

Building Financial Management
Capacity for NGOs and
Community Organizations

Praise for this book

'A deficit in financial management capacity is common in NGOs, and there is not much well-developed literature on the subject. John Cammack is a well-recognized author in the area of finance management of non-profits. This book has a lot to offer and suggests ways of developing capacity. John has pulled it off once again. Congratulations!'

*Sanjay Patra, Executive Director,
Financial Management Service Foundation, India*

'John Cammack's excellent book will serve as an invaluable resource for teachers, graduate students and practitioners of sound financial management for civil society organizations. This compact manual provides NGOs and small community organizations with capacity building measures that will allow for sustained growth in challenging circumstances.'

Professor Susan H. Perry, The American University of Paris

'Cammack's professionalism and extensive experience blends perfectly with his innate ability to be a powerful communicator. His writing is very much a dynamic dialogue between the practitioner eager to implement and the mentor providing both tools and vision.

'This book is an excellent, innovative tool which I would certainly recommend not only to NGOs but also to UN specialized agencies, academia and the private sector. This book was an absolute pleasure to read; if other training tools had even half of Cammack's style, learning would turn into practice with much greater ease and impact.'

*Isabella Rae, Senior Programmes Manager,
Gorta-Freedom from Hunger Council of Ireland*

'John Cammack's clear style of presenting complex ideas and the use of jargon-free language differentiates his book from other technical financial management resources. The book succeeds in providing an excellent framework of progressive stages to attain the "nirvana" state of financial sustainability and impact.

'*Building Financial Management Capacity* explains the importance of "hard" aspects of financial accountability, such as developing robust financial systems and implementing transparent financial processes. But the essence of this book is John's ability to emphasize and highlight "soft" issues. The case studies and practical examples illustrate the influence of organizational culture and human resource capacities on ensuring high-quality financial management.'

Gopal Rao, Director, Skills for South Sudan

Building Financial Management Capacity for NGOs and Community Organizations

A practical guide

John Cammack

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Contents

Boxes, figures and tables	vii
Acknowledgements	ix
About the author	xi
Glossary	xiii
Introduction	1
Part One: Linking capacity building and finance	3
1 Capacity building and finance	5
2 Assessing financial management capacity	13
Part Two: Building financial management capacity	21
3 Planning and budgeting	23
4 Accounts record keeping	37
5 Financial reporting	43
6 Financial controls	51
7 External audit	65
8 Organizational aspects of financial management	75
Part Three: Moving towards sustainability	101
9 Organizational sustainability, planning and core costs	103
10 Moving towards sustainability: reserves	121

Part Four: Tools for building financial management capacity	131
11 Toolkit for financial management capacity building	135
12 Training for financial management capacity building	147
Appendix A: Minimum financial requirements for growing organizations	153
Appendix B: Review of financial systems	156
References	173
Written resources	174
Web resources	176
Index	178

Boxes, figures and tables

Boxes

1	How to present budgeting statements to committee meetings	32
2	How to improve the presentation of budgeting information	33
3	Planning and budgeting – common concerns	35
4	Example of monthly accounting routines	40
5	Accounts record keeping – common concerns	41
6	Differences between financial and management accounting	46
7	Financial reporting – common concerns	49
8	Financial controls – common concerns	62
9	Extract from a management letter	69
10	Example of an audit report with no negative comments ('unqualified' audit report)	70
11	Example of an audit report with a negative comment ('qualified' audit report)	71
12	External audit – common concerns	72
13	Good practice in financial communications	87
14	How to write clearly	89
15	Questions about working relationships between programme and finance staff	93
16	Organizational aspects of financial management – common concerns	98
17	Sustainability, planning and core costs – common concerns	118
18	Different types of fund	123

19	Factors to consider when deciding the level of reserves	125
20	Example of a reserves policy	126
21	Reserves – common concerns	129
22	Thinking of using a workshop to build financial management capacity?	148
23	Facilitating financial training workshops	149

Figures

1	Specific tasks of strong financial management	14
2	Aspects of strong financial management capacity	17
3	Ways of moving towards sustainability	104
4	SWOT analysis	107
5	Tools for building financial management capacity	137

Tables

1	Example of a budget and actual statement	25
2	Example of a cash-flow forecast	28
3	Typical financial tasks	81
4	Qualifications and experience of finance staff	84

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*John Cammack
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About the author

John Cammack works as an adviser and consultant, trainer, coach, and writer in the non-government organization (NGO) sector. He was head of international finance at Oxfam GB and senior lecturer in accounting and financial management at Oxford Brookes University. He now works with a range of international development and relief agencies. His website is www.johncammack.net.

His consultancy work includes: financial management and programme management reviews and capacity building for European and Southern-based organizations, working with NGOs and community-based organizations, and advising organizations on becoming 'fit for funding'. His participatory training includes: building non-profit financial capacity, financial management for non-specialists, training trainers (and specialist courses for training financial trainers), and developing communication between finance and non-finance staff working internationally and cross-culturally.

He is the author of *Communicating Financial Management with Non-finance People* (Practical Action Publishing), *Basic Accounting for Community Organizations and Small Groups* (Practical Action Publishing), and *Financial Management for Development* (Intrac). He co-authored *Financial Management for Emergencies* (www.fme-online.org). John is a professionally qualified accountant, manager, and teacher and specializes in the international not-for-profit sector. He holds an MSc in International Development Management, and an MBA.

Glossary

Accounting statements Financial summaries produced at the end of an accounting period, for example receipts and payments account, income and expenditure account (income statement), balance sheet.

Bank reconciliation A statement confirming that accounting records agree with the bank statement or pass book. It shows differences, such as cheques written but not yet presented at the bank, items paid into the bank (perhaps on the last day of the month) but not yet included in the bank account, standing orders, and bank charges.

Budget and actual statement A comparison of budgeted income and expenditure with actual income and expenditure, showing differences.

Cash advance Money given to an individual, usually a member of staff, for a work activity (for example travel) when precise details of the cost are not yet known.

Cash-advances/loans register A record of money given to an individual. It shows if, and when, the amount was accounted for.

Cash/bank book A record of money coming in and going out, in date order. 'Cash book' means both cash and bank transactions.

Cash-flow forecast A statement which forecasts the money coming in and going out over a period of time in the future.

Champion Someone who promotes or 'champions' a particular issue in a group or organization; for example, a member of the leadership team.

Communities Groups of people who benefit from the activities and services provided by a non-profit organization.

Community-based organization (CBO) Small non-profit group with a social purpose, sometimes run entirely by volunteers, based in the community that it serves.

Core costs The non-programme costs of an organization. Sometimes called **administrative costs**, **indirect costs**, **overheads** or **support costs**.

Donor An institution providing funding and/or other support to a non-profit organization. The donor may also be a non-profit organization.

Financial audit An examination of financial records and statements.

Financial management The use of financial information, skills, and methods to make the best use of an organization's resources.

Financial management capacity An organization's financial management, awareness, competence, and relationships which are used to make its overall management and programme activities effective.

Fixed assets Items owned for more than one year. Examples: buildings, vehicles, and computers.

Fixed-asset register A list of fixed assets, updated regularly.

Financing The various sources from which an organization receives its income.

Financing plan A longer-term planning activity that involves stakeholders thinking through the best way to finance the organization's objectives over the next 3–5 years.

Funding Income from an institutional donor.

Funding mix The balance between an organization's sources of finance, which help to diversify its income and make it more sustainable.

Leader The person responsible for the organization's activities. He or she may be the chair of the management committee or, in larger organizations, a senior staff member, sometimes called the chief executive officer (CEO), or director.

Leadership team The management committee, leader, and senior staff of a group or organization.

Longer-term planning See *Strategic planning*

Management audit (or systems audit) An examination of an organization's management, and financial processes and systems.

Management committee The body responsible for the management of a group or organization that meets regularly to decide policies. The committee may also be called the **advisory body, the board, executive committee, governing body, or trustees**. In small non-profit organizations the whole group may constitute the committee; in larger organizations the committee is made up of representatives of the membership.

Managers People responsible for a particular activity, department, or project. They usually have responsibility for the budget and staff.

Non-government organizations (NGOs) Non-profit organizations with a social purpose, usually with paid staff and volunteers. They vary in size and may be locally or nationally based.

Organization People working together in the non-profit sector for social objectives. It can be any size, from a small community group to a large national or international agency.

Partners Two or more organizations working together for a common purpose. A donor is often one of the partners.

Payment voucher A document attached to an invoice or receipt, to record details of payments.

Programme staff Staff working with a community-based organization, non-government organization, or charity, on activities with social objectives. In larger organizations, these staff might be advising or working with communities and/or their 'partner' organizations.

Reserves Organizational savings held to cover future shortages in funding and emergencies.

Restricted funds Money received from a donor for a particular purpose.

Stakeholders Groups and individuals, internal or external, who have an interest in the organization's well-being. They include community groups, partners, staff, volunteers, donors, government, suppliers, and the wider public.

Strategic planning 'A systematic process through which an organization agrees on its priorities and builds commitment to them among its key stakeholders. These priorities are selected as the most effective way of fulfilling the organization's mission, taking account of its changing operating environment' (MRDF, 2011). Also called 'longer-term planning'.

SWOT analysis SWOT considers strengths, weaknesses, opportunities and threats. It is a practical way of assessing either a whole organization, or a part of the organization (for example its financial situation). The information is used to determine objectives to build on strengths and opportunities, and minimize weaknesses and threats.

Umbrella group An organization co-ordinating and representing non-profit organizations, often nationally.

Unrestricted funds Money that can be used for any expenditure within the organization or project.

Introduction

Building capacity through financial management is a key way of achieving a more effective organization. With strong financial management capacity, the group or organization becomes more able to control its own affairs. This then leads to an improved programme of activities. Without good financial management, the future is often uncertain: it may be impossible to predict when money will be short and, crucially, it may become impossible to fund programmes.

This book presents practical ways to build financial management capacity in an international development context (although much of it applies to any non-profit organization). It describes good practice in the specific tasks of financial management – for example, planning and budgeting and financial controls. It gives examples of how groups and organizations build their own capacity. It also considers what leadership teams can do to guide their organization's longer-term direction (an activity sometimes called 'governance') and it describes other financial management aspects that can be built into an organization's structure to make it more sustainable.

It is written for non-government organizations (NGOs), larger community-based organizations (CBOs), and charities. For organizations with established systems, it provides challenging questions, both for their own organization and for the way in which they work with others. The book is written for chairs and members of management committees, leaders, chief executive officers, directors, managers, programme staff, administrators, fundraisers, and finance staff. It is a tool for large NGOs and donors working with their partner NGOs and CBOs. The content can also be used in training courses, and university and college courses for international development workers.

Building stronger financial management capacity is not difficult. If you follow the suggestions in this book, you should quickly start to see the impact. Your organization will be in a better position to show accountability, transparency, and credibility – all of which are conditions that donors consider priorities when funding programmes.

This is a book about building an organization's financial management capacity, rather than how to do accounting. Books that cover the technical aspects are listed in 'Written resources'. Some additional resources relating to those used in the book are available at www.johncammack.net (click on 'Resources').

PART ONE

**Linking capacity building
and finance**

