

# Implementation Tips for USAID Partners

Sharing Resources and Knowledge Among the Global CSO Community

Financial Management 1 | 2018

## Definitions

**Financial management**—Planning, organizing, controlling and monitoring financial resources to support the objectives and functioning of an organization.

**Financial management manual**—

A collection of the policies and practices that describes how an organization conducts its day-to-day fiscal affairs.

## References

U.S. Government Standards for Financial Management Systems

[U.S. Code of Federal Regulations 2 CFR 200.302](#)

US Government Standards for Internal Controls

[US Code for Federal Regulations 2 CFR 200.303](#)

[Practical Financial Management for NGOs—Getting the Basics Right.](#)

Mango (Management Accounting for Non-governmental Organisations)

## Overview of Financial Management

**Q.** What does good financial management involve?

**A.** Good financial management involves planning, organizing, controlling and monitoring resources so that your organization can achieve its objectives and fulfill its commitments to beneficiaries, donors and other stakeholders.

Good financial management requires more than simply keeping accurate accounting records. Many CSOs may have only an accounting or bookkeeping system rather than a financial management system. Accounting is a subset of financial management. A financial management system encompasses both administrative systems and accounting systems.



*Administrative systems* provide the framework for handling procurement, travel, inventory, facilities and personnel matters such as payroll and benefits.

*Accounting systems* encompass the methods, procedures and controls established to gather, record, classify, analyze, summarize, interpret and present accurate and timely financial data.

## Four Key Pillars of Financial Management

Although one model of financial management does not fit every organization, the following components are essential to good financial management:

- 1. Planning.** Looking ahead to prepare for the future, such as developing budgets to cover activities of a program or the entire organization for one year or a longer period.
- 2. Organizing.** Clarifying who does what, why, when and how.
- 3. Controlling.** Establishing systems and procedures, checks and balances, to make sure that the financial resources of the organization are properly handled and that risks are managed.

## CSO Financial Management Manual

Sample Table of Contents

- Financial accounting routines
- The Chart of Accounts and cost center codes
- Delegated authority rules (that is, who can approve what)
- The budget planning and management process
- Ordering and purchasing procedures
- Bank and cash handling procedures
- Management accounting routines and deadlines
- Management and control of fixed assets
- Staff benefits and allowances
- Annual audit arrangements
- How to deal with fraud and other irregularities
- Code of Conduct for staff and Board members

The manual may also include reference materials such as:

- Organization chart
- Job descriptions
- Standard forms
- Glossary and/or list of acronyms and abbreviations

Source: [Practical Financial Management for NGOs—Getting the Basics Right](#). Terry Lewis. Mango (Management Accounting for Non-governmental Organisations) 2015.

**4. Monitoring.** Comparing objectives with actual performance to identify strengths and weaknesses in planning and implementation and adjusting as necessary.

### Who is responsible for financial management?

Staff members at every level have a role to play in helping manage risks, answer to donors and beneficiaries and deliver results for the organization. The Board is responsible for the financial oversight of your organization and is ultimately accountable by law. However, the Board typically delegates the day-to-day responsibilities to the executive director or top management who delegate some functions to senior managers. The senior managers, in turn, delegate some functions downward, and so on, as illustrated in the table that follows.

Players in Financial Management	Sample Responsibilities
Board of Directors (Trustees)	<ul style="list-style-type: none"> <li>• Oversee financial controls and ensure accountability</li> <li>• Review and approve annual budget</li> <li>• Approve financial policies, including delegating authority</li> <li>• Review and approve financial reports and audited financial statements</li> <li>• Monitor and support resource mobilization</li> <li>• Assess financial risks facing the CSO</li> </ul>
Chief Executive Officer – CEO (Executive Director)	<ul style="list-style-type: none"> <li>• Report to the Board and manage budgeting process</li> <li>• Appoint/hire financial staff and delegate tasks</li> <li>• Review donor and other agreements/contracts</li> <li>• Ensure financial records are accurate and up to date</li> <li>• Ensure correct, timely preparation and submission of financial reports</li> <li>• Ensure that program activities are in line with budget and deliverables</li> <li>• Monitor resource use and manage income generation</li> <li>• Monitor financial needs of the organization and business planning</li> </ul>
Senior Managers	<ul style="list-style-type: none"> <li>• Manage and monitor the budgets for their departments or projects</li> <li>• Review organization financial reports and give input to CEO</li> <li>• Further delegate some financial responsibilities to their team</li> <li>• Project future financial needs</li> </ul>

## For More Information

For this or other issues of *Implementation Tips*, please visit [www.NGOConnect.net](http://www.NGOConnect.net). The Web site is a dynamic and interactive portal dedicated to connecting and strengthening CSOs, networks and CSO support organizations worldwide.

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Program Staff	<ul style="list-style-type: none"> <li>• Set project budgets to ensure that all costs are included (such as deliverables, M&amp;E, implementation)</li> <li>• Control budgets to ensure money is spent as agreed and work with finance staff to ensure policies and procedures are followed, expenditures are coded and reported accurately</li> <li>• Work with appropriate staff to ensure that procurements are best value for money</li> </ul>
Financial Staff	<ul style="list-style-type: none"> <li>• Handle the CSO's cash, including banking and issuing receipts</li> <li>• Administer the payment process to ensure bills are paid on time</li> <li>• Complete the books of accounts and reconcile them every month</li> <li>• Prepare internal and external financial reports</li> </ul>

## USG Financial System Minimum Requirements

The U.S. Code of Federal Regulations (CFR) provides a set of minimum requirements that a CSO's financial management system must meet before it can receive a USG award and must maintain throughout the period of performance. Detailed information is available online at [www.ecfr.gov](http://www.ecfr.gov).

## Create a Financial Management Manual

Document how your administrative and accounting systems work. There is no single "model" financial management manual, and yours will depend on the needs and structure of your organization. However, the sample table of contents on page 2 is a good starting point. Print and assemble the policies and procedures in a manual that is shared with staff and readily accessible to everyone.

