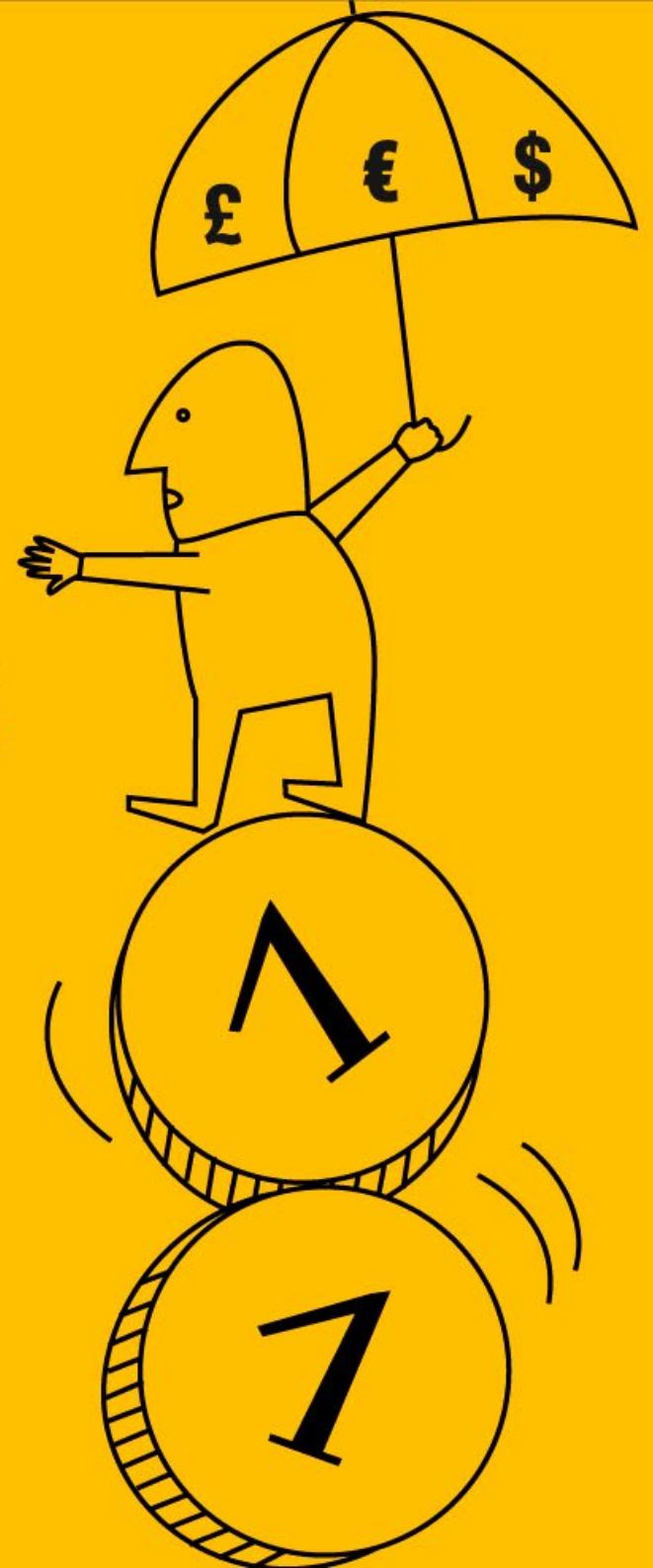


FINANCIAL MANAGEMENT



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FINANCIAL MANAGEMENT

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

This Resource Material provides the most basic introduction to:

- what „responsibility“ and „accountability“ mean for NGOs;
- accounting records;
- electronic reports;
- responsibilities of the Accounting Officer and/or the Finance Director;
- How to understand financial statements and reports;
- when an audit should be done.

Financial responsibility and accountability

Simply put, financial responsibility means:

- Budgeting: clarifying what the organization is for, how much it will cost to run, and where the funds will come from;
- Revenue collection: ensuring that the organization will have sufficient funds to carry out its activities;
- Risk analysis: no commitments are made that the organization will not be able to meet;
- Cash flow analysis: ensuring that the organization has sufficient funds to pay its bills on time;
- actually paying bills on time;
- Accounting: maintaining the necessary records and documentation of all funds coming into and going out of the organization;
- financial reporting: ensuring that the relevant staff, accountant, finance director and board receive appropriate financial information;
- Ensure that income and expenditure are in line with budget (financial monitoring) and take remedial action if they are not (financial control).

Even if an organization acts responsibly, it can have accountability issues, such as being clear about who has the right to know what the organization does with its money and what control those people have over financial decisions.

Legally, the board of directors or other governing body is responsible for the financial operations of the organization. To make good decisions, board members need adequate and understandable information about:

- the organization's budget (what it expects to receive and spend in a fixed period or on specific areas of its work);
- cash flow projections (when it expects cash to come in and go out) and how much of the deficit will be covered;
- its income and expenditure (what it actually receives and spends);
- Assets (value of owned and pending pickups);
- liabilities (what is owed).

Employees who have responsibility for accounting, financial administration, and/or financial decision-making shall always report to the Accounting Officer and Finance Director (if any) and the Board of Directors or other governing bodies as a whole. Finance Officers will also report to their line manager in the line management structure.

The Council, in turn, reports to member organizations if the organization is an association and must provide annual reports/accounts to members. A good council would further ensure that the reports/accounts are presented in a form accessible to members.

Legal reporting

Each organization must maintain financial records, prepare annual reports/accounts and make these reports/accounts available to any member of the public who is interested in them.

NGOs have to submit annual accounts and reports to the Commercial Register at the Registry Agency.

The annual and consolidated financial statements of:

1. small enterprises that exceed at least two of the following indicators as of 31 December of the current reporting period:
 - a) book value of assets - BGN 4 000 000;
 - b) net sales revenue - BGN 8 000 000;
 - (c) average number of staff for the reporting period - 50;
2. medium and large enterprises;
3. undertakings of public interest;
4. medium and large groups and groups in which there is at least one public interest entity;
5. undertakings for which this requirement is established by law.

Even where the Accountancy Act does not require accounts to be audited or examined, the organization's memorandum of association or donors may require this.

Donor Accountability

Each organization receiving a grant must have a written statement of what control the funding body is expected to exercise over the grant, how this will be done, what information it will require, how often, and in what form. It is important to clarify whether the funder wants full reports or just grant reports and whether it wants reports to be submitted quarterly, annually, or at the completion of a one-off project.

If the funder requires that there be a voting representative on the board, clarify what authority that person has to participate in decision-making regarding activities or services funded by the funder, in what cases there would be an undeniable conflict of interest, and they would not be able to participate in decision making or even discussion. Also, clarify what happens if decisions are made with which the funding body will not subsequently agree.

ACCOUNTING

Required information

Financial accountability involves keeping records („accounts“ or „books“) of the amounts coming into the organization, where they came from what they were for, and how they were spent. Along with the books, the organization must produce documentation such as invoices or receipts to prove that the money has been spent in the way specified. The books and evidence will be used to produce monthly and/or quarterly reports (sometimes called management accounts) and annual reports.

Books and financial records must be kept for a period of ten years.

If an organization receives income from sources other than charitable donations, it may have to register for Value Added Tax (VAT) if that income is more than the VAT threshold. This applies to charitable companies.

Grants and donations are not subject to corporation tax, but organizations that receive income from other sources, such as commercial activities or property rents, must pay tax.

Setting up an accounting system

The same principles underpin all financial accounting systems, regardless of the size of the organization or the complexity of its financial operations.

Documentation

The first basic principle is to maintain accountability, with supporting evidence if possible, for all money that enters or leaves the organization. Records usually include an income ledger, an expenditure ledger, and a cash book (hence the term 'the books'). The books are now computerized and called accounts/reports, but the same basic principles apply. Whether they are on paper or on a computer, the books/accounts must be kept up to date. If they are on paper, they should be kept in a secure place, either in the organization's office or wherever the accounting activity is carried out. If they are on a computer, they should be password protected and regularly backed up, with the backup kept elsewhere.

The accountant shall have the right to review the books or computer printouts at any time, and the other board members shall have the right to request that they be presented to them at a board meeting or otherwise made available to them. The organization should have a policy about whether other people (such as rank-and-file members of the organization) can view them.

Revenue documents include:

- A letter or warrant accompanying the payment;
- for cash receipts - receipt with date, the amount received and where it came from, the signature of the person who received the amount, and, if possible, the signature of a second responsible person;
- copies of all invoices issued by the organization and details of when payment was received;
- copies of receipts/receipts issued for money received by the organization;
- receipts from the revenue book for the bank accounts, together with a list of details of all cheques, cash payments, and other payments on the accounts.

Evidence of expenditure includes:

- detailed receipts or invoices detailing each item purchased;
- general receipts, with details of what was received by her;
- payment details, e.g., regular payments, direct debits, and payments made electronically or by phone.

For any purchase paid for in cash, details of the date, amount, who was paid, and what for must be recorded on a numbered cash payment slip, and any documentation (such as receipts or a ticket) must be stapled to the back.

Relevance

Accounting systems must meet all the needs of the organization and be managed by an accountant and people responsible for financial activities. There is no point in having a very complex system that no one can handle or one that does not meet the requirements of the funding body, the board.

Where a grant or donation is made to an NGO for a specific purpose, this must be specified in the accounts, and any associated costs must also be stated. This is because NGOs must show in their annual accounts that earmarked funds - funds given for a specific purpose - or held to be used for that purpose were used.

Organization

Everything must be organized. All documentation should be cross-referenced to reports using reference numbers. All documentation should be filed by number in portfolios, binders, or folders for income, expenditure, and cash payments. It may also be appropriate to segregate documentation for earmarked funds.

Keep all bank records, and show on bank statements that the information on the statement matches (corresponds to) the information on the statements.

Reports written on paper or on computer should be kept separate from bank records and those concerning income and expenditure. If the bank and other records were lost in theft or fire, only the reports would provide comprehensive and adequate information about the organization's financial operations; if the books were stolen or destroyed, or the computer with the reports was stolen or information was lost from the hard drive, the reports could be recovered from the bank and other records. Banks can provide duplicate statements.

Report

A good accounting and financial reporting system is useless if the basic financial information does not reach the people who need to be informed about the financial situation in order to make appropriate decisions. So, systems need to be developed to ensure that the accountant, board, trustees, and donors receive regular financial reports that meet their needs.

Computerization of reports

Computerized reporting programs can simplify the addition processes and make it easier to track money received and spent on specific needs. Electronic reporting programs make it easier to produce different versions of budgets. But electronic reports don't provide a magic answer because:

- It will hardly save much time initially, and it will take twice as long in the first six months because the organization must also maintain paper (manual) systems until it is absolutely certain that the computer system is working well;
- The person responsible for data entry must understand basic accounting at the same level as that required for manual accounting;
- In addition, there needs to be detailed systems for storing information before it is entered into the computer and for keeping records;

Responsibilities of the accountant

In small organizations, an accountant may work in all areas of finance and resourcing. As organizations grow, some responsibilities will be transferred to a volunteer or paid employee. Regardless of who does the work, ultimate responsibility for financial matters always remains with the board or other governing body as a whole.

The accountant's responsibilities can be divided into general categories:

- General financial supervision, including advising the council on financial policies
- Revenue: financing, contracts, fundraising, and sales;
- financial planning and budgeting;
- financial reports;
- work with banks, accounting, and reporting activities;
- control of fixed assets and securities.

General financial supervision

This category covers the organization's broad financial decision-making responsibility. It includes:

- Ensuring that funds are used in accordance with the founding treaty and council decisions;
- Ensuring that the use of funds meets the conditions set by donors;
- ensuring that the officers and members of the board or other governing body know enough about financial administration, accounting, and reporting to be able to do their jobs well and make the decisions for which they are responsible;
- advising on reserves (funds that do not need to be used immediately) and investments;
- Advising on financial policy issues, for example, what expenses can be claimed and the procedures for claiming them, the circumstances (if any) under which staff may receive advances on their salaries, the financial implications of new activities, or the organization's policy for charging for its services;
- advising on employment and other contracts;

- making financial decisions on behalf of the board between meetings and reporting them to the board;
- ensuring contact with the bank or other financial institutions on behalf of the organization;
- preparing the reports for audit or independent review and discussing them with the auditor or reviewer as required;
- advising the council on security and anti-fraud measures;
- ensuring that the organization complies with legal requirements, if any, for money laundering;
- Ensuring that the organization has all the necessary insurance and keeps them up to date.

Revenue

This area of responsibility involves ensuring that the organization has enough money to carry out its activities. The sources of this money can be divided into donations, funds (grants applied for to government, trusts, and other sources), contracts or service agreements to provide activities or services (see Resource Material 19), fundraising (activities such as recruiting new members, legacy campaigns, or organizing special events by the organization or its members to raise funds) and sales of goods or services.

Responsibilities in these areas include:

- Collecting and applying for information on legal, charitable, commercial and other funding sources;
- Completing and submitting funding applications or signing applications completed by staff;
- coordinating funding applications;
- liaison with funding agencies;
- making offers or proposals for agreed services;
- coordinating fundraising activities;
- ensuring that money is received and spent for specific purposes and, if necessary, accounted for separately;

Financial planning and budgeting

The accountant has overall responsibility for ensuring that financial planning is carried out correctly, including:

- by consulting with relevant staff and donors, preparing budgets for ongoing activities and special projects;
- presenting budgets to the board or other governing bodies for approval;
- tracking actual income and expenditure against budgeted expenditure and adjusting financial forecasts as appropriate;
- In case there are cash flow problems (not enough money to pay the bills on time), prioritize payment and negotiate payment deferral if necessary.

Financial reporting

The accountant is responsible for ensuring that the board or other governing body has sufficient information to make decisions. This means:

- ensuring that the Board receives regular reports on the financial position of the organization;
- preparing financial reports and statements (management accounts) when required;
- submission of a year-end financial report (draft annual report) to the board or other governing body;
- presentation of audited and independently verified annual accounts, if required, at the AGM;
- Ensuring that the AGM members have a basic understanding of the annual report and budget for the current year.

WORKING WITH BANKS, ACCOUNTING, AND DOCUMENTATION

While the bookkeeper may not actually/personally perform the duties of depositing in or withdrawing the money from the bank or entering it in the books, she or he is responsible for:

- advising which banks or other financial institutions the organization should use and what type of bank accounts it should have (note that any decision to open, close, or change a bank or other account must be approved by the board or other governing body);
- be one of the disposition/signatories on the bank accounts (any changes for disposition/signatories must be approved by the board or other governing body);
- Ensuring that there are good systems in place for receiving and disbursing cash;
- Ensuring that good systems are in place with the necessary protections for telephone or electronic banking and the use of the organization's credit and debit cards;
- setting up appropriate accounting and cash systems and ensuring that the necessary records are kept;
- Ensuring the collection of membership fees and proper maintenance of membership records;
- Ensuring that other monies owed to the organization are collected, that guidelines are in place for taking action in the event of non-payment, and that such action is taken if required;
- ensuring that receipts are issued, if required, for money received by the organization;

- ensuring that all income (including cash) is paid into the bank;
- ensuring payment of all bills;
- Ensuring that all who handle the organization's money maintain proper records and documentation;
- ensuring that there are good targeted systems in place to mitigate the risk of loss, theft, and fraud.

Control over fixed assets and inventories

The accountant has overall responsibility for ensuring that the organization maintains proper control over its fixed assets (principally equipment, vehicles, buildings, and other property owned by the organization), its materials or inventories (goods used in the organization's operations), and its stock. This responsibility includes:

- Ensuring that the organization keeps good records of the materials and stock it uses in its work;
- Ensuring that systems are in place and maintained to control stock and the placing of new orders;
- Undertaking and controlling regular stock inventories;
- Ensuring that the organization keeps correct records of its equipment and vehicles, including date of purchase, supplier, cost, model, and serial number;
- Ensuring that the organization maintains accurate records regarding real property (buildings and land) it owns or uses.

The information is usually kept in an asset register.

Examination of accounts

The word „bills“ has several meanings:

- money held in a bank or other financial institution;
- an arrangement with a supplier to sell goods or provide services on credit;
- the books or computer programs in which the financial transactions of the organization are recorded;
- Information in books or electronic reports is summarised in a standard format to inform people about the organization's financial operations and position.

This section deals with the last type of accounts/reports:

Management reports are monthly or quarterly reports designed to help staff and/or board members understand the current financial situation and make financial decisions. Annual reports are a requirement of the articles of incorporation or law to provide accountability to the members of the organization and to regulators, donors, contributors, and others who have an interest in the organization.

Regardless of the type of report, it should always be distributed well in advance of any meeting at which it will be discussed so that people have time to read and process the information.

Financial situation

The financial report or management report informs people about the financial situation. For most small NGOs, an appropriate monthly or quarterly financial report for the board includes:

- a statement of accounts receivable and payable showing income and expenses for the financial period and year-to-date and the balance sheet carried forward at the end of the financial year;
- a list of amounts due to the organization at the end of the financial period and what they are for;
- a list of amounts due from the organization at the end of the financial period and what they are for;
- Where the money is held at the end of the period: how much is in current accounts, deposit accounts or cash, or waiting to be paid;
- Show any financial problems or situations requiring a decision by the executive finance committee and/or the board of directors or other governing body.

List of Questions for Effective Financial Management

- Does the accountant know enough about the finances of the NGO sector to ensure that all financial work is done correctly and in accordance with the Accountancy Act and/or the NGO/Commercial Act?
- Does the organization have clear policies and procedures for different aspects of its financial activities? For example, who can approve expenditures? In particular, are there appropriate targeted procedures to reduce the risk of error and fraud and to increase the likelihood of errors or fraud being detected (see also Resource Material 21)?
- Do the staff or volunteers who deal with the day-to-day finances know what these policies and procedures are, and do they know enough about finance to perform their duties well?
- Does the board regularly receive financial reports in a form they understand? Do the reports give a clear and accurate picture of the organization's financial position?
- Is discussing finance disruptive, interesting, and challenging?