

WELCOME

rash-reef laai-ye

karibu

bem vinda

vitajte

beninguts

soo dhowow

me te

suswaagatham

kia ora

afio mai

maliu mai

vitame vas

haere mai

kalosorisate

bienvenue

bonavinuta

binvinutu

wolkom

irasshaimase

huan ying

velkommen

tere tulemast

woezion

talitali fiefia

aloha

swaagatham

beningut

dzie

failt

maligayang pagdating

degemer mat

willkommen

yookoso

kommen

benvnuwe

dobry wiecz

bienvenido

susu mai

li

kaykuykuy

bine ai venit

merhaba

shalom

wilkomme

velkomin

laskavo prosymo

bainvegna

hau mai

ongi etorri

dynnargh dhis

g'day mate

chun-manay-oh

mauya

vitejte

benvenuto

hush kelibisz

muito bem vindo

tervetuloa

mabuhay

ongi etorri

dynnargh dhis

coi ro do

bonvenon

dobrodosli

e komo mai

coeee cobber

ahlan wa sahan

sugeng rawuh

akwaaba

welkom

croeso

welbasualleg

failte romhat

bene bennios

benvido

dobrodo

bon bini

dobry

multumesc

mire se vini

salve

selamat datang



NCD Alliance
ADVOCACY INSTITUTE

Financial Management and Sustainability webinar

John Cammack
August 2021



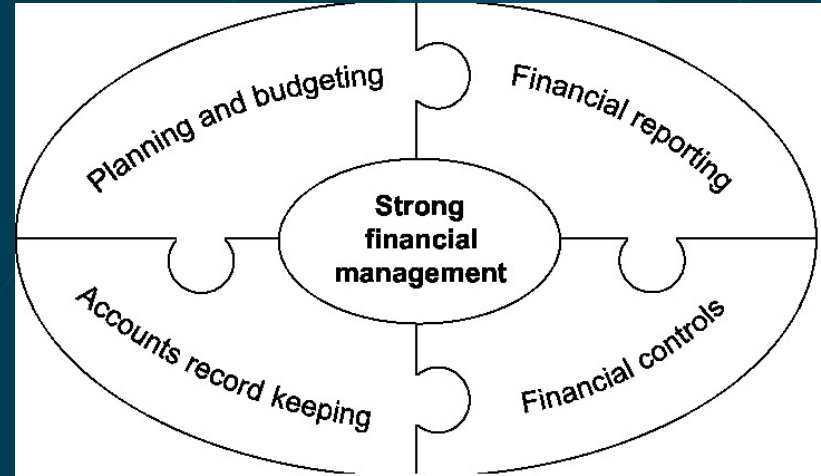
Financial Management and Sustainability webinar

Session	Learning objectives
	By the end of this training, participants will be able to :
Welcome	
Introduction to financial management	<ul style="list-style-type: none">• use financial management skills to strengthen strong organisational capacity
Financial controls	<ul style="list-style-type: none">• apply basic financial controls to minimise the risk of errors and theft
Strengthening financial management capacity with controls	<ul style="list-style-type: none">• strengthen financial capacity, accountability and transparency
Strategic financial management	<ul style="list-style-type: none">• use strategies for financing overheads, and decide on an appropriate level for organisational savings (reserves)
More ways to strengthen financial management capacity	<ul style="list-style-type: none">• use financial management skills to strengthen strong organisational capacity
Terminology and questions	<ul style="list-style-type: none">• define technical terms correctly
Close of webinar	

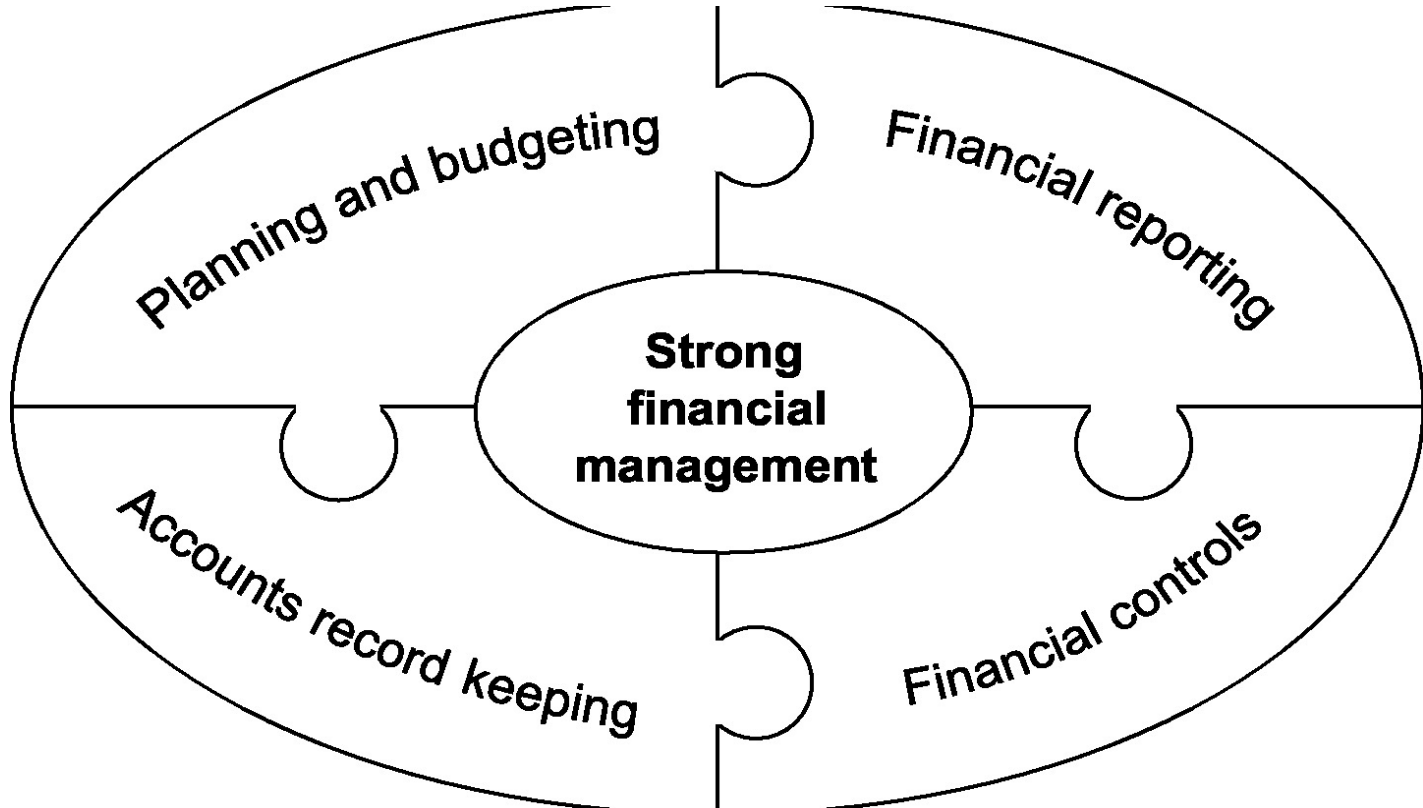
Introduction to financial management



Specific tasks of strong financial management



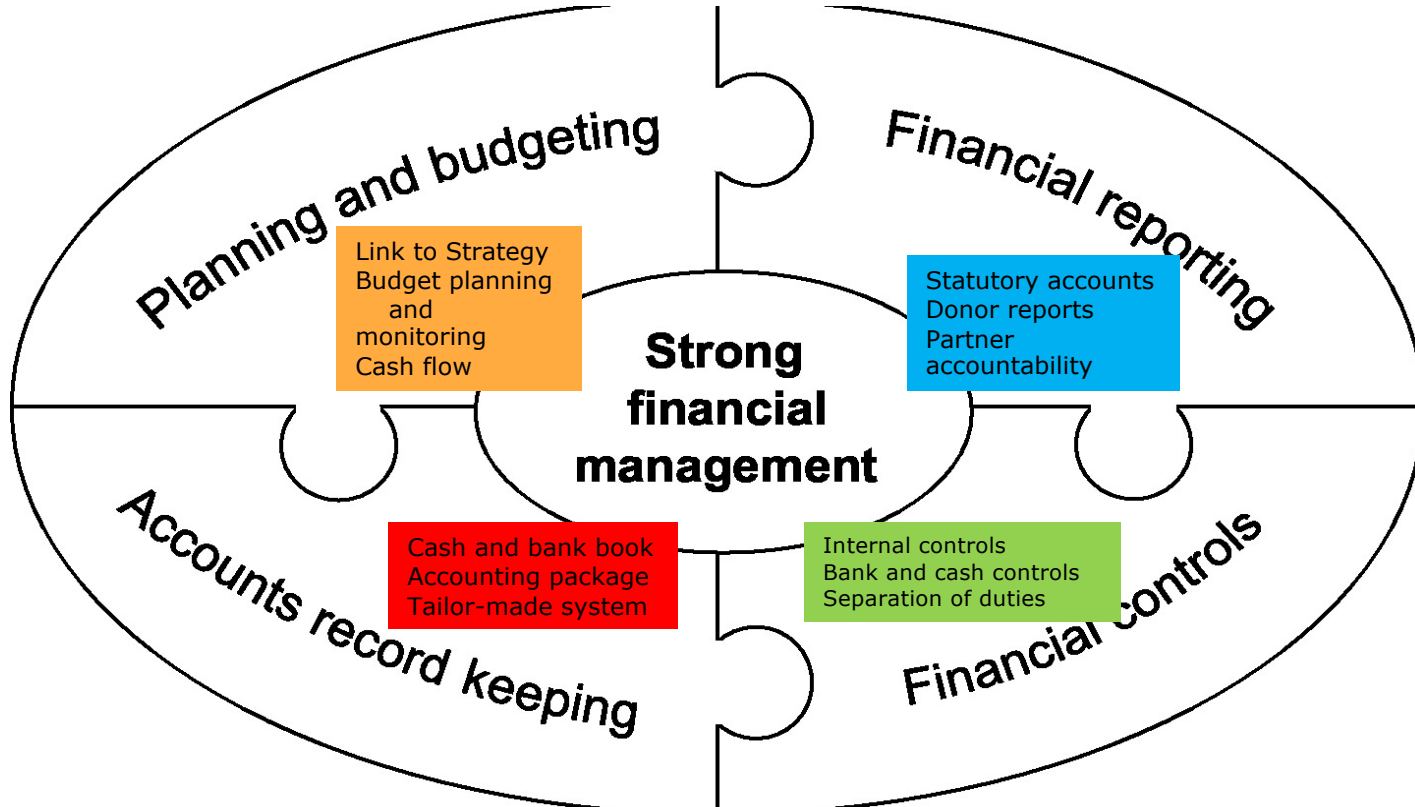
4 key tasks



Poll: What are the 3 most important aspects of financial management?

1. Need to produce reports for government, donors and other stakeholders
2. Accountability to those who give us money
3. Be accountable to the communities we work with
4. Sometimes legally required
5. Improves programme impact
6. Gives an organisation credibility
7. It helps prevent fraud/theft
8. Leads to better decision-making
9. Helps us know what is best value for money

4 key tasks





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Introduction to financial management

What is your experience of financial management?

In *chat* write 2 or 3 words that come into your mind when you think about *financial management*?

Internal or financial controls



I Love Internal Controls ... by accountingcelebrity

Zazzle

Internal controls



Internal controls

Poor stock control

'Collusion' between individuals

Payments made twice

Valuable items not secure

Receipts not issued for cash amounts

Cash used and not regularly counted by manager

Internal controls

Cash

Bank

**Budgeting and
accounting**

**Purchasing and
authorisation**

**Management
controls**

**Physical
controls**

Internal controls

A silhouette of a person in mid-air, jumping over a gap in a cliff. The background is a bright blue sky with a large, glowing sun on the right side, creating a lens flare effect. The person's arms are outstretched, and their legs are bent in a jumping motion.

Definition

‘the financial and management systems that aim to protect an organisation’s property and minimise the risk of error and theft’

From: Building financial management capacity for and community organizations, John Cammack

Internal controls



BANK

- ✓ **Pay money into bank promptly**
- ✓ **Don't sign blank cheques**
- ✓ **Prepare regular 'bank reconciliations'**

See full explanation of other controls in the Handbook

Internal controls

Purchasing and
authorisation

Rules about who can order?

Match invoices with orders and check
quality

Senior person authorises; different
person signs cheque



Internal controls



Physical controls

- ✓ **Secure premises and make sure money and valuable are kept safely**
- ✓ **Record of stock and 'assets' owned**
- ✓ **Clear policy on use of 'assets'**

Internal controls

Group work: Mini-case studies

Implementation of financial controls: Mini-case studies

The following 5 mini case-studies have all happened in international development organisations. Look at each one and write your answer below. Make a copy of your response so we can discuss the issues in the webinar for this short course.

Make suggestions to identify for each:

What are the weaknesses?
How to strengthen the systems?

1. The administrator makes payments for supplies on the basis of the month-end statements. She says that there is no need for invoices, as long as the statement lists the amounts. There have recently been cases where a statement is not sent and the original invoice has been lost. The administrator requests a duplicate statement and then pays it.
2. You are working with a group where the three cheque signatories travel regularly around the country. The group's administrator asks one of them to sign a number of blank cheques. The administrator keeps these in a drawer until they are needed.
3. Your organisation has a system of giving a cash advance to staff when they are travelling. The cashier will usually provide whatever amount is requested. Accounts should be submitted on return. Recently there have been a number of advances unaccounted for.
4. The administrator of a small non-profit organisation completes the cashbook at the end of each month. A summary of this and a copy of the month-end bank statement are provided to monthly meetings of the management committee. Its members then compare it with the budget. No one on the management committee has specific financial skills and usually the summary is agreed without any discussion.
5. An organisation needs vehicle spare parts, general office equipment, and medical supplies for its work. Because it has recently had funding for the creation of ten new centres, it has bought large amounts of new stock that cannot be held within the central office store. The organisation has therefore hired a large out-of-town store to keep the additional stock. The storekeeper cannot be in both places so has given a key to each of the project staff to collect items from the out-of-town store when they need it. No records are kept at the new store but staff are supposed to let the storekeeper know what they take.

Internal controls

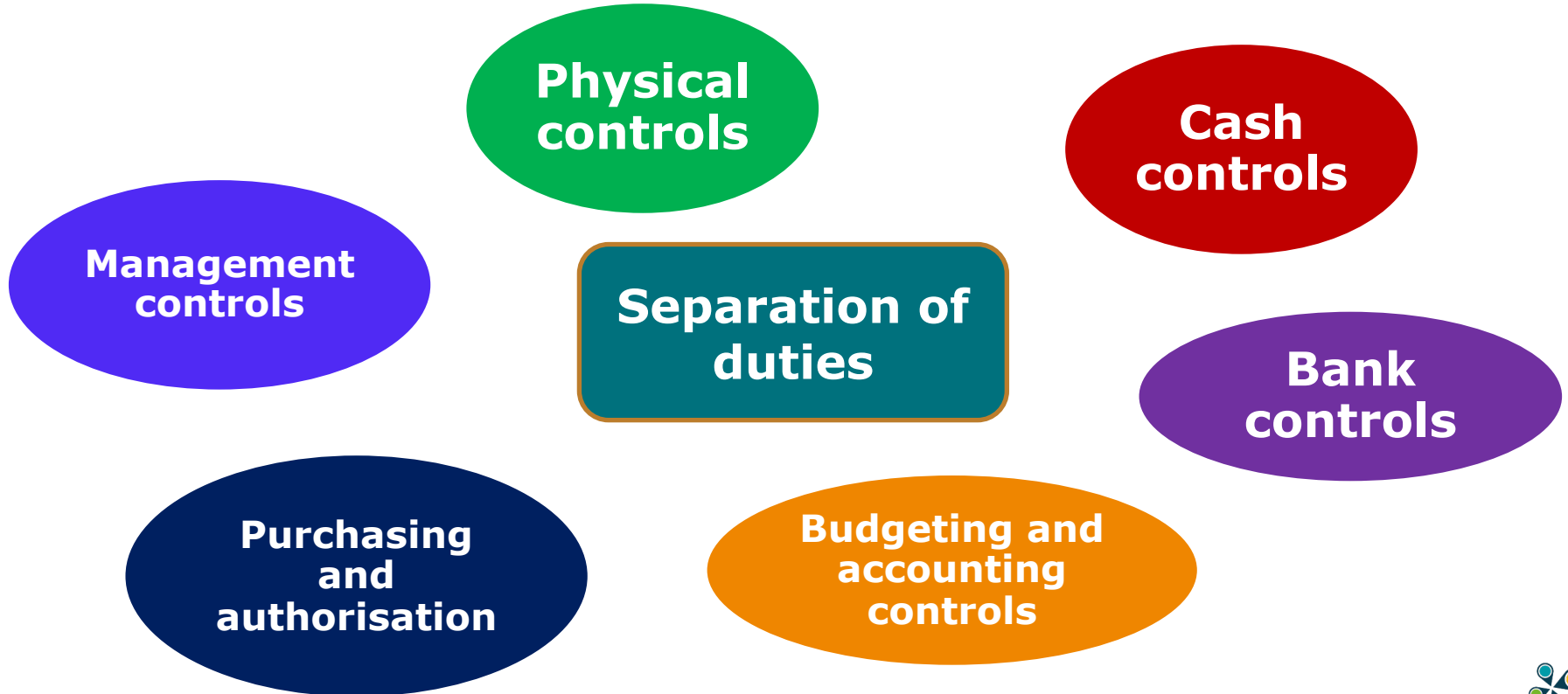
Separation of duties

Key principle...

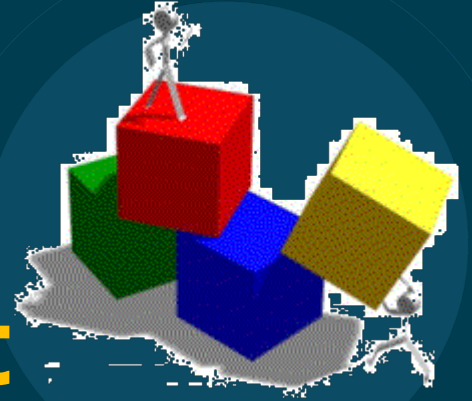
***One person is not responsible
for the
whole of any transaction on
their own***

... this reduces possibility of error and fraud

Types of internal controls



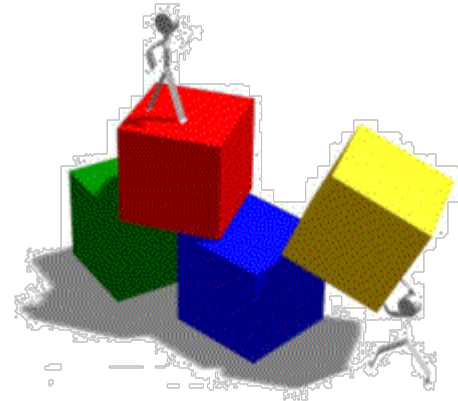
Strengthening financial management capacity with controls



Strengthening financial management capacity with controls

What is capacity strengthening?

'a systematic strengthening of the capabilities of an organisation to perform its mission more effectively'



Strengthening financial management capacity with controls

How can we achieve financial capacity strengthening?

**Audits and recommendations,
also called 'management
reports'**

. A number of advances were outstanding for staff that were not fully accounted for at 31 December. A more comprehensive system of financial control is required to make sure that these are followed up.

Management comment on paragraph 1

These advances have subsequently been accounted for in full. A new advances register has been introduced to make sure no new advances will be issued until accounts are provided for any outstanding ones.

2. Payment vouchers and connected documents have not been stamped to state they have been paid. All of these should be so stamped and dated to avoid the possible re-use of a document.

Management comment on paragraph 2

The office has not held a 'paid' stamp. However, one has now been purchased and a system introduced to make sure that all documents are stamped.

3. Grant income received from international donors has not always been spent in the way specified by the donor. The Centre's accounting records do not identify separately, income which has been given for a particular purpose.

Management comment on paragraph 3

We accept the auditors' observation that the accounting records do not separately identify all income received for a particular purpose. A new accounting procedure has been introduced which will rectify this.

We do not however accept that grant income received was not used for the purpose given. We understood that this income was unrestricted and as such was used towards the general running costs of the Centre.

Strengthening financial management capacity with controls

How can we achieve financial capacity strengthening?

Assess strength of financial capacity and needs

Grantee Financial Management Checklist: assessment of the financial management capacity of grant recipients

Purpose

The purpose of this checklist is to enable NCD Alliance to have an understanding of the financial management capacity, processes and resources of our grantees, including their fiscal agent (where used). This information will assist us to ensure proper, sound and transparent financial management of NCD Alliance grants and accountability for the of grant funds, as well as to inform us in terms of the financial management and technical support required by to our grant recipients.

About the NCD alliance/organisation

To be completed by the person responsible for financial management

NCD alliance/organisation name:	
Please select the status of your NCD alliance: <input type="checkbox"/> My NCD alliance is an informal (non-registered) entity <input type="checkbox"/> My NCD alliance is a formal (registered) legal entity	
If a non-registered NCD alliance, name of fiscal agent organisation:	
Address (of formal registered entity or of fiscal agent):	
Website:	
Phone:	E-mail:
Name of the person responsible for financial management:	
Title:	
Phone:	E-mail:
Annual Budget US Dollars (of formal registered entity or of fiscal agent):	
Annual Budget in local currency (of formal registered entity or of fiscal agent):	

Grantee Financial Management Checklist: assessment of the financial management capacity of grant recipients

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Please underline your financial year end (of formal registered entity or of fiscal agent): a) 31 st March. b) 30 th June c) 30 th September d) 31st December
Names and titles of all the signatories on your organisation bank accounts (of formal registered entity or of fiscal agent):

General

How many staff and/or trustees are involved in financial management of your organisation? Eg. accounts officers, treasurers etc.	
Has any of the staff received finance-related training and/or possess accountancy qualifications? Please give details.	
Does the organisation have a finance manual which covers financial processes? If yes, who has access to the manual?	
Does the organisation use an accounting software? If yes, which accounts software? If no how does the organisation manually record its accounting information?	

Accounting records

Which of the following basic accounting records do you keep? <ul style="list-style-type: none"> - petty cash book - invoices/receipts for all expenditures - receipts for funds received/incoming - bank statements for each bank account - fixed assets register 	
Which of the following additional accounting records do you keep? <ul style="list-style-type: none"> - payroll records - general ledger - accounts payable - accounts receivable 	

- others	
Are your annual financial statements formally approved by Board members at an annual meeting? If yes, when?	

Internal controls


<p>Which of the following controls over purchases applies to your organisation?</p> <ul style="list-style-type: none"> - supporting documentation held for all items of expenditure (i.e. invoices, vouchers, receipts). - all expenditure properly authorised on a payment voucher. - invoices checked against orders made. - records kept of orders placed but not carried out. - payments only made against original invoices (i.e. not on monthly statements or photocopies). 	
<p>Which of the following controls over payments by petty cash are followed?</p> <ul style="list-style-type: none"> - all petty cash payments have supporting documentation. - supporting documentation authorised by someone other than the cashier or claimant. - amounts of claim entered on a petty cash voucher. - all payments noted in a petty cash book. - all topping up withdrawals from bank noted in the petty cash book. - regular checks made of petty cash records by someone other than the cashier. 	
<p>Which of the following controls over bank accounts are complied with?</p> <ul style="list-style-type: none"> - all bank accounts are held in the name of the organisation, not individuals. - instructions to open or close accounts are properly authorised and / or reported to trustees of the organisation. - secure records are held for all bank accounts. - regular bank reconciliations are carried out. - bank statements are regularly inspected by the trustees. - at least 2 signatories on the bank mandate. 	

<p>Do you have the following controls for employee payroll management?</p> <ul style="list-style-type: none"> - salary levels are properly authorised and recorded - staff are employed under a proper contract of employment - compliance with statutory tax regulations <u>are</u> ensured 	
---	--

Financial reporting and monitoring

<p>Does the organisation produce financial statements (including a balance sheet and profit & loss account)?</p> <p>If yes:</p> <ul style="list-style-type: none"> - frequency - period covered by the most recent statements - who receives copies of the financial statements 	
<p>Are the annual financial statements subjected to an independent audit by a qualified professional?</p> <p>If yes, when was the last external audit conducted and by whom?</p>	
<p>Does the organisation produce financial reports for managers which compare performance against budgets?</p> <p>If yes:</p> <ul style="list-style-type: none"> - how often? - period covered by the most recent report? - who prepares the reports? - who receives copies of the reports? 	
<p>Does the organisation produce periodic reports for donors which compare performance against budgets?</p> <p>If yes:</p> <ul style="list-style-type: none"> - which donors? - how often? - who prepares the reports? 	

Strengthening financial management capacity with controls



Grantee Financial Management Checklist: assessment of the financial management capacity of grant recipients

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Annual Budget in local currency (of formal registered entity or of fiscal agent):	

In small groups

Go through the checklist and complete, to the best of your knowledge, for your organisation *one question* from each of these sections:

- **General**
- **Accounting records**
- **Internal controls**
- **Financial reporting and monitoring**

Strategic financial management



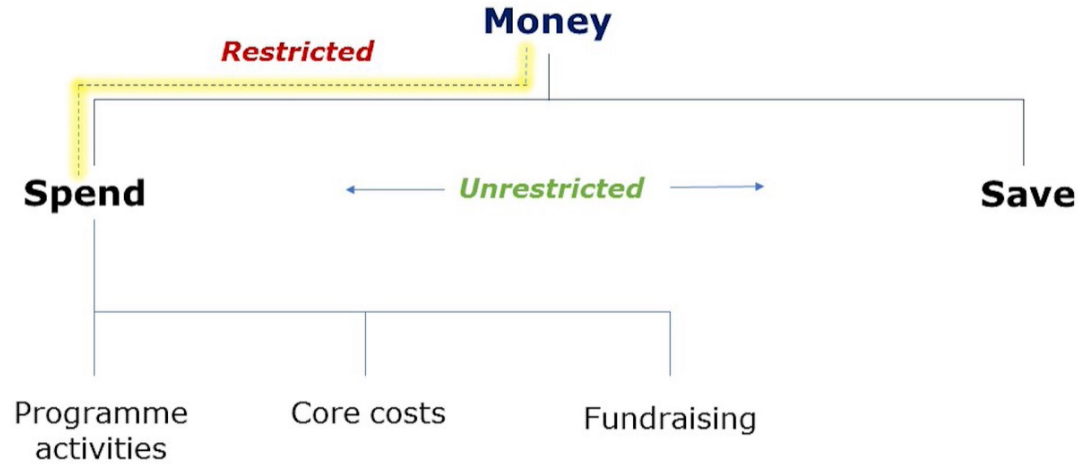
Strategic financial management

Which of these decisions are strategic and which operational?

Poll: say 'yes' if each of the following are *strategic* decisions and 'no' if they are *operational*:

1. How much should we keep in our bank in addition to our annual expenditure?
2. Have we got enough in our bank account this month?
3. How do we pay for our administrative costs?
4. What combination of methods do we use to make sure our administrative costs are covered?
5. Have we enough funds in the bank to pay the salaries?
6. What system do we put in place to make sure we have enough money to pay the salaries?

Strategic financial management



[Video: Financial strategy and money](#)

Used with permission from
[IMA International's Sustainable Finance](#) online course

Strategic financial management

What are 'reserves'?



Organisational savings



Do we need reserves?

Maybe not, if...

Just spend what is received, no more

Organisation only has restricted funds

Have no paid staff, premises or ongoing commitments

Living in a country with a high inflation rate

Not allowed by law or by donor

Reserves

**Why do we
need
reserves?**

Reserves are essential if...

- an organisation has commitments and it provides essential services to its community, which must continue – reserves therefore provide security
- donors consider you a poor risk for their grant if reserves are so low, you may not be able to continue



Reserves

How do they help?

- they provide for times when there is a shortage of money
- for essential work to continue if income/fundraising is not as high as expected
- spend money that has not been budgeted, if an opportunity or emergency arises



If we need reserves ... *how much* do we need?

Well it depends!

Every organisation is different, so we need to think of what factors would help us to decide the level of reserves needed for a particular organisation.

Group activity: Think of as many factors as you can, to consider when deciding the level of reserves that is appropriate for your organisation.

Here's one to start you off:

- *the reliability of your income sources*



Strategic financial management

Reserves – how can we start building them up?

Any free reserves must be from unrestricted funds. Many donors giving unrestricted funds will expect their money to be used rather than saved. So...

Talk with donors to see if they can help, either financially, or more likely with helpful advice.

Establish a reserves policy

Build up reserves gradually from local fundraising, membership fees, charges for services, small donations, income-generating projects

Strategic financial management

Reserves policies

Creating a reserves policy is a first step towards achieving the reserves you need

A policy should explain

- The reasons for keeping reserves
- What is included and what not
- The level/proportion needed
- If not in place already, when it will be achieved
- How often the policy will be reviewed

Strategic financial management

“This organisation aims to hold its reserves at a level of 35%, or just over 4 months worth, of its expenditure budget. This target should be achieved by 31 March 2024.

The Management Committee will then review this percentage annually, at the time when the budget is being set”

Strategic financial management

Reserves – how to present them

Distinguish between *total* and *free* reserves explain why in your policy statement, for example, why restricted funds, any endowment or designated funds are not *free* reserves that you can use

Clearly label *total* and *free* reserves so donors can see the difference

Make sure that your annual accounts figures and policy statement support whatever else you are saying to donors by talking with finance person/team

Strategic financial management

Reserves – how to present them

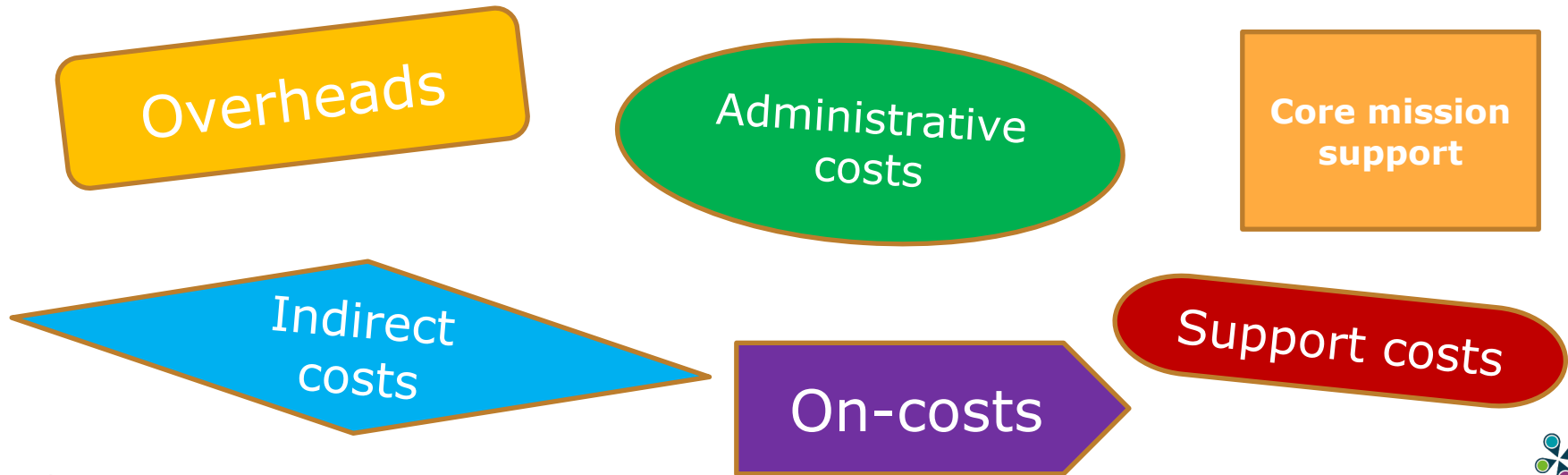
Waterside Development Group – Balance Sheet as at 31 December

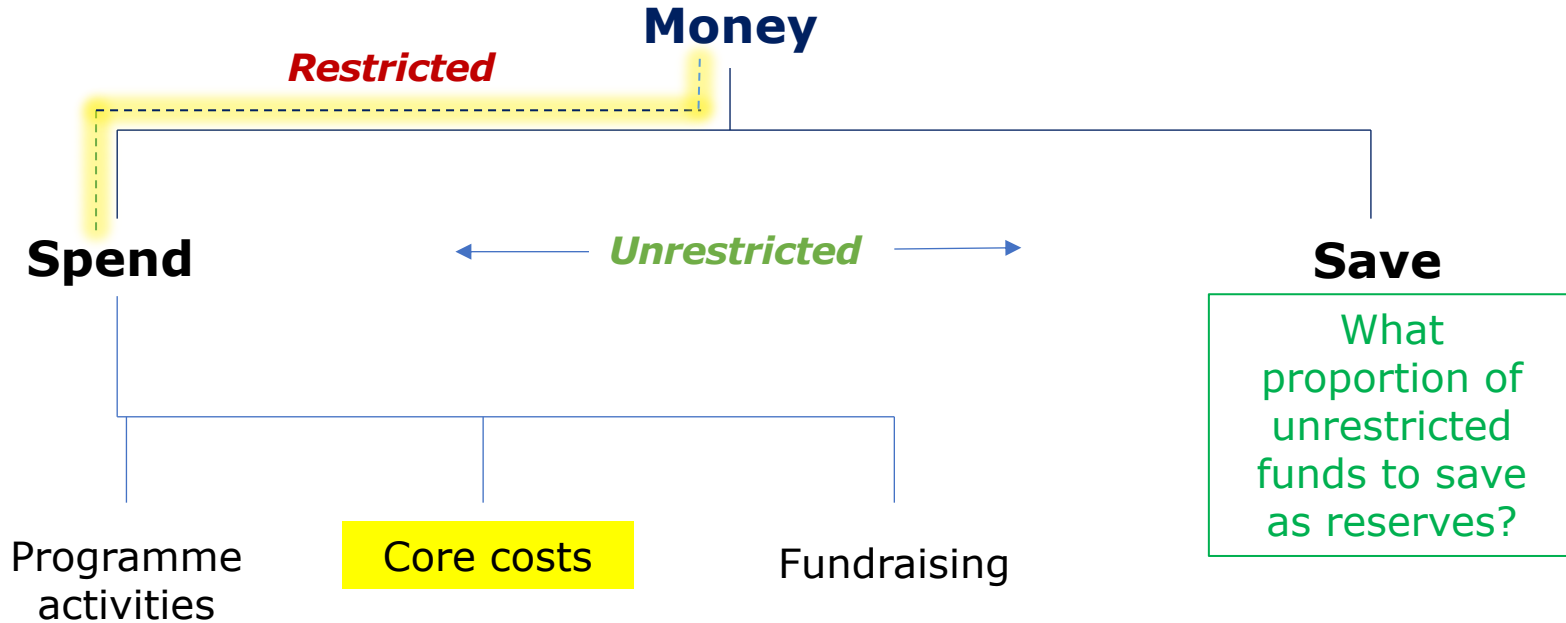
	US\$
Fixed and current assets <i>less</i> current liabilities	<u>20,600</u>
<i>Represented by:</i>	
Endowment fund	4,400
Restricted funds	4,900
Designated fund - Equipment repair fund	2,800
General funds (free reserves)	<u>8,500</u>
TOTAL RESERVES	<u>20,600</u>

Strategic financial management

What are core costs?

Core costs are an organisation's non-programme costs such as rent, stationery costs, and salaries of administrative staff. They can be called by different names, such as...





What is the appropriate proportion for each?

Strategic financial management

Why are core costs a problem?

Not so attractive to donors

Seen (incorrectly) as not being part of a programme

Donors may only give a fixed percentage of programme costs to cover core costs

Donors don't always want to fund them

Some costs cannot be attributed to a single programme

Core costs can be expensive but still have to be paid for

Strategic financial management

Know exactly how much they are, and calculate the *full cost* of a programme (including a proportion of core costs) before submitting it to a donor

If the costs will not all be funded, be prepared to say 'no' to funding if it means you will be 'loosing' money overall.

Decide the combination of 5 core cost strategies to use, to reduce your core costs and/or maximise you income

Core costs

Our choices for recovering the full cost...

Allocate core costs to programme budgets

Using the administrative allowance

Reducing costs to a minimum

Core cost strategies

Find a donor to cover core costs

Using your own funds and local fundraising

Core costs

Using the
administrative
allowance

If it is offered, it could be ...

8%

5%

7.5%

15%

20%

0%

But ... what is the real cost?

Core costs

Reducing costs to a minimum

Manage with less staff time than you need??

Keep telephone calls/connection charges to a minimum

Avoid photocopies/printing

Use less than adequate systems??

Core costs

Using your own
funds and local
fundraising



Core costs

Find a donor
to cover core
costs

Is it even possible?

Where do I start?

Core costs

Allocate core costs to programme budgets

Ask about the expense

Can I justify it?

Is it reasonable?

Is it consistent?

By

- Allocation
- Apportionment

If it is
How do I alter our budgeting and accounting?

Item	Budget amount	Notes	Budget for previous year
INCOME			
Grant: international NGO			
Grant: national NGO	100,000	1	90,000
Grant: regional government	100,000		90,000
Membership fees and sales	50,000	1	10,000
	125,000	2	105,000
	325,000		295,000
EXPENDITURE			
Programme costs			
Salaries			
Equipment	128,000	2	103,000
Travel	20,000	3	0
Training	16,400	4	0
Plot agriculture project	12,000	5	12,600
Core costs/overheads	37,000	6	14,000
Salaries			0
Rent and cleaning	95,000	7	
Electricity/water/telephone	57,500	8	87,400
Office costs	18,500	8	55,000
	6,600	8	16,200
	6,800	8	6,800
TOTAL	391,000		295,000

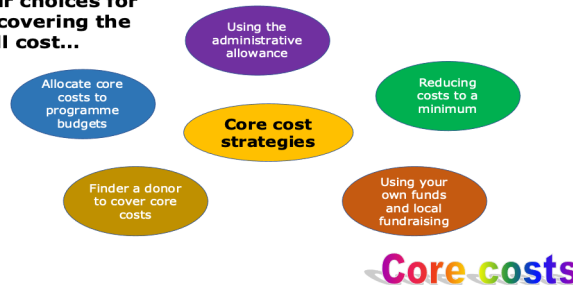
Core costs

Strategic financial management

Group activity

1. Share how does your organisation funds its core cost and is this sufficient?
2. Would any, or a mixture, of these 5 options work better? What other methods, if any, have you found useful?

Our choices for recovering the full cost...



Our choices for recovering the full cost...

Allocate core costs to programme budgets

Using the administrative allowance

Reducing costs to a minimum

Core cost strategies

Find a donor to cover core costs

Using your own funds and local fundraising

Core costs

More ways to strengthen financial management capacity



Financial management terminology



Questions





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THANK YOU



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