

# FINANCIAL SYSTEMS

*One in a series of briefs for civil society organizations, written from a funder's perspective, and intended to stimulate inquiry, rather than provide rigid instructions.*

## **Budgeting**

Tips for preparing a budget with an emphasis on its purpose, steps, and components.

## **Financial Systems**

Tips for establishing an accountable and transparent financial system to build financial sustainability.

## **Grant Proposal Writing**

Tips for developing and writing a proposal, including critical elements to facilitate project success.

## **Monitoring & Evaluation**

Tips for reviewing and assessing progress towards objectives, identifying problems and strategies, and making adjustments to plans.

## **Project Development**

Tips for developing and implementing a project and key questions to ask in the process.

## **Reporting to Funders**

Tips for maintaining and strengthening your relationship with funders following a grant award.

## **Resource Mobilization**

Tips for mobilizing resources closer to home to strengthen organizational capacity and deliver benefits to the community.

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## **PURPOSE OF FINANCIAL SYSTEMS**

Financial systems help inform your organization's planning and action plans. Financial systems also help you track and manage the resources required to successfully complete your work. These tips provide basic practices you will need to build financial sustainability in your organization.

Demonstrating good stewardship of resources assists CSOs in efforts to be accountable to stakeholders and funders, and helps build confidence that your organization is a good place for funders to invest. Other reasons why developing financial systems are important include:

Financial systems and capacity help the

organization to make sound decisions based on cash flow and available resources

- Monitoring funds, or comparing actual income and expenses versus budgeted amounts, helps managers ensure that the necessary funds are in place to complete an activity
- Most governments require that registered, charitable organizations create accounts that track income and expenses
- Funders require reports that demonstrate that grants were used for intended purposes
- Establishing financial controls and clear accounting procedures help ensure that funds are used for intended purposes
- Transparency, clear planning and realistic projections contributes to the credibility of the organization.

## FINANCIAL CONTROLS AND MONITORING

Financial controls and monitoring methods have a dual role in supporting internal needs and external requirements. There are five key aspects to financial controls and monitoring. These include:

1. **Accounting Records** (or Accounts Receivable and Payable): Establish a process that records every financial transaction by maintaining paper files, an electronic database, and copying all records in a virtual library. Your organization needs to be able to demonstrate what funds were received and how funds were spent.

Accounting records should be consistent. Choose a method and regular schedule for tracking income and expenses that works for your organization. This is important in case the organization is audited or if a funder requests information for a specific item or transaction.

A system should also be developed to track donations from individuals to keep donors updated of the organization's progress or to solicit annual and repeat contributions. A separate accounting system should be developed for funding from foundations with the original proposal and budget, dates of receipt of funds, notes on allowable expenditures, and reporting requirements so that you can respond to funders' requests for financial records or in case of audits.

2. **Financial Planning:** Financial planning converts your organization's objectives into a budget. The budget serves as a critical planning guide for your staff and governing board. It is a public record for funders of how you intend to spend the funds received. Financial planning allows you to review your organization, examining successes and challenges in the past. Planning also enables you to make projections and set targets, informing strategies for future success.

3. **Financial Monitoring and Reporting:** Drawing from the information in the accounting records, your organization can create internal reports that help monitor progress by comparing budgets to actual expenses. Frequent reviews and monitoring allows the governing board and staff to measure your organization's progress and helps inform decisionmaking about the organization's or a project's future. Internal reports, sometimes called management reports, allow you to be forward thinking as you assess the financial status of the organization and what will be needed to realize your goals.

Accounting records are also the source for creating external financial reports that demonstrate to funders and other stakeholders how funds have been spent. Funders may require financial reports at the completion of the project or periodically during the project's implementation.

4. **Governing Board:** A governing board, whether comprised by a board of directors or leadership from the community, serves as stewards of an

organization's resources. Governing boards should participate in approving budgets, financial monitoring and reviews, and agree upon and

### Examples of Internal Controls

Examples of how to ensure that funds are spent transparently and in a manner for which they are intended:

- Have two people, such as the director and board treasurer, approve and sign the expenses over a certain amount of money
- Keep records that can not be altered by numbering receipts, using a system where the data entry corresponds with a specific invoice or contract
- Assign qualified and experienced personnel to manage accounts
- Assign different staff in your organization distinct responsibilities related to managing income. For example, one person is responsible for authorizing expenses, another is responsible for handling cash, and another is responsible for recording transactions
- Develop a procedural manual for record-keeping
- Post your financial statements in a public space so that all stakeholders are aware of external funds that may have been received in the community's name
- Have an external accounting or auditing firm conduct regular reviews of financial monitoring and systems



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ensure that internal controls are implemented. The board treasurer who has skills in accounting should be the lead person in working with the staff in ensuring financial accountability.

- 5. Internal Controls:** Controls are organizational practices that help safeguard your assets and ensure that money is being handled properly. Controls help detect errors in accounting, prevent fraud or theft, and help support the people responsible for handling your organization's finances. See box for examples of internal controls.

#### ADDITIONAL TIPS

Just as organizations create a plan, you may wish to document your financial systems, your methods for financial management, and your plans for sustainability. A written document can serve as an important reference point for your organization and

assist in your periodic reviews and planning sessions. It also helps build confidence among stakeholders that you have a long-term vision and plan for your organization's operations.

Employing financial systems that help build checks and balances, support your program planning ability, and increase your success with budgeting and assessing progress in programming, can significantly advance an organization's capacity to begin thinking about long-term plans and financial sustainability.

#### FOR MORE INFORMATION

For information on strengthening financial management systems of NGOs, see the website for Mango, Management Accounting for Non Governmental Organizations or [www.mango.org.uk](http://www.mango.org.uk).

For a toolkit on Financial Control and Accountability, see CIVICUS' website [www.civicus.org](http://www.civicus.org).



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*Tips by Yumi Sera and Susan Beaudry, 2007*