



How To.. Manage Project Finances

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You may do great work, have highly motivated staff and be making a real difference to the lives of children in your community. But if your financial management and systems are not strong, at some point it will catch you out and cause problems.

In many ways financial management is simple. We have money coming into the project (income) and money going out (expenditure). But it is how we account for these financial transitions and how we manage the process that is critical. If people are to trust you with money they will want to know the money is being well spent, correctly accounted for and is producing results that are expected. To achieve this you need sound, transparent and robust financial management.

Some of the key elements of good financial management are below. However any simple explanation or check-list will do little to help *if you do not understand what the key principles* are and how to set up and run good financial accounts.

If you are not sure what to do then the first stage is to get local help. Find someone, or a firm, who you can trust or who is known to provide good 'bookkeeping' and/or accountancy services. You may have to pay for this help but it will be money well spent. To undo problems and financial irregularity can be expensive and very time consuming. Try to get it right first time.

There is excellent information available on financial management through a number of organisations. Leaders in this area are MANGO (mango.org.uk) and their website has a range of downloadable resources you may find useful.

Budgeting: Financial budgeting is a core planning activity and essential in any project. Budgets need to be realistic and based on sound assessment of both income and expenditure. Budgeting is about working out how much your planned activities are likely to cost. Both programme and finance staff should be involved in setting budgets, to create a foundation for good cooperation.

Budgets are critical in strong financial management and should be agreed by your managing committee or Board. It is essential to track spending so codes used for your budget lines correspond to the codes used in your accounting system.

You may find it helpful to set up a cash flow so you can see estimate the funds you will need during the year. This can be detailed or more 'broad brush' but it is important that it is realistic and based on well worked through assumptions of income and expenditure and you don't end up running out of money to pay staff and suppliers.

Accounting System & Procedure: All financial transactions should be backed up by a 'supporting document' such as a receipt, invoice or sign sheet. This is the evidence that a specific transaction has taken place. Each time a financial transaction takes place it should be recorded in a 'cashbook', clearly this can be a physical book but today mostly this is in a spreadsheet or part of an accounting package. Always link the entry in the accounts back to the supporting document.



Accuracy is vital and it is important to check the accuracy of the accounting 'books' at the end of each month by carrying out two essential 'reconciliations':

1. The bank statement balance compared to the bank cashbook closing balance.
2. A physical cash count to check the closing balance in the petty cash book.

Accounting works by assigning codes to each transaction entered in the cashbooks. The unique list of accounting codes that an organisation uses is called its "Chart of Accounts". Another set of codes can be used to assign transactions to a specific project or donor. These are called 'cost centre' codes

Reporting: The Management Committee or Board of Trustees needs accurate financial information to oversee the running of the organisation. Managers need up-to-date figures to monitor projects and make decisions. Donor agencies need reports to check the use of their money, and often as a condition for further funding. You may need to have an external and independent audit of your accounts each year.

The monthly financial reports should include an Income and Expenditure report showing how much money came into the organisation and how it was spent. If the report compares the amount spent against budget, it may be called a 'budget against actual' or monthly financial report. Project managers should use financial reports to help make decisions so that the money is used efficiently and effectively to achieve desired outcomes.

It is also important to report on balances held at the end of each month or quarter. Balances includes the amount of money held (cash and bank), as well as amounts owed to the organisation (such as unaccounted working advances) and owed by the organisation (e.g. to suppliers / tax authorities / staff costs).

Reports should be produced showing the relevant level of detail according to their use (e.g. for a single project or donor) or consolidated (for the whole organization). Reports should also have the right format for their use, e.g. donor formats as per grant agreements, standard formats for annual audited accounts, accessible formats for beneficiaries, user-friendly formats for managers.

Annual Accounts: You may need to produce a set of annual accounts covering a specific twelve month accounts year. For a small project it may be sufficient to have a simple income and expenditure account and include a summary balance sheet. Larger projects need more complex accounts and professional help is advised.