Financial Control and Accountability

OVERVIEW

Brief description

This toolkit provides an introduction for the non-financial manager or leader on controlling the finances of the organisation in such a way that the organisation can be held financially accountable. It looks at the basics of a good bookkeeping system, at the importance of having financial policies and how to develop them. It also spells out the role of key structures in financial control and accountability, making a distinction between the Board and the CEO of the organisation. There is a section dealing with the annual external audit, and several examples to illustrate the financial control tools dealt with in the toolkit. The whole toolkit is geared towards enabling a non-financial manager or leader to manage the finances in an informed and competent way.

Who should use this toolkit and when?

This toolkit is an introduction to financial control and accountability for non-financial organisational or project leadership. Many people in leadership positions in civil society organisations and projects find themselves dealing with large sums of money when they have little or no knowledge or experience about how to manage money. This toolkit is intended to give such people a basic understanding of some of the issues and "how to's." It will not turn them into bookkeepers or accountants. But it will provide them with a reference tool to help them understand some of the concepts and approaches. This toolkit should be used together with the toolkit on *Budgeting* and the toolkit on *Developing a Financing Strategy.*

Why have a toolkit on financial control and accountability?

Many non-financial leaders and managers in civil society organisations are overwhelmed by the jargon of financial management. Sometimes they avoid their responsibilities in this regard because the jargon makes them feel stupid. This toolkit should help them to fulfil their obligation to be financially accountable.

Who should use this toolkit?

This toolkit should be of use to the non-financial leadership of any project or organisation, at the senior, middle and project levels.

When will this toolkit be useful?

This toolkit will be useful when:

- A non-financial leader or manager wants to familiarise himself/herself with what is necessary for financial control and accountability.
- A non-financial leader or manager wants to refer to a specific aspect of financial control and accountability.

Financial Control and Accountability

BASIC PRINCIPLES

Setting up a bookkeeping system

WHY DO WE NEED A BOOKKEEPING SYSTEM?

Bookkeeping is an essential part of financial management and accountability. As someone who is responsible for the finances of an organisation, you need to understand enough about bookkeeping to ensure that your financial management is based on accounting information that is correct and useful. It is your bookkeeping systems that make it possible for you to monitor whether your financial strategy (see the toolkit on *Developing a Financial Strategy*) is working, whether your organisation is financially viable (able to survive), and whether your money is being well spent in achieving your objectives. A good bookkeeping system makes it possible for an organisation to be financially accountable to all its important stakeholders.

Bookkeeping is the system for keeping the records, or books, of all the money that comes into your organisation and all the money that goes out of it. You need a bookkeeping system:

- So that key stakeholders can understand exactly what the financial position of the organisation is.
- So that you can monitor income and expenditure against your budget.
- For accountability and transparency.
- So that you can plan financially.
- For security – so that you do not lose money because of mismanagement, corruption or theft.

If you have a good bookkeeping system, you will:

- Be able to give regular reports to all those to whom you are accountable;
- Be able to make informed decisions about budgets and spending;
- Have documentary proof of receipts and payments of all money.

As a non-financial leader or manager, you do not need to set up the bookkeeping system yourself, nor do you need to maintain it. This should be done by a competent bookkeeper or accountant employed by your organisation. It could be done by someone who offers a bookkeeping service to a number of organisations.

For more on who should do your bookkeeping, go to the next section.

WHO SHOULD DO YOUR BOOKKEEPING?

There is no rule that will tell you whether you should employ your own bookkeeper or use an outside service. There are advantages and disadvantages to both.

The advantages of having a bookkeeper employed by your organisation are:

- His/her first loyalty will be to the project/organisation.
- S/he will be available at all times.
- The cost of employing him/her remains the same no matter how many times you meet with him/her, or want him/her to explain something to you.
- If your finances are complicated and your financial transactions many, you may need a bookkeeper on hand to deal with queries and problems as they arise.

The advantages of using a bookkeeping service are:

- It is more cost-effective, unless your finances are very large and complex. Services do not go on leave, they do not get sick and they do not get paid bonuses.
- The right service should provide people who are used to explaining financial issues to non-financial people, to help you understand the bookkeeping.
- An accounting service can help you with financial management, not just bookkeeping. The staff of the service should be able to help you with budgeting, with monitoring expenditure and with planning your cash flow.

Whether you choose a service or an in-house bookkeeper will probably have something to do with how confident you are about your financial management skills. Some organisations use both – a bookkeeper to deal with the daily record-keeping, and a service to provide summarised information and advice. Whichever choice you make, you will want to be sure of the best service possible.

When you employ a bookkeeper:

- ☐ Check references.
- ☐ Make sure s/he can use the system you have or want to use. (Very important if you are computerised.)
- ☐ Get someone with financial expertise to sit in on the interviews and ask the right kind of questions.
- ☐ Insist on a probationary period of at least three months.

Do not employ someone who will have to learn on-the-job unless you have a Finance Department employing more than one bookkeeper.

When you contract with a service:

- ☐ Check references and take referrals seriously – the best recommendation is a satisfied client.
- ☐ Make sure the service has experience in dealing with your kind of organisation.
- ☐ Make sure the service is willing to provide ongoing support, not just to do the books.
- ☐ Compare rates so that you get the best service at the best possible rate.

WHAT IS THE BASIS OF THE SYSTEM?

To keep accurate books, you need to have the following:

- A bank account with a cheque book.
- A daily record system with receipts and petty cash vouchers.
- A monthly record system with a petty cash book and a cash book (manual or computer) for recording and analysing income and expenditure.
- A format for annual financial statements.

The books you keep must show:

- Income (revenue): This is all the money that comes into the organisation (from fundraising, donations, bank interest, grants, subscriptions, sales and so on).
- Expenditure: This is all the money that your organisation spends (for example, on stationery, running costs, rent, bank charges, workshops, printing, transport).
- Balance: This is the money that is left over at the end of each month.

Every financial transaction must go through the following steps:

1 The transaction (money is spent or received) takes place.
2 The transaction is recorded in writing as proof that it has taken place. This could be in the form of a receipt issued by you for money received, or a receipt issued to you by the supplier when you pay for something. If the payment is electronic, then you will receive confirmation in a print-out. If you pay by cheque, or are paid by cheque, you may not receive a receipt or issue one. Instead, the transaction will be recorded in your bank statement.
3 The transaction is then recorded in an accounting book. For all money received and spent, this record will be in the cash book (either manually or on computer).
4 A summary is made of all transactions and written in a monthly statement.
5 A summary of all transactions for the year is written in an annual statement.

A bookkeeping system must provide information that is:

- Relevant (tells you what you need to know);
- Understandable (tells it in a way that you can understand);
- Reliable (gives you information that is always correct);
- Complete (gives you all the information you need to know);
- Up-to-date (tells you what your financial position is now, not six months ago);
- Consistent (provides information that can be compared with information from previous years);
- Acceptable to the outside world (especially to auditors, donors and government departments).

The key to a useful bookkeeping system is:

Keep it simple; keep it detailed; keep it logical; keep it up-to-date; keep supporting documentation (evidence) for every transaction.

PROVIDING A FRAMEWORK FOR THE SYSTEM

As a non-financial manager or leader in your organisation, you do not need to do the bookkeeping. But you do need to provide a framework for the bookkeeping system. To do this, you need to be involved in determining:

- The headings under which the financial information is summarised.
- The way in which expenditure and income are allocated.

The headings under which financial records are kept are known as **the chart of accounts**. The headings for your chart of accounts should be much the same as those in your budget. (See the toolkit on *Budgeting,* the section on Defining your Line Items) The headings are coded and the person recording the financial information knows which code to use for different income and expenditure. The headings should mean something to you. They should relate to the work you are doing. They should also be headings that make it possible for you to report accurately to your donors. (For an example of a Chart of Accounts, go to Examples: Chart of Accounts.) Work with your bookkeeper or service to set up a Chart of Accounts that makes sense for you.

It is also up to you, as the leadership or management of the organisation, to decide where expenses should be allocated. You may want all your salaries together under “salaries” or you may decide, for costing purposes, that the salaries of project staff should be allocated to specific projects. These are budgeting decisions that will be reflected in your chart of accounts.

COMPUTERS OR MANUAL?

A computerised bookkeeping system can simplify the processes of entering and adding up, and spreadsheet programmes can make it much easier to allow for many different scenarios when planning budgets. A computerised system also makes it possible to produce varied reports to suit the needs of your organisation. But computerising the accounts is not a magic answer because:

- It takes time to set up a computerised system and for a while you will probably need to run a manual and computerised system together, to prevent disasters in the transition.
- The person inputting data still needs to understand bookkeeping.
- The record-keeping process still has to be followed and supporting documentation must be kept.
- You need up-to-date software and someone in the organisation needs to have a good understanding of the computer software.

Before you computerise (or even use electronic banking and payment facilities), you must get approval from your auditor and from your Board or Management Committee. The approval should be documented.

Despite the above, computerisation is probably the best route to go, unless your books are very simple and your transactions very few. Be sure to get expert advice and to allow for start-up problems.

RECORD KEEPING

Any bookkeeping system needs a good filing system.

To complete a cash book (manual or computer), you need the following documents:

- Bank statements, filed in date order.
- Deposit slips, filed in date order.
- Cheque requisitions, filed in number order together with:
  - an invoice
  - the paid cheque
  - other relevant documents such as a travel voucher.
- Cash receipts in pre-numbered carbonised books. Current and used receipt books should be kept in a safe and convenient place.

(For an example of what a cash book looks like, see Examples, Cash Book. A cash book is a record of money coming into or going out of an organisation in date order. This includes cash and bank transactions.)

To complete a petty cash book, you need the following:

- Petty cash vouchers, filed in number order, together with a till slip or purchase receipt.

You also need:

- An assets register, giving a detailed description of each asset (e.g. computers, photocopiers, fans, furniture). An asset is a large or expensive item owned by an organisation.
- A grants file, in alphabetical order, with a section for each grant, and, within that, sections for budgets, contracts, letters etc.

Start new files each year, and label all files carefully with names and dates.

SOMETHING ABOUT TERMINOLOGY

It is useful for you to understand the following terminology:

Accruals
Income or expenditure which is due in an accounting period, but not received or paid by the end of the period.

Audit
An independent assessment of the finances of the organisation by a qualified person(s).

Balance sheet
An accounting statement which lists what is owned (assets) and owed (liabilities) at a particular point in time.

Bank reconciliation
A method of confirming that an organisation's accounting records agree with that of the bank as shown in the bank statement.

Cash flow forecast
A statement which forecasts the money coming into and going out of an organisation over a period of time in the future. (See also examples, cash flow forecast.)

Depreciation (also known as value reduction)
A method of allocating the cost of a fixed asset over the period of time it is likely to be used. For example, a car might be depreciated over five years instead of being shown as a total expense in the year of purchase.

Financial statements (also known as Accounting statements)
These are produced at the end of an accounting period (e.g. a month or a year). examples include an income and expenditure account and a balance sheet.

Qualified audit report
An auditor's opinion showing a negative comment about the organisation being audited.

Variance report
(See also the toolkit on *Budgeting*, the section on Monitoring the Budget) The variance report gives the differences between budgeted and actual amounts and explains them.

Financial policies

A policy is not a legal document. It is an agreed upon set of principles and guidelines for a key area of activity within an organisation. A policy expresses how your organisation goes about its work and how it conducts itself. Procedures are the steps for carrying out a policy. (Adapted from Olive ODT *Ideas for a Change, Part 5*, December 1999. We have used this publication extensively in the section on Financial Policies)

Good policies express a fair and sensible way of dealing with issues. While they can be changed, no organisation should change its policies too often. They are intended to guide the work of your organisation for a reasonable length of time. Once a policy becomes organisational practice, and has been approved by the Board or governance structure, it is binding on everyone in the organisation.

A good financial policy:

- Is fair
- Meets legal requirements
- Is comprehensive (covers all likely situations)
- Is realistic and can be implemented
- Is affordable.

<u>WHY HAVE THEM?</u>

The idea is not to be as bureaucratic as possible, but rather to have those financial policies that are needed to ensure that the project or organisation runs in a smooth and accountable way. There are certain financial policies that are standard. All organisations have them and your auditor should be able to help you develop a set. Other financial policies will come out of, or change because of, particular experiences in an organisation, or changing conditions in the environment in which your organisation is functioning. For example: An organisation refused to reimburse out-of-pocket staff expenditure unless there was supporting documentation. It had to change this policy to allow for staff who travelled on public transport where the operator refused to supply a receipt. After another project ran out of petty cash at a crucial time, it introduced a policy that there could be no personal borrowing from petty cash.

What is the value of policy?

- Policy enables an organisation to decentralise decision-making. So, for example, once the policy is clear that no-one can borrow money from petty cash, the administrator who runs the petty cash system can say “no” to anyone, even the Director, when asked for such a loan.

- Policy makes decision-making easier. It gives someone like the bookkeeper guidelines to follow, such as: only booking economy class tickets for travel.

- Policy helps an organisation to be consistent in the way it operates.

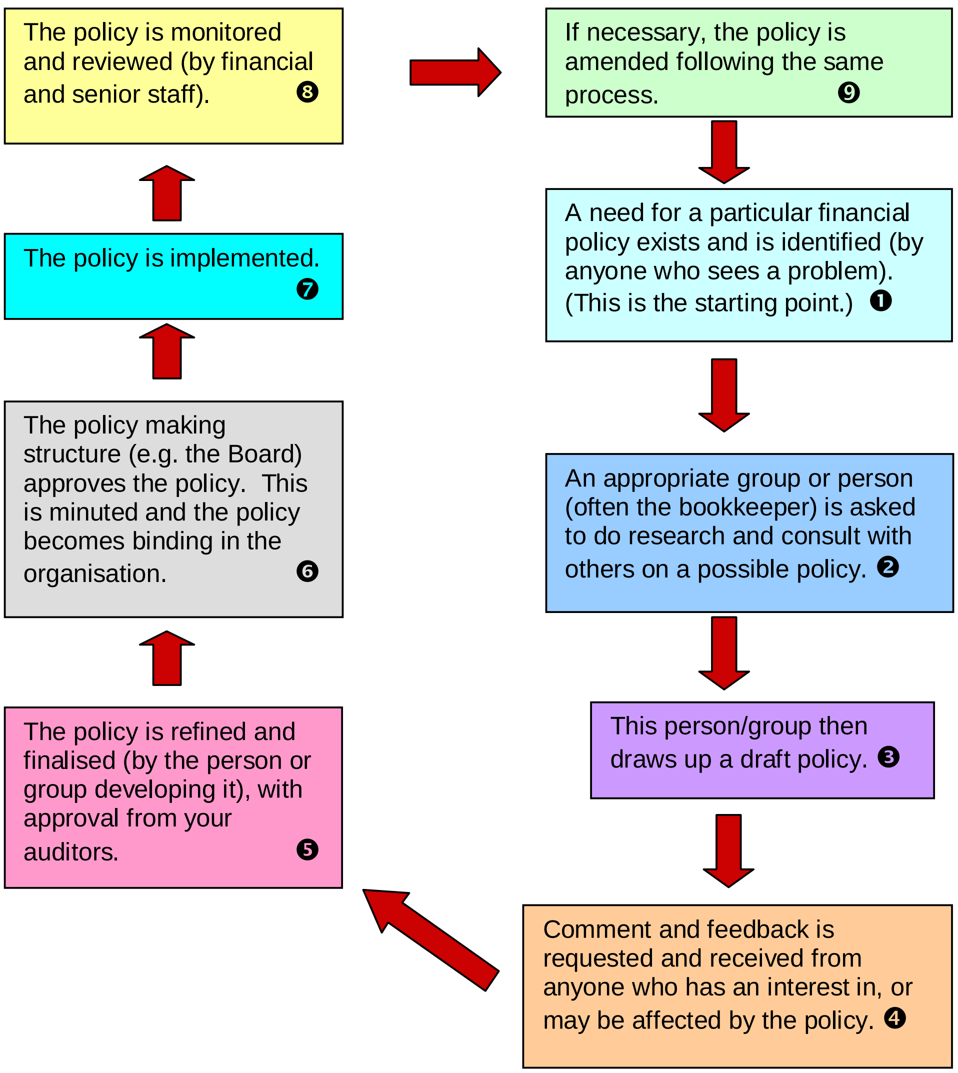
- Policy helps to keep an organisation transparent and accountable.

- Policy helps to set standards for how an organisation conducts itself.

WHO MAKES THEM?

People are more likely to implement and abide by policies if they had a say in making them, and they agree that they are “good” policies. The diagram below shows the cycle of policy development and who should be involved at each stage:

For a step-by-step process for developing a financial policy (drawing it up), go to the next page Ψ.



A STEP-BY-STEP PROCESS FOR DEVELOPING A FINANCIAL POLICY

You do not need to follow this order exactly, but you do need to cover most steps for each policy.

1. Decide who should be involved in drawing up the policy.

2. Make sure you have enough information to develop the policy.

3. Set a time frame for the development of the policy.

4. Clarify why the policy is needed. Write a short paragraph or sentence to explain the need. (e.g. We need a per diem policy because staff are doing regular work out of town, and they need to know in advance what money will be available for them. The allocations also need to be consistent and fair.)

5. Clarify the existing situation. Write a short paragraph/sentence that does this. (e.g. This has always been decided on an *ad hoc* basis before.)

6. Define any terms that need defining. (e.g. “Per diem” means daily allowance.)

7. Clarify the purpose of the policy. What do you want the situation to be as a result of having the policy? Write this down. (e.g. This policy is intended to ensure consistency, transparency, accountability and proper forward planning.)

8. Clarify organisational principles that underpin the policy (e.g. transparency, consistency). Note these in writing.

9. Clarify who the policy will apply to. Write this down. (e.g. All staff travelling out of town overnight on project business).

10. Put it all together and then circulate the draft policy for feedback.

WHAT FINANCIAL POLICIES DO WE NEED?

An overall Financial Policy will contain policies that relate to a number of areas. So, for example:

- Donor or income policies (e.g. receipts, deposits)
- Budgeting policies
- Policies for financial management
- Expenditure policies (e.g. amounts, payments, requisitions, non-budgeted expenditure)
- Travel policies (e.g. car hire, class of airfare or hotel, per diems)
- Auditing policies
- Assets policies (e.g. purchasing, utilisation, maintenance and disposal – vehicle policies go here).
- Petty cash policy
- Salary policy
- Staff loans
- Opening and operating a bank account.

For examples of financial policies see Examples, Financial Policy.

Keeping the books

We have already looked at the basic elements of a bookkeeping system in the section on Setting up a Bookkeeping System. In this section, we are concerned with what you do with your bookkeeping system in order to maintain it as a central tool in financial control and accountability.

Here we provide you with checklists for the bookkeeping activities that need to be done on a:

- Daily
- Monthly, and
- Annual

basis. We also look at the system as a source of information to provide management and leadership with a tool for using the books.

It is not your job to do the activities outlined, but in order to maintain financial control and be accountable for the finances of your organisation, you should know what is involved.

DAILY

The bookkeeping tasks that need to be done daily are:

- Receipting incoming money.
- Maintaining a petty cash system with petty cash vouchers.
- Banking (depositing the money that has come in).
- Writing cheques based on approved cheque requisition forms.

What do you need to know about these tasks?

- You can usually buy a cheap receipt book at your local stationery shop. The receipt books you use must be dated and each receipt must be numbered with a printed number. Each receipt will have a duplicate which you keep when you give the original receipt to the person or organisation making the payment. All receipt books, used and new, should be kept locked in a fireproof cupboard or filing cabinet. Where payment is made by direct transfer into your bank account, it is not necessary to issue a receipt as the payee's bank statement serves this purpose. However, in the case of donations, it is good practice to acknowledge receipt, both as a record and as a courtesy.

- You can also buy petty cash vouchers at a stationery shop. These vouchers should have supporting documentation (e.g. till slips) stapled to them, and be filed. Your governing body should decide how much petty cash will be kept in the office. It should only be used for small incidental needs that may come up, such as money for milk. It is best to have a written policy stating that no-one may borrow money from petty cash. Each month the money spent out of the petty cash box should be put back in (by cashing a petty cash cheque). In this way, each month begins with the same amount of petty cash. You may need to draw extra for a special event. It is best for one person to control the petty cash box as s/he can then be held accountable if any money goes missing. Petty cash should be kept in a locked cashbox, stored away in a locked place. (see also examples, Financial Policy)

- It is a bookkeeping function to prepare cheques based on authorised cheque requisition forms. The cheque must then be given to the authorised signatories for signing, with the cheque requisition form attached. Signatories should not sign cheques unless they know what they are for. (For an example of a cheque requisition form. See Examples, Cheque Requisition Form

MONTHLY

The bookkeeping tasks that need to be done monthly are:

Petty cash

- A petty cash schedule outlining all petty cash expenditure in categories.
- The schedule is compiled using the information on the petty cash vouchers.
- The money in the petty cash box is counted.
- The amount in the petty cash box is “topped up” to the amount agreed by the governing structure, using a petty cash cheque to get the money.
- The vouchers and supporting documentation are filed.

Current account

- A receipts and payments schedule is drawn up.
- Monthly cheques are written out against requisitions and then sent for signing with the supporting documentation. (See the section on Daily Activities.)
- Documentation is filed.

Other records

- The cash book is written up or entries are made on the computer. (See the section on What is the Basis of the System?)

Bank reconciliation

- The bank statement is reconciled with the cheque book. (See the section on Something about Terminology) and the appropriate adjustments are made in the cash book.

Reporting

- Management reports are produced. These include:
  - Variance reports showing the difference between actual income and expenditure and budgeted income and expenditure. (See also the toolkit on *Budgeting,* Monitoring the Budget, and Something about Terminology in this toolkit).
  - Preparation of a cash flow forecast. (See the section on Something about Terminology. For an example of a cash flow forecast see Examples, Cash Flow Forecast).

(For more on using management reports, see the section on Using the Books.)

Bank reconciliations

- When you do the bank reconciliation, you look at the bank statement and make sure that the bank statement and the cash book show the same balances. Your cash book may be ahead of your bank statement since some people may not have cashed the cheques you made out to them. Your bank statement will also reflect bank charges, which you need to put into your cash book. You write your bank reconciliations like this:

Balance on bank statement:	____________________
Minus outstanding Cheques:	____________________
Plus outstanding Deposits:	____________________
Real balance:	____________________

The real balance should be the same as the one in your cheque book at the end of the month.

To do your bank reconciliation you need your cheque book stubs which are part of your bookkeeping records.

ANNUAL

The bookkeeping tasks that need to be done annually are:

- Prepare a financial statement, giving a complete picture of the income, expenditure and balance for that year.
- Organise an independent audit (see the section on The Audit)
- Prepare a balance sheet. (see the section on Something about Terminology)

USING THE BOOKS

Organisations and projects keep books to:

- Provide an accurate account of financial management practices to stakeholders;
- Prevent misuse of money;
- Provide a management tool for organisational and project leadership and management.

Part of keeping the books is to provide monthly and annual reports to management and leadership on the finances of the organisation. This should be done in a way that is user-friendly for non-financial managers and leaders. The information provided should enable the management and leadership of the organisation to make decisions about the running of the organisation.

Financial reports generated by your bookkeeping system should enable you to answer questions such as:

- Are there variances (differences) between the budget and actual income and expenditure? If so, why? Do we need to take action?
- Are donor grants being spent as intended? If not, why not?
- Is most of our money being spent on programmes as opposed to core costs?
- Are there any items for which we are not allocating enough money (e.g. replacement of major equipment)?
- What do we owe and own at the moment? (from the balance sheet).
- Why are our assets worth so little/so much?
- Are we spending too much on any item relative to the work being accomplished?
- Is our financial position healthy? (Can we continue to operate and do the work we are supposed to do?)
- Do we have a good distribution of sources of income? (Are we too dependent on one source?)
- Are any cash flow problems likely to occur? If so, what can we do about them?

There are some financial ratios that can help you answer these questions. A ratio tells you what percentage (%) of the total something is. You take your financial reports and use them to calculate the ratios. These ratios will help you to decide whether there is an area of concern or not. If a ratio does not look healthy then you need to look at the situation carefully. There may be a good reason and the situation may not be a cause for concern, but the ratios provide you with a "stop and check" warning. Most ratios are best looked at over a few years. Some ratios include:

- **Self-reliance versus overly dependent on foreign grants**

- Take the amount of money you have received from outside the country during the past three years;
- Divide it by your total income for the three year period;
- Multiply this by 100;
- Your answer will be a percentage that tells you what your degree of financial dependence on foreign donors is. You can then set goals to reduce it if you think it is too great a dependence.

- **Salaries ratio**

- Work out your salary budget as a percentage of your overall budget.
- In most development work it is likely to be high (60% and above) because development work is often labour-intensive. You need to be able to discuss this with your donors in an informed manner if they query it.

- **Administrative ratio**

- Work out your core budget (that which is not covered by programmes) as a percentage of your total budget.
- Between 12% and 20% is probably acceptable as the ratio.
- Anything more than that will raise questions with your donors for which you should have good answers.

(For more on budgeting, see the toolkit on *Budgeting*)

- **Liquidity ratio**

- This identifies the relationship between current assets and current liabilities to show how able your organisation is to pay its short-term debts.
- The liquidity ratio is calculated by dividing the total of current assets (excluding stock) by the current liabilities and then multiplying by 100 to get a percentage.
- The reason for excluding stock is because the stock of civil society organisations is often not that easy to turn into cash. If your stock is easy to turn into cash, then you need not exclude your stock.
- The formula looks like this: $\frac{\text{Current assets (excluding stock)}}{\text{Current liabilities}} \times 100$

- If your percentage is around 200% (in other words, your assets are twice as much as your liabilities), then your ratio is healthy.

Roles in financial control and accountability

Financial accountability in a civil society organisation means that:

- Regular financial reports are given to all those who have a right to know what the organisation is doing with its funds.
- The organisation can account for funds by producing documentary proof of receipts and payments.
- The organisation can show that the money is being spent on its aims and for the particular work it was intended to cover.
- The organisation does not take on financial obligations it cannot meet.
- The organisation has taken all necessary precautions to prevent misuse of funds, and to keep funds and records relating to them safe.

In terms of the roles and responsibilities of different parties in financial control and accountability, there are some basic principles it is important to follow:

- Control over finances should be divided up so that one person does not have too much control or power over the money.
- It should be clear who is responsible for each task or area of activity. You must be able to trace mismanagement or abuse to a particular person or people.
- There should be no grey areas in terms of who is responsible for what, and no overlaps that make it possible for one person to blame another and avoid responsibility.
- Decisions about finances should be made at the right level. So, for example, a bookkeeper should not make decisions about non-budgeted expenses. Who makes what decisions should be included as written financial policy, approved by your highest governing body.
- People should have the necessary skills to carry out their roles and responsibilities.
- Everyone from at least the level of middle management up, and including members of the governing structures, should understand financial statements and be able to monitor them. Anyone working directly on a project or programme should understand its financial statements. Train people if necessary. Financial statements should be discussed at governing body and staff meetings.

BOARD

The term "Board" is used here to encompass the governing structures of civil society organisations. By "Board" we mean the governing body of the organisation. It is usually made up of volunteers. Some organisations may call this body an "Executive Committee" or the "Management Committee" or something else. We use Board to mean that group of volunteers charged with overseeing the management of a civil society organisation.

One of the main responsibilities of a Board is to oversee the financial control and accountability of an organisation. The money used by civil society organisations and projects is public money, and belongs to communities not individuals. One of the responsibilities of the Board is to ensure that this public money is used appropriately to benefit all those it is intended to help. The Board exists to represent those groups of people that the organisation is intended to benefit and to be accountable to those people or agencies that provide the money to make this possible. In some organisations, the Board delegates some of its functions to a Finance Committee. However, all members of the Board still remain responsible, and accountable for, the finances of the organisation. Proposals put forward by the Finance Committee must be approved by the full Board.

The financial roles and responsibilities of a Board include:

- Ensuring that the organisation has adequate resources to carry out its functions. This may not mean actually raising the money, but it does mean monitoring the finances carefully.
- Ensuring that the organisation uses its time and money well. The Board must see to it that money is not wasted or used to benefit staff members instead of achieving the organisation's objectives.
- Overseeing the acquisition and management of resources. The Board has to make informed decisions about how the money of the organisation is spent. This is particularly so when the organisation wants to buy resources that are costly. It is also the responsibility of the Board to see that such resources are well looked after. They are part of the assets of the organisation.

Board members have something which is called the **Duty of Care**. This means that each Board member is expected to be attentive to the affairs of the organisation, and to behave in the way a reasonable and careful person would behave. The Board can delegate some of its areas of work to experts (e.g. an auditor) but it still has a duty to understand the finances of the organisation and to raise concerns about them. The Duty of Care requires a member of the Board to read and understand the financial statements, and to keep track of the organisation's financial situation. The Board must ensure that the organisation keeps proper, up-to-date financial records. Board members must attend Board meetings, read all documentation given to them, review available information, and monitor any special areas that have been assigned to them. Board members may need training to help them fulfil their Duty of Care.

Board members must:

- Approve the budget, after due consideration;
- Approve a budget policy that sets discretionary levels (telling the Chief Executive Officer how much s/he can spend without special Board approval).

- Approve all financial policies and other policies that affect the finances of the organisation.
- Review monthly and annual financial reports, looking specifically at variances, balance sheets, and cash flow statements.
- Monitor progress in generating funds.
- Review the audited statements.
- Review the bank balance periodically and make decisions about longer term investments.
- Check that the assets, as listed in the assets register, are actually there.

(This section is adapted from *Good Governance*, by Benita Pavlicevic, Liberty Life Foundation 2001.)

CEO

The Chief Executive Officer (CEO) of an organisation may also be known as the Director, the Executive Director, and the Co-ordinator. This is the person who has day-to-day responsibility for:

- Budgeting;
- Income generation;
- Expenditure;
- Limited rights to make decisions about large expenditures (the Board decides on the limits);
- Ensuring that financial records are kept;
- Ensuring that books are kept accurately;
- Ensuring that financial reports are produced on time and distributed to the right people;
- Monitoring that activities are in line with expenditure;
- Checking financial reports and drawing the attention of staff and Board to any problems;
- Introducing lower level policies to deal with problems e.g. policies about telephone usage (these are usually approved by the Board or Finance Committee);
- Appointing financial staff (although, at senior levels, this should be done together with an appropriate Board member).

While the CEO may delegate some of the activities, the responsibility is still his/hers.

MANAGEMENT TEAM

The management team of an organisation is usually made up of the senior staff members of the organisation, those that have senior management positions. In a smaller organisation it may be made up of the CEO and middle managers. The most senior financial person on the staff usually sits on the Management Team, unless the organisation uses a financial service and only employs relatively junior financial staff.

Everyone on the Management Team should understand financial reports. These reports should be discussed once a month at the regular Management Team meetings. Members of the Management Team should:

- Budget for their departments or projects.
- Monitor their budgets against expenditure.
- Manage their budgets within the limits set.
- Explain the monthly financial reports for their departments or projects to their staff.
- Apply their minds to the overall organisational financial reports and give input to the CEO on them.
- Assist the CEO with income generation, with specific reference to their projects or departments.

It may be necessary to provide some training to enable people to meet these expectations.

STAFF

Different members of staff are usually responsible for different parts of the day-to-day financial control in an organisation. This is in line with dividing control of power over the money. Many of the tasks are, however, carried out by the bookkeeper.

The tasks of the bookkeeper include:

- Issuing receipts for funds received.
- Depositing money into relevant accounts.
- Preparing cheque requisitions for payment.
- Ensuring accounts are paid on time.
- Ensuring the cash book, or computer spreadsheet, is completed within an agreed time-frame at the end of each month.
- Ensuring control of assets, sundry items and stationery.
- Ensuring all financial documents are available for the auditors.

The sorts of tasks to separate (give to different people) for better financial control are the receipting and depositing of cash, and the preparation and approval of cheques.

All members of staff involved in the finances must understand the importance of what they are doing and of doing it accurately and on time. It often helps to build this kind of responsibility if staff are also taken through the monthly statements. In this way, they will understand them and see the contribution their work makes.

The audit

An external audit is an independent report that covers:

- How much money the organisation has received and spent in the financial year, and what the money was used for.
- Whether the money has been spent in accordance with the constitution of the organisation, Board decisions and donor requirements.
- Whether the accounts (the bookkeeping system) have been properly and honestly kept.
- The value of the organisation's assets.
- How the financial record-keeping system could be improved.

It is also possible to do an internal audit for your own purposes. This can be done by someone inside the organisation.

The person who does the external audit (the auditor) must not be actively involved in the organisation, and should not be a relative or close associate of anyone actively involved in it. In some organisations it is a government or donor requirement that the auditor be formally qualified and registered. In others, it is enough if the audit is done by someone who is competent and not directly involved with the organisation.

The auditor is usually formally appointed at the organisation's annual general meeting, even when there is a nominated Board. Otherwise, this can be done at a Board meeting. The auditor can only be changed by a formal resolution at an official Board meeting. Donors usually want to know why you are changing your auditor. In many countries there are strict legal guidelines stating who can act as an auditor, often linked to the size of the organisation.

As well as auditing the annual accounts, the auditor is usually available during the year to provide support and advice.

PREPARING FOR THE AUDIT

You begin preparing for an audit at the beginning of the financial year. It is a good idea to ask your auditor at this stage what information will be needed for the audit.

What do you need to have ready for an external audit?

The audit is usually done within a few months of the close of your financial year, and as soon as possible. It only looks at the financial year that is being audited.

When you are expecting the external auditors to come in to examine your financial books, you should have the following documents ready:

- A copy of your organisation's constitution (if this is the first time this auditor is doing the books or if you have made any changes to the constitution since the last interaction with the auditor).
- Copies of contracts, agreements, or letters setting out the conditions of grants, legacies or other income received for specific purposes.
- Copies of budgets for ongoing work or special projects.
- Copies of grant applications forms.
- Copies of the minutes of finance and other relevant sub-committee meetings.
- Copies of the minutes of Board meetings relating to finance.
- Your income and expenditure analysis records.
- Supporting documentation for income.
- Receipt books if you issue receipts for money received.
- Your petty cash analysis records.
- Supporting documentation for your petty cash records.
- Bank statements for the year.
- Bank reconciliations for the year.
- Cheque stubs (counterfoils) for all cheque books used during the year, and the one currently in use if it was used for the year under audit.
- Cheques returned to the organisation by the bank once they have been cleared.
- All deposit book records.
- A list of everyone the organisation owed money to at the end of the financial year.
- A list of everyone who owed money to the organisation at the end of the financial year.
- A list of creditors and debtors from the end of the previous financial year.
- Records of statutory payments made, particularly on staff salaries.
- Details of all assets.

The auditor may also ask to see:

- A list of accruals – income the organisation has received for goods or services it has not yet provided;
- A list of pre-payments - expenditure the organisation has made for goods or services it has not yet received;
- Lists of accruals and pre-payments from the end of the previous financial year.

Other documents the auditor may need or that will help the auditor include:

- Vehicle log books.
- Value Added Tax records.
- Tax records.

AUDITOR'S REPORT

When the audit is almost complete, the auditor will list issues that have not been fully resolved during the audit. The auditor will ask management to clarify these issues. If issues cannot be clarified, the auditor will mention them in the audit report. If this happens, it is a very serious matter.

At the end of the audit, the auditor usually draws up a set of draft annual accounts based on the information reviewed (see the section on Preparing for the Audit). S/he will include a record of income and expenditure actually received and spent, possibly with adjustments for creditors, debtors, accruals, pre-payments and depreciation of equipment or vehicles. There may also be a draft balance sheet showing the financial position of the organisation on the last day of the financial year.

The auditor will include a statement saying that the accounts have been drawn up in accordance with certain standards, based on information provided by the organisation. The statement usually says that, in the auditor's opinion, the accounts are an accurate and honest statement of the organisation's financial dealings and situation for the financial year.

A good auditor will recommend ways to improve the organisation's financial systems and procedures. The auditor's advice should always be taken seriously. This advice is usually given in a **management letter**. This is a very useful document that should be reviewed, along with the accounts, by the Board. It can even be shared with donors. The idea is to improve the financial control and accountability practices of your organisation. The CEO should report regularly to the Board on how the recommendations of the auditor are being followed up.

The accounts should be checked by the CEO and then submitted to the Board for approval and signing. When the accounts are signed by Board representatives, they are no longer draft accounts and become **final accounts**.

The accounts should not be signed unless people understand them. (See the section on Understanding the Audited Statements) If anything is unclear, ask the auditor for clarification. You can ask the auditor to attend the meeting at which the Board discusses the accounts.

UNDERSTANDING THE AUDITED STATEMENTS

When you go over the audited accounts, these are some of the questions you need to be able to answer (if you don't know the answers, ask for an explanation or raise the issue):

- How do the figures for income and expenditure compare with the actual expenditure for the previous year (which will be shown)?
- How do they compare with the budget for the year?
- Why have there been big increases and/or decreases on certain items?
- Have all items of expenditure been included? Are they all justified?
- Has the audit fee been included?
- How does this balance sheet compare with the previous one? Is the organisation/project in a better or worse position financially than it was last year?
- How does the total amount of current assets compare with the total of current liabilities? (see Liquidity Ratio under Using the Books).
- Is any deficit in the year being audited covered by a surplus from previous years? Previous years' surpluses are part of the accumulated fund or equivalent item. If there is a deficit, how will a similar situation be avoided in this year?
- Are there any large sums of money owing to the organisation? If yes, what can be done about getting the money in?
- Where are the financial reserves of the organisation invested, and are they earning a reasonable income? Is investment in line with the policies of the organisation and are donors happy with the investment policy?
- Did the audit show any irregularities or problems?
- Do we need to change our financial record-keeping system in any way and, if so, how?
- What does the audit tell us about our financial strategy last year? (see also the toolkit on *Developing a Financing Strategy)*

DO NOT BE EMBARRASSED TO ASK QUESTIONS AND DO NOT ASSUME THAT EVERYONE ELSE PROBABLY UNDERSTANDS THE ACCOUNTS.

EXAMPLES

Chart of accounts

For a civil society organisation offering organisational development training and consultation

Items of income and expenditure are allocated to a numerical category. Numerical space is left to insert additional accounts.

100	Donations received
120	Interest received
130	Sales training
150	Sales consultation
200	Accounting fees
210	Bank charges
215	Cleaning
225	Fines
232	Furniture/Fittings/Assets
240	Insurance
245	Legal fees
250	Maintenance contracts
255	Moving expenses
260	Motor vehicle fund
265	Motor vehicle repairs
270	Postage general
275	Printing and stationery
280	Refreshments/entertainment
285	Rent and municipal charges
290	Repairs and maintenance
300	Recruitment
302	Security
307	Secretarial fees
310	Telephones
350	Resource development
370	Travel
400	Project Teacher Upgrade
405	Project TRAIN
450	Salaries
455	Staff costs
470	Staff training
470	Networking

Cash Book

RECEIPTS					PAYMENTS					
Date	**Details**	**Receipt No**	**Cash**	**Bank**	**Date**	**Details**	**Payment No**	**Cheque no.**	**Cash**	**Bank**
1/1	**Opening balance**									

Cheque requisition form

Made out to:____

Requested by: _________________________________

Date: ________________

Amount:

$

Type of expense: ____
(Category name)

Reason for payment:

____

____

____

____

Invoice/statement Number: ______________
(If applicable)

BALANCE

Previous balance:

Less this amount:

Plus deposits:

New balance:

Cheque number:

Please attach source documents

Authorised by:

1 ____

2 ____

Cash Flow Forecast

	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec	Total
Income													
Interest	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	12 000
Subsidies	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	120 000
Grant	900 666						900 666						1 801 332
Sub-total	911 666	11 000	11 000	11 000	11 000	11 000	911 666	11 000	11 000	11 000	11 000	11 000	1 933 332
Expenditure													
Operational	75 000	65 000	90 000	110 000	100 003	149 000	115 030	105 000	132 000	123 300	104 000	130 000	1 298 333
Organisational	12 083	12 083	12 083	12 083	12 083	12 083	12 083	12 083	12 083	12 083	12 083	12 083	145 000
Staffing	33 333	33 333	33 333	33 333	33 333	33 333	33 333	33 333	33 333	33 333	33 333	33 333	400 000
Capital													
Sub-total	120 416	110 416	135 416	155 416	145 419	194 416	160 446	150 416	177 416	168 716	149 416	175 416	1 843 333
Totals													
Net inflow/ outflow	791 250	(99 416)	(124 416)	(144 416)	(134 419)	751 220	(139 416)	(166 416)	(157 716)	(138 416)	(164 416)		
Opening bank balance	0	791 250	691 834	567 418	423 002	288 583	105 167	856 387	716 971	550 555	392 839	254 423	
Closing bank balance	791 250	691 834	567 418	423 002	288 583	105 167	856 387	716 971	550 555	392 839	254 423	90 000	

Taken from an example in *Ideas for a Change Part 8*, December 2001, Olive

The brackets indicate minus or a deficit.

Note that, even in months when more money was spent than came in, this project did not have a cash flow problem because of the large amount that had come in January. However, if there had been a problem, the cash flow forecast would have shown where it was, and enabled the project to take advance action to avoid trouble.

EXAMPLES

Financial policy

Policy	Procedure
Petty cash policy: From time to time small items have to be paid for in cash. This cash comes from the petty cash box. Petty cash must be carefully monitored and controlled. Petty cash should be limited to approximately $40 per month. Claims in excess of $5 must be paid out by cheque. Every petty cash payment must be recorded on a petty cash voucher with the relevant documents attached. No loans may be made from petty cash under any circumstances to anyone. Only the Administrator has direct access to the petty cash box.	We use the imprest (topping up) system for petty cash. This means that the amount of petty cash that the office starts off with at the beginning of each month is always the same. At the end of each month, only the amount of cash spent during the month is replaced. So each month the petty cash box starts off with the original amount. At the end of each month, the Administrator must count the petty cash and then put in a cheque requisition to make up the amount spent.
Per diem policy: From time to time members of staff are called upon to stay away from home on project business. The project does not want anyone to be out-of-pocket as a result of this. It also needs to make provision for such amounts in advance. While breakfast and accommodation costs are covered directly by the project, there are additional expenses for which staff members have to pay in such circumstances. To standardise the amount provided for this so that there is consistency in the provision of per diems (daily allowances), a table has been drawn up to deal with national and international travel. This will be applied to all staff members who are out-of-town overnight. This table will be updated regularly by the Finance Department in line with per diems offered in other projects doing similar work. The Department will make this information available to affected staff at any time. In setting the per diem amounts, the project has taken note of the non-taxable limit set by the Revenue Department. Note: This policy does not apply when staff attend a course, workshop, seminar or conference where all expenses are covered by the organisation in advance.	Staff may claim their per diems either before or after travelling. Please allow three days for payment to be made. Forms are available from the Finance Department. Applications must be made on these forms.

RESOURCES

CIVICUS would like to acknowledge the following as invaluable resources in the preparation of this toolkit:

Cammack, John *Financial Management for Development*, INTRAC, Oxford 1999

De la Harpe, Jean *Accountability Volumes 1 and 2*, Network Management and Development Services, Johannesburg 1995

Shapiro, Janet *Financial Management for Self-Reliance*, Olive, Durban 1996

www.etu.org.za/toolbox/finances/webaccount.html

GLOSSARY OF TERMS

Assets	Assets are those things which the organisation owns and the money it has in the bank.
Liabilities	Liabilities are those things which the organisation owes to others and can be called upon to pay or pay for.

CIVICUS: World Alliance for Citizen Participation is an international alliance established in 1993 to nurture the foundation, growth and protection of citizen action throughout the world, especially in areas where participatory democracy and citizens' freedom of association are threatened. CIVICUS envisions a worldwide community of informed, inspired, committed citizens in confronting the challenges facing humanity.

These CIVICUS Toolkits have been produced to assist civil society organisations build their capacity and achieve their goals. The topics range from budgeting, strategic planning and dealing with the media, to developing a financial strategy and writing an effective funding proposal. All are available on-line, in MS-Word and PDF format at www.civicus.org and on CD-ROM.

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