

What is an NGO?

The icon NGOs stands for Non-Governmental Organizations. And they have the following characteristics:

- They are not public or private organizations.
- they are not profit-seeking.
- They are foundations set up to perform certain tasks in a certain area, intended to benefit society – as a whole or a specific section of it.
- Usually they are filling a gap – a gap in services where the government and the private sector cannot or are unwilling to render services to a community.
- They are usually established by volunteers. However, as they grow, most NGOs recruit paid staff and find offices from where to function. **And they become professional about money.**

Managing an NGOs

To manage an NGO successfully and make sustainable, we need to ask ourselves the following questions :

- Does our NGO have an overall plan for financial management – managing the money being one part?
- Is there a strategy for fundraising, advocacy and networking?
- Have we considered the strategy of finding many small contributors within the community?
- Does the NGO have good skills in transparent budgeting and accounting?

To function properly, NGOs need both financial resources and some financial management to supervise the use of these resources. Their workers need to keep the process transparent and information flowing to different stakeholders, including:

- the people who established the NGO
- the people who receive its services
- the donors who fund the organization
- the State

For all these reasons, every NGO should have sound **financial management and control**. These will make the NGOs to be **Sustainable**.

What is good NGO Financial Management?

Financial management involves planning, organising, controlling and reporting on the financial resources of an organisation to achieve organisational goals.

In many NGOs, financial management takes a low priority. Financial planning and monitoring systems are often inadequate. But NGOs operate in a changing and competitive world. To survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of financial information.

The beginnings of Financial Management are:

- putting in place the proper **system** of keeping accounts, with the correct use of cash control and **Bookkeeping**.
- putting in place the exercise of **control** by a manager or accountant, so that each transaction is recorded in the right place and at the right time.

Good practice in financial management can do the following:

- help managers to be effective and efficient stewards of the resources to achieve objectives and fulfil commitments to stakeholders
- assist NGOs to be more accountable to donors and other stakeholders
- gain the respect and confidence of funding agencies, partners and those served
- give the NGO the advantage in competition for increasingly scarce resources
- help NGOs prepare themselves for long-term sustainability and the gradual increase of self-generated funds.

Financial Management Tools

- Planning (strategic plans, budgets, cash flow forecast ,etc.)
- Organizing (org charts, job descriptions, etc)
- Controlling (budgets, procedures manual, etc)
- Monitoring (evaluation reports, financial reports, etc)

Budgets and Costs

“A budget describes an amount of **money** that an organization **plans** to raise and spend for a set **purpose** over a given period of **time**”.

Budget Functions :

- Planning
- Fundraising
- Project implementation
- Monitoring and evaluation

What makes a good budget?

The acronym 'SMART' is to describe the qualities of a good budget. The acronym 'SMART' when use in budgeting means that:

- the budget should be **S**pecific
- the budget should be **M**easurable
- the budget should be **A**chievable
- the budget should be **R**ealistic
- the budget should be **T**imely

Things consider when preparing a good budget :

- What are the objectives of the project?
- What activities will be involved in achieving these objectives?
- What resources will be needed to perform these activities?
- What will these resources cost?
- Where will the funds come from?
- Is the result realistic?

Sample of A Budget

It is much easier and user friendly to use excel when preparing budgets.

How to Sustain an NGO?

Establishing an NGO is one thing but sustaining it is the most crucial thing. Then, what is Sustainability?

A sustainable organisation is one that can **continue its activities into the future.**

Raising Funds for NGOs

After making a plan and budgeting the activities, the NGO has to raise funds. There are three approaches to raising funds: self-funding, funding via community-based donors and funding via (inter-)national donors.

- **Self-Funding**

- Membership fees
- Fees for services
- Sale of products
- Rent of property
- Investment income

- **Funding via Community-based donors**

- Individual donations
- Corporate donations
- Contributions from private foundations
- Volunteers

- **Funding via (inter-)national donors**

These are organisations at national or international level, mainly moving money from the richer to the resource-poor society.

NGOs should resist having donors give them money in tranches. If they get the entire grant they can put what is not immediately required on deposit and earn the interest. You can also encourage donors to set up endowment funds as a good way to become gradually more sustainable or at least independent of that donor.

Indirect Funding can also be helpful to an NGO. It can take the form of substitution of resources, e.g. secondment of personnel. Examples are where government staff is allowed to work for your NGO for a certain period of time, or the government allows the project to use its visual aids materials.

- **How to apply for funds?**

- **Select your funding source.** Try to get as much information as possible about the ins and outs of that organisation, its procedures for application and so on. Find out which person to approach within the organisation, so you can address them personally. This works best via mutual contacts.
- **Write a letter using your personal title to the person dealing with funds.** Introduce yourselves in the letter and give a brief explanation of your organisation, its objectives, and your intentions with respect to funds. Ask for the procedures you need to follow. Always make a copy of your letter to keep. If your source is local, give the person you addressed a phone call about one week after you mailed the letter and ask if it was received. This is not only to make sure that the post is working, but it is also an

excuse for exchanging more information. Personal relationships are very important in fundraising. By making a phone call, you get a chance to find out the kind of person they are and to show your own involvement and motivation.

If you are approaching an international donor, follow your letter up with an e-mail message if possible, just to make sure that your application has been received and again to show your own motivation.

➤ **While waiting to find out the procedures to follow, you can prepare the information the donor will likely want to know.** Most will expect brief details of the following:

- Aims and objectives of your organisation.
- Details of the target population
- Number of people/villages you want to reach
- Social structure of the communities, including details of local employment, income levels, high-risk groups etc.
- Details of the project area, its location, terrain and climate.
- Your relationship with other organisations e.g. other NGOs and the Government and your intended co-operation with them.
- Names and qualifications of your staff members
- General plan of the implementations of your activities.
- Budget:
 - Include a budget for the first year.
 - Estimate expected funds from other sources.
 - Be concrete about the funds you are asking for.
 - Include in your budget items that are essential, but do not ask for expensive or unnecessary equipment.

Accounting for NGOs

Good financial records are the basis for sound financial management. It enables the NGO to achieve the following objectives:

- Information
- Credibility
- Legal requirement
- Future requirement

Which accounting records should you keep?

- Receipt or voucher for money received
- Receipt or voucher for money paid out
- Invoices- certified and stamped as paid
- Paying –in vouchers for money paid into the bank
- Bank statements

Other useful supporting documents :

- Payment vouchers
- Local purchase orders
- Goods received notes

Financial Control Measures

Financial Control	Remarks	Objectives
1. Limit signatory authority to director / Project Manager and back-up not Accountant .	<ul style="list-style-type: none"> ➤ Ensures that there are two signatories to the NGOs accounts 	<ul style="list-style-type: none"> ➤ Safeguard against theft / fraud
2. Restrict funds on hand	<ul style="list-style-type: none"> ➤ Use cheques as opposed to cash. Cheques are safer and easier to track. ➤ Keep cash in a safe and limit access to only two people. ➤ <u>Accountant should NOT have unrestricted access.</u> 	<ul style="list-style-type: none"> ➤ Assure compliance with regulations and grant terms ➤ Safeguard against theft / fraud
3. Establish an imprest petty cash account for routine expenses. Accountant should not be authorized to disburse cash.	<ul style="list-style-type: none"> ➤ Minimize cash in the office by having an imprest petty cash account. For instance maintain an petty cash amount policy of say D1,000 per week. ➤ Ensure that staff <u>request for petty cash in writing with the approval of their supervisor</u> before disbursing the petty cash. ➤ Ensure that all petty cash disbursed to staff are retired with receipts or explanation of how the amount was spent before the next week starts. 	<ul style="list-style-type: none"> ➤ Safeguard against theft/ fraud ➤ Deter loss due to mistakes, unauthorized use
4. Count cash on last business day + <u>surprise</u> cash counts (involve more than 1 person)	<ul style="list-style-type: none"> ➤ Conduct surprise cash counts AND weekly cash counts. 	<ul style="list-style-type: none"> ➤ Safeguard against theft/ fraud ➤ Deter loss due to mistakes, unauthorized use

		<ul style="list-style-type: none"> ➤ Provide for accurate timely financial reporting
5. Establish clear levels of financial authority for program managers, office managers, accountant		<ul style="list-style-type: none"> ➤ Assure compliance w/regulations and grant terms ➤ Deter loss due to mistakes, unauthorized use
6. Assign different responsibilities to different people.	<ul style="list-style-type: none"> ➤ Ensure that there is <u>segregation of duties</u> in the following: Requests – Authorizes – Disburses – Records. 	<ul style="list-style-type: none"> ➤ Safeguard against theft/fraud ➤ Deter loss due to mistakes, unauthorized use ➤ Provide for accurate timely financial reporting
7. Require prior written approval by authorized staff of all disbursements using a voucher form	<ul style="list-style-type: none"> ➤ Ensures there are supporting documents for disbursements made. ➤ Ensures proper audit trail. 	<ul style="list-style-type: none"> ➤ Deter loss due to mistakes, unauthorized use ➤ Provide for accurate timely financial reporting
8. Maintain appropriate personnel, financial records	<ul style="list-style-type: none"> ➤ Ensures that legal and local requirements are met. 	<ul style="list-style-type: none"> ➤ Assure compliance w/regulations and grant terms ➤ Safeguard against theft/fraud

Audit Points:

1. Organization

- Organization chart (responsibilities among personnel)

2. Human Resources

- Job descriptions
- Employee files including CV, contract, salary history, performance evaluations
- Records of compliance with payroll tax laws

3. Procurement

- Written policy ensuring competitive acquisition of supplies and equipment
- Contract/purchase records (date, cost, vendor, terms)
- Records tracking personal use of assets vehicle logs, phone/fax logs
- Inventory of furniture and equipment
- Tags on furniture and equipment

4. Finance

- A safe for cash on hand
- Copies of all past financial records and reports
- Current period accounts up-to-date
- Read your agreements VERY well
- Communicate with your donor (try to get things in writing)
- “Don’t assume”
- Keep files organized
- Don’t panic and learn from mistakes