

# Role of Finance & Accounts in an NGO

## Objective of the course

- Educate non finance/program staff on financial matters to deliver work efficiently within the framework of
    - (a) internal controls and
    - (b) external statutory and regulatory compliances
  - Wear the finance hat for taking operational decisions while discharging duty
  - Facilitate smooth interface between finance and non-finance/program staff for achievement of organization goals.
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## Curriculum content

### Session plan:

1. Role of Accounting & Finance function in a not-for-profit organization.
2. Grant Management.
3. Concept of Fund based accounting, cost types, cost principles, Budgeting & Budgetary Controls in NGOs
4. Overview of financial statements of an organization
5. Procurement of goods & services, Contracts, Inventory and Assets
6. Overview of Regulatory framework and Statutory Laws for NPOs-brief details of Income Tax, FCRA, CSR, GST, Labor Codes which program staff should know-Pt I
7. Overview of Regulatory framework and Statutory Laws for NPOs-brief details of Income Tax, FCRA, CSR, GST, Labor Codes which program staff should know-Pt II
8. Finance & HR Policy-need and contents

9. Audit & Assurance

10. Risks, internal controls, Efficiency, Effectiveness & Ethics.

## Objectives of an NPO

- Primary objective - Maximise benefits to beneficiaries
- Secondary objective:
  - Economy - control costs
  - Efficiency - achieve objective in minimum costs
  - Effectiveness - measure of achievement with reference to objectives

## Change - The New Norm for NPOs

- Change
  - Donor expectation
  - Statutory and regulatory landscape
  - Govt orientation towards charity
  - Technological developments
- Change offers: Risks and opportunities
- Impacts organisation in terms of future growth, even existence.

## Main Functions of an NPO

- Program
- Finance & Accounts
- Admin
- Communications
- Research
- New Business
- Training & Capacity Building

*Every staff in every of above function performs a finance role*

## Types of Resources an NPO uses

- Material - capital goods, program goods, supplies

- Money - cash, bank
- Labour - Human resources of organisation

# Role of Non Finance Staff on Financial Matters

- Non finance staff handle resources which have value
- Non finance staff authorise various types of expenditure - travel, procurement, office exp, statutory dues
- Non finance staff own and operate project budgets
- Project decisions of Non finance staff in field have financial implications - allowance/disallowance
- Decisions in field of Non finance staff have compliance implications with laws of land
- Non Finance staff actions affect reputation and even our very existence

# Finance Function

- Finance function looks after the financial resources of an organization
- Difference between Accounting & Finance though used interchangeably.
  - Accounting looks Back while Finance looks Forward
- The finance function's role is:
  - manage financial resources of the organization
  - provide information to various stakeholders to help economic decision-making
  - ensure statutory and regulatory compliance
  - Manage risks through appropriate internal controls

# Financial Management

- Financial Management is the business function that deals with investing the available financial resources in a way that greater business success and return-on-investment (ROI) is achieved.
- Why financial management:
  - Accountability to donors

- Accountability to communities we serve
- Statutory/regulatory compliance reporting
- Futuristic planning - Financial security
- Minimise fraud, theft and resource misuse
- Better decision by people relating to finances
- Enhance credibility and trust thereby giving a competitive edge
- Managing risk

# Role of Finance Function in NPO

## Enables Value Creation through

- Planning - budgeting - organisation, donor projects
- Contracting - draw, review and sign off donor agreements
- Fund/grant receipts, disbursements
- Policies & Procedures (P&Ps) - Finance policy, Travel policy, Conflict of interest, Risk policy
- Recording
  - Book keeping i.e. recording transactions
  - Accounting i.e. summarisation, analysis and interpretation of financial data
  - Closing and reconciling - bank, vendor, employee, grant etc

# Role of Finance Function in NPO

1. Forecasting - long term and short term
  - Budgets
  - Fund flows
  - Operating Cash
2. Resource Allocation - labour, material, money
  - Banking
  - Treasury & cash management
  - Procurement of goods and services as per policy and prevalent laws
  - Inventory management - slow moving, waste, loss
  - Asset management - depreciation, obsolescence, loss etc

# Role of Finance Function in NPO

## SHAPES value creation through

1. Performance Management
  - Budget monitoring (budget variance analysis) - organisation, projects
  - Value for money (VFM) - ratios
  - Return (social return) on investment (SROI), Social audit for social impact
2. Controls
  - Budgetary (realignment, reallocation)
  - Internal control procedures
  - Audits and assurances - statutory, internal, donor, Govt
  - Monthly MIS
3. Facilitator - support on finance to all other functions

### **Role of finance function in NPO**

#### **NARRATES the value creation through**

1. Financial reporting
  - Donors - periodic FR, annual audited UC, supporting financial data
  - Govt bodies - IT, FCRA, Registering agency, EPF, ESI, TDS, GST
  - Board/top management - financial health
2. Focal point with external stakeholders on institutional matters
  - obtaining statutory approvals
  - financial assessment by donors, govt etc.

**Identify how many of the finance functions are performed both by finance and non finance staff.**

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Revision #2

Created 9 April 2025 16:01:59 by Pooja

Updated 9 April 2025 16:14:58 by Pooja