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Financial Management: Record Keeping (Recommendation 11)

The clamour for transparency and accountability within the third sector as well as the need to ensure that not-for-profit organizations function efficiently are some of the factors which inform the need to discuss financial management.

Since not-for-profit organizations carry out financial transactions, it is important that practices which will aid corporate governance begin to be incorporated into the operations of not-for-profits in order for them to survive and develop. One key practice worthy of imbibing is record keeping.

Record keeping is described as the act of taking into account all earnings and spending within an organization. It is a financial management practice and also an effective way to minimize risk within the organization while ensuring that permanent official records of all activities exist.

The recording system of NGOs' financial transactions allows monitoring of bank balances, status of funds receipts and expenditures, and a comparative statement of budget vs. actual expenditure on a regular basis.

Contracts and letters for money received, receipts and invoices for things bought should be recorded and kept for reference purposes. Copies of official identification documents like passports, identity cards, driving licences or similar documents, account files and business correspondence, including the results of any analysis undertaken (e.g. inquiries to establish the background and purpose of complex, unusual large transactions), for at least five years after the business relationship is ended, or after the date of the occasional transaction are some of the documents which need to be recorded.

These basic records prove that each and every transaction has taken place. They are the cornerstones of accountability. An organization must make sure that all these records are carefully filed and kept safe with details of each transaction written down in a cashbook. While effective record keeping improves an organization's financial viability, it also makes it easier for donor agencies to trust them. Donor agencies find it easy to render immediate funding support to NGOs which have systematic policies in place for effective financial management.

Financial viability involves the managerial decisions on the generation, distribution and use of NGO's financial resources with a goal to ensure access to capital at all time.

It involves keeping a record of all activities and transaction occurring within a NGO. Its objective is to ensure effective use of funds along the main areas of NGO activities and it encourages transparency.

According the Financial Action Task Force (FATF) recommendation 11, organizations and all registered NGOs are required to maintain a system for recording and submitting all types of transactions made by them for the purposes of implementing projects and running their organization. Also, they should be required to maintain, for at least five years, all necessary records on transactions, both domestic and international, to enable them to comply swiftly with information requests from the competent authorities.

Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved, if any). This is to provide, if necessary, evidence for prosecution of criminal activity. Organizations also should be required to keep all records obtained through Customer Due Diligence (CDD) measures.

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