

# Financial Management

**Financial management is critical to effective project planning, allocation of resources, monitoring of effectiveness, and accounting and reporting to stakeholders.**

<b>Plan</b>	<p><b>A budget</b> is a financial plan showing the resources needed to achieve programme objectives within a given time period, setting out all expected costs of activities and all income, and should:</p> <ul style="list-style-type: none"> <li>▪ Be sufficiently detailed and as accurate as possible.</li> <li>▪ Have the approval of your colleagues, managers, trustees, beneficiaries, and donors.</li> <li>▪ Clearly separate the income expected from each donor.</li> <li>▪ Include all the resources your programme needs.</li> <li>▪ Provide monitoring information for you to run your programme.</li> <li>▪ Include cash flow forecast: when money will arrive and leave the bank.</li> </ul>	<p><b>Planning a budget:</b></p> <ol style="list-style-type: none"> <li>1. Identify project or organisational objectives: <i>Involve a range of staff and stakeholders.</i></li> <li>2. Identify any limits to resources and funds available at the start.</li> <li>3. Gather data e.g.             <ul style="list-style-type: none"> <li>• <i>Previous budgets</i></li> <li>• <i>Cost, income and grant estimates</i></li> <li>• <i>External factors such as inflation and exchange rates.</i></li> </ul> </li> <li>4. Decide how much will be received (income): <i>Be realistic!</i></li> <li>5. Decide how much will be spent (expenditure): <i>Separate into types or cost categories.</i></li> <li>6. Construct the budget: <i>List the budget items specifically, ensuring income is at least as much as expenditure.</i></li> <li>7. Obtain approval from your trustees and any donors.</li> </ol> <p><i>(Adapted from Project Budgeting How to Guide, John Cammack, © BOND, 2013)</i></p>
<b>Record</b>	<p>An accurate record of incoming and outgoing financial transactions is essential. Record everything that you do – how much, when, reference number, description of the transaction. Keep receipts, invoices or authorisation forms for all transactions. Make sure another person would be able to follow the accounts by being:</p> <ul style="list-style-type: none"> <li>▪ <b>Organised:</b> follow procedures, and file documents in order.</li> <li>▪ <b>Consistent:</b> do not change the way you do things from month to month.</li> <li>▪ <b>Up to date:</b> fill in all proper accounting records as transactions occur.</li> </ul>	
<b>Monitor</b>	<p><b>Regular financial reports</b> allow managers to assess project or programme progress. Also provide reports for both donors and beneficiaries at regular intervals.</p> <ul style="list-style-type: none"> <li>▪ Monitor actual income and expenditure against the budget.</li> <li>▪ Check progress towards achieving the programme's objectives.</li> <li>▪ Identify areas of over- and under-spend to monitor efficiency and progress towards objectives.</li> <li>▪ Ask questions – for example: <i>Will it still be possible to achieve your objectives in time, and within the budget?</i></li> </ul> <p><b>If not, and changes are required:</b></p> <ul style="list-style-type: none"> <li>▪ Report concerns promptly to your manager, head office and donors.</li> <li>▪ Review the budget and/or project plans with relevant stakeholders.</li> <li>▪ Seek additional funding, re-allocations or project extension.</li> </ul>	
<b>Control</b>	<p>A <b>system of controls</b> is needed for moving funds, carrying and storing cash, signing cheques, authorising payments and managing equipment and stock. This will reduce risk of errors, misuse or theft and protect employees (from themselves and each other). It is also needed to comply with international accounting standards and national laws.</p>	

## Additional resources on All In Diary website

Financial Management Essentials © MANGO 2016  
 Project budgeting, How to Guide, John Cammack © 2013, BOND  
 Building Financial Management Capacity for NGOs and Community  
 Organizations, John Cammack, © 2007, Oxfam Publications

## Web links for further information

FMPDPRO: <http://www.pm4ngos.com/fmd-pro/>  
 Financial Management for Emergencies Resources: [www.fme-online.org/systems/resources.html](http://www.fme-online.org/systems/resources.html)  
 Guide to Financial Management for NGOs: [www.mango.org.uk/Guide](http://www.mango.org.uk/Guide)