# Financial Management and Governance Policy

## Sunrise Children's Association Inc. (SCAI)

*"Bringing a brighter future to Nepal's children in need"*

Updated July 2016

## Content

## 1. Introduction

Sunrise Children's Association Incorporated, hereafter called SCAI, is a non-political, non-sectarian, non-governmental, non-profit making, humanitarian organization, operating projects in Nepal. It works in line with the standards and policies of Social Welfare Council and the Government of Nepal. SCAI has been working in Nepal as a Donor since July 2005 and as an INGO since 13 November 2007and holds PAN No. 602525875 and Tax Exemption No. 1422.

SCAI's Vision is to see all children living in an environment where they are protected, nurtured, valued and respected, and have the opportunity to reach their full potential, free from discrimination, violence, abuse, neglect, exploitation and poverty.

SCAI's Mission is to work in partnership with local communities to help alleviate poverty amongst disadvantaged children.We help empower families so they can create safe, nurturing environments, where children can learn, grow and develop into happy, healthy, self-sufficient members of their local and global community, with improved standards of living and reduced dependence on external assistance.

## 2. Purpose

The purpose of this Financial Management and Governance Policy is to set out SCAI's principles, policies and practices on financial and governance matters, and document the procedures that SCAI Nepal and the NGO partners receiving SCAI funding should use to manage their finances including recording and monitoring financial transactions. The Policy will enable SCAI Nepal and its NGO partners to ensure best practice and meet statutory requirements.

This policy is to be strictly adhered to by SCAI Nepal, aswell as its NGO partners in absence of their own Finance Policy that meets SCAI standards.

## 3. Financial management in context

Financial management is one of many critical functions in an effective INGO and NGO. SCAI Nepal and its NGO partners exist to improve the lives of beneficiaries by carrying out activities as described in the Project Agreements and MOU's. Finance is a support function to make that possible. In addition to financial management, SCAI and its implementing NGO partners need proper governance and leadership, clear strategic direction, high quality program management with involvement of beneficiaries, effective human resource management, shared values and a conducive organizational culture.

## 4. Financial Governance

### 4.1 The governing bodies

Organisation's are governed by their boardsor committees at the first level, and at the second level by the stewards responsible for the funding. In the case of the NGO, they are governed by their own committee, but ultimately it is the responsibility of SCAI Nepal to oversee the NGO and ensure good governance. In the case of SCAI Nepal, we are governed by the committee of SCAI Australia, but ultimately it is the responsibility of the SCAI Australia Public Fund Trustees. SCAI represents and protects the beneficiaries' interests, as well the donors. SCAI has ultimate legal, moral, and financial responsibility of any NGO partners it funds.

#### 4.1.1 The roles of board and committee members

Board and committee members should avoid getting too involved in day to day management of the organisations, both INGO and NGO, although they do need to be aware of what is happening. Their five key roles in relation to financial management and governance are:

1. Making sure that funds are used to help beneficiaries effectively
2. Making sure that the organisation has enough funding
3. Making sure that the organisaion has effective senior management
4. Making sure that the organization operates within laws.
5. Making sure that the board can handle its responsibilities effectively

##### 4.1.1.1. Making sure funds are used to help beneficiaries effectively

- Ensuring the organisation has practical strategies for analysing and responding to social problems
- Monitoring if the organisation is actually doing a good job, putting its strategy into practice and achieving value for money
- Approving an annual budget for expenditure, based on the cost of activities outlined in the agreements
- Making sure that the organisation has appropriate internal controls and accounting systems to ensure that funds are used properly
- Regularly checking that internal controls are in place and followed in practice (e.g. carrying out or engaging internal audits)
- Taking an active role in internal controls as necessary (e.g.authorising large payments)
- Regularly monitoring financial reports, including the income and expenditure statement the balance sheet and Fund accountability statement
- Monitoring whether the organisation is being accountable to its beneficiaries e.g. presenting financial reports and social audit to them

##### 4.1.1.2. Making sure the organisation has enough funding

- Approving the income section of the annual budget
- Monitoring the amount of income received
- Actively working out how to ensure the organisation will be sustainable, including approving a financial strategy
- Monitoring relationships with donors
- Monitoring fund balances including general reserves

##### 4.1.1.3. Making sure the organisation has effective senior management

- Ensuring there is a senior Finance Officer or Manager with financial management skills for their role (or ensure there is adequate senior management to support the finance staff)
- Supporting the Finance Officer or Manager to develop a culture of good financial management (e.g. leading by example and encouraging finance and program staff to work together)

- Encouraging an open culture that recognises problems and aims to learn from them
- Holding directors and managers accountable for the results of the decisions that they take and the initiatives they launch

#### 4.1.1.4 Making sure the organisation operates within the law

- Understanding the INGO and NGO's legal requirements, including Labour laws, Tax laws and Health & Safety legislation
- Making sure that the management team meets legal requirements (e.g. paying taxes, filing annual reports)
- Appointing external auditors and oversee the audit
- Approving the audited accounts and annual reports
- Filing reports with government departments within the prescribed deadlines

#### 4.1.1.5 Making sure the board can handle its responsibilities effectively

- Ensuring there is a Treasurer, with specific responsibilities for financial management and the skills to carry them out
- Making sure that all board members understand their financial management responsibilities and supporting them to develop appropriate skills
- Making sure there are no conflicts of interest between the organisation's operations and board members' work or business interests, or between the NGO and funding INGO
- Make time at board meetings to discuss the financial management aspect of all major decisions

### 4.2 Legal Requirements

SCAI Nepal and NGO partners must meet legal requirements as set out by the GoN, including:

- Ensuring registration details are up to date with government departments
- Submitting annual accounts to the government
- Having an independent external annual audit
- Keeping accounting records for at least 5 years
- Understanding and adhering to all tax laws
- Collecting income tax from employees (TDS) and depositing it to the government
- Making sure that employment contracts comply with labour laws
- Following other relevant laws, e.g. around political activities or handling of foreign currency

#### 4.2.1 Taxation

SCAI Nepal and NGO partners must meet taxation requirements as set out by the GoN, including

- Payroll taxes - Tax Deduction at Source (TDS)
- Social Security - 10% Contribution from employer and 10% contribution from employee into employee Provident Fund
- Timely tax payments - Tax payments must be paid monthly or as per the prevailing laws to the tax office to avoid any fines or penalties
- Tax exemption - Tax exemption certificate must be maintained and applied wherever possible. Tax must be paid on things like rent and other expenditures in accordance with the law.

- Withholding tax – Make sure that withholding taxes have been deducted on any expenditure subject to TDS and the same is deposited in a time stipulated in prevailing laws.

### 4.3 Responsibilities

Everyone involved in working with SCAI and its NGO partners share the responsibility of making sure that funds are used to help people effectively and efficiently. This section describes specific responsibilities for SCAI and NGO partners governing bodies, directors, managers and other staff. Three key messages:

1. Good financial management is critically important - we cannot achieve our goals without it
2. Financial management is the responsibility of everyone – program managers and coordinators as well as finance staff. Good financial management starts with the board and the finance manager or officer, but the implementing program staff play a vital role
3. Good financial management depends on program staff and finance staff working closely together.

#### 4.3.1 Managers and Directors

All managers have important financial management responsibilities because they are employed to use the financial resources to achieve its goals. This section provides a checklist of directors and managers' main financial management responsibilities. They focus on actively running the organisation:

1. Making sure that resources sure used effectively
2. Matching resources and activities
3. Supporting field staff/ other program staff
4. Ensuring that finance and program staff work together
5. Supporting other stakeholders

##### 4.3.1.1 Making sure that resources are used effectively

- Create an organisational culture that takes financial management seriously (e.g. by inspiring staff to stay committed to organisation’s values and leading by example)
- Develop practical approaches that staff can use to analyse and respond to social problems
- Set up internal controls that encourage staff to make good judgements and decentralise decision-making as much as possible
- Check that internal controls are followed in practice
- Take an active role in internal controls (e.g. signing off salary payments and authorising major payments)
- Setting up structured approaches for ensuring dialogue with beneficiaries (e.g. regular financial reporting to beneficiaries) and checking to see that they are followed in practice
- Monitoring the quality of the organisation's work
- Approving realistic budgets for the organisation's operational activities
- Monitoring financial reports, including income and expenditure accounts and the balance sheet

Always maintain a respectful dialogue with the people we aim to help. Otherwise, we risk not helping them effectively.

#### 4.3.1.2 Matching resources and activities

- Lead the process of developing a realistic annual budget and making sure that it includes enough income to cover all planned expenditure
- Regularly reviewing financial reports, including budget monitoring reports on a monthly basis, and the balance sheet on an annual basis
- Regularly forecast cash flow, making sure that all parts of the organisation have enough cash to pay for planned activities
- Implement the financing strategy approved by the committee

#### 4.3.1.3 Supporting field staff / program staff

- Recruit staff with the right skills, experience and commitment for key field roles
- Make sure the right number of staff are employed to carry out all of the organisation's activities
- Ensure that all staff understand their financial management responsibilities
- Communicate strategies, policies and procedures effectively to staff (in simple ways that make it easier for them to do their jobs)
- Ensure that staff have the right incentives, time, skills and support to carry out their financial management responsibilities
- Provide training and learning opportunities - and make sure that staff have the time to make use of them
- Hold staff accountable for the decisions they take and the results of their actions

SCAI depends on the implementing NGO's staff, so we aim to empower them to make good judgements, and work closely together with office and field staff.

#### 4.3.1.4 Ensuring that finance staff and program staff work together

- Finance managers and staff must have strong interpersonal skills and a commitment to our organisation's values, as well as technical skills
- Involve finance managers and staff in decision making and budgeting, from the earliest stages of any new project
- Actively consider the financial management implications of all major decisions
- Encourage finance staff to develop a greater understanding of program work (e.g. by regular visits to field activities)

#### 4.3.1.5 Supporting other stakeholders

- Support the governing body e.g. providing them with financial information and help them understand financial management issues
- Monitor relationships with donors and partner organisations and ensure that the financial aspects of these relationships are in line with broader approaches
- Present donors with realistic and honest strategies, plans and reports about the organisation's work
- Help them meet their legal obligations

SCAI's NGO partners must fully support SCAI in meeting its legal obligations not only in Nepal but also in Australia.

### 4.3.2 Finance Staff

Finance staff play a crucial role in helping managers and governing bodies meet their financial management responsibilities. This section provides a checklist of finance staff's main responsibilities:

1. Actively supporting the organisation's values and culture
2. Setting up and running financial systems
3. Helping beneficiaries, managers and trustees understand financial management issues
4. Supporting relationships with partner organisation
5. Supporting audits and meeting legal requirements.

#### 4.3.2.1 Actively supporting the organisation's values and culture

- Understand how SCAI and NGO partners works in practice
- Take practical steps to maintain their commitment to the organisations's values (e.g. through field visits)
- Encourage program managers to recognise and consider their financial management responsibilities
- Help create a culture that balances centralised control with decentralised decision-making

#### 4.3.2.2 Setting up and running finance systems

- Keep accounts, including supporting documents and book-keeping records
- Support staff to prepare budgets, in discussion with beneficiaries where possible
- Prepare appropriate financial reports for all stakeholders, including beneficiaries, managers, governing body and donors
- Set up and implement a system of controls that empower staff to be closely involved in the budgeting and financial management process and make good judgements
- Implement all other specific financial procedures, such as monitoring cash flow, paying salaries and tax, and making payments to suppliers

Finance systems play a major role in shaping an organization's culture and overall strength

#### 4.3.3.3 Helping beneficiaries, managers and governing bodies understand financial management issues

- Ensure that finance staff understand program issues, so that they can support beneficiaries and program staff effectively
- Work closely with program staff to explain and explore financial management issues
- Make sure that beneficiaries are involved in financial decision-making wherever possible (including budgeting and monitoring) to make sure that funds are spent on their real needs
- Present financial reports in different ways to different stakeholders, so that they are relevant and easy to understand
- Discuss financial reports with all stakeholders, to help them understand what the figures mean

#### 4.3.3.4 Supporting relationships with partner organisations

- Assess partners' financial management capacity
- Monitor how NGO partners use funds
- SupportNGO partner organisations to develop their capacity

- Handle financial part of formal agreements with partner organisations
- Make payments to partner organisations

#### 4.3.4.5 Supporting audits and meeting legal requirements

- Plan and support internal and external audits
- Present auditors' reports and management letters to senior managers and governing bodies
- Understand the legal requirements and helping senior managers and governing bodies understand them
- Meeting legal requirements, including submitting reports to government agencies as required

### 4.3.3 Staff

Staff other than finance and program directors and managers mentioned above, should be aware of basic financial management practices, including budgeting, record keeping and reporting, and ensure they work closely with the managers, directors and finance staff to ensure they are adhering to all practices.

## 4.4Principles of good financial management

There are seven principles of financial management for INGO's and NGOs. They provide a high-level guide for governing bodies and managers, to help us make sure that theorganisations are using funds effectively and that staff are working appropriately.

### 1. Stewardship

The organisations must take good care of the resources they are entrusted with and make sure that they are used for the purpose intended.In practice, this is achieved through careful strategic and budget planning, setting up appropriate controls, considering risks, and by setting up systems that work in tune with the rules of INGO and NGO field work.

### 2. Accountability

The organisations must explain how they have used their resources and what they have achieved as a result to donors and other all stakeholders, including beneficiaries. All stakeholders have the right to know how funds and authority have been used. SCAI and NGO partners have an operational, moral and legal duty to explain their decisions and actions, and submit their financial reports to scrutiny.

### 3. Transparency

The organisations must be open about their work, making information about activities and plans available to relevant stakeholders. This includes preparing accurate, complete and timely financial reports and making them accessible to donors and key stakeholders. If SCAI or its NGO partners are not fully transparent,it may give the impression of having something to hide.

### 4. Integrity

On a personal level, individuals in the organisations must operate with honesty and propriety. Both committee and staff should follow procedures and declare any personal interests and involvement with other organisationsthat might conflict with their official duties. The integrity of financial reports depends on the accuracy and completeness of financial records.

**5. Viability**

Expenditure must be kept in balance with incoming funds, both at the operational and the strategic levels. Viability is a measure of SCAI and NGO partnersfinancial continuity and security. The governing bodies and managers should prepare a financing strategy to show how the INGO and NGO will meet all of its financial obligations and deliver its strategic plan.

**6. Accounting standards**

The system for keeping financial records and documentation must observe both international and locally accepted accounting standards and principles. The Treasurer or financestaff from Australia should be able to understand the organisation's system for keeping financial records.

**7. Consistency**

The organisation's financial policies and systems must be consistent over time. This promotes efficient operations and transparency, especially in financial reporting. While systems may need to be adapted to changing needs, unnecessary changes should be avoided.

### 4.5 Managing Audits

An audit is an independent examination of our activities which concludes whether they are in good order or not. Internal and external audits are vitally important for demonstrating we are adhering to the Seven Principles outlined above and good financial management practices. Audits also provide useful learning opportunities. Auditors can provide advice on financial controls or systems - or investigate specific issues.

There are four types of financial audit:

1. An external audit checks whether financial statementsare true and fair
2. An internal audit checks whether policies and proceduresare being followed
3. A donor audit checks whether grant terms and conditionshave been followed
4. An investigative audit looks for evidence relating to a specific suspected wrong-doing

#### 4.5.1 External audit

An external audit is carried out by independent auditors. They give a professional opinion as to whether financial statements are true and fair, based on carefully checking a sample of the records. Their opinion is important because it provides evidence that financial reports are reliable - which means a lot to stakeholders like trustees and donors.

#### 4.5.2 Internal audit

An internal audit may be carried out by an organisation's own staff or by experts specially hired for the job. It involves checking whether the organisation's policies and procedures are being followed in practice. This gives governing bodies up to date information about how risks are being properly managed in practice. SCAI is responsible for conducting periodical internal audits of the NGO partners it funds.

#### 4.5.3 Donor audit

A donor audit can be carried out by the organisation's normal external auditors (on a separate or additional engagement to the standard year end audit) or sometimes by donors themselves. This gives donors confidence that their funds have been properly used and the grant conditions are being complied with. A successful audit by donors is often a requirement for further funding.

#### 4.5.4 Investigative audit

An investigative audit may be carried out when an organisation suspects a specific problem (usually fraud), and auditors are brought in to establish the facts. The auditors may provide evidence for further action that the organisation may choose to take.

### 4.6 Finance Manual

The separate Finance Manual describes how the financial systems should work on a daily basis. This manual will help all staff at both management and field level understand their responsibilities and how systems fit together in a clear simple manner. It will also help INGO and NGO partners handle staff changes without too much disruption.

TheFinance Manual will include:

1. Key responsibilities and organisational structure
2. Specific finance policies (e.g. budgeting, payroll, travel and subsistence, vehicles)
3. Key minimum standards
4. Specific finance procedures (e.g. procurement, banking, accounting routines)
5. Chart of accounts
6. Additional information, e.g. examples, resources materials, checklists.

### 4.7 Fraud

Fraud is a deliberate improper action which leads to financial loss to anorganisation and usually also results in financial gain to the fraudster.If not a financial gain, it usually results in some other sort of personal gain. It may be a one off occurrence, or it may be small amounts of funds slowly leaking out of an organisation over time.

#### 4.7.1 Common Fraud

Typical examples of fraud include:

- Stealing money or assets
- Abuse of procurement process, often collusion with suppliers to pay inflated prices
- Pocketing of cash receipts
- Bribes paid to INGO or NGO staff by suppliers or beneficiaries
- Supplies sold for personal gain
- Staff being paid inflated expenses (supported by false receipts)
- The same project being funded by two different donors

- Unauthorised personal use of assets (e.g. telephones, vehicles, property)
- Unauthorised possession or usage of donated goods
- Resources given to ghost staff or beneficiaries, who do not really exist.

Small scale fraud is very common in INGO's and NGO's, so SCAI takes this matter very seriously, and takes measures to ensure that no INGO or NGO partner staff commit fraud of any kind.

#### 4.7.2. Why do people commit fraud?

Understanding the motivation of fraudsters is key to making strategies for prevention. Without wishing to oversimplify a clearly complex area, research indicates that the majority of fraudsters are motivated by one or more of the following:

1) **Opportunity** –Where the amount of money flowing through INGO's and NGO's is large and internal controls are weak, it is easy to commit fraud, and the risks of getting caught are low. Where there is little consequence for being caught, or someone knows they are protected by powerful people, the door is wide open.
2) **Need -**Clearly, the vast majority of poor people do not resort to fraud to meet their needs. But the stress of finding school fees for scores of dependent children, and similar pressures can lead people to convince themselves that they need the money as much as the beneficiaries do.
3) **Habit** - What starts out as a small need, easily met by a small fraud, can grow into a habit whereby someone needs to continue stealing to maintain a certain lifestyle. If fraud is habitual within the organisational culture, even honest newcomers can get sucked in, given rewards in return for silence.
4) **Low morale** -Staff are more likely to commit fraud if they are de-motivated, disgruntled, do not share the organisation's vision, where there is a wide gap between highest and lowest paid staff, and where they do not feel appreciated or valued.
5) **Lack of awareness of what is fraudulent behavior** – Some staff may not be aware what is considered fraud, and may think that only the most obvious types like theft or bribery are considered fraud. As outlined above, fraud also includes smaller fraudulent activities such as neglecting to follow proper processes or use of organisation property for personal use.  All governing bodies, management and staff have the responsibility to know and understand what is considered fraud. Lack of awareness or carelessness or a blaze attitude is not an excuse.

#### 4.7.3 Fraud prevention and avoidance

We aim to create a culture at SCAI and its NGO partnerswhere fraud is less likely to occur. None of these will work in isolation, but taken together they may reduce the risk.

**1. Values**

Promote 'honesty', 'integrity', or 'stewardship' throughout the organisations as key values.

**2. Vision and mission**

Ensure staff are involved in and adopt our Vision and Mission, and regularly inspire staff about these and our goals.

**3. Involve beneficiaries more**

Where beneficiaries are involved in planning and budgeting, and effort is made to share financial information with them, its often more effective in ensuring that resources are used properly (listening to their needs is important to them).

**4. Increase staff connection with beneficiaries**

Share positive stories of how beneficiaries have been impacted by the organisations activities, and as reminders of the ongoing need. Ensure that office based staff are also able to visit the field once in a while.

**5. Recruitment**

Recruit freely and fairly on the basis of merit. Ensure the process is transparent. Consider engaging an independent recruitment consultant.

**6. Recruitment - interviewing**

When interviewing new candidates, consider asking questions about fraud, their understanding and if they have seen it happen before, how they would feel if they found out someone was defrauding the organization they work for.

**7. Recruitment - references**

Always follow up references by phone (written references rarely reveal much).

**8. Induction**

Implement a fraud policy, or at least provide training on the matter of fraud, outlining staff's expected behavior, particularly at the time of induction.

**9. Employee commitment**

Encourage employees to make a voluntary annual commitment to act with integrity, report suspicious behaviour and act in the interest of beneficiaries at all times. This could be in writing, or said together in a meeting.

**10. Pay levels**

Set pay levels not so low that people are expected to steal to be able to live, and not so high that people's main motivation for wanting to work in the INGO or NGO sector is primarily financial. Make sure all staff are paid consistently in accordance to their level to ensure they are fair.

**11. Management by walking about**

Managers should try to get out there and talk to beneficiaries and staff, and visit programs. Don't make assumptions or only rely on paperwork and written reports.

**12. Financial management training**

Financial systems are often perceived as complicated and confidential. Empowering a wide range of staff to engage with the financial records, and ask critical questions when reviewing financial reports should enable alarm bells to go off earlier. Board members, senior managers, program staff and finance staff should be adequately trained.

**13. Develop a risk register**

Conduct a risk assessment and identify key fraud risk areas based on your area of operation. For example, insider loans, ghost employees, misappropriation of cash receipts, procurement deals and theft of construction materials.

**14. Develop a good internal control system**

Pay special attention to the high risk areas of cash and bank, procurement, fixed assets and construction. Ensure you have adequate segregation of duties and clear internal controls.

**15. Internal audit**

Consider engaging a trusted, competent, local person to carry out periodic internal audits, with their findings reported to the Governing Body, and even beneficiaries or donors.

**16. Look out for the warning signs of fraud**

Watch out for typical signs such as records not being up to date, someone's lifestyle being inconsistent with their salary etc.

**17. Be aware of power relations**

Do any individuals have power to the extent that they are above question and not accountable to anyone? Real power needs to be observed, not simply what is documented in the organisational chart.

**18. Reporting**

Establish reporting procedures that make it possible for suppliers, beneficiaries and staff to report in confidence if they have suspicions. Ensure that suppliers, beneficiaries and staff know how to report if they need to (e.g. print on Local Purchase Orders, include in contracts, display on notice boards etc).

**19. Take action on fraud or suspected fraud**

Strict and prompt actionmust be taken if faced with a fraud. Lack of action and communication sends a strong message that fraud is acceptable.

**20. Written fraud policy**

Document your fraud prevention and management strategies should be documented in a fraud policy.

#### 4.7.4. Dealing with a fraud

- All allegations of fraud must be treated seriously and investigated as soon as possible. Internal investigations must be fair and take the time to gather real evidence before coming to conclusions. This is a detailed and time consuming job. In serious cases, the police may be able to help, particularly in bringing the perpetrator to justice and recovering funds.
- An investigation may help understand how to avoid the same type of fraud happening again in the future. But as always, prevention is the best approach.
- SCAI and its NGO partners should record the details of each fraud and the actions they take in response in a fraud register. This is an important document for monitoring fraud and for learning how to strengthen controls in the future.

Fraud can be hard for organisations to come to terms with because it involves a betrayal of trust and because it can lead to negative reports which could damage fundraising. But the real betrayal of trust is to donors, staff and the beneficiaries who could have been helped by the INGO and NGO but were not, so SCAI takes this seriously.

## 5. Basics of Funds Management

This section explains the basic techniques needed to handle money on a day to day basis;

1. Planning(Budgeting)
2. Keeping accounts
3. Financial monitoring (Reporting)
4. Internal control (including procurement)

All these basics depend on program staff and finance staff working together. Finance staff cannot do them on their own –director, managers and coordinators have to be actively involved.

The budget plays an important role in every stage of INGO and NGO work: planning new work, raising funds, implementing activities, monitoring work and evaluation. The program cycle and the financial cycle go hand in hand.

### 5.1 Planning (Budgeting)

#### 5.1.1 How to prepare a budget (PLAN)

Writing a budget involves answering a number of questions, that can only be answered by **program staff and finance staff working together**: They start with plans and goals, not numbers:

1. What **objectives** are we trying to achieve?
2. What **activities** will be involved in achieving these objectives?
3. What **resources** will we need to carry out these activities?
4. What will these resources **cost**?
5. Where will the funds come from? What will the **source** be?
6. Is the result **realistic**?

This might look like hard work, but we actually work through these questions every day, when we handle our own personal money. After the budget has been prepared it needs to be **approved** by the committees and / or donors.

#### 5.1.2 Implementing the budget (DO)

- The person with the responsibility for implementing a budget is called a '**budget holder**', and is usually a program or project manager, not a finance person.
- They use the budget to guide the implementation, checking BEFORE spending that items are budgeted for, and allocating expenditure to appropriate budget lines.
- Budget holders should focus on **delivering the project objectives**within the total budget rather than on spending all the cash outlined in the budget.
- Over or under spending within reasonable limits is not a problem as long as there are good explanations and are in line with agreements.

#### 5.1.3 Monitoring the budget (REVIEW)

Once the budget has been agreed and the activity implemented, the process is completed by comparing the plan (budget) with the eventual outcome ('actual'), to see the over and underspends and to find the reason for such variances, and if there is anything we have learnt or could do differently next time.

#### 5.1.4 Amend (ACT)

Using the learnings from the review, budgets should be amended accordingly, in line with agreed processes and procedures. Any major amendments to the approved annual budget plan need to be approved by the governing bodies. Further details can be found in the Finance Manual.

#### 5.1.5 What makes a good budget plan?

Budgets should be clear, so that other people can pick them up and understand them easily. Always add notes to explain any estimates or assumptions made. We should use the same list of accounts codes in our budget that we use to keep your accounts.

#### 5.1.6 Cash flow

As well as a budget plan, SCAI and its NGO partners need a cash flow forecast. This predicts when money will arrive in the bank accounts and when it will leave. It is very important to make sure that enough cash is always available, to ensure no beneficiaries are negatively impacted.

### 5.2 Keeping accounting records

#### 5.2.1 Why it is important to keep proper accounting records

**1.Information**

Keeping proper accounting records enables us to prepare reports that give managers and governing bodies important information about how the organisations are doing financially. Its helps then make informed decisions so that we can deliver a project within budget, avoid cash flow problems, and make future plans.

**2.Accountability and transparency**

When we clearly record all receipts and payments, and file supporting evidence for every transaction, it means that other people can also have a look at what has happened. For example, other people within the INGO, NGO, donors, auditors and beneficiaries. If there is nothing to hide, we should make financial records clear and easily accessible.

**3.Legal requirement**

It is a legal requirement in every country in the world for registered entities to keep accounting records.

#### 5.2.2 How to keep proper accounting records

Accounting systems are based on two sets of records:

- **Books of account**
  Here we write down details of all the financial transactions, including the amount spent/received, the date it happened, a reference number, and a description of the transaction, such as a cashbook.

- **A supporting document for every transaction**
  For example a receipt, invoice or signed authorisation form. This is evidence that the details recorded in the books of account are correct.

### 5.3 Financial monitoring (Reporting)

#### 5.3.1 Why we need financial reports

Financial reports provide a summary of income and expenditure. They allow us to monitor our financial position.

**Financial reports must be timely, accurate and relevant.**They also have to be easy to read. So it is always important to talk to users about what sort of reports they want and find easy to use. Staff and other relevant stakeholders should be trained on how to read financial reports.

SCAI and NGO partners need to prepare financial reports for internal use, governing bodies, beneficiaries, donors and the government. Using these reports,

- **INGO staff** and **donors** can monitor whether activities are going ahead as planned (and whether the INGO has enough funds for the future)
- **Beneficiaries** can monitor whether money is being spent on their real needs
- The **government** can monitor whether the INGO and NGO's are acting legally and in accordance with guidelines.
- Governing bodies should ensure all of the above.

#### 5.3.2 Which reports are needed

As there are many different users of financial reports – internal and external stakeholders – we need different kinds of reports for different users.

- During the financial year, accounting information is summarised and compared to the budget for internal monitoring by project managers. These reports are often called *Management Accounts.*
- At the end of the year, the *Annual Accounts* (or Financial Statements made up of a Balance Sheet and Income & Expenditure statement) report on the outcome for the year. These are mainly for external stakeholders.
- At intervals during the year, SCAI also provides *donor reports* to various donors. These usually include both financial and written progress reports. It is important to set up systems that make various types of reporting relatively quick and easy to avoid unnecessary duplication and waste of time.

### 5.4 Internal control

Internal controls help SCAI and NGO partners handle everyday risks of mistakes, confusion or fraud. They also protect staff from any pressure to mis-use funds and from the suspicion of wrong-doing. Prevention is always better than cure, especially when it comes to theft and fraud.

Internal controls are designed to ensure:

- **S**afeguarding of assets
- **P**revention and detection of fraud or error
- **A**ccounting records are accurate, complete and up-to-date
- **C**ompliance with relevant laws and restrictions
- **E**mployees are protected **-** from themselves and each other

There are two important aspects of an internal control system: the control environment, and the control procedures that take place within that environment.

#### 5.4.1 Control environment

The control environment includes the management style, organisational values and culture. Management should lead by example, recruitment should be done fairly, staff should be adequately induced and trained, and an internal audit conducted. Procedures should be written down and shared.

#### 5.4.2 Control procedures

Nearly all internal control procedures fall into one of seven categories:

1. **Physical verification** – cash counts, asset verification and stock counts
2. **Limited access** – locks, passwords and bank signatories
3. **Standard documents** – standard formats for receipts, payment vouchers, requisitions, local purchase orders, travel allowance sign sheet etc
4. **Segregation of duties** – making sure not one person can carry out a transaction from beginning to end, no self review or self authorisation.
5. **Checks and balances** – Balancing the manual cashbook, double entry controls over accounting records, reviewing the bank reconciliation
6. **Approval and authorisation** – budget holders approval of payments, Board authorisation for asset disposal etc
7. **Reconciliation** – Comparing bank statement and cashbook, agreeing a statement from a supplier to your own records

#### 5.4.3 Procurement

Procurement is the purchase of works, assets, goods and services for the organisation.

Procurement can be one of the most risky areas in an INGO and NGO financial management, often abused by kickbacks, paying too much for sub-standard goods and buying from related parties.

#### 5.4.3.1 Objectives of a procurement policy

A good procurement process ensures that:

- The correct goods or services are purchased, in terms of the correct quality and specification
- Best value for money is achieved
- The process is safe, i.e. risk of fraud is minimised
- The process is fast enough to meet program needs
- Grant conditions are complied with

#### 5.4.3.2The different stages

The steps to go through for a particular purchase depend very much on the type of purchase:

- One off (e.g. consultancy service) or repeat (e.g. office stationery)
- Low, medium or high value
- Budgeted or not budgeted
- Subject to grant conditions or not
- Cash or credit purchase
- Fixed asset or consumable
- Routine or emergency

#### 5.4.3.3 Who should be involved?

Ideally, key tasks in the procurement should be done by different people. This 'segregation of duties' reduces the risk of fraud. The roles and responsibilities of the governing bodies, the approved procurement team, the Finance Manager/Officer, Program manager (budget holder) will be clearly outlined in the **Procurement Manual**, along with the detailed procedures.

#### 5.4.3.4 Ethical procurement

Ethical procurement involves consideration of other factors apart from just cost and quality. For example, we need to be mindlful not to:

- Buy a good quality, cheap product that had been manufactured using child labour
- Buy products that have been made from illegal processes e.g. furniture made from timber that had been illegally logged, or taken from an unsustainable source?
- Buy imported good instead of local ones
- Abuse the environment – we need to consider transport distances, energy efficiency of electrical products, fuel efficiency and cleanness of vehicles etc

INGO's and NGOs form a significant part of the economy in Nepal so purchasing decisions have a noticeable impact, which may be negative if they perpetuate unsustainable, abusive, illegal, or polluting practices. SCAI aims to favour the ethical choice.

#### 5.4.3.5 What paperwork is required?

There is a lot of paperwork associated with procurement, which needs to be kept and properly filed so that it can be easily retrieved for audit purposes.

**Standard documents (internally generated)**

- Purchase requisition
- Local Purchase Order
- Goods Received Notes
- Payment Requisition
- Payment Voucher
- Purchase decision record (or equivalent)

**Source Documents (from suppliers)**

- Quotations and pro/forma invoices or records of telephone quotes obtained
- Proposals (e.g. for consultancy services)
- Contracts (e.g. for services )
- Invoices
- Goods Delivery notes
- Receipts

**Other documents needed for reference**

1. Budgets
2. Grant agreements
3. List of authorised suppliers
4. Ethical procurement policy
5. Minutes of Governing Body and Tender Committee meetings

## 6. Grant Management

### 6.1 Funds flow

Funds flow from SCAI Public Fund in Australia to the SCAI Committee in Australia. SCAI Australia can then transfer funds to SCAI Nepal in its role as an INGO, who then passes funds on to NGO partners whom it has a Project Agreement with, or SCAI Australia can act as a Donor Agency and transfer the funds directly to NGO partners whom it has an MOU with.

### 6.2 Funding relationships

A true partnership must be collaborative. Donors, INGO and NGO’s need each other. Donors and INGO’s provide funds, and without funds NGOs cannot achieve their objectives. Donors and INGO’s also rely on NGO’s to effectively implement the projects.  Developing good relationships and shared understanding is important if both sides are to work together effectively to achieve their goals. Various challenges such as language and culture differences, lack of understanding or respect for each other, problems with email communication, later financial reports resulting in funds being sent late, accountability reports sent late, may arise from time to time, and SCAI and NGO partners must endeavor to resolve any issues that arise promptly and harmoniously.

### 6.3 Communication

The key to making funding relationships work is open and regular two-way communication. In particular, in depth discussions before any agreements are signed will save problems during the implementation stage. Effective communication builds mutual trust, respect, and commitment to keep promises – all critical in funding relationships.

## 7. Financial Sustainability

Financial Sustainability is about being not being at risk of failing to provide agreed support to beneficiaries. For programs deigned to be long term, a reliable income source is required on an ongoing basis. For programs with a limited project life and a proper phase out plan, funds only need to be secured for that fixed period of time. It is vitally important to SCAI that no beneficiaries are negatively impacted by SCAI or its NGO partners not being able to run programs in accordance with the agreements.

### Indicators of Financial Sustainability

It is important to develop and maintain strong stakeholder relationships, including beneficiaries, staff and donors. Further it is important to:

1. Obtain a range of types of funding, including unrestricted funds
2. Build financial reserves
3. Assess and managing risks
4. Strategically manage and finance overhead costs
5. Have a financing strategy

### 7.1 Types of Funding

#### 7.1.1 Restricted funds

Restricted funds can only be used by NGO partners for specific purposes that have been agreed with SCAI. These funds are provided by SCAI to NGO partners.

#### 7.1.2 Unrestricted funds

Unrestricted funds can be used for any purpose that helps the NGO achieve its mission. It provides the NGO with some flexibilityand also helps NGO's plan for the long term. Three sources of unrestricted funding are:

**1. Self-financing -** NGOs may be able to generate income themselves, e.g. by charging membership fees

**2. Local financing -** NGOs may be able to raise funds from the local community and local institutions, such as businesses or specific professions. (This can also generate restricted funds or gifts-in-kind, like office furniture.)
**3. General donations.** NGOs may be given unrestricted donations. These may not always be reliable year after year, so NGO should plan with care.

In addition to SCAI funding, NGO partners must maintain their own unrestricted funds for their own long term sustainability. In generating own income, NGO partners must be transparent to ensure that all legal requirements and standards are being met. If not, this can have significant negative implications on SCAI also.

### 7.2 Building Financial Reserves

Financial reserves are an organisation's savings. They are necessary as they can be used to pay for activities that donors will not fund, or handle unplanned events or responding to new or emergency needs.

General reserves have to be built up from unrestricted income. This is because any surplus on a restricted project is tied to the same restrictions as the original project, it cannot be used to cover other costs other than what was agreed.

"Not-for-profit" does not mean that NGOs are not allowed to make a surplus. SCAI's NGO partners must maintain their own reserves as part of its financing strategy.

#### Level of reserves

SCAI requests that NGO partners maintain a minimum of 3 months expenditure in reserve.

### 7.3 Risk Assessment

A Risk Assessment should be undertaken by the governing bodies and should cover 4 stages:

1. Identify the risks
2. Assess the risks
3. Take action
4. Continue to monitor progress

A separate Risk Assessment template and register will be provided to SCAI and NGO partners.

### 7.4 Overhead costs

'Overhead costs' or 'core costs' are the central administrative costs that NGOs have to pay to run the organisation, like office rent. Overhead costs need to be strategically managed and agreed on with SCAI. NGO partners should contribute to the overhead costs of their own NGO i.e. that are not directly related to the SCAI funded projects, for any committee allowances that NGO wishes to give outside of SCAI's guidelines, through their own financial reserves.

### 7.5 Financing strategy

SCAI's strategic plan sets out the organisation's strategic objectives for the next three to five years with an accompanying budget for how much it is likely to cost. A financing strategy sets out how SCAI plans to bring in the funds to cover those costs. NGO partners should also maintain their own financing strategy. The financing strategy is an integral part of deciding what opportunities and activities the INGO and NGO will pursue. This is both the responsibility of SCAI and its NGO partners, not SCAI alone.

## 8. Working with Beneficiaries

Beneficiaries should be involved in planning, monitoring and reviewing an INGO and NGO's activities. This allows them to make sure that the INGO and NGO is meeting their real needs. It also helps them to feel a sense of ownership over projects, which is crucial if any changes are going to last.

### 8.1 Reporting to beneficiaries

#### 8.1.1 Reasons to Report

It might feel easier to think of the reasons why **not** to report to beneficiaries:

'They don't need to know'
'They won't understand the figures'
'We already have to report to our donors and the Board'
'We'd like to, but we don't have time or money to do it'

In fact there are compelling reasons why we **should** report to beneficiaries:

- Financial reporting to beneficiaries improves INGO and NGO partner's **impact**
- Beneficiaries can make sure that funds are spent on **their real priorities**
- It **reduces the risks** of fraud and inefficiencies
- It **empowers beneficiaries** to make their own decisions on their own behalf

#### 8.1.2 Participation in finances

It is widely recognised that one of the key factors that determines **impact** of INGO and NGOs' field work is the quality of **participation** by beneficiaries.In order to participate fully in an INGO and NGO's work, beneficiaries need **access to information** about the INGO and NGO's plans, resources and activities. Put another way, participation depends on INGO and NGOs being accountable to beneficiaries.

### 8.2 Accountability

'Accountability' means explaining what we have done and taking responsibility for the results of our actions. This includes explaining how we have used funds. It is important that we engage in this properly, as we are entrusted with financial resources on behalf of beneficiaries.

### 8.2.1 Two types of accountability

1. **Downward accountability**
   This means when we are accountable to the people we are aiming to help.

2. **Upward accountability**
   This means accountability to senior managers, directors, governing bodies.

There is a lot of debate around the question of accountability in the INGO and NGO sector globally, so it is vitally important we are truly accountable at all levels.

### 8.2.2 Three Goals of Accountability and how we can achieve them

It is useful to identify three goals of accountability (they cover both financial and program issues):

1. **Financial accountability**
   Have funds been properly used or has there been fraud?
   - To manage this we need to conduct external and internal audits, implement the internal controls and have qualified financial staff.

2. **Effectiveness accountability**
   Have objectives been achieved? Are beneficiaries pleased with the processes and outcomes?
   - We need to show expenditure for each activity, compare costs of activities across different programs, assess whether our activities are in line with our mission and strategies and ensure we are meeting the real needs of beneficiaries by working closely with field staff.

3. **Efficiency accountability**
   Have the limited resources been put to the best possible use to provide value for money? Were the activities the best option for contributing to our mission?
   - We need closely monitor our overhead costs and ensure an appropriate ratio of admin to program costs. We also need to look at unit costs of each program i.e. individual activities.

### 8.2.3 Why be accountable?

Being accountable helps everyone involved to learn from our current activities - and work more effectively in the future. This is a very important aspect of accountability to beneficiaries, managers, governing bodies and donors. It is the engine that helps us improve how we work.

### 8.2.4 How can we be accountable?

In addition to above, there are many different approaches, including carrying out social audits, holding review meetings, writing financial and narrative reports, and carrying out evaluations.

#### 8.2.5 Achieving 'Value for money'

SCAI and its NGO partners and donors aim to make the **maximum possible impact** with the**least possible money**.  Resources are limited, so every dollar has to add value.

How to ensure value for money:

- **Understanding the process of development**
    1. Understanding the issues
    2. Developing strategies to address the issues
    3. Implementing Activities
    4. Resolving the issues

- **Monitoring and Evaluation**

Monitoring and Evaluation is the key to learning. It enables us to see whether our activities have really resolved the issues or not. SCAI and its NGO partners must follow the full project lifecycle – through

1. Planning
2. Implementing (Doing)
3. Monitoring and Evaluating (Reviewing)
4. Analysing(Act/Amend)

Actual Outputs, Outcomes and Impact must be analysed properly to ensure our work is producing genuine impact. If not, we are wasting funds entrusted to us.

SCAI is committed to continual self -review and review of the NGO partners we work with, to ensure our policies and implementing guidelines are up to date and relevant, and that we are moving ahead in line with our constantly changing work environment. This will ensure we are having maximum impact in delivering our programs to our beneficiaries.

For any queries regarding this Policy, please contact emma@scai.org.au.

Source: Mango's *Guide to Financial Management*