Managing Finance

Governing and Managing Organisations

Guidelines for AKDN's work with CSOs
No 7

AKDN
AGA KHAN DEVELOPMENT NETWORK

For more information about the AKDN Civil Society Programme, please see http://www.akdn.org/civil_society.asp

"Civil Society Institutions play an essential role in the provision of social services, the protection of the marginalised, and the delivery of development programmes"

His Highness the Aga Khan,
Toronto 18 June 2004

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Why you may need these guidelines[1]

Some problems appear in organisations of all kinds. Here is a sample:

- Board members are unconfident and/or over-committed.
- Managers face the same difficulties.
- The organisation's ideals do not match its day to day reality.
- Meetings are badly planned, badly run and/or badly recorded.
- Decision-making and management structures are not clear.
- Unpaid staff and volunteers lack clear job descriptions and responsibilities.
- It is not clear how to deal with unsatisfactory work performance or behaviour.
- The organisation's haphazard administrative systems hinder rather than help its effective operation.
- Financial management or control procedures are inadequate.
- You find unwillingness to address any of these problems, or inadequate procedures to tackle them.
- The organisation works on technical issues, but does not take a stand on matters of principle, values and ethics.

If any of these problems affect your organisation, these guidelines are for you!

[1] Adapted from "Just About Managing", London Voluntary Service Council 2004

Discussion points for your organisation

1. Does the Treasurer know the law in respect of CSOs in the country?
2. Does the Board know enough about finances to be able to understand the information prepared for it?
3. Does the organisation have clear policies and procedures for its financial matters?
4. Do the employees or volunteers who deal with day-to-day finance know enough about finance to carry out their duties properly?
5. Does the Board receive regular reports in a form that is understandable so that it can make informed decisions?

Action points for your organisation

If you have these documents, please review them. If not, now is the time to draw them up:

1. A Manual for Financial Procedures

2. An Assets Register of fixed assets, materials or supplies, and stock

It is also advisable to keep past audits, in particular any observations that the auditors made to improve your record keeping. The following sections offer guidelines in the issues related to managing finance.

Managing finance

Money management can broadly be divided into two overlapping categories: financial responsibility and financial accountability.

Financial responsibility

Put simply, financial responsibility means:

- Budgeting: being clear about what the organisation is committed to doing, how much it will cost, and where the funds are coming from
- Income generation: ensuring the organisation will have enough funds to carry out its activities
- Risk analysis: not taking on obligations which the organisation will not be able to meet
- Cashflow analysis: being sure that the organisation has enough money to pay its bills on time – and, actually pay its bills on time
- Book-keeping and record keeping: keeping proper records and documentation for all funds which come into and go out of an organisation
- Financial reporting: ensuring relevant staff (Board, Treasurer, head of Finance etc.) receive appropriate financial information
- Ensuring income and expenditure are in line with the budget (financial monitoring) and taking remedial action if they are not (financial control)

Financial accountability

Even if an organisation acts responsibly, it may have problems with financial accountability – being clear about who has a right to know what the organisation is doing with its money, and how much control such people have over financial decisions. The Board needs adequate and comprehensible information about:

- The organisation's budget (what it expects to receive and spend during a fixed period or for a specific aspect of work
- The cashflow projections (when it expects the money to come in and go out), and how any shortfalls will be covered
- Income and expenditure (what it actually receives and spends)
- Assets (the value of what it owns, and money owed to it)
- Liabilities (what it owes)

Record keeping

Financial responsibility involves keeping records of how much money has come into the organisation, where it has come from and what it was for, and how it has been spent. Along with these records the organisation must keep documents, such as invoices and receipts, to prove that the money was spent in the way shown. The records and proofs will be used to draw up monthly and annual accounts.

The same principles underlie all financial record-keeping systems – regardless of the organisation's size or the complexity of its financial dealings. These principles are:

1. Records are backed by documentation
2. Records fit the organisation's needs
3. Records are organised
4. Records are kept up-to-date

1. Records are backed by documentation

The first principle is to keep a record, with supporting proof if possible, of all money that comes into or goes out of the organisation. Pre-computers this used to mean an income analysis book, expenditure analysis book, and petty cash book. Nowadays the books are likely to be computerised and will be called accounts - but the same principles apply. Whether on paper or computer the books/accounts should be kept up-to-date. They should be kept in a safe place or be password protected.

The Treasurer has the right to see the accounts at any time, and, depending on the organisation's policies, other Board members may have the right to see them.

For every purchase made in cash: details of the date, amount, to whom it was paid and what it was for, should be entered on a numbered petty cash voucher.

2. Records fit the organisation's needs

Book-keeping and record keeping systems must meet all the needs of the organisation and be managed by the Treasurer and people responsible for finance work. There is no point in having a system so complicated no-one can cope with it, or, on the other hand, one so simple that it does not meet any organisation's basic requirements.

Where grants or donations are made to a CSO for a specific purpose this must be made clear in the accounts – and all expenditure relating to that purpose must also be made clear. CSOs have to show that funds given for a specific purpose have been used (or are being held to be used) for that purpose.

3. Records are organised

Everything must be kept organised. All documents should be cross referenced to the accounts, using reference numbers. All documents should then be kept in a document file. There should be separate sections for income, expenditure and petty cash. It may also be appropriate to separate out documents for restricted funds.

Keep all bank records, and on bank statements show that the statement entries have been reconciled or correlated with the information in the accounts.

Book-keeping and record keeping systems must meet all the needs of the organisation

4. Records are kept up-to-date

The fourth principle of financial record-keeping is to stay up-to-date with book-keeping, and to do a bank reconciliation as soon as a statement is received. There is nothing quite so overwhelming as a huge back log of book-keeping, nothing quite so depressing as a pile of red notices and threatening letters from people to whom money is owed, and nothing quite so frightening as having to tell the Board that accurate and up-to-date financial information is not available.

If the book-keeping and financial record keeping are becoming overwhelming, get help or advice. If you ignore the situation, it will only get worse.

The final point in financial record keeping is not to panic. Financial information may be complex, but it can always be sorted out, so long as the organisation has kept proof of all income and expenditure

Banking, book-keeping, and record keeping

Although the Treasurer may not actually carry out the tasks involved in getting money into and out of the bank, or writing up the accounts, she or he is responsible for:

- Advising which banks or other financial institutions the CSO should use and what type of bank accounts it should have
- Serving as one of the signatories for the organisation's bank accounts
- Ensuring that there are proper systems for receiving and paying out cash and cheques
- Ensuring that there are proper systems with appropriate safeguards for telephone or electronic banking and use of the organisations credit or debit cards
- Setting up appropriate book-keeping and petty cash systems, and ensuring that related documentation is kept
- Ensuring that receipts are issued, if required, for money received by the organisation
- Ensuring all income is paid into the bank
- Ensuring all bills are paid
- Ensuring everyone handling money for the organisation keeps proper records and documentation
- Ensuring proper systems are in place to reduce the risk of loss, theft, or fraud

Balance sheet

A receipts and payment account is a relatively simple statement of how much money the organisation received and spent during a financial period.

An income and expenditure account is adjusted to include how much the organisation is owed (as part of income) and owes (as part of expenditure), at the end of a financial period.

A balance sheet, by contrast, shows what the organisation was worth on the last day of the chosen financial period. It includes assets (everything the organisation owns and is owed) and liabilities (everything it owes). A balance sheet therefore shows the organisation's net worth at a particular time: it does not show what happened over a financial period, but it is an essential part of income and expenditure accounts.

Audit

An Audit is an independent examination of your financial records which covers:

- What the organisation received and spent in a financial year, and what for
- Whether funds were spent in accordance with the Constitution of the organisation, decisions of the Board, and funders' or donors' conditions
- Whether funds received for specific purposes were indeed spent for only those purposes
- Whether the accounts were properly and honestly kept
- The value of assets
- How the financial record keeping could be improved

As stated before, we recommend keeping the auditors' findings and comments safe for consultation later.

The background to these guidelines

The AKDN Civil Society Programme has produced a series of internal booklets to help those involved with AKDN agencies to acquire the skills they need to build and strengthen effective civil society organisations (CSOs).

There are basically four types of institutions for whom these booklets are intended:

1. *The Jamati Institutions: National Councils, ITREB, GRB, NCAB, and EPB*
2. *The Boards of the Service Companies – AKHS, AKES, AKPBS*
3. *Associations set up by the Service Companies or by other AKDN agencies to support the purposes of their programme – such as PTAs, school management committees, nurses associations, midwives associations, teachers associations, tenants associations*
4. *CSOs outside AKDN agencies which support their purposes*

All such organisations involve people who have committed themselves to improving the society in which they live by what they do and how they behave. Commitment and voluntarism may, however, not be enough for an effective organisation – specific organisational skills are needed as well. And these skills can be learnt.

The following booklets are also available in this series:

1. *Problems in Managing Organisations*
2. *Skills in Managing Organisations*
3. *Improving Management*
4. *The Board and its Functions*
5. *Organisational Structures and Systems*
6. *Managing People and their Work*
7. *Managing Finance*
8. *Building a More Civil Society*

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