

# NGO Financial Management Handbook

*(For Small and Medium NGOs in India)*

## Table of Contents

1. Introduction to Financial Management in NGOs
2. Legal and Statutory Framework
3. Organisational Setup and Financial Governance
4. Financial Planning and Budgeting
5. Accounting Systems and Documentation
6. Internal Controls and Financial Safeguards
7. Financial Reporting and Reviews
8. Grant and Fund Management
9. Audit and Compliance
10. Fraud Prevention and Risk Management
11. Financial Sustainability and Resource Diversification
12. Tools and Templates
13. Case Studies & Statistical References

## 1. Introduction to Financial Management in NGOs

Financial management encompasses planning, organising, controlling, and monitoring finances to achieve organisational objectives effectively and responsibly. For NGOs, it ensures accountability to donors, beneficiaries, and regulatory bodies, enabling sustainable delivery of programs. Financial health parallels operational success, safeguarding assets, ensuring resource optimisation, and fostering donor confidence.

- **Financial management** is akin to vehicle maintenance—neglect leads to breakdowns.
- Emphasizes *downward accountability*—accountability not only to donors but also to beneficiaries.
- Financial control ensures funds are used properly and fraud is minimised.
- Roles: Board (ultimate accountability), CEO/Finance Manager (daily management), Finance Team (operations), External Auditors (independent review).

## 2. Legal and Statutory Framework

Adherence is mandatory to various laws in India for NGOs:

- **Income Tax Act, 1961** (Sections 11, 12A, 80G) for tax exemptions and filings.

- **Foreign Contribution (Regulation) Act, 2010 (FCRA)** for foreign donations and compliance.
- **GST Act** for registration and tax payments if turnover crosses thresholds.
- **Societies Registration Act, Indian Trusts Act, Companies Act (Section 8)** depending on registration type.

NGOs must maintain proper documentation, registered bank accounts for FCRA funds, and comply with TDS regulations.

### **3. Organisational Setup and Financial Governance**

- Governing Body/Board: Responsible for policy, strategic oversight, and financial stewardship.
- Roles include Chairperson, Treasurer, Secretary, CEO.
- Delegation of authority for day-to-day operations, with accountability lines clearly defined.
- Finance manuals, organisational charts, and job descriptions establish clarity.

### **4. Financial Planning and Budgeting**

- Annual budgets aligned with strategic objectives.
- Types include Program budgets, Administrative budgets, Capital budgets.
- Zero-based and incremental budgeting methods recommended.
- Contingency and reserve funds essential to handle unforeseen delays or expenses.
- Multi-donor projects require segregated budgets and fund tracking.

### **5. Accounting Systems and Documentation**

- Double-entry bookkeeping recommended.
- Maintain ledgers, journals, cash books, petty cash, and bank reconciliation statements.
- Chart of Accounts customized to NGO program and overhead costs.
- Clear classification between restricted (donor) funds and unrestricted funds.
- Supporting documents (invoices, payment vouchers, receipts) must be preserved for audit trails.

### **6. Internal Controls and Financial Safeguards**

- Segregation of duties - no single individual handles end-to-end finance tasks.
- Authorization controls - defined approval levels for expenditures.
- Procurement policies ensure transparency and fair competition.
- Asset registers for fixed assets management.

- Cash controls - imprest system for petty cash, regular reconciliations.
- Regular internal audits to test compliance and identify risks.

## **7. Financial Reporting and Reviews**

- Monthly, quarterly, and annual financial reports to internal management, donors, and regulators.
- Key reports: Income & Expenditure Statement, Balance Sheet, Cash Flow Statement, Budget Variance Reports.
- Donor-specific reports with expenditure tracking against grant conditions.
- Use ratio and variance analysis for decision-making and identifying potential issues early.

## **8. Grant and Fund Management**

- Understand grant terms and conditions comprehensively.
- Monitoring expenditure per donor guidelines.
- Preparation of Fund Utilization Certificates (FUCs) for disbursement transparency.
- Avoid double financing and maintain dedicated bank accounts if required.

## **9. Audit and Compliance**

- Statutory annual audit by qualified professionals mandatory.
- Donor and project-specific audits may be required.
- Preparation for audits should begin early with complete and reconciled books.
- Filing of Income Tax returns (Form 3A), FCRA returns, and other regulatory filings on time is non-negotiable.

## **10. Fraud Prevention and Risk Management**

- Awareness and training on fraud indicators for staff.
- Whistleblower policies and zero tolerance towards corruption and bribery.
- Risk assessment to identify key vulnerabilities with mitigation plans.
- Use of financial policies to strengthen controls and reduce opportunities for fraud.

## **11. Financial Sustainability and Resource Diversification**

- Diversify funding sources: government grants, CSR funds, donations, social enterprise income.
- Build reserves to cover at least 3 to 6 months of operating costs.
- Invest in income-generating activities aligned with mission.

- Long-term partnerships through transparent reporting and consistent impact demonstration.

## **12. Tools and Templates**

- Budget templates (annual, project wise).
- Standard forms: Payment vouchers, petty cash vouchers, purchase orders, advance requests, travel expense claims, bank reconciliation forms, fixed asset registers.
- Sample financial policies and finance manual frameworks.
- Checklists for audit preparedness and compliance.

## **13. Case Studies & Statistical References**

- According to Ministry of Home Affairs, around 22,000 NGOs active under FCRA in India (2021–22), handling INR 16,305 crore foreign contributions.
- CAF India reports that 40% of small NGOs struggle with timely financial reporting causing fund delays.
- Dasra-Bain Report indicates 65% of small NGOs have reserves less than 3 months, risking sustainability.
- Example: Bihar health NGO reduced fraudulent expense claims by 15% by introducing a three-level approval system.
- Delhi women's empowerment NGO uses zero-based budgeting to justify expenses for impact-focused programming.

## **Financial Management Checklist for Small & Medium NGOs**

### **1. Governance & Organisation**

- ☐ Clear delegation of financial authority and responsibilities documented
- ☐ Governing Body actively oversees financial policies and approves budgets
- ☐ Finance manual or policy in place defining processes and controls

### **2. Budgeting & Financial Planning**

- ☐ Annual budget prepared aligning resources with strategic plans
- ☐ Separate budgets for programs, administration, and fundraising
- ☐ Contingency funds and reserves planned for emergencies and cash flow gaps
- ☐ Monthly budget vs actual expenditure tracking implemented

### **3. Accounting & Document Maintenance**

- ☐ Double-entry bookkeeping system adopted, preferably computerized
- ☐ Comprehensive Chart of Accounts customized to NGO's activities
- ☐ Accurate and timely recording of all financial transactions
- ☐ Supporting documents (invoices, receipts, vouchers) systematically filed
- ☐ Petty cash maintained with proper vouchers and limits

### **4. Internal Controls & Risk Management**

- ☐ Segregation of duties between authorization, record keeping, and cash handling
- ☐ Defined approval limits with multi-level financial approvals for expenses
- ☐ Procurement policies mandating competitive quotations and purchase orders
- ☐ Fixed asset register maintained and periodically verified
- ☐ Regular internal audits and risk assessments conducted
- ☐ Fraud prevention mechanisms and whistleblower policy in place

### **5. Fund & Grant Management**

- ☐ Donor/grant-specific fund accounting and reporting performed
- ☐ Proper utilization certificates (FUC) prepared and submitted on time
- ☐ Dedicated bank accounts maintained for foreign contributions if applicable
- ☐ Prevent double financing of program expenses across multiple grants

## **6. Financial Reporting & Compliance**

- ☐ Monthly/quarterly financial statements prepared and circulated to management
- ☐ Annual accounts audited by registered Chartered Accountant
- ☐ Timely filing of Income Tax returns (ITR-3A or applicable forms)
- ☐ FCRA registrations and returns filed as per Ministry guidelines (if foreign funds involved)
- ☐ GST compliance followed if turnover threshold reached

## **7. Cash Flow & Banking**

- ☐ Bank reconciliations done monthly without delay
- ☐ Cash flow forecasts prepared and monitored monthly
- ☐ Strict controls on cash advances with timely reconciliation

## **8. Donor Relations & Transparency**

- ☐ Transparent communication with donors through financial and impact reports
- ☐ Acknowledgment receipts issued for all donations with unique serial numbers
- ☐ Maintenance of donor databases with contact and contribution details

## **9. Financial Sustainability**

- ☐ Diversification of funding sources including CSR, government grants, donations, and income generation
- ☐ Reserves policy in place maintaining at least 3 to 6 months of operational costs
- ☐ Regular review of fundraising strategy and financial sustainability plan

## **10. Training & Capacity Building**

- ☐ Regular capacity building for staff on financial policies and compliance
- ☐ Periodic updates to Board/Finance Committee on financial management best practices

This checklist provides a practical framework for NGOs to evaluate and improve their financial management systems systematically, ensuring compliance, efficiency, and long-term sustainability.

Here is a customizable Financial Management Assessment Form designed by [ajazrashid.org](http://ajazrashid.org) to share with small and medium NGOs. It helps NGOs self-assess their financial management practices and identify improvement areas for growth and sustainability.

## **Financial Management Assessment Form for NGOs**

**Organization Name:**

**Contact Person:**

**Designation:**

**Contact Email & Phone:**

**Date:**

### **Section 1: Governance and Financial Oversight**

1. Does your NGO have a Governing Body or Board responsible for financial oversight?
  - ☐ Yes / No
2. Is there a documented financial management policy/manual approved by the Board?
  - ☐ Yes / No
3. Does the Board review and approve the annual budget?
  - ☐ Yes / No / Partially
4. Are roles and responsibilities related to finance clearly defined?
  - ☐ Yes / No

### **Section 2: Budgeting and Financial Planning**

5. Does your NGO prepare an annual budget aligned with strategic plans?
  - ☐ Yes / No / Partially
6. Are budget vs actual expenditure reports prepared and reviewed monthly/quarterly?
  - ☐ Yes / No
7. Are contingency funds or reserves maintained for financial risks?
  - ☐ Yes / No

### **Section 3: Accounting and Record-Keeping**

8. What type of accounting system do you use?
  - ☐ Manual / Computerized / None
9. Is double-entry bookkeeping practiced?
  - ☐ Yes / No / Not Sure
10. Are supporting documents (invoices, receipts) maintained systematically?
  - ☐ Yes / No

11. Are bank reconciliations done monthly?

- Yes / No

#### **Section 4: Internal Controls and Risk Management**

12. Is there segregation of duties between authorization, recording, and custody of assets?

- Yes / No / Partially

13. Are procurement policies in place for purchases above a certain threshold?

- Yes / No

14. Are internal audits or financial reviews conducted regularly?

- Yes / No

15. Is there a risk management or fraud prevention policy?

- Yes / No

#### **Section 5: Fund Management and Compliance**

16. Do you maintain separate accounts and records for different donor funds?

- Yes / No / Partially

17. Are fund utilization certificates submitted to donors on time?

- Yes / No

18. Do you comply with applicable laws (Income Tax, FCRA, GST)?

- Yes / No / Partially

19. Are statutory audits conducted annually by qualified professionals?

- Yes / No

#### **Section 6: Financial Reporting and Donor Relations**

20. Are financial reports prepared and shared with donors and stakeholders regularly?

- Yes / No

21. Does your NGO maintain transparency in communication about fund usage and impact?

- Yes / No

#### **Section 7: Financial Sustainability**

22. Does your NGO have a plan for diversifying funding sources (donations, CSR, income)?

- Yes / No / Partially

23. Are there reserves to cover at least 3 months of operational costs?

- Yes / No



**Additional Comments:**

**Signature:**

**Date:**

This form can be digitized or printed by NGOs to self-assess and identify priority areas for technical support from [ajazrashid.org](http://ajazrashid.org) toward stronger financial management and organizational growth.