

Financial transparency for non-profits by John Cammack

Financial transparency can be defined as ‘the timely, meaningful, reliable and accessible production of financial information for an organisation’. Another definition might be that an organisation is ‘not actively trying to hide anything’.

Why is financial transparency important?

1. **Convincing donors** that the organisation has nothing to hide. Financial transparency helps to attract potential donors, and to show them that the organisation is open about what happens financially. If information is available for everyone to see, a donor will believe that this attitude will inform an organisation’s relationship with them too. This means they are likely to take any proposal for funding more seriously.
2. **Making better decisions** – if information is readily available and easy to access by trustees and staff, it will inform their decision-making. This might be, for example, working out the ‘true cost’ of competing demands of programme initiatives. This allows decisions to be better and more fully informed.
3. **Improving the culture of the organisation** – a transparent approach means the organisation’s trustees and staff are open with each other, and with those whom it comes into contact. It results in stronger relationships. In a federation of organisations, this can also influence how member organisations work.
4. **Preventing fraud** – a culture of transparency means that fraud is less likely to happen, or it is found out quickly if it does occur. Matched with robust internal controls, the organisation can be seen to be honest. This will help to attract international donors.
5. **Better engagement and trust of trustees, staff and other stakeholders** – it helps everyone to work together with shared values which encourages improvements in programme effectiveness.

How is financial transparency achieved?

We can achieve transparency in information that is made available internally and externally. However, it is also achieved by trustee and staff behaviour that is open and gives an attitude that there is nothing to hide. Some specific documents can be made available internally and externally:

Internally

1. **Budget and budget reports** – produced promptly and accurately at the end of the reporting period. These need to be available for stakeholders who want to see them, including donors. However, these reports are not usually made available to a wider audience.
2. **'Ownership' of budgets and annual work plans** – managing the organisation and its programmes so that both flourish. 'Ownership' means that trustees and staff have a direct interest in their work.
3. **Training trustees and staff in financial management** – making sure all trustees and staff understand the basics of financial management. This helps to make sure that procedures and ways of working are standardised throughout the organisation, which in turn gives a shared understanding.
4. **Appropriate technology** – the systems for processing the information must be able to produce the reports needed for internal use, and for reporting to donors in a way that is as straightforward as possible.

Externally

5. **Being open even when things go wrong** – when working with donors an 'open' partnership is essential to build strong relationships and continued funding. For example, if programmes don't achieve everything that was hoped for, transparency requires being honest about the outcomes with donors. Often those from outside the organisation will bring expertise from other organisations that they fund and can be a good source of advice. It is far better that you tell donors about things that go wrong, rather than them hearing about it from another source.
6. **Publish your annual report and accounting statements on your website** – it gives stakeholders the message that you have nothing to hide. Donors will often look at these as a means of verifying funds of the organisation at a point in time.
7. **Include details of your 'reserves' (organisation's savings) in the annual accounting statements** – this clearly show the money that you are holding at the end of the year. However, make sure that it shown in a way that is fair to the organisation as well as being transparent, and that it shows how reserves will be used, for example as restricted funds to be used within programmes during the coming year.

8. ***State clearly how the year has gone financially*** – be open in the annual report about what has gone well and what has not. Do not try and gloss over the negatives, but do say how you will improve these in the coming year.

9. ***Welcome audits*** – this is the way that an organisation can be seen to be open. Audit reports are usually shown as a part of the annual accounting statement. Audits can be a friend to non-profits because they highlight concerns which, if addressed, can make the organisation stronger and more fundable. Audit can be external by using a firm of accountants/auditors, and from donor organisations whose funds have been received and used. Audit reports give credibility with donors and allows them to see whether all the financial systems are working adequately.

In addition, documents such as a Financial Management Strategic Plan and a Finance Procedures Manual should be available, although these would not often be put on the website.

'Transparency' and 'accountability'

These two terms are common within the non-profit world. Accountability requires transparency, but also describes an organisation's reporting.

Reporting will be internal (through budget reports) and external (through annual reports and accounts). Individual programmes may also require additional reporting to donors, partners and other stakeholders.

For example, if working with a partner organisation, they too should be given a report on the financial aspects of your organisation, and especially the part that affects them. This might be the annual report and accounting statements but also reports specifically produced to give accountability for any funds you have received and used on their behalf.

Accountability also means being responsible and able to answer for the actions the organisation has taken. This might be a serious matter if, for example, someone has acted illegally. However, it is more likely a reason to explain to partner organisations and/or donors how and why certain decisions were made.