- The economical and efficient use of resources
- The effective accomplishment of established goals and objective for projects or programs.

- **Delegation authority (ensure appropriate delegated controls are in place)**

Appropriate policies and granting of delegation authority should be established to ensure that senior management are able to manage the organisations efficiently, but also allow the Board to monitor senior management. Without stated delegation authority, the Board and senior management could leave themselves open to inappropriate behaviour and scrutiny.

2. Business systems support Internal Control policies and include:

- **Documented procedures**

Documented procedures enable the organisation to operate efficiently when senior management or financial staff is lost. They also support the auditing and quality assurance processes.

- **Financial recording ie cashbook, computer accounting.**

Accurate and reliable information is a priority for Board in their decision making processes. The system of recording should support the reporting requirements, be accessible and in accordance to accounting standards.

- **Records Management**

Record management involves having appropriate systems that ensure full and accurate records of activities are kept in accordance with standards and ensuring technology dependent records are accessible.

le: cheque remittances, deposit advice and wage records are properly recorded and processed. Source documents are then kept safely for the required period.

INFORMATION:

Access to information and understanding the environment, are key determinates in decision making processes. How and when Financial information is presented to Boards are important policy issues.

- **Financial Reporting**

The main purpose of financial reporting is to provide relevant information to the Board members to enable them to understand the exposure of financial risks, the extent to which they are being effectively managed and the impact of these risks on the financial performance of the organisation.

The policies should outline how and when the Reports should be presented ie they be short and focus on key issues that require the Boards attention, in a simple easily understood style, rather than pages and pages of detailed figures.

It is crucial that Directors understand what the law requires and ensure that rigorous and transparent processes are in place to effect timely and accurate reporting to board. This, in turn, contributes to more effective decision - making and allows the directors to spend more time on the performance aspects of their role.

BEST PRACTICE PRINCIPLES:

Better practice principles in corporate governance suggest that Board must ensure that attention to the following areas fulfills its accountability:

- **Implement Internal Controls**

Internal controls can be applied to any situation where a potential risk is identified. In-addition to the areas previously identified other areas include:

- Fraud control
- Insurance performance
- Contractual exposure
- Asset Management
- OH&S

- **Focus on strategy**

Better practice suggests that Boards must be responsible for giving leadership and strategic direction to the organisation. Setting strategic direction enables the Board to clearly specify why the organisation exists (purpose) and what it wants to achieve (goals) in line with shared expectations (attributes).

The establishment of a sound strategic plan and business-planning process is a must to ensure long-term viability of any organisation. Without a sound business strategy a director will not be able to fulfil his or her requirements to effectively represent the interests of members and the organisations as a whole.

- **Adhere to good governance and business ethics**

The reputation and standing in the community of an organisation is one of the most valuable assets it has and may be affected not only by formal policies and procedures, but also by the decisions Board members take. The manner in which the Board and its members conduct themselves will impact on the standing of the organisation.

A best practice Board should ensure there is a commitment from Board members and Management to a high level of ethics and commitment to the core values of integrity, openness and honesty.

The adoption of a code of Ethical Behaviour by the Board is a demonstration of the high standards of behaviour it sets itself as an example of the standards to be maintained throughout the organisation – it is applicable to Board members as it is to the most junior staff.

BARRIERS:

The Barriers to effective financial management identified are drawn from my experience as a Director of Yarnteen ATSI Corp a community based organisation, and are both internal and external to the organisation.

Internal include but not limited to:

- **Lack of understanding of role of Board/Directors**
 - A two fold problem in that Directors need to understand their role and responsibilities and staff and community need to understand the role of the Board and Management.
- **No Strategic and Business planning**
 - No strategies result in lack of direction and poor decision making.
- **Lack of financial management skills**
 - Lack of staff development practices can disadvantage the organisation in having sufficient appropriately qualified staff
 - Appropriate recruitment and retention strategies are vital when the degree of remoteness and locality adds to decreased choice of skilled people
- **Lack of Financial Policies and Complex Financial Systems**
 - Effective financial management is compromised when BOD do not provide policies to guide management
 - External advice not understanding community skills/expectations leads to complex systems that are difficult to maintain.

External barriers include:

- **Conflicts between cultural values and financial accountability**
 - Unless a clear strategic focus is agreed, incorporating cultural values and purpose of organisation, these conflicts will undermine accountability.
- **Lack of experienced Board members**
 - The loss of experienced board members from an organisation and frequency of turn over adds to instability and accountability issues.
- **Inflexible Reporting formats**
 - Government reporting formats that don't focus on the "whole of community" outcomes.
- **Financial and cultural language differences**
 - Cultural and English language barriers may affect financial accountability.

SUSTAINING BEST PRACTICE:

The successful implementation and maintenance of Financial Accountability controls demonstrate an organisation that is achieving their goals of self-sufficiency. Best practice organisations look to achieving this themselves and not rely on external organisations to regulate or enforce this through external controls.

Sustaining best practice financial management involves both the Board of Directors and Senior Management. The two levels need to work harmoniously together for a common purpose and performance appraisal of each will assist in identifying the weaknesses and strengths of such working relationships.

Two key strategies to sustaining best practice are:

1. Skills Development & Training

Organisations that value training and ensures a culture of continuous skill development throughout the whole organisation, can overcome recruitment retention problems. Skills development strategies for both Directors and management include:

- Induction training.
- Board self appraisals and performance reviews
- Program for ongoing identification of skills required, Mentoring, and professional development plans
- Recruitment and succession planning

2. Organisational Stability

As Indigenous Australians, we are all-aware of or have experience with the internal conflicts and factionalism which occurs at the local (and broader) organisational levels. The instability created by these conflicts detracts from the quality of governance and often acts as a real barrier to an organisation realising its goals and potential.

Best practice organisations have identified these risks and applied acceptable controls and practices to achieve a more harmonious operation. They have attempted to address the cultural match or balance between organisational processes and cultural appropriate practices.

Some notable areas underpinning these practices, for both Boards and Management, include:

- Addressing terms of Directorships
- Commitment to Code of Ethical Behaviour/Values Contracts
- Strategic thinking - Match with community expectations/needs
- Open and honest reporting and decision making
- Support, implementation and adherence to policies

It is also worth highlighting that an organisation, which shows leadership in these areas, will maintain long term experienced employees and attract appropriately skilled employees.

YARNTEN INSIGHTS: CAPACITY BUILDING MODEL

I would like to present an insight to Yarnteen's capacity building model a practical example of effectively resourced capacity.

Sustainable Governance

The Governance Structure was seen as an important strategy to achieve the long-term objectives and economic self-sufficiency of the organisation.

Our number one priority was to have a governance structure that was sensitive to and compatible with the culturally diversity and interests of our community, but importantly that offered stability and contributed to good governance rather than undermining it.

Vision & Planning:

- Our Management Committee promote a shared vision with all members and employees of the organisation, ensuring that the objectives remain specific and focussed on employment, training and enterprise development.
- Committee and Management recognises and actively promotes the organisations access to opportunities in the local and regional economy. Yarnteen has incorporated these "whole of community" factors in to culturally appropriate strategies that assist our indigenous community overcome disadvantage.

Entrepreneurial Leadership:

- The Committee and Management have encouraged Entrepreneurial leadership by ensuring management/staff are informed and committed to our vision, encouraged ongoing staff development and promoted creativity and innovation.
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Responsive Resource Management:

- Yarnteen recognises that Responsive Resource Management addressed the needs of the community, was accountable to government and community. Measured decision making means assessing the impact, seeking advice when needed and always asking is this best method or are there better ways of doing things

MOVING FORWARD:

In closing I would like to highlight the areas that I believe require further development and which could enhance board financial accountability and community self-governance.

- **Financial Skills Development**

D. Smith in her paper to the “Indigenous Governance Conference” 2002, indicates a key component to a new fiscal framework for community governance might include the establishment of an Indigenous Financial Management and Training Institute, (operating a system of training, mentoring and accreditation for community financial management).

Also, the Review of the Office of Registrar of Aboriginal Corporations (ORAC) has also identified a refocus of its role from crisis to prevention work. This has involved introducing expanded information, education and support services to corporations. The Review recommendations further support capacity development through:

- Rewards for good governance such as accreditation, mentoring streamlining of compliance and reporting processes.
- Active support for members and corporations at all stages, especially in corporate design and training members, officers and governing committee members.

The provision of a one-stop shop on Governance and Financial Management training will greatly assist organisations meeting their accountability requirements.

- **Effectively Resourced Financial Capacity**

Effectively resource capacity is not just about the money. However for organisations and communities to achieve their goals, an adequate financial base supports good community governance.

As presented in D. Smith’s paper, there has been a continuing failure of government at all levels to negotiate a comprehensive approach to fiscal policy for Indigenous communities.

The paper goes on to suggest “new models of governance are needed based on a real devolution of financial responsibility to representative community organisations, coupled with sustained support for the development of effective local governing institutions that are accountable to their community members”.

Without an effectively resourced capacity for community governance, there is unlikely to be sustained economic or social development in Indigenous communities and regions.

Thank you.