

# **FINANCIAL POLICY**

**The Earth**

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# **FINANCIAL POLICY**

## **Basic Concepts:**

The entity of an organization is separate from that of the individuals who authorized to operate finance and accounts. The top management shall be responsible for ensuring that, all the transactions and activities of the organization is carried out within the framework of its aims and objectives as well as on the basis of the decisions and policies taken / adopted by the Executive or General body. The information needs of an NGO is very large due to the fact of multiple funding, variety nature of projects, different locations and multiple budget heads to meet each of the projects funded by different agencies. The finance and accounting system of any organization should be in such way, which could integrate both, activities as well as expenditures in order to be able to effectively analyze, understand, comply and present inter-relations between the various activities undertaken and expenditures incurred for the purpose for which it is meant.

The Earth believes that timely, free-flowing information in accessible language, form and format is essential for ensuring accountability to our stakeholders, learning, trust and good performance.

To this end we have decided to publicly publish a number of internal strategies, plans, reports and staff information, among others.

Our decision to do this is guided by our commitment to transparency, and to sharing information with poor and marginalized people and their organizations. We are also directly accountable to our staff, partners, donors and host governments.

Our Financial Policy describes exactly how and what minimum information THE EARTH will share proactively with the general public, and informs exactly what information people can demand THE EARTH make public.

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THE EARTH identified a series of good practice principles which can be used as a standard in developing proper financial management systems. These principles will guide behaviour and help in the development of policies and procedures. Using of these principles as a checklist which will help and identify relative strengths and weaknesses in the systems.

THE EARTH would look upon each of these Seven Principles of Financial Management as goals to work towards.

1. **Custodianship:** This refers to the stewardship or safekeeping of the organization's resources. THE EARTH's custodians hold the assets and funds in trust and must make sure that they are used in accordance with the constitution and any contractual agreements entered into.
2. **Accountability:** Those who have invested not just money but also time, effort and trust in the organization, are interested to see that the resources of the organization are used effectively and for the purpose for which they were intended. Accountability is the moral or legal duty, placed on an individual, group or organization, to explain how funds, equipment or authority given by a third party has been used.
3. **Transparency:** Systems must be established whereby all financial information is recorded accurately and presented clearly, and can be easily disclosed to those who have a right to request it.
4. **Consistency:** The financial systems of THE EARTH should be consistent over the years so that comparisons can be made, trends analyzed and transparency facilitated. This does not mean that the systems may not be refined.
5. **Integrity:** The integrity – or honesty and reliability – of THE EARTH and the individuals within it, has to be beyond question for proper financial management. To achieve this there must be no doubts about how funds are being utilized, the records must be a true reflection of reality and proper procedures are set up and followed by all staff.

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6. **Non-Deficit Financing:** THE EARTH should not set out to achieve its objectives until it is confident that it will have sufficient funding to cover all of its activities.
7. **Standard Documentation:** The system of maintaining financial records and documentation should observe internationally accepted accounting standards and principles. The system of THE EARTH for maintaining financial records in accounting software tally 9.0 should be able to be understood by any accountant from anywhere in the world.

**THE EARTH's financial management:** It involves the following four building blocks:

- Keeping records
- Internal control
- Budgeting
- Financial reporting

### **Keeping Records:**

The foundations of all accounting are basic records that describe our earnings and spending. This means the contracts and letters for money we receive and the receipts and the debits for things that we buy.

These basic records prove that each and every transaction has taken place. They are the cornerstones of being accountable. We must make sure that all these records are carefully filed and kept safe.

We must also make sure that the details of each transaction are written in a 'cashbook' - which is a list of how much we spent, on what and when.

We are keeping our basic records in good order and writing down the details of each transaction in a cashbook then we cannot go far wrong.

### **Internal Control:**

THE EARTH has proper controls in place so that money cannot be misused. However, some controls that are often used include:

- Keeping cash in a safe place (ideally in a bank account).
- All expenditure is properly authorised.
- Following the planned budget.
- Financial monitoring (how much money has been spent on what every month).
- Employed qualified finance staff.
- Ensuring internal audit (quarterly), statutory audit (annually), FC return to NGO Affairs Bureau, Govt. of Bangladesh and income tax return every year.
- Preparation of 'bank reconciliation' statement every month (which means checking that the amount of cash in the bank is the same as the amount that cashbook tells).

This last control is particularly important. It proves that the amounts recorded in the cashbook and the reports based on it are accurate.

### **Budgeting:**

For good financial management, THE EARTH prepares accurate budgets, in order to know how much money we will need to carry out our work. A budget is only useful if it is worked out by carefully forecasting how much we expect to spend on our activities.

### **Financial Reporting:**

The fourth building block used by THE EARTH is writing and reviewing financial reports. A financial report summarizes our income and expenditure over a

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certain period of time. Financial reports are created by adding together similar transactions. Financial reports summarize the information held in the cashbook. This is normally done using a system of codes / budget heads, to allocate transactions to different categories. These categories might often be defined by donors / project budget heads.

**Receiving Funds:**

THE EARTH always thinks about the relationship with donors from **the donors' point of view**.

Donors usually make grants to organizations that they have confidence in. All our dealings with donors should aim to build up their confidence in our organization, for instance by:

- Describing plan to use funds - through **clear plans and budgets**.
- Demonstrating **proper controls** in place, including good management.
- Providing honest and accurate **reports** of our work.

**Reporting to donors:**

Sending reports in late is guaranteed to reduce a donor's confidence in the organization. But THE EARTH always identifies the **donors' reporting requirements** and set up a reporting timetable as per the donor's format and timing of reports.

**THE EARTH's Minimum Standards for Financial Management:**

A. Minimum Requirements	
Standard	Why
1. A valid supporting document for every transaction (securely filed and stored for the minimum period required.)	Protection for staff, evidence and details of transaction.
2. A cash book for every bank account, reconciled every month.	To organise and summarise transaction information; check for errors and omissions.

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3. A Chart of Accounts – used consistently in the accounting records and budgets	Principle of consistency; to facilitate production of financial reports.
4. A budget detailing costs and anticipated income for all operations.	Planning, fundraising, control and reporting.
5. Clear delegation of authority – from governing body through the line management structure.	To know who is responsible for what and within what limits.
6. Separation of duties – sharing finance duties between at least three people.	To prevent temptation to steal and reduce opportunity to commit fraud; to share the load.
7. Annual financial statements – preferably audited by an independent person.	Accountability to stakeholders; transparency.

### B. Good Practice

Standard	Why
8. Additional accounting records when staffs are employed (wages book) or assets owned (assets register).	To meet statutory and audit requirements; for control purposes.
9. Budgets based on real activity plans, which include the full cost of running a project.	Realistic, more likely to meet targets.
10. Budgets with clear calculations and notes.	Easy to read and make adjustments. Easy to justify calculations.
11. Separate core costs budget.	Encourages active management and financing strategy for core costs.
12. Monthly cash flow forecast.	Helps to identify and take action to avoid short-term cash flow problems.
13. Use of Cost Centres when working with multiple donors and/or projects.	To separate restricted funds and related transactions; to facilitate reporting to managers and donors.

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14. Funding grids, if more than one donor is funding an organisation or project.	To avoid double-funding situations and identify areas of shortfall.
15. Budget monitoring reports at least monthly to managers (and also regularly to beneficiaries).	To monitor progress; control purposes.
16. Written policies and procedures, including a code of conduct for staff & board members.	To prevent confusion about organisation rules and expected practice.
17. Diversified funding base – mix of restricted and unrestricted funds.	Less vulnerable to financial shocks; helps to build up reserves.
18. A reasonable level of reserves.	Less vulnerable to financial shocks; helps overcome cash flow problems