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Course Handbook

Practical Financial Management for NGOs
– Getting the Basics Right

Taking the Fear Out Of Finance

PRACTICAL FINANCIAL MANAGEMENT FOR NGOS

Course Handbook

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Glossary

Account	A record of monetary transactions, either written into a book designed for the purpose or entered onto a computer file.
Account code	A numbering system used to describe and sort the different types of financial transactions, grouped by assets, liabilities, income and expenditure.
Accounting period	A specified period for recording and reporting financial activity for a given time; usually one year.
Accruals	Outstanding expenses for an accounting period which have not yet been paid or invoiced. Opposite of prepayments.
Accumulated Fund	Money a group may accumulate year by year through not spending all its income. Also includes the current estimated value of any fixed assets.
Acid Test	The ratio achieved by dividing Current Assets (excl. Stocks) by Current Liabilities. It tells us if the organisation has sufficient funds to pay off its debts immediately.
Apportionment	The sharing of costs between two or more cost centres in proportion to the estimated benefit received.
Asset	Any possession or claim on others which is of value to the organisation. See also Fixed Assets and Current Assets.
Assets Register	A list of the Fixed Assets of the organisation, usually giving details of value, serial numbers, location, purchase date, etc.
Audit	The annual check on the accounts by an independent person (auditor).
Audit trail	The ability to follow the course of any reported transaction through an organisation's accounting systems.
Authorisation	This is the process of approval over transactions, normally the decision to purchase or commit expenditure. Authorisation by a budget holder is a way of confirming that spending is in line with budget and is appropriate.
Back donor	The original source of funds, where a grant is channelled through an agency, such as an international NGO, on to an implementing partner. The agency must report back to the original donor to account for the use of the funds by the local partner.
Balance Sheet	A summary of the financial position of an organisation at a particular date, showing the assets owned by the organisation and the liabilities or debts owed to others.
Bank Book	A register which records all transactions passing through a bank account. Also known as a Cash Book or a Cash Analysis Book.
Bank reconciliation	The process of agreeing the entries and balance in the Bank Book to the bank statement entries and balance at a particular date. Acts as a check on the completeness and accuracy of the Bank Book entries.
Budget	An amount of money that an organisation plans to raise and spend for a set purpose over a given period of time.
Budget holder	The individual who holds the authority and has the responsibility for managing, a budget for a specified activity, project, programme, department or organisation.
Capital expenditure	Expenditure on equipment, property and other fixed assets which will be used to support activities over more than one accounting period.

Cashflow	The difference between cash received and cash spent in a period.
Chart of Accounts	A list of all the accounts codes and cost centre codes that are used in an organisation's accounting system.
Cost Centres	A system used in an accounting system to distinguish between different activities or projects to define where costs are incurred or income is 'earned'. Cost centres are closely linked to the concept of budget-holders.
Creditor	Anyone the organisation owes money to.
Current assets	Cash and other short-term assets in the process of being turned back into cash – e.g. debtors. They can, in theory, be converted into cash within one year.
Current liabilities	Short-term sources of 'finance' (e.g. from suppliers, bank overdraft) awaiting payment in the next 12 months.
Current ratio	A measure of liquidity obtained by dividing Current Assets by Current Liabilities. It tells us if the organisation is able to pay off its debts within 12 months.
Debtor	Any person or other party who owes money to the organisation.
Depreciation	A proportion of the original cost of a fixed asset which is internally charged as an expense to the organisation in the Income & Expenditure Account.
Designated Funds	Unrestricted funds which have been accumulated over time and earmarked for a particular purpose by the Trustees.
Direct cost	A cost which can be specifically allocated to an activity, department or project.
Donation in kind	Where a grant or contribution to a project is made in the form of goods or services, rather than a cash grant or donation.
Double Entry Bookkeeping	The method of recording financial transactions whereby every item is entered as a debit in one account and a corresponding credit in another.
Exception Report	A short narrative report which highlights significant variances and/or areas for concern to accompany the management accounts.
Financial accounting	Recording, classifying and sorting historical financial data, resulting in financial statements for those external to the organisation.
Fixed assets	Items (such as equipment, vehicles or buildings) that are owned by an organisation which retain a significant part of their monetary value for more than one year. Also known as Tangible Assets.
Fund Accounting	Used to identify spending according to the different projects or purpose for which the funds were granted.
General funds	Unrestricted funds which have not been earmarked and which may be used generally to further the organisation's objectives. Often referred to as Reserves.
Imprest	A type of cash float, set at an agreed level, which is replenished by the exact amount spent since it was last reimbursed, to bring it back to its original level.
Income & Expenditure Account	Summarises income and expenditure transactions for the accounting period, adjusting for transactions that are not yet complete or took place in a different accounting period.
Indirect cost	A cost which cannot be specifically allocated to an activity, department or project but which is more general in nature. Also referred to as overheads.

Journal entry	An entry in the books of account which covers a non-monetary transaction – e.g. for recording a donation in kind or an adjustment for correcting a posting error.
Liabilities	Amounts owed by the organisation to others, including grants received in advance, loans, accruals and outstanding invoices.
Liquidity	The level of cash and assets readily convertible to cash compared to the demands on the available cash., e.g. to pay bills.
Liquidity ratio	A measure of liquidity obtained by dividing debtors, cash and short-term investments by current liabilities.
Management accounting	The provision of financial information to management for the purposes of planning, decision-making, and monitoring and controlling performance.
Net book value	The cost of an asset less its accumulated depreciation to date.
Net Current assets	Funds available for conducting day-to-day operations of the organisation. Usually defined as current assets less current liabilities. Also known as <i>working capital</i> .
Nominal Account	A 'page' in the Nominal Ledger for every type of income or expense, bank account, asset or liability likely to occur in an organisation. A complete list appears in the Chart of Accounts.
Nominal Ledger	Consists of a 'page' for every Nominal Account and records of the financial implications of the organisation's transactions.
Organogram	Organisation chart showing the management and departmental structure of the organisation
Petty Cash book	The day-to-day listing of petty cash paid out.
Prepayments	Amounts paid in advance – e.g. annual insurance premium. Opposite of accruals.
Receipts & Payments account	A summary of the cash book for the period with opening and closing balances.
Reconciliation	Checking mechanism which verifies the integrity of different parts of an accounting system. Especially balancing the Bank Book to the bank statement.
Reserves	Funds set aside from surpluses produced in previous years.
Restricted funds	Income funds which have conditions attached to how used, usually with a requirement to report back to the donor.
Signatories	People who are authorised to sign cheques on behalf of the organisation.
Trial balance	The list of debit and credit balances on individual nominal accounts from which an income and expenditure statement is prepared.
Unrestricted funds	Funds held for the general purposes of the organisation, for spending within the stated objectives.
Variance	The difference between the budget and the actual amount of income or expenditure.
Virement	The ability to transfer from one budget heading to another.
Working capital	See net current assets
Year-end	The cut-off point for the annual financial accounting period.
Zero-base budgeting	A method of preparing budgets which advocates calculating estimates from scratch, by considering each cost area afresh.

Financial Management for NGOs

An Introduction to Financial Management and Control in the NGO Sector

Introduction

This chapter:

- ❑ Explains why financial management is important for NGOs.
- ❑ Clarifies what financial management and financial control involves.
- ❑ Describes the underlying principles of financial management.
- ❑ Explains roles and responsibilities for financial management.
- ❑ Outlines the building blocks and tools of financial management.

Why is Financial Management important for NGOs?

In many NGOs financial management is given a low priority. This is often characterised by poor financial planning and monitoring systems.

But NGOs operate in a rapidly changing and competitive world. If their organisations are to survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of financial management tools.

Good practice in financial management will:

- help managers to make effective and efficient use of resources to achieve objectives and fulfil commitments to stakeholders
- help NGOs to be more accountable to donors and other stakeholders
- gain the respect and confidence of funding agencies, partners and beneficiaries
- give the NGO the advantage in competition for increasingly scarce resources
- help NGOs prepare themselves for long-term financial sustainability.

Some very persuasive reasons for getting it right!

What is Financial Management?

Financial management is not just about keeping accounting records. It is an important part of programme management and must not be seen as a separate activity left to finance staff.

Financial management entails planning, organising, controlling and monitoring the financial resources of an organisation to achieve objectives.

Financial management to an NGO is rather like maintenance is to a vehicle. If we don't put in good quality fuel and oil and give it a regular service, the functioning of the vehicle suffers and it will not run efficiently. If neglected, the vehicle will eventually break down and fail to reach its intended destination.

In practice, financial management is about taking action to look after the financial health of an organisation, and not leaving things to chance. This will involve:

■ Managing scarce resources

NGOs operate in a competitive environment where donor funds are increasingly scarce. We must therefore make sure that donated funds and resources are used properly, and to the best effect, to achieve the organisation's mission and objectives.

■ Managing risk

All organisations face internal and external risks which can threaten operations and even survival (e.g. funds being withdrawn, an office fire or a fraud). Risks must be identified and actively managed in an organised way to limit the damage they can cause.

■ Managing strategically

Financial management is part of management as a whole. This means managers must keep an eye on the 'bigger picture' – looking at how the whole organisation is financed in the medium and long term, not just focussing on projects and programmes.

■ Managing by objectives

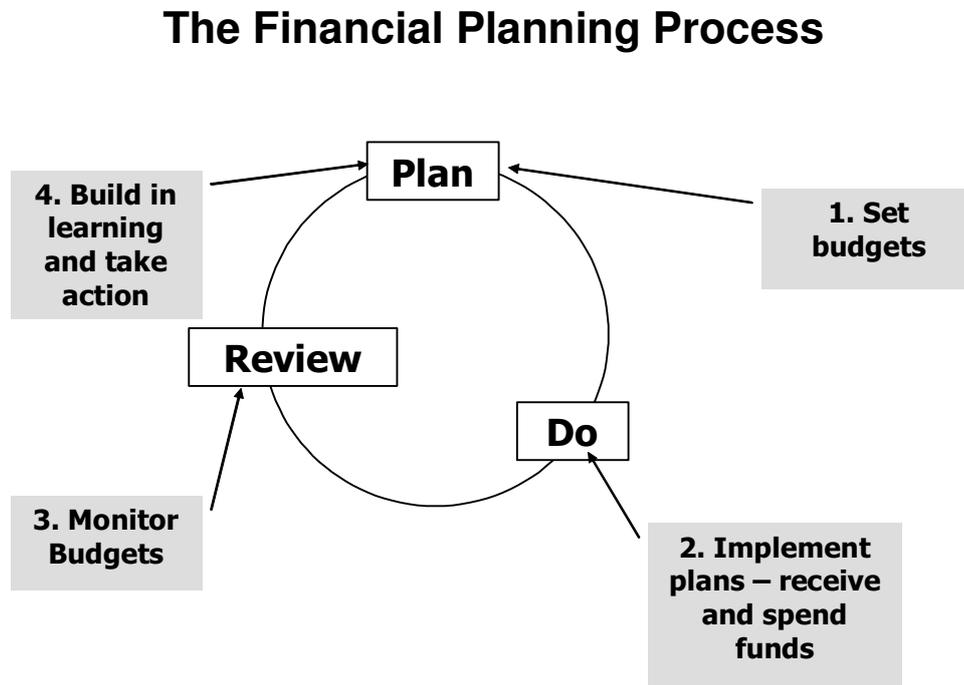
Financial management involves close attention to project and organisation objectives. The financial management process – **Plan, Do, Review** – takes place on a continuous basis. The *Plan-Do-Review* cycle is represented by **Figure 1.1**.

Plan: When an organisation starts up, it sets its objectives and planned activities. The next step is to prepare a financial plan for the costs involved in undertaking the activities and where to obtain funds.

Do: Having obtained the funds, the programme of activities is implemented to achieve the goals set out in the planning stage.

Review: The actual situation is compared with the original plans. Managers can then decide if the organisation is on target to achieve its objectives within agreed time scales and budget. The learning from the review stage is then taken forward to the next planning phase, and so on.

Figure 1.1 – Plan-Do-Review



What is Financial Control?

At the heart of financial management is the concept of *financial control*. This describes a situation where the financial resources of an organisation are being correctly and effectively used. And when this happens, managers will sleep soundly at night, beneficiaries will be well served and donors will be happy with the results.

Financial control occurs when systems and procedures are established to make sure that the financial resources of an organisation are being properly handled.

With poor financial control in an organisation:

- assets will be put at risk of theft, fraud or abuse;
- funds may not be spent in accordance with the NGO's objectives or donors' wishes; and
- the competence of managers may even be called into question.

Who is Responsible for Financial Management?

It is important to understand an NGO's structure and legal status to appreciate who is responsible for what in financial management.

■ What is an NGO?

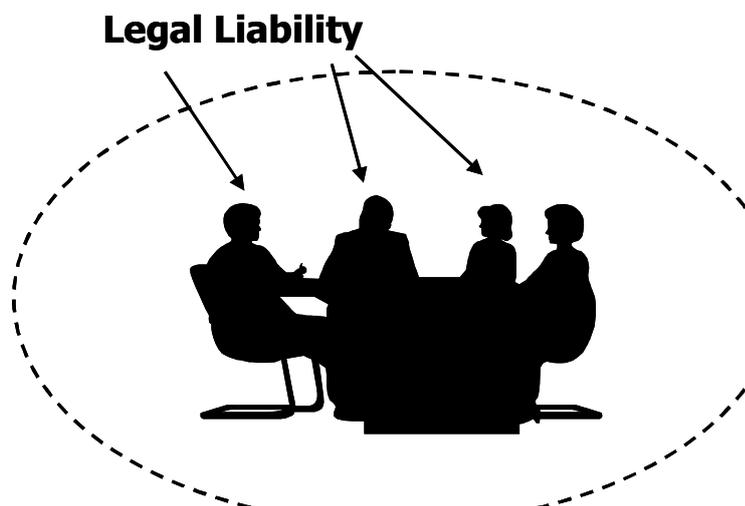
The term 'non-governmental organisation' tells us more about what it is not, rather than what it is. NGOs operate in a wide range of fields and come in all shapes and sizes. Whilst each one is unique, most share some common features:

- They are '**values-led**' – their prime motivation is a desire to improve the world in which we live.
- They are '**not-for-profit**' (but note that they are still allowed to make surpluses).
- They have many **stakeholders** – an NGO is an alliance of many different interests.
- They are governed by a **committee** of volunteers – the 'Governing Body'.
- They are private autonomous organisations, **independent** of the State.

■ Legal Status

There are a number of different ways of registering as an NGO and this will determine the organisation's legal status. Organisations are recognised either as a separate legal entity (incorporated body) or as a loose collection of individuals (un-incorporated body).

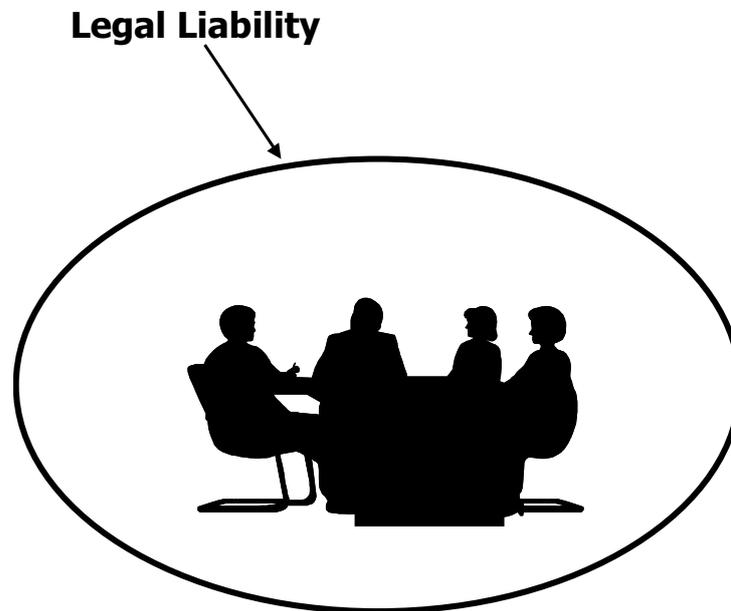
Figure 1.2: Unincorporated NGO



When a body is **incorporated** it has a separate legal identity and is recognised in law as an 'artificial person' (demonstrated by the thick border protecting the individuals in **Figure 1.3** below).

In this type of body, individuals serving as board members have some protection in law. They have what is known as **limited liability**. This means that their financial responsibility, if things go wrong, is limited to a token amount (e.g. US\$1.00).

Figure 1.3: Incorporated NGO



Whatever the legal status, the trustees of an NGO together have a statutory duty to see that the organisation is being properly run and that funds are being spent for the purpose for which they were intended.

■ The Constitution

The way that an NGO is structured and registered will therefore have an impact on its legal status, accountability and transparency. Every NGO should have a founding document such as a Constitution or Memorandum and Articles of Association. This document describes, amongst other things:

- the name and registered address of the NGO;
- the objects of the organisation and target group;
- the system of accountability – i.e. who is the governing body, its powers and responsibilities;
- how it raises its funds.

■ The Governing Body

The governing body is **legally responsible** and accountable for governing and controlling the organisation. This means that if anything goes wrong in the NGO then the law holds the members of the governing body responsible.

It has many different names – Council, Board of Directors, Board of Trustees, Executive or Governing Board – and several functions including:

- responsibility for deciding on policy and strategy;
- custodianship (or safeguarding) of the financial and other assets of the organisation;
- appointing and supporting the Chief Executive; and
- representing interests of stakeholders.

The governing body is often organised with a series of sub-committees – e.g. Finance, Personnel or Project sub-committees.

■ Board Members

Board members are **volunteers** (i.e. not paid a salary) and are known variously as trustees, committee members, directors or council members. If board members were to benefit financially from their membership of the board, there could be a conflict of interest.

Honorary Officers are those who are elected or appointed to specific positions on the board – such as Chair, Treasurer and Secretary. They oversee the execution of board decisions and often sign legal undertakings.

- The **Chairperson** is usually the main point of contact for the Chief Executive Officer (CEO), and usually fulfils an important public relations role for the NGO.
- The **Treasurer's** role is to oversee the finances of the organisation. In a smaller organisation the Treasurer may take on a more active role and act as bookkeeper, but where there are paid staff the Treasurer assumes more of a supervisory role.

Even if they are not supervising the accounting process and preparing reports themselves, board members must still be sure that everything is in order.

Board members are ultimately responsible for the financial affairs of the organisation and they cannot escape this duty except by resigning from the governing body.

■ Day to day responsibility

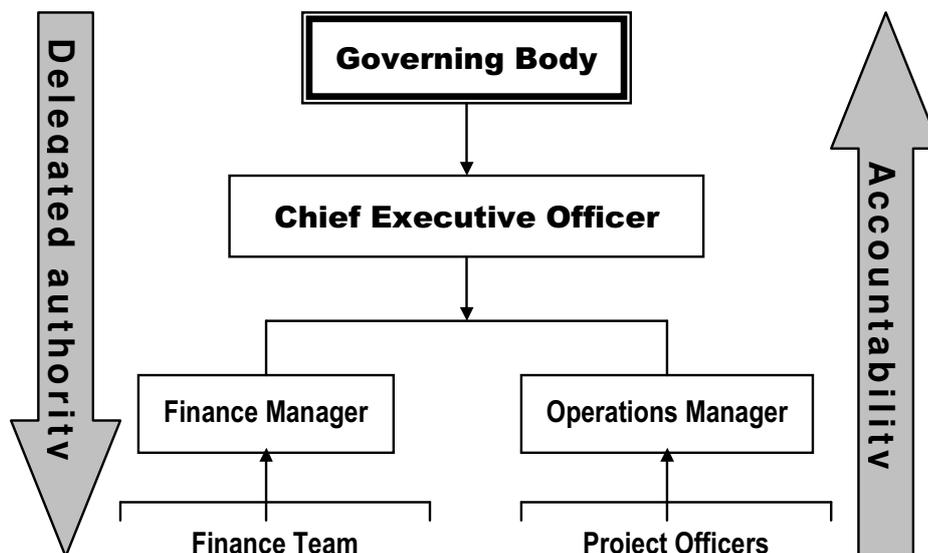
As the governing body is made up of volunteers who meet only a few times a year, it delegates authority for day-to-day management to the CEO, appointed by the board to implement policy.

The CEO then decides how to further delegate authority, to share out duties amongst the staff team. While it is acceptable for the governing body to delegate authority to staff members, it **cannot delegate total responsibility** since ultimate accountability rests with the trustees.

Furthermore, authority without accountability is unhealthy – the Board must set up monitoring mechanisms to make sure their instructions are being fulfilled.

Figure 1.4 demonstrates how the authority for day-to-day financial management tasks is delegated down through the line management structure. At the same time, the accountability process comes back up through the structure as people report back on progress.

Figure 1.4: Sample Organisation Chart – How authority is delegated



■ A Team Effort

In practice, everyone who works to achieve the objectives of an NGO has an important role to play in financial management. Every opportunity must be taken to integrate financial management into the day-to-day operational management of the organisation.

For this to happen, we have to get the basics right. We have to introduce robust systems and procedures and be guided by some important principles which underlie sound financial management.

The Seven Principles of Financial Management

It is useful to identify a series of good practice principles, which can be used as a standard in developing proper financial management systems in an NGO. These principles provide a high-level guide for trustees and senior managers to help them make sure that their organisation is using funds effectively and that staff are working appropriately.

Look upon each of the **Seven Principles of Financial Management** as goals to work towards.

■ Consistency

The financial policies and systems of an NGO must be consistent over time. This promotes efficient operations and transparency, especially in financial reporting. This does not mean that systems may not be refined to cope with a changing organisation. Inconsistent approaches to financial management could be a sign that the financial situation is being manipulated.

■ Accountability

The organisation must explain how it has used its resources and what it has achieved as a result to all stakeholders, including beneficiaries. All stakeholders have the right to know how their funds and authority have been used. NGOs have an operational, moral and legal duty to explain their decisions and actions, and submit their financial reports to scrutiny.

Accountability is the moral or legal duty, placed on an individual, group or organisation to explain how funds, equipment or authority given by a third party has been used.

■ **Transparency**

The organisation must be open about its work, making information about its activities and plans available to relevant stakeholders. This includes preparing accurate, complete and timely financial reports and making them accessible to stakeholders, including beneficiaries. If an organisation is not transparent, then it may give the impression of having something to hide.

■ **Viability**

To be financially viable, an organisation's expenditure must be kept in balance with incoming funds, both at the operational and the strategic levels. Viability is a measure of the NGO's financial continuity and security. The trustees and managers should prepare a financing strategy to show how the NGO will meet all of its financial obligations and deliver its strategic plan.

■ **Integrity**

On a personal level, individuals in the NGO must operate with honesty and propriety. For example, managers and Board members will lead by example in following policy and procedures and declare any personal interests that might conflict with their official duties.

The integrity of financial records and reports is dependent on accuracy and completeness of financial records.

■ **Stewardship**

An organisation must take good care of the financial resources it is entrusted with and make sure that they are used for the purpose intended – this is known as financial stewardship. The governing body (e.g. the Board of Trustees) has overall responsibility for this. In practice, managers achieve good financial stewardship through careful strategic planning, assessing financial risks and setting up appropriate systems and controls.

■ **Accounting Standards**

The system for keeping financial records and documentation must observe internationally accepted accounting standards and principles. Any accountant from anywhere around the world should be able to understand the organisation's system for keeping financial records.

Tip: Use the 7 principles as a checklist to help identify relative strengths and weaknesses in your own organisation. To help you remember, a useful mnemonic formed by taking the first letter of each of the principles is '**CAT VISA**'.

The Four Building Blocks of Financial Management

There is no model finance system which suits all NGOs. But there are some basic building blocks which must be in place to achieve good practice in financial management.

■ Accounting Records

Every organisation must keep an accurate record of financial transactions that take place to show how funds have been used. Accounting records also provide valuable information about how the organisation is being managed and whether it is achieving its objectives.

■ Financial Planning

Linked to the organisation's strategic and operational plans, the budget is the cornerstone of any financial management system and plays an important role in monitoring the use of funds.

■ Financial Monitoring

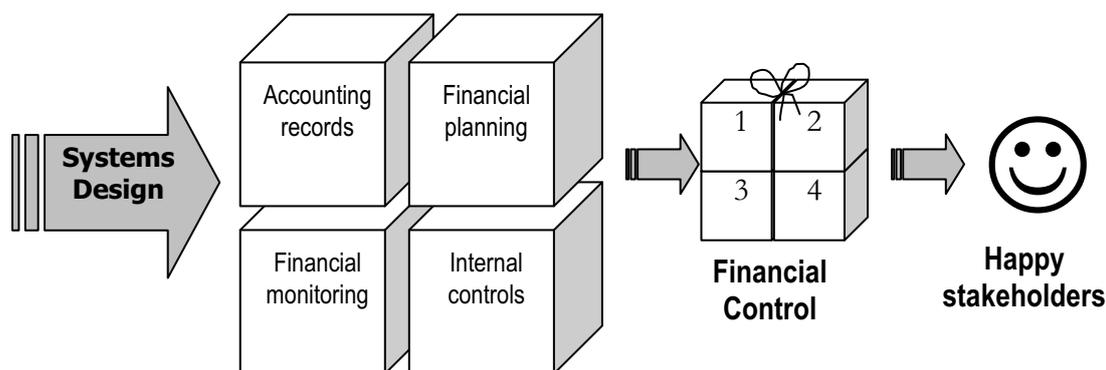
Providing the organisation has set a budget and has kept and reconciled its accounting records in a clear and timely manner, it is then a very simple matter to produce financial reports which allow the managers to assess the progress of the organisation.

■ Internal Controls

A system of controls, checks and balances – collectively referred to as internal controls – are put in place to safeguard an organisation's assets and manage internal risk. Their purpose is to deter opportunistic theft or fraud and to detect errors and omissions in the accounting records. An effective internal control system also protect staff involved in financial tasks.

The building blocks are covered in detail in the remaining chapters.

Figure 1.5: The Building Blocks of Financial Management – Getting the Basics Right



Note that all of the building blocks must to be in place continuously. Effective financial control will not be achieved by a partial implementation. For example, there is very little point in keeping detailed accounting records if they are not checked for errors and omissions; inaccurate records will result in misleading information, which in turn could wrongly influence a financial management decision.

The Tools of Financial Management

There are many tools, not necessarily financial, which managers can use to help achieve good practice in financial management and control. We can identify these tools under each of the four functions of financial management (as highlighted in our working definition of financial management on page 2 of this manual):

☑ **Planning**

Planning is basic to the management process and involves looking ahead to prepare as well as possible for the future. In the course of putting a plan together managers will consider several possible alternatives and make a number of choices or decisions. Planning must always precede the doing.

Tools: Strategic plan, business plan, activity plan, budgets, work plans, cashflow forecast, feasibility study...etc.



☑ **Organising**

The resources of the organisation – staff and volunteers, vehicles, property, money – have to be co-ordinated to ensure implementation of the overall plan. It needs to be clear what activities and responsibilities are to be undertaken, when and by whom.

Tools: Constitution, organisation charts, flow diagrams, job descriptions, Chart of Accounts, Finance Manual, budgets...etc.

☑ **Controlling**

A system of controls, checks and balances are essential to ensure proper application of procedures and resources during programme implementation.

Tools: Budgets, delegated authority, procurement procedure, reconciliation, internal and external audit, fixed assets register, vehicle policy, insurance...etc.

☑ **Monitoring**

This involves producing regular and timely information for managers and stakeholders for monitoring purposes. Monitoring involves comparing actual performance with plans to evaluate the effectiveness of plans, identify weaknesses early on and take corrective action if required.

Tools: Evaluation reports, budget monitoring reports, cashflow reports, financial statements, project reports, donor reports, audit reports, evaluation reports...etc..

Can you identify the common tool that links all of the four functions of financial management?

Getting Organised

Getting the basics right for your NGO

Introduction

This chapter:

- ❑ Explains why it is important to design financial systems which are right for your NGO.
- ❑ Describes the two branches of accounting.
- ❑ Introduces the Chart of Accounts and Project Cost Centres and their important role in organising the accounts.
- ❑ Defines different types of costs.
- ❑ Explains what a finance manual is and what goes in it.

Systems Design

Systems design is one of the organising aspects of financial management. NGOs are quite different from commercial organisations and state institutions, and financial systems have to be adapted to meet their needs and resources.

The key tools to help to get your systems organised include:

- Organisation chart and job descriptions of staff.
- Financial accounts structure – including a Chart of Accounts and Project Cost Centres.
- A ‘Finance Manual’ – or a file of established policies and procedures.
- A financial year planner.

Financial systems design must also cater for the two distinct, but inter-dependent, branches of accounting: financial accounting and management accounting.

Financial Accounting vs. Management Accounting

For the financial management process to take place effectively, financial systems and procedures need to cover two aspects of accounting.

■ Financial Accounting

This describes the systems and procedures used to keep track of financial and monetary transactions which take place inside an organisation. Financial accounting is a system of recording, classifying and summarising information for various purposes.

Financial accounting records can be maintained either using a manual or computerised system (or a combination of both methods). Although it is important to comply with certain accounting conventions and standards, the actual system adopted will depend on the expertise and resources available; the volume and type of transactions; reporting requirements of managers; and obligations to donors.

One output of financial accounting is the annual financial statement, used primarily for accountability to those external to the organisation. The routine output of financial accounting throughout the year must be accurate and up-to-date if the second area is to be undertaken effectively and with minimum effort.

■ Management Accounting

Management accounting takes the data gathered by the financial accounting process, compares the results with the budget and then analyses the information for decision-making and control purposes. The reports produced by the management accounting process are therefore primarily for internal use.

They must be produced on a regular basis – usually monthly or quarterly depending on the needs of the organisation – and as soon as possible after the reporting period so that figures are relevant to managers' discussions.

Financial Accounting Vs Management Accounting	
Financial Accounting:	Management Accounting:
 Records transactions	 Compares results against goals
 Classifies transactions	 Determines reasons for variations
 Reconciles records	 Helps identify corrective action
 Summarises transactions	 Forecasting & planning
 Presents financial data	 Analyses information

The Right System?

Every NGO is different – there is no such thing as a ‘model’ finance system. So there are a number of considerations to take into account to find the right approach for your NGO:

- **Structure** – line management; number of staff, their functions and where they are based; operational structure (e.g. department, branch, function). *Organograms* are useful here.
- **Activities** of the organisation – number and type of projects.
- **Volume and type of financial transactions** – do you pay for your goods and services with cash or with suppliers accounts or both?
- **Reporting** requirements – how often and in what format do financial reports have to be produced for the different stakeholders in your organisation?
- **Resources** of the organisation – what financial, equipment and human resources are available to help managed the finances?

All of these considerations will help to decide the most appropriate:

- method for keeping accounting records;
- coding structure for transactions;
- financial policies;
- financial reporting routines;
- use of computers;
- use of administrative staff.

The Chart of Accounts

The Chart of Accounts is probably the most important organising tool for the accounting and reporting processes.

There are many different kinds of financial transaction taking place in an NGO. We buy a wide variety of goods and services to help achieve our objectives – from rent for the office to tools for a garden project. And we receive different kinds of income – grants, donations and membership fees, for instance.

To make sense of all of this financial activity, it helps to ‘sort’ the different types of income and expense into a series of pre-determined categories or *Accounts*. These Accounts are listed in the Chart of Accounts and are typically arranged in a logical order: Income and Expenditure, Assets (things we own) and Liabilities (things we owe).

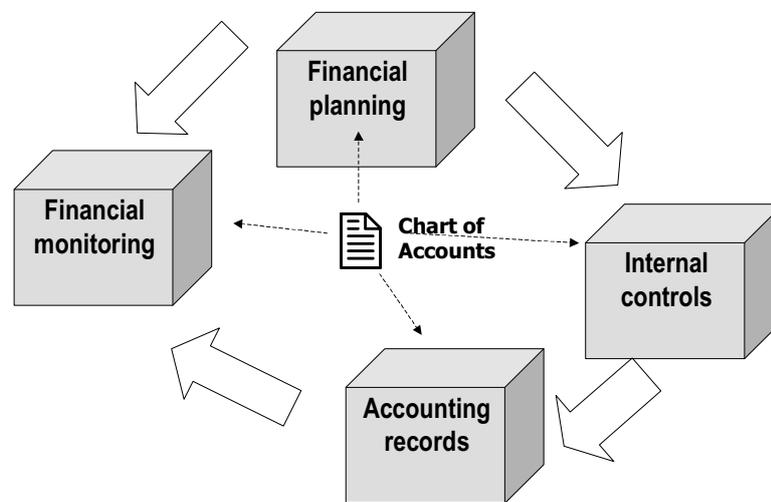
Then, when a transaction takes place, it is recorded in the books of account and categorised according to the guidance held in the Chart of Accounts. The same categories are used in the organisation’s budget and financial reports, so promoting consistency and transparency.

Each organisation's Chart of Accounts will be different. Typically, the layout will include account name, reference number and a description for use of the account. An example of a Chart of Accounts can be found in Appendix 1.

Note that the categories have been sorted not only by type of Account, but also into sub-groups under 'family' headings – such as Administration, Personnel and Vehicle Running.

Family headings are especially useful for presenting summarised information. The coding method used (in this case a numerical system but alphabetical systems are also used) follows the same logic using a group of numbers for the same family of items.

Figure 2.1: The Chart of Accounts in a Finance System



Cost Centres

Some grants are given for a specific purpose – these are known as *restricted funds* because they may only be used for a particular activity, rather than for general purposes. Such funds must be accounted for separately so that the organisation can demonstrate to the donor how the funds have been utilised. This is known as *fund accounting* and requires care when setting up accounting systems to identify and separate the necessary information.

In such circumstances it may be appropriate to identify activities within an organisation by **Cost Centre** (or Activity or Budget Centre). Cost centres are typically applied to projects, functions or departments which have their own budget and funding sources. The starting point for deciding on a cost centre structure is the organisation chart and donor funding agreements.

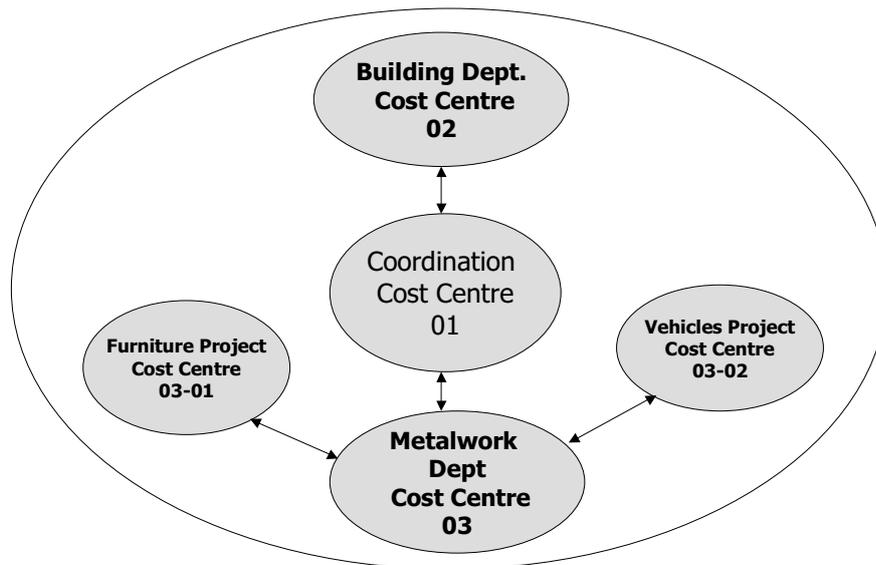
For example, Milestone has three departments: Coordination (i.e. management, administration and governance), Metalwork Dept and Building Dept. The Metalwork department in turn has two separate activities with their own funding sources: the Furniture Project and the Vehicles Project.

Their cost centre structure and reference codes are shown in Appendix A1b.

There is no effective limit on the number of cost centres that can be used especially if a computer accounting program is used. However, it is important to design the cost centre structure carefully to prevent record keeping become burdensome and counter-productive. Each cost centre is given a unique reference or code to identify it within the records.

A useful way to graphically present cost centres is in the form of an 'egg chart' (see Figure 2.2 for Milestone's egg chart).

Figure 2.2: Milestone's Cost Centres



■ How are cost centres used?

With cost centres in place, when financial transactions are entered into the accounting records not only are they categorised by the type of income or expenditure...

'Which budget line item does this belong to?'

but also classified according to the fund, department or project....

'Which project, donor or department budget does this belong to?'

This means that separate financial reports can be more easily produced for each cost centre, helping managers to monitor their own area of responsibility and report to project donors.

Cost Structures

As well as identifying the different types of expenditure for your organisation, you also need to be able to classify them as either *Direct* or *Indirect* costs.

- **Direct costs** are those which are clearly related to a particular activity and can be charged directly to the relevant Cost Centre. For example, in a training project, the costs of room hire for a training event and the trainer's salary.

- **Indirect costs** are those which are of a more general nature and relate to the organisation as a whole or more than one activity. For example, head office rent, the audit fee and the Chief Executive's salary. These usually form the bulk of what are known as the 'core' (or overhead or central administration) costs.

We need to distinguish between these two types of cost in the accounts so that managers can properly plan, monitor and control their project resources. In particular, core costs have to be shared out – or apportioned – between the different projects in a fair and justifiable way. There are various ways to do this, for example sharing costs according to the size of each project budget. More on this in a later chapter.

Classifying Costs Activity

Using Milestone's Chart of Accounts in Appendix A1a and A1b, see if you can classify each of the following transactions using the appropriate code for: the type of income or expenditure; and the cost centre. Then decide if each transaction is 'direct' or 'indirect'.

Transaction	Cost Centre code	Category (Account) code	Direct or Indirect?
1. Coordinator's salary			
2. Metalwork Dept manager's salary			
3. Grant received from Vanguard Society for Furniture Project			
4. Office rent			
5. Expenses for Board meeting			
6. Training fee income received for a Building Dept. training course			
7. Petrol for the Coordinator's vehicle			
8. Petrol for the Building Dept. Manager's vehicle			
9. Rom hire charge for the Metalwork Dept. training course			
10. Travel for the Metalwork Dept. Manager			
11. New tyres for the Metalwork Dept. Manager's vehicle			
12. Office telephone bill			
13. Guest speaker's fee to attend Building Dept. training course			
14. Posters to publicise all of Millstone's services			
15. Anonymous donation received			

What is a Finance Manual?

All organisations need to set down a series of financial policies and procedures to guide operations and avoid misunderstandings. The Finance Manual brings them all together in one document. The manual may also be known as the Financial Regulations or Finance and Office Procedures.

The manual is generally used by the accounts staff for day-to-day operations but also serves as a reference in case of query by programmes staff.

■ What goes in a Finance Manual?

A finance manual might include sections on:

- Financial accounting routines
- The Chart of Accounts and cost centre codes
- Management accounting routines
- The budget planning and management process
- Delegated authority rules (i.e. who can do what)
- Ordering and purchasing procedures
- Bank and cash handling procedures
- Management and control of fixed assets
- Staff benefits and allowances
- Annual audit arrangements
- How to deal with fraud and other irregularities
- Code of Conduct

The manual may also include some Appendices such as

- Standard forms
- Organisation Chart
- Job Descriptions

Be aware of the limitations of a Finance Manual however. It is a major undertaking and the following should be considered:

- The manual cannot cover everything, to do so would be too bureaucratic.
- It must be a living manual, used and implemented by everyone.
- It must be regularly reviewed and updated if it is be relevant.

- It is expensive to produce in terms of time and printing costs.
- It requires special skills to write.

Standard Forms

Standard forms are purpose-designed documents used to simplify or facilitate financial administration routines [see Appendix 19 for some commonly used standard forms]. They are one of the best ways to ensure that procedures are followed and understood by those responsible for operating them. Standard forms can be used with almost any procedure but especially where:

- information needs to be supplied by a third party before a transaction can take place;
- a transaction requires to be checked and authorised; or
- financial information is being summarised or reconciled.

A note of caution in the use of standard forms: do not overdo the paperwork as too much bureaucracy slows down the accounting process and overloads the authorisation routines. Some typical uses for standard forms:

- Payment Voucher
- Purchase Order
- Travel and Subsistence Expenses claim
- Assets Register
- Vehicle Log
- Bank Reconciliation
- Journal Voucher
- Staff loan application
- Leave request form

Work Planning

Financial management involves many different tasks and routines. It is therefore important to plan tasks involved during the financial year, such as:

- **Financial accounting routines** – e.g. recording, reconciling and trial balance
- **Reporting schedules** – especially to meet donors' requirements
- **Budgeting** process
- **Reviews** – e.g. assets register, finance manual and insurance cover
- **Year end procedures** – e.g. preparation for audit

One of the best ways to do this is to use a yearly planning chart. This helps to schedule tasks and allocate tasks to staff so that deadlines can be met. See Appendix 17 for an example.

Planning and Budgets

'Failing to plan is planning to fail.' Chinese Proverb.

Introduction

This chapter:

- ❑ Describes the planning process and how it links with financial management.
- ❑ Highlights different types of budgets and when to use them.
- ❑ Describes approaches to budgeting.
- ❑ Looks at good practice in budgeting.

The Financial Planning Process

Financial planning is both a strategic and operational process linked to the achievement of objectives. It involves building both longer term funding strategies and shorter-term budgets and forecasts. It lies at the heart of effective financial management.

Financial planning does not start with budgets and numbers. Effective budgets can only be produced as a result of good underlying plans. It is impossible to start a financial forecast without a clear idea about what it is you want to do and how you intend to do it.

"If you don't know where you are going then you are sure to end up somewhere else"
Mark Twain

■ The Planning Pyramid

NGOs exist to achieve certain objectives. It is usual to lay down how the objectives are going to be achieved in a *Strategic Plan*. The strategic planning document has several component parts (see the Planning Pyramid below in **Figure 3.1**), starting with an outline of long term goals – either or both a *Vision* and *Mission* – and going into greater and greater detail about how the mission is to be achieved.

As the level of detail increases, the timeframe becomes shorter and participation of staff members in the planning process should increase.

Vision

The vision represents the very long-term goal of the organisation – it is the big problem which the NGO alone cannot solve but strives towards. For example, the United Nations’ underlying vision is ‘World Peace’.

Mission

Most NGOs have a mission statement as part of their founding documents. It clarifies the purpose and values of the organisation in a few, general, sentences.

Objectives

Objectives are the building bricks which help an organisation achieve its missions. Objectives give focus to the organisation’s work and state in clear terms what it is that the organisation hopes to achieve over a given period of time. They should be SMART – specific, measurable, achievable, realistic and timed.

Strategy

Strategies set out how the organisation will achieve each of its objectives. The strategy will outline the actions which will be taken for each objective.

Plans

The strategy may be sub-divided into several, more specific and detailed plans for each activity, function or project. Plans have a shorter time focus (about one year) than strategies and objectives and are subject to regular review as progress is made. Plans are the basis for budgets.

Figure 3.1 The Planning Pyramid



Once plans are set, the organisation draws up its budgets and cashflow forecast to help implement the plans. During the year financial reports are produced to compare the budget with actual performance.

This review stage is very important to the financial planning process since it will highlight areas where the plans did not happen as expected. This learning process will help to identify revisions which need to be made to the plans. And so the cycle continues... *Plan, Do, Review.*

What is a Budget?

*'A budget describes an amount of **money** that an organisation **plans** to raise and spend for a set **purpose** over a given period of **time**.'*

A budget has several different functions and is important at every stage of a project:

■ Planning

A budget is necessary for planning a new project, so that managers can build up an accurate idea of the project's cost. This allows them to work out if they have the money to complete the project and if they are making the best use of the funds they have available.

■ Fundraising

The budget is a critical part of any negotiation with donors. The budget sets out in detail what the NGO will do with a grant, including what the money will be spent on, and what results will be achieved.

■ Project implementation

An accurate budget is needed to control the project, once it has been started. The most important tool for on-going monitoring is comparing the actual costs against the budgeted costs. Without an accurate budget, this is impossible. Because plans sometimes change, it may be necessary to review the budget after a project has started.

■ Monitoring and evaluation

The budget is used as a tool for evaluating the success of the project, when it is finished. It helps to answer the question: 'Did the project achieve what it set out to achieve?'

Who needs Budgets?

Budgets are used by different people for different purposes.

- The **Board of Trustees** needs the NGO's overall budget because it has to formally approve it and monitor its progress.
- **NGO Chief Executives** need budgets to keep an eye on progress of the whole organisation and the funding situation.
- **Project managers** need budgets to oversee the implementation of their project activities.
- **Fundraisers** need budgets to accompany funding applications.

- **Finance staff** need budgets to make sure there are enough funds in the bank to cover anticipated expenditure.
- **Donors** need budgets so they can see how an organisation intends to spend its grants.
- **Community partners** need budgets so they can see how an NGO plans to spend and raise funds for their community projects.

Types of Budget

Essentially, there are three main types of budget:

- The Income and Expenditure Budget
- The Capital Budget
- The Cashflow Forecast

■ The Income and Expenditure Budget

The income and expenditure budget sets out the anticipated running costs (also referred to as recurrent costs) of the organisation and shows where the funds will come from to cover the costs [see Appendix 11]. The annual income and expenditure budget is often broken down into shorter periods – quarterly, half yearly or even monthly – to assist with monitoring progress.

■ The Capital Budget

A capital budget lists the expenditure you intend to make for the coming years on capital projects and one-off items of equipment that will form part of the organisation's *Fixed Assets*. As these usually involve major expenditure and non-recurrent costs, it is better to list and monitor them separately. Examples of capital expenditure include:

- Vehicles
- Office furniture and equipment
- Computer equipment
- Building construction
- Major renovation works

The implications for the income and expenditure budget should be noted – such as running costs for vehicles. A separate capital budget is not required if only one or two capital items are to be purchased. In this case it is sufficient to incorporate the capital items in a separate section of the income and expenditure budget. This is most common in a project budget.

■ The Cashflow Forecast

The cashflow forecast (or cash budget) is based on the income & expenditure and capital budgets for the organisation. It is used by managers to monitor the availability of cash.

Whereas the income and expenditure budget shows whether the organisation is covering its costs over the whole year, the cashflow forecast shows whether it has sufficient cash in the bank to meet all of its payments needs as they arise. [See Appendix 13 for an example.]

The cashflow forecast attempts to predict the flow of cash in and out of the organisation throughout the year by breaking down the association budget into smaller time periods, usually one month. This then helps to identify likely cash shortages and allows avoiding action to be taken such as:

- requesting donor grants early;
- delaying payment of certain invoices;
- delaying some activities; or
- negotiating a temporary overdraft facility.

The cashflow forecast is also useful where the organisation maintains substantial cash reserves which need to be invested wisely to maximise investment income.

How to prepare a cashflow forecast

To prepare a cashflow forecast, you will need all of the organisation's activity plans and budgets for the year. This exercise is best completed using a computer spreadsheet such as Excel.

For each item of income and expenditure on the budget, you need to predict and plot on the forecast sheet when cash will come in and need to go out of the organisation. This is clearly dependent on when activities are planned to take place. Some activity is more predictable than others.

- Some transactions are monthly, e.g. salaries, rent, utilities
- Some transactions are annual, e.g. insurance, audit fees
- Some transactions are scheduled, e.g. AGM, training courses, donor grants
- Some transactions are unpredictable, e.g. vehicle repairs.

Once the budget has been broken down into each month based on the activity plans, it is possible to calculate the net cash flow: i.e. whether there is more cash coming in or going out, or vice versa. It is usual to also include an estimate of any bank balances held as reserves as this will help manage our cash flow.

Tip: When putting your cashflow forecast together you do not need to include non-cash transactions such as depreciation costs and donations in kind.

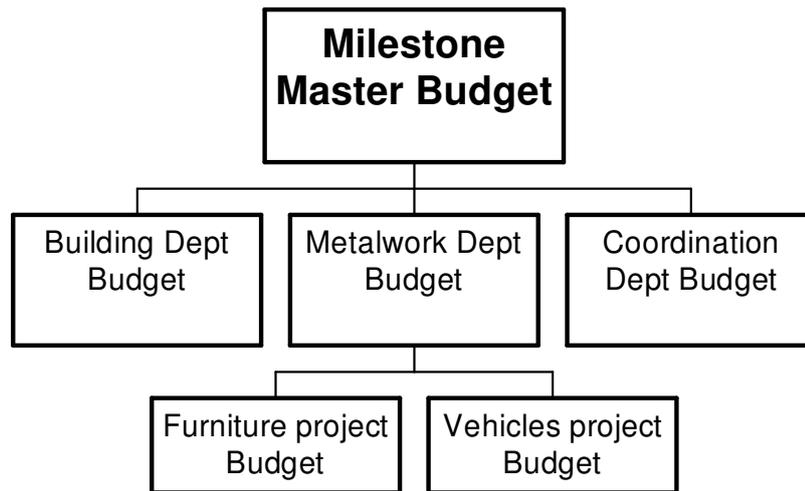
Budget Structures

To facilitate planning and to enable control to be effective, many organisations try to ensure that the overall structures of their budgets correspond closely to the organisation structure. It is possible to organise budgets at different levels, e.g. by department, programme or project.

Figure 3.2 shows Milestone’s budget hierarchy. Note that this reflects the cost centre structure that we looked at in the last chapter. The lower level project budgets are consolidated into the departmental budget. Departmental budgets are in turn consolidated into one master budget [see Appendix 11].

This structure allows budgets to be delegated and monitored at the project level, whilst maintaining an overview at department and association level.

Figure 3.2: Milestone’s budget structure



Approaches to Budgeting

There are several different ways to build a budget and you should adopt an approach which works best for you, given the skills and time available.

■ Incremental budgeting

This approach bases any year’s budget on the previous year’s actual, or sometimes budgeted, figures with an allowance for inflation and known changes in activity levels. It has the advantage of being fairly simple and quick to implement. It is most useful for organisations where activity and resource levels change little from year to year.

A frequent criticism of this approach is that it does not encourage fresh thinking and may perpetuate existing inefficiencies. It also makes it difficult to justify the figures to donors since the original calculations may be long forgotten.

■ Zero-based budgeting

An alternative approach is to start with a clean sheet – a zero base. Zero-base budgeting (or ZBB) ignores previous experience and starts with next year’s targets and activities. ZBB requires a manager to justify all the resource requirements.

This process may suit organisations going through a period of rapid change and those, like NGOs, whose income is activity-based. Zero-based budgets are said to be more accurate since they are based on the detail of planned activities. However, the approach does impose a much greater workload on managers than incremental budgeting.

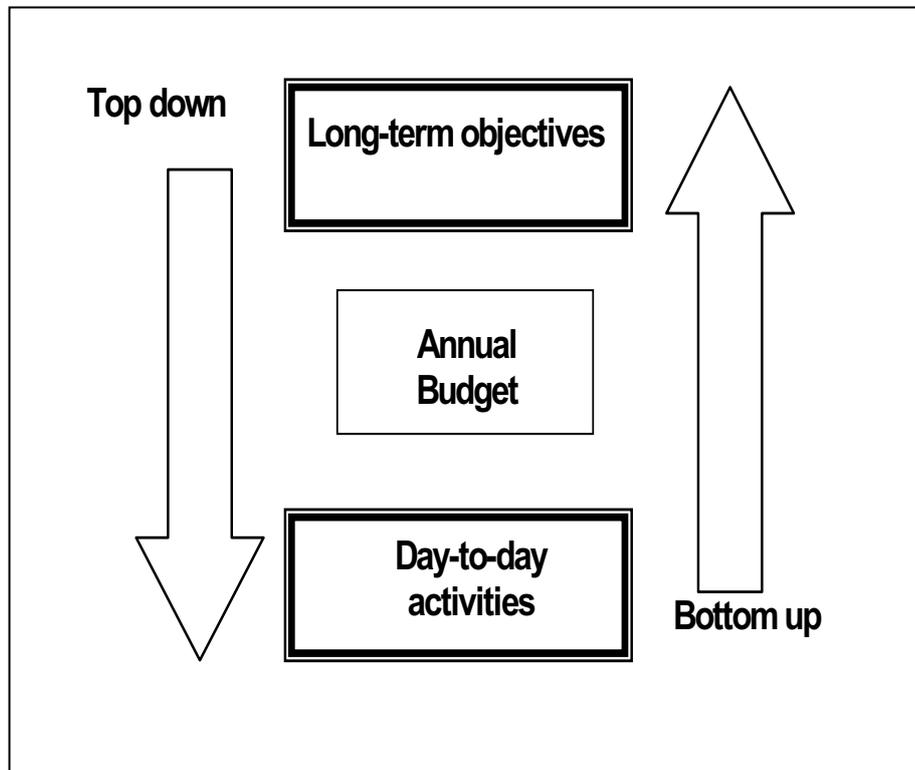
■ Top Down or Bottom up?

Since a budget is a financial plan that relates directly to the activities of the organisation, it is important that those who will be responsible for project implementation are closely involved with writing the budget.

If this is not done, the budget will surely be less accurate and the staff less likely to appreciate the need to spend within budget or to reach fund-raising targets.

Where operations staff are involved in setting their budgets it is described as **'bottom up'** budgeting – as opposed to **'top down'** where budgets are imposed by senior managers. Many organisations employ a mix of top down and bottom up approaches.

Figure 3.3: Top Down vs. Bottom up



Summary of Budget Terminology

MAIN TYPES OF BUDGET	Income & Expenditure	This budget lists all items of incoming funds and recurrent (i.e. regularly occurring) costs for a specified period.
	Capital	This budget lists one-off expenditure for expensive items such as equipment, property, vehicles, or major building works, which will be used over several years.
	Cash flow forecast	This budget shows the predicted flow of cash coming in and out of the organisation each month, with the purposes of identifying periods of cash shortages or surpluses.
BUDGET STATUS	Balanced	This budget shows that anticipated income is the same as anticipated expenditure
	Deficit	This budget shows that anticipated income is less than anticipated expenditure
	Surplus	This budget shows that anticipated income is more than anticipated expenditure
APPROACHES TO WRITING A BUDGET	Incremental	This describes an approach to budgeting where the calculations are based on previous year's budgeted or actual figures, with adjustments for new activities or known changes
	Zero-base	This describes an approach to budgeting where the budget is built from 'scratch', and not based on previous budgets or figures.
	Activity based	This describes an approach to budgeting where the budget is built up from a detailed activity plan.
LEVEL OF BUDGET DETAIL	Master	This budget shows overall anticipated income and expenditure for the whole organisation for the year.
	Consolidated	This brings together several project or programme budgets in a table to show a summary of each <u>and</u> the total overall.
	Project or programme	This budget shows income and expenditure for a specified project or programme for the implementation period.
TIME PERIODS	Multi-year	This budget outlines anticipated income and expenditure, or cashflow, for two or more successive years.
	Phased	This describes a budget which has been broken down into smaller time periods – usually monthly or quarterly – to reflect the budget requirements for that period, according to levels of activity.
SPECIALISED BUDGETS	Donor	This budget is produced in the format required by a funding agency and usually accompanies a funding proposal.
	Flexible (or variable)	This budget is regularly reviewed and updated to take account of changes in levels of activity
	Funding grid	This is a special budget which reconciles anticipated income sources to the programme budget, to show which funding source is funding what, and identify funding gaps.
	Rolling	This budget always covers a fixed period of months (e.g. 12 months). It is updated every month or quarter to include figures for the fixed budgeting period.

The Budgeting Process

The process of preparing a meaningful and useful budget is best undertaken as an organised and structured group exercise. The budget process involves asking a number of questions:

- What are the objectives of the project?
- What activities will be involved in achieving these objectives?
- What resources will be needed to perform these activities?
- What will these resources cost?
- Where will the funds come from?
- Is the result realistic?

Once the budget has been agreed and the activity implemented, the process is completed by comparing the plan (budget) with the eventual outcome ('actual'), to see if there is anything we have learnt or could do differently next time.

The budgeting process is one we go through almost on a daily basis without even realising, as the example below demonstrates.

Example: Rudi goes to the Cinema

It is Friday afternoon and a teenage son – Rudi – rushes in from school asks his mother for \$10.00 as he'd like to go out with some friends for the evening. His mother asks him to explain what he will be doing and why he needs \$10.00.

He says he will take the bus into town, have a burger and then go to the cinema. His mother then took him through the budgeting process, as follows:

Objective: To have an entertaining evening with friends.

Activities: Bus journey to town, visit burger bar, visit cinema, bus journey home.

Resources: Money to cover the costs of bus fares, burger, cinema ticket and popcorn.

	\$	
Travel	1.50	2 x 75c bus fares
Food	3.50	\$3.00 for burger, 50c for popcorn in cinema
Tickets	<u>3.00</u>	
TOTAL	8.00	

Rudi's mother decides that the plan is a reasonable one but gives him \$8.00, not the \$10.00 he originally asked for.

The next day.....

On Saturday morning, Rudi's mother asks how he enjoyed the evening. He reports that the film was very good and that he and his friends had a very entertaining evening even though it did not go entirely according to plan...After going to the burger bar, Rudi and his friends arrived at the cinema to find that all the \$3.00 seats were sold out and they had to spend an extra \$1.00 each on the more expensive seats.

This meant that Rudi did not have enough money left to buy popcorn in the cinema or to get the bus back home again. Fortunately, he met the parents of some school friends in the cinema lobby and they offered to give him a lift home after the film, which he gratefully accepted.

So it all ended well, even though his plans did not go exactly as intended.

Good Practice in Budgeting

■ Clarity

Since many different people will need to use the budget for different purposes, they should be able to understand it (and adapt it, when necessary) without any additional explanation beyond what is written down. Clarity and accuracy is key so it is important to keep notes on budgeting assumptions and how calculations have been made.

■ Timetable

There are several stages involved in constructing a budget before it can be submitted for approval to the governing body, so it is a good idea to prepare a budgeting timetable and commence the process early. This could be up to six months before the start of the financial year, depending on the size of the organisation and what approach has been adopted.

■ Budget Headings

When setting a budget for the first time or when reviewing a budget, it is important to pay attention to the Chart of Accounts. This is because the budget line items also appear in the books of account and on management reports. If the budget items and accounting records are not consistent then it will be very difficult to produce monitoring reports once the project implementation stage is reached.

One way of achieving consistency is to design a Budget Preparation Sheet for your organisation, which will act as a memory-jogger and prompt staff to include all relevant costs. It will list all of the main types of income and expenditure that a project or department might have in a typical year.

■ Estimating Costs

It is important to be able to justify calculations when estimating costs. Even if you use the incremental method of budgeting, do not be tempted to simply take last year's budget and add a percentage amount on top for inflation. While last year's budget could be very helpful as a starting point, it could also be very misleading and contain historical inaccuracies.

A budget worksheet:

Budget Ref	Budget Item/Description	Unit	Unit Cost	Quantity	Total Cost	Notes
			\$		\$	
B1	Staff Training	Days	50.00	20	1,000	5 days x 4 staff
B2	Recruitment advertising	Entries	500	4	2,000	Local newspapers

See **Appendix 12** for a sample project budget worksheet.

The best approach is to make a list of all the inputs required and specify the number and unit cost of each item. From this detailed working sheet it is a simple matter to produce a summarised budget for each line item and is very easy to update if units or costs change.

■ Contingencies

Try to avoid the practice of adding a ‘bottom line’ percentage for so-called ‘contingencies’ on the overall budget. As a rule, donors do not like to see this and it is not a very accurate way of calculating a budget. It is better to calculate and include a contingency amount for relevant items in the budget – e.g. salaries, insurance, and fuel. Every item in your budget must be justifiable – adding a percentage on the bottom is difficult to justify – and difficult to monitor.

■ Forgotten costs

Many a failed project is based on an under-costed budget. There is a tendency in the NGO world to under-estimate the true costs of running a project for fear of not getting the project funded. The most common of the forgotten costs are the indirect or non-project costs. Here are some of the most often overlooked costs:

- Staff related costs (e.g. recruitment costs, training, benefits and statutory payments)
- Start-up costs (e.g. publicity)
- Overhead or core costs (e.g. rent, insurance, utilities)
- Vehicle running costs
- Equipment maintenance (e.g. for photocopiers and computers)
- Governance costs (e.g. board meetings, AGM)
- Audit fees

The Challenge of Core Costs

It is important to have a clearly stated policy on how your organisation will cover its core costs. These costs have to be funded just like any other cost incurred in an NGO.

The starting point is to produce a separate budget for core costs and so they do not get overlooked or ignored.

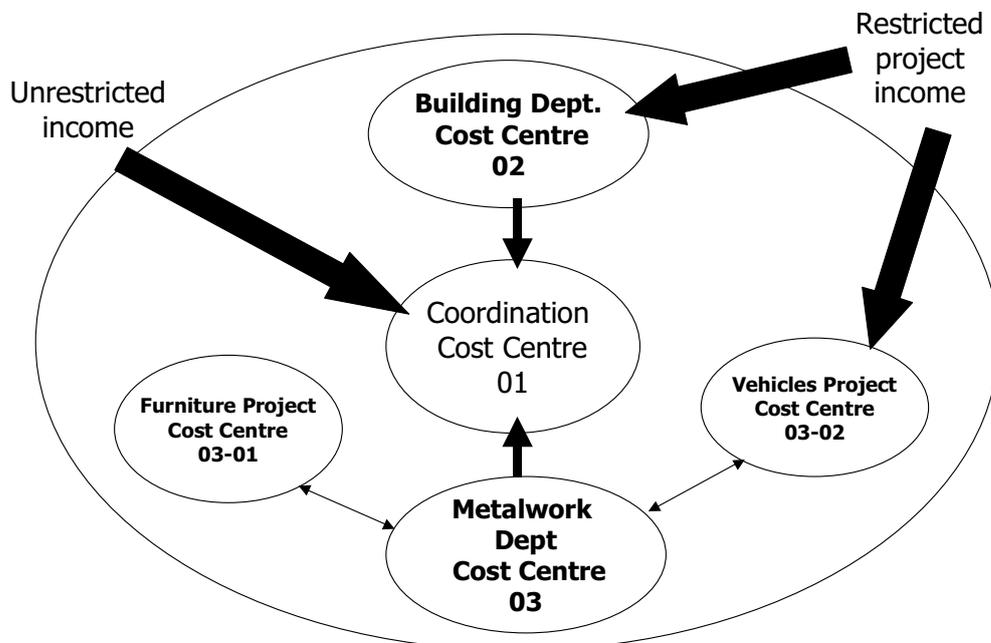
There are essentially two ways – or a combination of both – to fund your core costs:

- Use unrestricted funds (i.e. money given to the organisation for general purposes) to cover all or part of core costs; or
- Charge core costs out to projects using a pre-arranged apportioning ratio.

The diagram below shows how this works in practice for Milestone. Their restricted funds come in and get recorded at project level; unrestricted funds come in centrally are used to help pay for some of the core costs. Some project funds are also used to contribute to the core costs of the Coordination Department.

The methods which can be used to charge out core costs to projects are covered in a later chapter.

Figure 3.4: Financing Milestone's Core Costs



Understanding Accounts

An Introduction to the Mysteries of Accounting Concepts and Jargon

Introduction

This chapter:

- ❑ Discusses why an NGO needs to keep accounts.
- ❑ Describes the different methods used to keep track of financial transactions.
- ❑ Outlines which accounting records to keep.
- ❑ Defines and explains key financial accounting concepts and terminology.
- ❑ Describes the financial statements which are prepared from the accounts.

Why Keep Accounts?

Good financial records are the basis for sound financial management of your organisation:

■ Information

All organisations need to keep records of their financial transactions so that they can access information about their financial position, including:

- A summary of **Income and expenses** and how they are allocated under various categories.
- The **outcome** of all operations – surplus or deficit, net income or net expenditure.
- **Assets and Liabilities** – or what the organisation owns and owes to others.

■ Credibility

NGOs especially need to be seen to be scrupulous in their handling of money – keeping accurate financial records promotes integrity, accountability and transparency and avoids suspicion of dishonesty.

■ Legal requirement

There is often a statutory obligation to keep and publish accounts and donor agencies almost always require audited accounts as a condition of grant aid.

■ Future planning

Although financial accounting information is historical (i.e. happened in the past), it will help managers to plan for the future and understand more about the operations of the NGO. With information spanning two or three years, it is possible to detect trends.

Accounting Methods

Keeping accounts simply means devising appropriate methods for storing financial information so that the organisation can show how it has spent its money and where the funds came from. Accounting records can be kept in a manual format – i.e. hardback books of account – or in a computerised format in one of many accounts packages available.

There are two main methods for keeping accounts:

- Cash accounting
- Accruals accounting

The two methods differ in a number of ways but the crucial difference is in how they deal with the timing of the two types of financial transaction:

- **Cash transactions** which have no time delay since the trading and exchange of monies takes place simultaneously.
- **Credit transactions** which involve a time lag between the contract and payment of money for the goods or services.

Significantly, this produces different financial information so we need to know the basis of accounting to better understand of financial reports.

■ Cash Accounting

This is the simplest way to keep accounting records and does not require advanced bookkeeping skills to maintain. The main features are:

- Payment transactions are recorded in a Bank (or Cash) Book as and when they are made and incoming transactions as and when received.
- The system takes no account of time lags and any bills which might be outstanding.
- The system does not automatically maintain a record of any money owed by (liabilities) or to (assets) the organisation.
- The system cannot record *non-cash* transactions such as a donation in kind or depreciation.

When summarised, the records produce a *Receipts and Payments Account* for a given period. This simply shows the movement of cash in and out of the organisation and the cash balances at any given time. See Appendix 7 for a sample Receipts and Payments Account.

■ Accruals Accounting

This involves ‘*double entry*’ bookkeeping which refers to the dual aspects of recording financial transactions to recognise that there are always two parties involved: the giver and the receiver. The dual aspects are referred to as debits and credits. This system is more advanced and requires accountancy skills to maintain.

- Expenses are recorded in a ‘General Ledger’ as they are incurred, rather than when the bill is actually paid; and when income is earned rather than when received.
- By recognising financial obligations when they occur, not when they are paid or received, this overcomes the problem of time lags, giving a truer picture of the financial position.
- The system can deal with all types of transactions and adjustments.
- The system automatically builds in up-to-date information on assets and liabilities.

These records provide an Income and Expenditure Account summarising all income and expenditure committed during a given period; and a Balance Sheet which demonstrates, amongst other things, moneys owed to and by the organisation on the last day of the period.

Summary of differences between Cash and Accruals Accounting

	CASH	ACCRUALS
<i>Accounting system</i>	Single Entry	Double Entry
<i>Transaction types</i>	Cash only	Cash and Credit
<i>Terminology</i>	Receipts and Payments	Income and Expenditure
<i>Main Book of Account</i>	Bank (or Cash) Book	Nominal (or General) Ledger
<i>Skill level</i>	Basic bookkeeping	Advanced bookkeeping
<i>Non-cash transactions</i>	No	Yes
<i>Assets & Liabilities</i>	No	Yes
<i>Reports produced</i>	Receipts and Payments Account	Income and Expenditure Account with Balance Sheet

■ Hybrid Approach

Many NGOs adopt a ‘half-way house’ approach. They use the cash accounting basis during the year and then (often with the help of the auditor) convert the summarised figures at the year-end to an accruals basis for the final accounts and audit. This includes identifying accruals and prepayments (see examples in boxes), unspent grants and capital purchases during the year.

Example of an Accrual

An electricity bill covering the last month of the financial year is not received until 4 weeks after the year-end. Even though the payment will be made during the new financial year, the expenditure must be recorded in the financial year that the electricity was consumed. It shows up as a liability on the Balance Sheet

Example of a Prepayment

Office rent is paid six months in advance. Half of the payment covers the first quarter of the new financial year and is therefore deducted from the office rent account for the current year at the year-end. It is carried forward to the rent account for the financial year when the rent falls due and shows up as a prepayment on the assets list in the Balance Sheet.

See **Appendix 10** for a **Schedule of Creditors and Debtors**, identified for Milestone's year-end adjustment process.

Which Accounting Records to Keep

For a small NGO with very few financial transactions, a simple bookkeeping system is all that is needed. As an organisation grows and takes on a number of projects and different sources of funding, its reporting requirements, and therefore its financial systems, will become more sophisticated.

Accounting records fall into two main categories:

- Supporting Documents
- Books of Account

■ Supporting documents

Every organisation should keep files of the following original documents to support every transaction taking place:

- Receipt or voucher for money received
- Receipt or voucher for money paid out
- Invoices – certified and stamped as paid
- Paying-in vouchers for money paid into the bank
- Bank statements
- Journal vouchers – for adjustments and non-cash transactions

With these documents on file it will always be possible to construct a set of accounts. Other useful supporting documents include:

- Payment Vouchers (PVs)
- Local Purchase Orders (LPOs)
- Goods Received Notes (GRNs)

■ Books of account

The minimum requirements for books of account are:

- Bank (or Cash) Book for each bank account
- Petty Cash Book

For organisations with paid staff, fixed assets and stocks, the following records, where relevant, may also be maintained as part of a full bookkeeping system:

- General/Nominal Ledger
- Journal or Day Book
- Wages book
- Assets Register
- Stock Control Book

Supporting Documentation

It is very important to maintain supporting documents in the form of receipts and vouchers for all financial transactions – preferably cross-referenced to the books of account and filed in date or number order. Apart from being required by the external auditor to support the *audit trail*, certified receipts also provide protection to those handling the money.

R E C E I P T S	Keep separate files for receipts for money coming into the organisation and money going out. Mark invoices ‘paid’ with the date and cheque number to prevent their fraudulent re-use by an unscrupulous person.
E X P L A I N :	
📄 When?	Mislaidd or incomplete records can result in suspicion of mismanagement of funds. Well maintained files also provide invaluable information to the organisation such as the trends in price increases, details of equipment purchased, past discounts, etc.
📄 How Much?	
📄 What?	
📄 Who?	
📄 Why?	

Bank Book Basics

The Bank Book – or Cash Book or Cash Analysis Book – is the main book of account for recording bank transactions (i.e. ‘cash’ transactions). It is normal to maintain a separate Bank Book for each bank account held as this makes it easier to reconcile each account at the end of the month. [See Appendices 3 and 4 for a sample Bank Book.]

With a manual Bank Book, receipts are usually entered on the left side and payments on the right and each page is ruled into columns (see Figure 4.1 for a typical layout). The number of columns required will depend on the type and volume of transactions.

Each transaction is entered on one line of either the Receipts page or the Payments page in date order. The column headings prompt you to enter key information – e.g. date, cheque number, payee, description, amount, category of transaction, etc. The columns are totalled at the end of each page or accounting period.

The **analysis columns** are what make the Bank Book such a useful record. These columns include the main categories of income and expenditure as identified in your Chart of Accounts and your budget. They allow you to sort and summarise transactions by budget category which helps to compile financial reports.

Figure 4.1: Typical Bank Book layout

LEFT HAND PAGE										RIGHT HAND PAGE									
Receipts of Money Into The Bank										Payments Out of The Bank									
	1	2	3	4	5	6	7	8	9		1	2	3	4	5	6	7	8	9

Bank Reconciliation

The Bank Book should be checked with the bank's records – the bank statement – at least once a month. This is called a bank reconciliation. The purpose of this exercise is to make sure that the organisation's own records agree with the bank's records and to pick up any errors made by the bank.

This is achieved by taking the closing bank statement balance for a particular date and comparing it to the closing Bank Book balance for the same date. If there is a difference between these two closing balance figures, the difference must be explained.

In practice, there will almost always be a difference because of timing delays, such as:

- Money banked by the organisation, not yet showing in the bank's records
- Cheques issued by the organisation but not yet presented by the supplier
- Bank charges and interest applied
- Errors by the bank or in recording entries to the Bank Book

See **Appendix 6** for a completed bank reconciliation form and Appendix 19 (p.A23) for a blank form to help you with this process.

Petty Cash Book

Petty cash records are kept in a similar way to the Bank Book records. As both sets of figures will eventually have to be combined to produce financial reports, it makes sense to set out the books in a consistent manner. A sample Petty Cash book can be seen in Appendix 5.

The Petty Cash Book can either be kept in a loose leaf or bound book format. It does not however, require more than one analysis column on the Receipts side because the only money that is paid into petty cash is the float reimbursement.

The Petty Cash Book will also require fewer analysis columns for payments because petty cash will not (usually) be used to pay for larger items such as salaries, office rent, etc.

There are two ways of keeping petty cash:

- fixed float or *imprest* system
- non-*imprest* system

■ Fixed Float or Imprest Method

With the *imprest* system you have a fixed float of, say, \$50 and when the cash balance gets low, you top up the float by exactly the same amount that you have spent since the float was last reimbursed.

Example:

Receipts/vouchers for cash spent total:	\$34.60
Cash remaining in cash box counted::	\$15.40
∴ Reimbursement cheque written for:	<u>\$34.60</u>
Imprest float amount:	\$50.00

An advantage of this system is that at any time you count the money plus vouchers in the tin, they should always add up to the fixed float amount.

Also, it is much easier to incorporate petty cash spending into the accounts as the reimbursement cheque is entered in the analysed Bank Book. See how the reimbursement cheque for the petty cash book in Appendix 5 has been written in to the Bank Book in Appendix 4. Look for cheque no. 13583 on 12/01.

■ Non-*imprest* or variable float method

An alternative is to draw cash from the bank in round sums as required. If you use the non-*imprest* method you will need an extra column in your Bank Book headed 'petty cash withdrawn'. When reconciling this float you will have to add up all the petty cash withdrawals since the last reconciliation and add on the cash balance brought forward to get a total of the cash float for the period. This total should then be the same as the total spent since the last reconciliation plus the cash left in the tin. A more complicated process!

Full Bookkeeping Systems

Organisations requiring a full bookkeeping system use a series of ledgers, depending on the activities of the organisation.

■ The General or Nominal Ledger

This is a central record which pulls together basic bookkeeping information from the main working books of account (Bank Book, Petty Cash Book, Sales and Purchase Ledgers). It is like a series of pigeonholes used to sort basic financial information and is especially useful when an organisation has several projects and different donors requiring different reports.

The General (or Nominal) Ledger has one page for each category of income, expenditure, assets and liabilities and information is 'posted' from the other accounting books into each pigeonhole. It plays a central role in the double-entry bookkeeping system and is the basis for the Trial Balance (see below), the starting point for preparation of financial statements.

■ Other Ledgers

Other elements in a full-bookkeeping system include:

- Sales ledger and sales day book (but only if you have sales)
- Purchase ledger and purchase day book
- Stock ledger
- Journal or Day Book

These, together with the Bank Book and Petty Cash Book are the day-to-day working accounts books. It is quite possible to set up a General Ledger without these additional ledgers; the choice will depend on the activities of your organisation.

The **Journal** or Daybook is used to record unusual, one-off transactions which cannot be recorded easily in other books of accounts. These will include non-cash transactions (such as *depreciation* and donations-in-kind), adjustments and corrections.

If these kinds of transactions are made infrequently, for example at the year-end, a separate Journal is not required. A *journal entry* follows the rules of double entry and will always include entries to at least two accounts. For example, a donation-in-kind in the form of rent-free office space would be recorded as income under 'Donations' and expenditure under 'Office Rent'.

■ Wages Records

Employers have a statutory duty to maintain records of all wages paid and deductions made and failure to do so could result in a heavy fine. Be sure to familiarise yourselves with the arrangements of your own Department of Taxes and get hold of the latest tax deduction tables.

Larger organisations should also keep a separate Wages Book, which brings together all information on staff salaries and deductions. These can be purchased from stationery suppliers in a pre-printed format and they help to facilitate the year-end reconciliation.

What is a Trial Balance?

The *Trial Balance* (or what accountants often refer to as the 'TB') is simply an arithmetical check on the accounts maintained using the Double Entry method of accounting. It is also the basis for the preparation of accruals-based financial statements.

At the end of an accounting period – usually monthly – all the accounts categories having a balance in the General Ledger are listed on a summary sheet to form a Trial Balance. Providing no errors have crept in during the recording and summarising stages, the total of debit balances on the list will equal the total of the credit balances.

Figure 4.2 Shows how the Trial Balance is the final stage of the accounting process – the result of recording, classifying and summarising the many different transactions that take place in an organisation.

Figure 4.3 illustrates which figures from the Trial Balance end up where in the annual financial statements.

Figure 4.2: How it all fits together

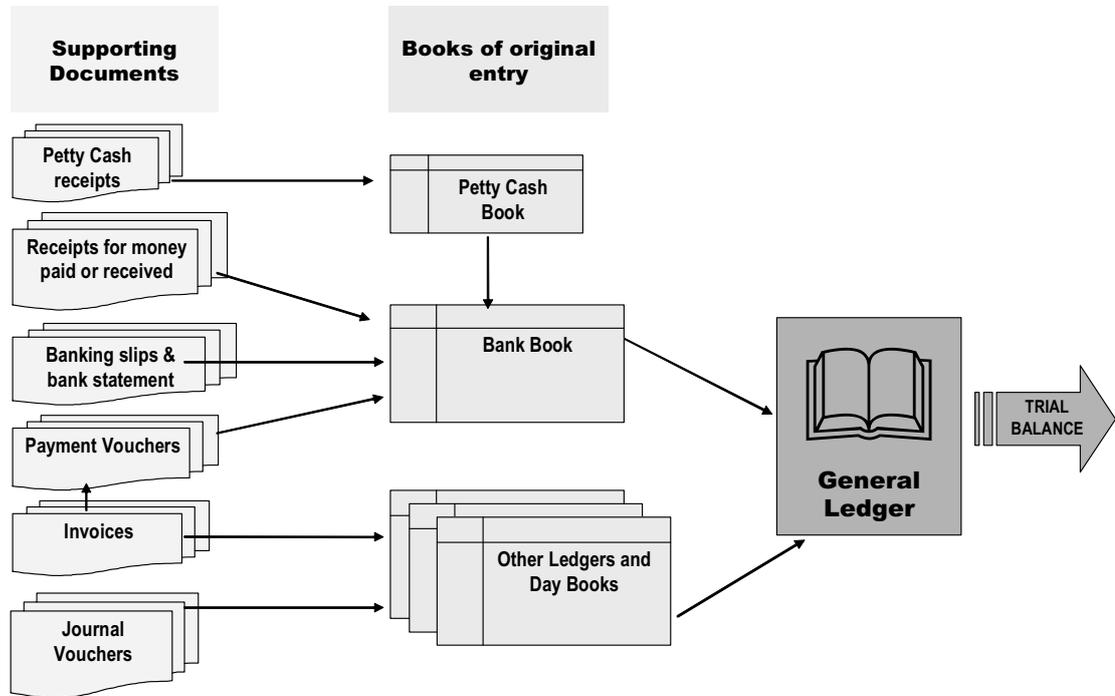
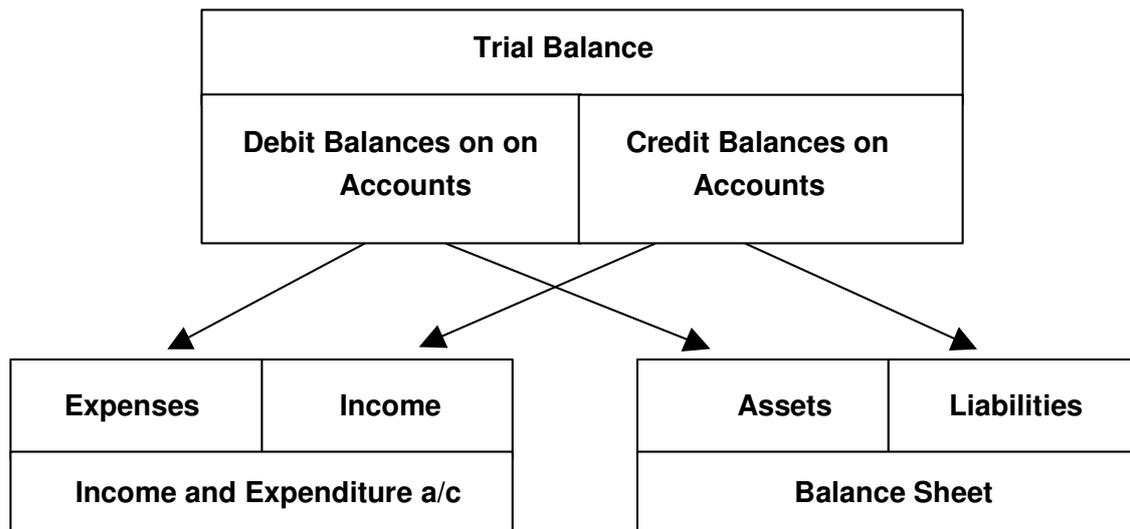


Figure 4.3: Trial Balance leading to financial statements



Financial Statements

Financial statements are the product of financial accounting. They are a summary of all the transactions for a specified period and show the financial position of an organisation. Financial statements can cover any period of time – for example, a month, a quarter or a year.

The simplest of all financial statements is the Receipts and Payments Account. This is a summary of the Cashbook (see Appendix 7) and includes details of cash balances at the start and end of the reporting period.

The other two main reports relevant to NGOs are:

- The Income and Expenditure Account
- The Balance Sheet

Together these contain a lot of useful information. In the chapter on Financial Reports, we look at how to analyse the information in the financial statements.

The Income and Expenditure Account

In the not-for-profit sector, the equivalent of the Profit and Loss Account is *The Income and Expenditure Account* (see Appendix 8). It is either produced from a *Trial Balance* (as described above) where the accruals-based system of accounting is used; or it is based on a Receipts and Payments account with adjustments for 'loose ends'.

It records as a summary:

- all categories of income and expenditure which belong to that year;
- all income not yet received but belonging to that financial year; and
- all payments not yet paid but belonging to that financial year

Income items usually appear first in a list down the page, followed by the summary of expenditure items. The difference between total income and total expenditure appears on the bottom line and is expressed either as:

- 'excess of income over expenditure' where there is a surplus; or
- 'excess of expenditure over income' where there is a deficit.

This excess figure is then included on the Balance Sheet under the heading Accumulated Funds.

Note that there should be an accompanying Balance Sheet for the same date that the Income and Expenditure Account is prepared at.

The Balance Sheet

The purpose of a Balance Sheet is to assess the financial position – or 'net worth' – of an organisation at a given date. If the organisation ceased operating at that date and all of its assets were converted into cash, and all of its debts were paid off, then what was left over would be what the organisation was 'worth'. [See Appendix 9.]

The balance sheet is a listing of all the assets and liabilities **on one particular date** and provides a 'snapshot' of the financial position of an organisation.



■ Components of a Balance Sheet

The Balance Sheet is in two parts. One part records all balances on **assets** accounts; the other records all balances on **liabilities** accounts plus the income and expenditure account balance. The Balance Sheet will either be presented with the Assets listed on the left and the Liabilities presented on the right of the page, or more commonly nowadays, listed down the page with Assets presented first then Liabilities deducted from them.

The table below summarises the main components and typical layout of a balance sheet, although note that terminology does vary.

Components of a Balance Sheet

Component:	Description:
<i>FIXED ASSETS:</i>	The less liquid assets – those having a value lasting more than one year.
<i>CURRENT ASSETS:</i>	The more liquid assets – can usually be converted into cash within one year.
– Cash	Funds held in the bank and as cash.
– Debtors	Money owed to the organisation such as loans and unpaid sales invoices.
– Prepayments	Value of items paid for in advance such as insurance premiums or equipment rental.
– Grants Due	Grants owed to the organisation for projects already started in the reporting period.
– Stocks	The value of raw materials or supplies such as publications or T-shirts for sale.
<i>CURRENT LIABILITIES:</i>	Those paid within one year of the year-end.
– Creditors & Accruals	Money owed by the organisation at the year-end such as bank overdrafts, unpaid bills.
– Grants in Advance	Grants received for a particular purpose but not yet spent in full, so carried forward to the next financial year.
<i>OTHER LIABILITIES:</i>	Longer term commitments and General Funds.
– Reserves	Money set aside for specific purposes, e.g. replacing equipment. Although designated funds, they form part of the organisation's General Funds.
– Accumulated Funds	Accumulated surplus of income over expenditure achieved since organisation opened.

Fixed assets

These are the tangible, long-term, assets such as buildings, equipment and vehicles, having a value lasting more than one year. Fixed assets are shown on the balance sheet after an allowance for wear and tear – or *depreciation* – has been made (see an explanation of what depreciation is later in this chapter).

Current assets

These are the more 'liquid' assets such as cash in the bank, payments made in advance and stocks. These, in theory at least, can be converted into cash within 12 months.

Liabilities are also divided into current liabilities and long-term liabilities.

- **Current** or **short term** liabilities – including outstanding payments, and short-term borrowings – i.e. those having to be paid within 12 months.
- **Long-term** liabilities such as loans that need to be paid after 12 months. (However, for NGOs such borrowings are not common.)

Accumulated Funds

Accumulated Funds and Reserves are separated out from other liabilities and act as a balancing item on the Balance sheet. They represent the true worth of the organisation – in the form of capital and/or cash reserves which have been built up from surpluses in previous years. Accumulated Funds are classified as liabilities since, in an NGO, the funds are held in trust for the organisation in pursuance of its objectives.

Liquidity

The term liquidity is used to describe how easy or otherwise assets can be turned into cash. So money held in a bank account is deemed to be very liquid, while money tied up in a building is clearly not liquid at all.

Working capital

This is the same as *net current assets*, that is, the short-term assets remaining if all immediate debts were paid off. These are the funds that the organisation has available as a cushion or safety net for running the organisation's operations.

What is Depreciation?

Capital expenditure, such as that on buildings, computer equipment and vehicles, is expenditure which covers more than one accounting period and retains some value to the organisation. Depreciation is the way that accountants deal with the cost of wear and tear on capital assets. It allows the original cost of the item to be spread over its 'useful life'.

The amount calculated for depreciation is shown as an expense in the accounts and deducted from the previous value of the asset. As it is a non-cash transaction, depreciation is entered in the accounts using a journal entry.

There are several methods used to calculate the cost of depreciating assets, but the two most commonly used are: Straight Line method and Reducing Balance method

In the Straight Line method the amount to be depreciated is spread evenly over a pre-arranged period. For example, a computer purchased for \$1,000 expected to last for 4 years will be depreciated at \$250 per year for 4 years. At the end of 4 years the computer will have a zero *net book value* – i.e. it will have no value as far as the accounts are concerned. In reality, it may have a second hand market value.

The Reducing Balance method fixes a percentage reduction in value so that the item loses more value in the earlier years.

Example:

A car is purchased for \$10,000. It is decided to depreciate it over 4 years – i.e. by 25% per year. The table below shows how the equipment is depreciated over its useful life (all figures are rounded to nearest dollar).

Year	Depreciation calculation	Net Book Value
Year 1	$\$10,000 \times 25\% = \$2,500$	\$7,500
Year 2	$\$7,500 \times 25\% = \$1,875$	\$5,625
Year 3	$\$5,625 \times 25\% = \$1,406$	\$4,219
Year 4	$\$4,219 \times 25\% = \$1,055$	\$3,164

Note that when using this method, the asset is never completely written off, at the end of the 4th year it will still have a *residual value*. In this example, the car will be valued in the accounts at \$3,164. This recognises that the item may have a resale value when it comes to replacing it.

A note on Accounting for Shared Costs

Core costs are usually shared out between cost centres in a pre-arranged ratio. This can either take place as the transaction is entered in the accounting records, or at the end of the reporting period by making one adjustment entry. The decision on how to apportion costs between cost centres can be based on different criteria according to what is known as the *cost driver*, for example:

- Number of employees in the projects
- Number of cost centres
- Size of each project budget
- Project staff costs
- Amount of space used by department
- Number of clients/beneficiaries
- Actual consumption, e.g. kilometres travelled, photocopies made.

There is no hard and fast rule for allocating overheads to projects; rather logic should be applied and the criteria chosen should be justifiable.

For example, in allocating central support staff salaries to projects, the number of employees in the project could be used; and for apportioning the cost of office rent, the actual space occupied by project staff is applicable.

Whatever method is chosen, it must be fair and justified, and once established it should be applied consistently.

Financial Reports

Making Sense of the Numbers

Introduction

This chapter:

- ❑ Identifies the who, what, when and why of financial reporting.
- ❑ Explains how to interpret financial statements using trend and ratio analysis.
- ❑ Explains how to compile and use the information in management accounts.
- ❑ Outlines the important features of donor reports.
- ❑ Outlines reasons for reporting to our beneficiaries.

Who Needs Financial Reports?

As we have seen, one of the main reasons for keeping accounting records is so that information about how the organisation is being run can be obtained. Having set up accounting systems and budgets, the next step is to produce financial reports to report on and monitor the organisation's financial affairs.

Providing the accounts are kept in a suitable way and have been checked for accuracy, putting together a financial report is not as time-consuming as you might think.

Financial reports must be timely, accurate and relevant

Financial reports are needed primarily by those responsible for managing the organisation and by current and potential donor agencies; but those responsible for financial management of an NGO also need to 'give an account' of their stewardship to a wide range of stakeholders.

Take a few minutes to think about all the individuals and agencies linked with your own NGO and why they might need a financial report on the activities of your organisation.

Table 5.1 summarises the main recipients of reports and why they need this information.

Table 5.1: Who needs financial information about NGOs?

Stakeholder	Why do they need it?
Project staff	To know how much money and resources are available for their projects and what has been spent so far.
Managers	To keep an eye on how project funds are being used, especially compared to the original plans. To help plan for the future.
Finance staff	To make sure that there is enough money in the bank to buy the things the NGO needs to run its programmes.
Board of Trustees	To keep an eye on how resources are being used to achieve the NGO's objectives.
Donors	To make sure that their grants are being used as agreed and that the project's objectives are being fulfilled. To consider whether to support an organisation in the future.
Government departments	To make sure that the NGO pays any taxes due and that it does not abuse its status as a 'not for profit' organisation.
Project beneficiaries	To know what it costs to provide the services they are benefiting from and to decide if this is good value for their community.
The general public	To know what the NGO raises and spends during the year and what the money is used for.

From this list, we can see that there are many different users of financial reports – both internal and external stakeholders – using financial information for management and accountability purposes. It is not surprising, therefore that we need different kinds of reports for different users, as summarised in **Table 5.2** below.

Table 5.2: Different Reports for Different Users

	Programme management	Stakeholder accountability
Internal	Management Accounts – Budget Monitoring reports and Cashflow reports	Board reports
External	Donor progress reports (financial and narrative)	Donor reports Audited Financial Statements Reports to beneficiaries

During the financial year, accounting information is summarised and turned into *Management Accounts* for internal monitoring of progress against the budget. At the end of the year, the *Annual Accounts* (i.e. the Balance Sheet and Income and Expenditure Account) are produced to report on the outcome to external stakeholders. At intervals during the year, an NGO will also be required to complete special progress reports to donor agencies.

The Annual Accounts

We return to the Balance Sheet and Income and Expenditure Account. These annual financial statements show in summarised form:

- where money has come from;
- for what purpose it has been received;
- how it has been spent; and
- what the outcomes of operations are.

They should be prepared as soon as possible after the end of the financial year – for example within six weeks – and made ready for the external audit. The organisation's constitution will often specify the deadline for presentation of accounts to the members.

The Annual Accounts, accompanied by the Annual Report, form the main publicity and information package available and will be of interest to many users. For this reason, the annual accounts should:

- present the organisation in the best possible light;
- help to promote its work;
- meet the needs of those using the accounts; and
- meet requirements of auditors.

If an NGO's annual accounts show large accumulated funds, it may give the impression that the organisation is well resourced and donors may be less inclined to give support to new initiatives. There are however, good reasons why an organisation will have cash reserves – for example, funds put aside to replace equipment or a building appeal fund. An explanation must be provided to reassure potential donors that their support really is needed.

Interpreting the Accounts

Any number taken in isolation does not give much of an indication as to the quality of the result. There needs to be something to measure it against – such as an 'industry' standard or a previous year's accounts – for the figures to have some meaning.

When we interpret the Balance Sheet and Income and Expenditure statement we can make use of two types of financial analysis:

- **Trend analysis** which asks: 'How are we doing compared with the last period?'
- **Ratio Analysis** which provides a means of interpreting and comparing financial results.

■ Trend Analysis

Trend analysis takes at least two sets of figures compiled using the same accounting techniques and showing information for two consecutive periods, usually year on year. By comparing the figures it may be possible to detect trends and use this information to forecast future trends or set targets. Trend analysis is more meaningful if also combined with financial ratio analysis.

■ Financial Ratio Analysis

Financial *Ratio Analysis* is used widely in business to assess the profitability and efficiency of companies. Ratio analysis in the not-for-profit sector is not so common, but is nonetheless very useful if adapted for the sector. Ratios allow comparison of reports expressed in different currencies and between organisations of different scale by converting them into a like measure.

Donor agencies often use this technique when assessing performance, especially to compare relative costs – e.g. administration – between similar organisations or projects.

The importance of ratios is in the **clues** they may provide to what is going on, not as absolute measures of good or bad performance. Ratio analysis helps managers answer three primary questions that apply to every institution:

- **Financial sustainability** – i.e. will our organisation have financial resources to continue serving people tomorrow as well as today?
- **Efficiency** – does our organisation serve as many people as possible with its resources for the lowest possible cost?
- **Effectiveness** – is our organisation doing a responsible job of managing its resources?

Analysing the Income and Expenditure Account

You can use ratios on the Income and Expenditure Account by converting each line item into a percentage of total income (i.e. divide each item by total income and multiply by 100). This gives a guide as to the relative importance of different areas on the statement. For example, the relative costs of administration versus direct project costs. This is useful for drawing attention to the important areas and away from insignificant issues (a common obsession of Board members.)

This calculation will also give an indication of the level of **donor dependency**. – i.e. divide the total of donor grants by total income and multiply by 100. If your financing strategy is leading you towards less dependence on external aid, the dependency ratio will help to set and monitor your target level. A further level of analysis can be obtained by comparing the ratios for the current and previous years' figures to detect trends.

Analysing the Balance Sheet

Again try dividing everything by the total income figure shown on the accompanying Income and Expenditure Account to give an indication of the relative importance of items on the Balance Sheet.

A '**Survival Ratio**' can be calculated by dividing general reserves (i.e. the portion of the Accumulated Funds which are for general use) by total income (from the accompanying Income and Expenditure Account).

If you then multiply the resulting figure by 365 this will give an indication in days of how long the organisation could survive in the coming year if income dried up and levels of activity remain the same.

The **Acid Test** or Quick Ratio asks the question: *Can we pay off our debts now?* It divides Current Assets less the less 'liquid' assets such as stocks and prepayments (in other words, short term debtors and cash balances only) by Current Liabilities (short-term creditors and overdrafts). The resulting ratio should ideally be in the range of 1:1. A ratio of 1:1 means that an organisation has sufficient cash to pay its immediate debts.

The **Current Ratio** asks the question: *Can we pay off our debts within 12 months?* It divides total Current Assets by total Current Liabilities to find a further test of an organisation's (longer term) liquidity. A result of 2:1 is considered satisfactory. Again, convert the figures for both years shown on the Balance Sheet to detect significant trends.

■ Ratio Analysis – Quick Reference Formulas

Ratio	Formula
1. Donor Dependency: Expressed as %	$\frac{\text{TOTAL DONOR INCOME}}{\text{TOTAL INCOME}} \times 100$
2. Income Utilisation: Expressed as %	$\frac{\text{EXPENDITURE ITEM}}{\text{TOTAL INCOME}} \times 100$
3. 'Survival Ratio': Expressed in weeks or days	$\frac{\text{GENERAL RESERVES}^*}{\text{TOTAL INCOME}} \times 52 \text{ or } \times 365$ <p>* these are un-restricted funds for general purposes under Accumulated Funds. Alternatively use Net Current Assets.]</p>
4. Acid Test or Liquidity Ratio: Expressed as a ratio n:n*	$\frac{\text{CURRENT ASSETS less PREPAYMENTS}}{\text{CURRENT LIABILITIES}}$ <p>*Answer should be in the range of 0.8 to 1.2:1. A result of 1 to 1 means there are sufficient funds to cover immediate debts.</p>
5. Current Ratio: Expressed as a ratio n:n*	$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$ <p>*A result of 2:1 is considered satisfactory – enough to pay off the debts within 12 months.</p>

Management Reporting

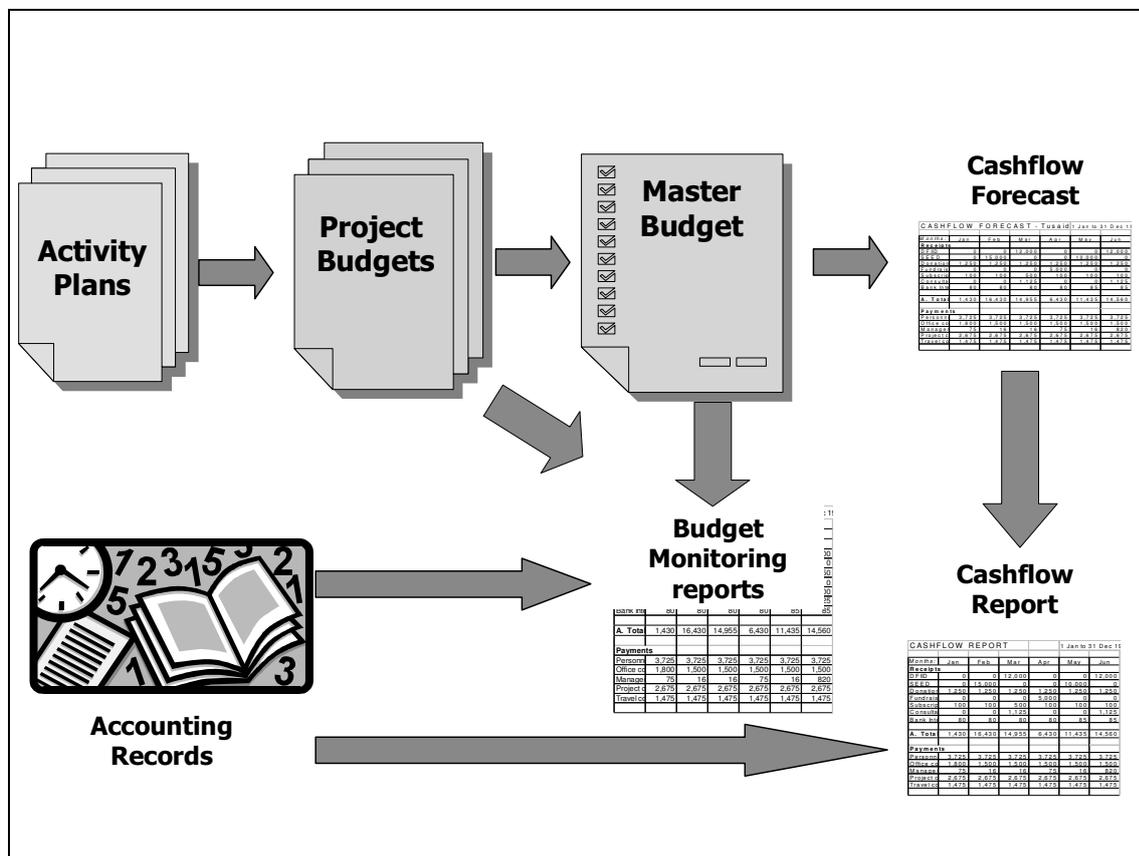
Managers need financial information throughout the financial year to monitor project progress.

Ideally, management reports should be produced monthly or at least **every quarter**. Since the reports are produced so that managers can take decisions about the future management of the organisation, the meetings of the governing body should be set to coincide with the Management Accounts cycle so that the information is still timely.

There are two kinds of reports that will be of use to managers: the Budget Compared to Actual Performance Report and the Cashflow Report.

Figure 5.1 shows how the financial planning and financial accounting processes come together to produce management reports.

Figure 5.1: Management Reporting Flow Chart



■ The Budget Compared to Actual Performance Report

A Budget versus Actual Report takes budgeted income and expenditure for the reporting period and compares it with the actual income and expenditure for the same period.

The difference between the two figures is known as the 'variance' and this will be assessed as to how significant or otherwise it is. See a sample report in **Appendix 14**.

The figures for the report come from the main books of account. Each month the records are reconciled and summarised to give a summary of all transactions. Since the accounts have been set up to be consistent with the budget headings, no additional analysis will be required.

We saw this in action in the 'Rudi goes to the Cinema' scenario. Here is Rudi's Budget Compared to Actual Report:

Rudi's Budget Compared to Actual Report

Item	Original Estimate \$	Actually Spent \$	Difference \$	Adverse Or Favourable?
Travel	1.50	0.75	0.75	
Food	3.50	3.00	0.50	
Entrance Fee	<u>3.00</u>	<u>4.00</u>	<u>(1.00)</u>	
TOTAL	8.00	7.75	0.25	

We can see the effect of Rudi arriving too late to buy the cheaper cinema tickets. He overspent by \$1.00 on the entrance fee, but because he didn't have enough to buy his bus fare back home (and got a free lift home instead), he also made an overall saving.

Variance Analysis

This involves looking at the significant variations from the budget and seeking to explain why it exists and what can be done to remedy the situation. Variances are often described as either 'favourable' (generally good news) or 'adverse' (generally bad news):

Favourable means:

- when actual income is higher than the budgeted amount, or
- when actual spending is lower than budgeted (but note that this is not always good news for an NGO).

Adverse means:

- when actual income is lower than the budgeted amount, or
- when actual spending is higher than budgeted

It is also helpful to analyse the cause of variances and whether it is a permanent or temporary variation. This will be the result of one or more of the following

- a change in price
- a change in volume
- a change of plan
- a change in timing

Activity

Look back at Rudi's expenditure budget monitoring report above.

- Which result is adverse and which is favourable?
- What caused the change?

■ The Cashflow Report

The cashflow report is simply the cashflow forecast updated with actual receipts and payments each month, plus any new information about future spending or fund-raising plans. It allows managers to predict periods when cash balances are likely to be insufficient to meet all commitments and make the most of any surplus funds during the year.

Presenting Reports

Reports involve a lot of preparation work so you want people to read them and use them. It is worthwhile thinking about who the reader is and what form the report should take to be useful.

■ Exceptions Reports

Managers and Board members are busy people and they rarely have the opportunity to fully read all reports that get sent to them. With financial reports they especially appreciate a summary which draws their attention to key areas requiring action.

An 'exceptions report' is useful because it is a narrative summary attached to management accounts, picking out only the most important issues – especially those requiring management attention or Board decisions.

It also has the advantage of drawing attention away from insignificant matters – too often Board members get bogged down by detail, diverting attention from the really important matters.

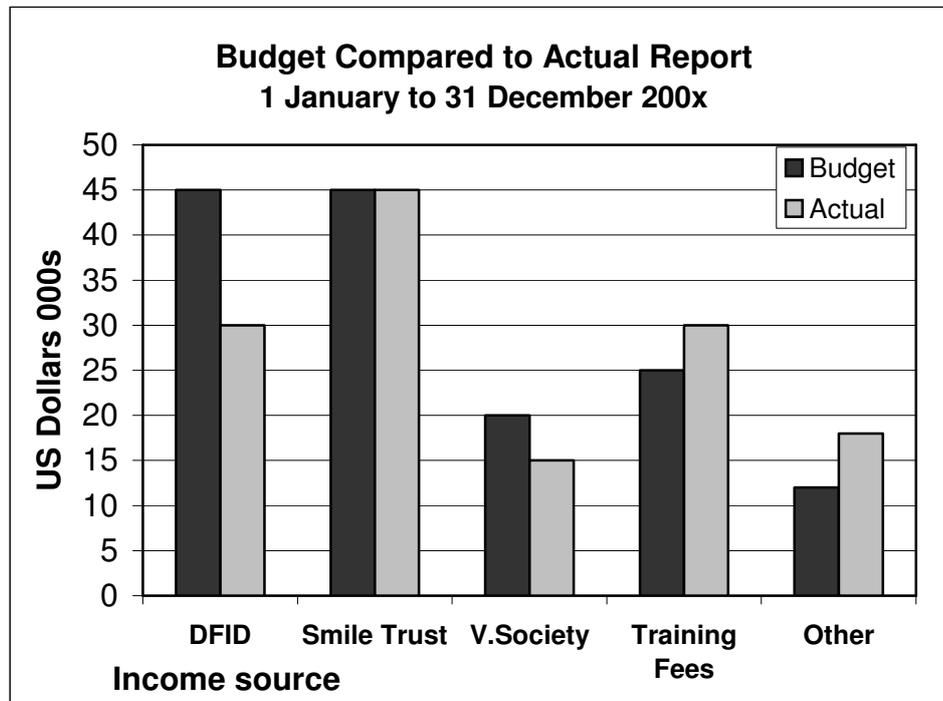
The exception report should cover no more than one, or at most two, pages, avoid using technical jargon and make use of 'bullet points' so that it is attractive and easy to read. A suggested layout for an Exception Report is:

- **Overview** of the period being reported – i.e. dates covered; how figures have been compiled; what activities are covered by the attached reports; and author of report.
- **Significant 'variances'** in the Budget Comparison Report and Cashflow Forecast – i.e. select the most significant variances from the budget and suggest reasons. This should not just concentrate on over-spending of budgets – under-spending can also be a problem, especially when related to project activities.
- **Recommendations** for action – i.e. corrective action required to deal with the key issues identified in the previous section. For example, strategies to avoid a cashflow crisis in future months; revised activity plans to get projects back on target; restricting use of vehicles where running costs are running too far over budget.

■ Alternative formats

It is also worthwhile considering presenting reports in a graphical format – for example using a bar chart for a budget-actual report (see **Figure 5.2**) or a pie chart for an income and expenditure report. This may be especially welcomed by those with limited numeracy skills.

Figure 5.2: Using graphics for financial reports



Using the Reports

The aim when reviewing any set of accounts – whether the year-end statements or the latest set of Management Accounts – is to assess the health of the organisation and to reassure yourself that the organisation's objectives are being met.

If reports are produced on a timely basis, any problems can be addressed early on and action taken to put things right.

■ Identify problems, look for solutions

Budget monitoring reports help to identify problem areas and provide an early warning that targets are not being achieved. They also help detect fraud or mis-use of funds.

There are four key indicators to look for first:

- What does the **bottom line** tell you? Overall, is the budget over-spending or under-spending and is it significant at this period? Plus/minus 10% is reasonable.
- What are the **significant variances** in the individual line items? Are the reasons for the differences explained? For example, the Subsistence Expenses budget is substantially and uncharacteristically over-spent, or fee income is unusually low for the time of year. Do not just concentrate on over-spending – under-spends are just as critical for an NGO.

- Do **linked** budget line items (e.g. activity-related costs) tell the same story? Or do they contradict each other? For example, the project materials budget is under-spent suggesting delayed activities, but the project's vehicle running costs are high.
- Do the budget report figures tell the same story as the **narrative** project report?

Sometimes the figures just do not look right.. Trust your instincts and follow up your concerns.

There may be a number of solutions or actions to take:

Problem	Solution / action
<i>Budget items are in danger of being over-spent</i> - so there may be insufficient funds to complete the project	<ul style="list-style-type: none"> - Seek permission to use savings from under-spends elsewhere in budget - Reduce or postpone some activities - Undertake fund-raising to increase income - Expand income-generating activities - Use reserves to fund the short-fall
<i>Budget items are showing an under-spend</i> - suggests that planned activities are not being fulfilled	Make efforts to stimulate the project so that targets and obligations to the donor agency are met.
<i>Income is higher than expected</i>	Either: <ul style="list-style-type: none"> - increase activity in certain areas or - set the surplus aside for 'a rainy day' (if donor allows)
<i>Linked line items show different results</i>	Investigate why this is happening – it could be an early warning of fraud or abuse of budgets.

Some important points for NGOs to remember when making decisions based on financial reports:

- Laying off staff should be a last resort. This should only become necessary if funds are being withdrawn unexpectedly.
- Where funds are given for a specific purpose, you may not use that money to support a different activity that is showing a deficit.
- If it is necessary to cut back a project, you must discuss the reasons and revised plan with whoever is funding the activity.

■ Predicting the future

Budget monitoring reports are especially helpful from about the second quarter for predicting the outcome for the year-end and helping with the budget process for the next year. With a fair degree of accuracy you should be able to tell whether the organisation is going to run a surplus or deficit. This is all-important in your relationship with donors.



- A large deficit can make the organisation appear to be out of control and poorly managed.

- A small deficit can demonstrate a great need and even a sense of good housekeeping.
- A small surplus can suggest good management.
- A large surplus can indicate a failure to meet needs or inexperience in budgeting.

There are various ways of reducing a surplus at year-end, including purchasing new or replacement equipment, ordering stocks of stationery and office supplies. There is very little that can be done about a large deficit except to provide an early warning and a very good explanation to stakeholders and hope that there are sufficient reserves to cover it. See Appendix 17 for a sample Forecast Report.

■ **Managing cashflow**

The Cashflow Report is useful for predicting cash surpluses and shortages and taking steps to avoid temporarily going into the red. Where there are healthy balances, managers should be monitoring for good treasury management – i.e. are the funds being invested to maximise interest earnings.

Where cash resources are limited, it is important to monitor for the ability to pay creditors on time (e.g. using the liquidity ratios) and to take action when there are early warnings of potential financial difficulty.

Options available for managing cashflow include:

- Exercise good credit control – chase debtors for prompt payment
- Review grant schedules– encourage payment in advance rather than in arrears
- Bank all monies received daily
- Request special payment terms from major suppliers (and stick to them)
- Pay certain overheads by instalment – e.g. insurance premiums
- Prioritise major payments
- Defer action that will lead to additional expenditure – e.g. recruitment, taking on leases, purchasing equipment
- Negotiate an overdraft facility as short term – but expensive – remedy

Reporting to Donor Agencies

It is worth remembering that donor agencies are themselves accountable to stakeholders (trustees, government, tax-payers, etc.) and they rely on you to provide them with the information they need.

■ **Accountability**

Financial accountability requires that you demonstrate to the donor that their funds have been used for the purpose for which they were intended. The reference point is the original funding application and guidelines are usually provided with the confirmation of grant aid and the contract or agreement signed by both parties.

It is important to comply with the conditions and meet reporting deadlines to establish credibility and encourage confidence, and to make sure your grant arrives on time.

■ **Terms and Conditions of Grant Aid**

It is important always to check what you have agreed to do as part of the agreement for funding from each of your donors. Conditions imposed by donors vary enormously but can include:

- **Progress reports** – frequency, format and style of reports, usually quarterly to coincide with release of grant instalments.
- **Scope and designation of funds** – what funds may, or may not, be used for; whether funds can be carried forward from one financial year to the next.
- **Administrative overheads** – the specific items that are allowable or excluded, or a percentage limit based on the total grant.
- **Budget line items** – specific budget headings/account classifications which correspond with the original grant application.
- **Virement policy** – i.e. permission (or otherwise) to transfer surpluses in the budget from one budget heading to another, and within what limits.
- **Accounting method** – Accruals or Cash accounting.
- **Bank Accounts and interest** – separate bank accounts are required by some donors and/or they do not allow you to keep any interest earned on sums invested.
- **Depreciation policy** – how to treat fixed assets purchased with a grant.
- **External Audit** – some donors require a separate external audit.

■ **The Donor Report**

Donors require that an NGO is able to demonstrate financial soundness before granting the release of funds. This is why the donor report is so important. In most cases the report will include a budget compared to actual summary, accompanied by a narrative report on the activities being undertaken. [See Appendix 15 for a sample donor report.]

Where there are several donors it is important to set up the accounting systems so that the information required by the donor agency can be easily retrieved. Otherwise the organisation will be involved in a tedious information gathering exercise every time a report is required. The use of Cost Centres is particularly useful here.

When putting together a report to donors do:

- meet reporting deadlines (or request an extension)
- produce accurate and verifiable figures
- not conceal under-spends or over-spends
- explain any significant variations
- keep the donor informed of any potential problems

Finally, bear in mind that staff in donor agencies have a lot of experience of working with groups like your own; they will almost always respond positively to requests for advice.

Reporting to Beneficiaries

Most NGOs recognise the need for downward accountability. But few have set up systems to deliver it: most NGO systems focus on upward accountability, such as reporting to donors, Boards and Head Offices.

To participate fully in an NGO's work, beneficiaries need access to information about the NGO's plans, resources and activities. Increasing transparency and accountability to beneficiaries has many benefits including:

- Strengthening trust and respect between NGO staff and beneficiaries
- Improving the quality of programme decisions, as beneficiaries provide feedback on how funds are being spent
- Empowering beneficiaries to make their own decisions on their own behalf
- Reducing the risks of inefficiencies and fraud
- Encouraging finance staff to get more involved with NGO field work

Introducing this level of financial transparency may naturally hit some obstacles, such as adding to the burden of already busy staff. But if sensitively done, the benefits generally far outweigh the costs.

Some good practice ideas on how to practically report to beneficiaries include:

- Making information easier to understand by using graphical presentations
- Using white-boards outside offices to display budgets, the amounts of funds available for each area and a monthly update of expenditure.

For more ideas on how to report to beneficiaries and information about Mango's "Who Counts?" campaign, please visit: www.whocounts.org.

Safeguarding Your Assets

'It is more sensible to establish a system to deter fraud rather than one to discover it.'

Introduction

This chapter:

- ❑ Explains the importance of introducing internal controls.
- ❑ Outlines the principles of delegation of authority and separation of duties.
- ❑ Highlights the importance of cash control and reconciliation routines.
- ❑ Discusses ways to manage and control fixed assets.
- ❑ Gives advice on how to manage incidences of fraud and other irregularities.

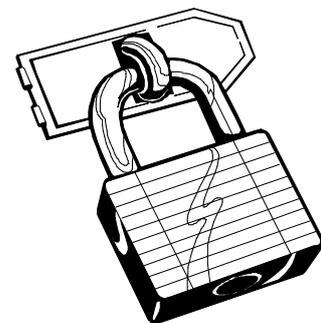
Managing Internal Risk

Here we are concerned with managing internal risks facing an NGO on a day-to-day basis. This is achieved with a series of controls, checks and balances, which, if operated properly, will avoid losses and detect errors and omissions in the accounting records.

Controls are also very important in protecting all those who handle the financial affairs of the organisation as they remove any suspicion of, or temptation to, dishonesty.

There are several different categories of internal controls:

- Delegated Authority
- Separation of Duties
- Reconciliation
- Cash Control
- Physical Control



Delegated Authority

The Board of Trustees delegates authority through the Chief Executive for the day-to-day running of the organisation. In a large and busy organisation it is not practical to expect one person to make all the decisions and authorise all transactions. The Chief Executive will, therefore, further delegate authority to members of the staff team to relieve the load and to ensure smooth operation during absences of key staff.

■ Delegated Authority Document

Every organisation should decide in advance who should do what in finance procedures. It is good practice to record what has been decided in a **Delegated Authority document**; its purpose is to clarify who has the authority to make decisions, commit expenditure and sign legal undertakings on behalf of the organisation so that there is no confusion about responsibility. [See an example in Appendix 2.]

The Delegated Authority Document should include instructions for such duties as:

- Placing and authorising orders for goods and services
- Signing cheques
- Authorising staff expenses
- Handling incoming cash and cheques
- Access to the safe and petty cash
- Checking and authorising accounting records
- Signing legal undertakings

The Delegated Authority document must be approved by the governing body and should be reviewed every year to ensure it is still appropriate to current needs. It should also outline deputising arrangements to cover for absence of key personnel. A breach of delegated authority is a serious matter and should be dealt with accordingly.

■ Authorisation rules

When writing a delegated authority document there are some basic rules which should be observed:

- **The lowest level of authority is defined** – it is taken for granted that those higher up the management ladder will also have the same authority.
- **No one should authorise any transaction from which they will personally benefit.** This makes the individual vulnerable to accusations of abuse.
- **Sub-ordinates must not authorise payments to managers** – they must be passed to someone who is more senior in the management structure.

Any limits or conditions that apply to delegated authority must be clearly defined. For example, a person may be authorised to commit expenditure up to a specified amount or within certain categories of expenditure or within budget.

Separation of Duties

In order to protect those operating the procedures and to prevent any temptation to mis-use funds, there must be a separation of the various duties within the finance procedures.

For example, the duties of ordering goods, receiving goods, authorising the payment, keeping the accounting records and reconciling the accounts should not fall entirely on the shoulders of one person. Apart from weakening financial control, this puts too much responsibility on one person and if they should leave the organisation or are absent for long periods, then the finances will grind to a halt.

As far as possible then, duties should be shared between the staff team and/or committee if there are only one or two staff members.

■ Procurement Procedure

A Procurement Procedure sets out the steps and conditions that have to be followed by staff to acquire goods and services so that the objectives of the organisation can be fulfilled efficiently and effectively. It is a prime example of separation of duties in action.

The procedure will:

- outline the process and authorities for ordering, receiving and paying for goods and services;
- describe which method of payment or acquisition is to be used for different goods and services – for example, when it is acceptable to use petty cash (this should be rare), bank transfers (e.g. salaries) or suppliers' accounts (e.g. stationery, petrol);
- clarify when it is necessary to obtain quotations from suppliers – e.g. 2 quotations for all expenditure over \$100;
- include a list of Approved Contractors or Suppliers, if used.

■ Signing cheques

Each organisation should have a panel of cheque signatories from which to select the required number of authorising signatures; there should be sufficient people nominated to ensure efficient administration of payments. Signatories should be regularly reviewed and the list updated when people leave the organisation.

It is usual to have more than one signature on a cheque to help avoid fraud.



'NEVER ask signatories to sign blank cheques for future use as this defeats the whole purpose of having more than one signatory.'

■ Checking and authorising accounting records

A key responsibility of managers (the Chief Executive or Financial Controller in a larger organisation or a Treasurer in a smaller one) is to check and authorise records, count the petty cash and review orders for supplies, from time to time.

Reconciliation

Reconciliation involves verifying accounting records to make sure that there are no errors or omissions that have so far gone undetected. Records that should be reconciled at regular intervals are:

- Bank Book
- Petty Cash Book
- Stock control records
- Salaries and Deductions schedules

Once the records have been successfully reconciled, the reconciliation statement must be passed on to be independently checked with the source records by a line manager or a committee member. As noted above, this checking duty is a key responsibility of the manager or Treasurer.

■ Bank Book

The Bank Book should be reconciled to the bank statement at least once a month. The purpose of this exercise is to make sure that the organisation's own records agrees with the bank's records which are rather like a parallel set of records. This is achieved by taking the closing bank statement balance for a particular date and comparing it to the closing Bank Book balance for the same date, then explaining the differences.

This is an important check not only for accuracy and completeness of records, but also as an early indication of fraud.

■ Petty Cash Book

The petty cash should be counted and reconciled at least weekly. If the imprest system is in use, this is a very easy operation as it is simply a matter of counting up all the payments made since the last reimbursement and counting the cash in the tin. The two totals together make up the total float. If a discrepancy is found, it must be noted in the petty cash book as either an 'expense – unidentified' or a 'surplus – unidentified' and allocated to an appropriate category. Discrepancies must be reported to a manager.

■ Stock records

Stock records must be checked against the supplies held in the store and receipts from sales, to ensure that no errors have crept in (and no stock has crept out).

A **Sample Stock Control Sheet** for some T-shirts is reproduced below. It shows the value of the stock the last time it was reconciled. Then it lists new stock purchases and new sales. This gives us an *expected* stock value, on paper at least.

Note that the table lists both the cost value (i.e. what the organisation paid the T-shirts supplier) and the resale value (i.e. what the organisation expects to sell the T-shirts for).

However, when the T-shirts in the stock room are physically counted and checked, the actual value is less than expected. (The brackets around the bottom line figures indicate the stock value is short.)

What do you think might explain this difference?

Sample Stock Control Sheet	Cost Value	Resale value
	\$	\$
Value of stock at 1 Jan 200x	3,000.00	6,000.00
Add: Value of purchases between the period 1 Jan. to 31 Mar. 200x	800.00	1,600.00
Deduct: Value of sales during the period	<u>1,300.00</u>	<u>2,600.00</u>
EXPECTED STOCK VALUE:	2,500.00	5,000.00
ACTUAL STOCK VALUE	2,450.00	4,900.00
Difference	(50.00)	(100.00)

This difference might be caused by one of several things:

- a) The value of new purchases could be wrong – e.g. the stock delivered was short. This could happen if a delivery is not properly checked against the delivery note and invoice when received from the supplier.
- b) The value of sales could be wrong – e.g. the wrong amount could have been charged or a sale not recorded or coded properly.
- c) Stock could have been stolen.
- d) Stock could have been given out as gifts or for publicity purposes and not recorded as such in the accounts.

Whatever the explanation, the difference would have to be investigated and systems reviewed if necessary. This demonstrates well the importance of regular stock reconciliation.

■ Wages Book

The wages records, and particularly deduction records, are notorious for containing inaccuracies and for abuse in the form of ‘ghost employees’. They must be reconciled every month to ensure that the correct deductions are being made and passed on to the relevant authority. Failure to do so could result in severe penalties and interest being imposed – and cause discontent amongst the staff.

Cash Control

It is important to observe the **Seven Golden Rules for Handling Cash** as follows:



1. Keep money coming in separate from money going out.

Never put cash received into the petty cash tin, it will lead to error and confusion in the accounting records. All money coming into the organisation must be paid into the bank promptly and entered into the records before it is paid out again. Failure to do so will distort financial information.

For example, a training course is run by an organisation and a charge of \$25.00 is made to each of the 10 participants. The cost of food and room hire is \$150.00 and this is paid from the course fees received on the day. The balance of fees – \$100.00 – is paid into the bank as Training Fees.

Why is this a problem? The cost of providing food and room hire has not been entered into the accounts and cannot therefore be reflected in a financial report. Similarly, as only the net amount of fees received has been paid into the bank, it would appear that only a few people actually attended the course and the income generating potential of running such a course has been disguised.

2. Always give receipts for money received

This affords protection to the person receiving the money and assures the person handing it over that it is being properly accounted for. Receipts must be written in ink, not pencil, and preferably from a numbered receipt book.

3. Always obtain receipts for money paid out

Sometimes this may not be possible. For example, when purchasing materials from a market; in this case the cost of each transaction should be noted down straight away so that the amounts are not forgotten and these can then be transferred to a petty cash slip and authorised by a line manager. Remember – no receipt means there is no proof that the purchase was made.

4. Pay surplus cash into the bank

Having cash lying around in the office is a temptation to a thief and the money would be better managed if it were earning interest in a bank account. A casual approach to cash on the premises might also lead to people wanting to 'borrow' from it – many a sorry tale of fraud has started in this way. Every attempt should be made to pay cash into the bank on a daily basis or, at the very least, within 3 days of receipt.

5. Have properly laid down procedures for receiving cash

To protect those handling money, there should always be two people present when opening cash collection boxes, etc. Both should count the cash and sign the receipt.

6. Restrict access to petty cash and the safe

Keys to the petty cash box and the safe should be given only to authorised individuals. This should be recorded in the organisation's Delegated Authority document.

7. Keep cash transactions to an absolute minimum

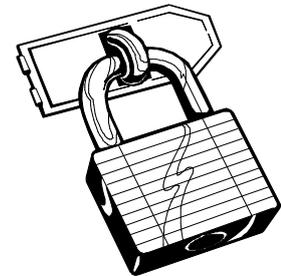
Petty cash should only be used to make payments when all other methods are inappropriate. Wherever possible, suppliers' accounts should be set up and invoices paid by cheque. The advantage of paying for most transactions by cheque is that this has the effect of producing a parallel set of accounts in the form of the bank statement. Also, it ensures that only authorised people make payments and it reduces the likelihood of theft or fraud.

Physical Controls

Physical controls are additional common sense precautions taken to safeguard the assets of an organisation.

■ Having a safe

Having a safe – or a safe place – to keep cash, cheques books, legal documents, etc. is an important consideration. A proper safe is worthwhile considering especially if your organisation has to keep large sums of money on the premises overnight. Safes are however, expensive and if resources are tight then it may be better to improve on banking procedures.



■ Insurance cover

It is the responsibility of the Chief Executive to ensure that there is adequate insurance cover so that if 'assets' are lost, damaged or stolen they can be replaced or compensated. There are many different types of insurance to consider, including

- Office contents against fire and theft
- Buildings against fire, floor and storm damage
- Vehicles against accident and theft.

The decision whether or not to insure property is a good example of managing risk – weighing up the pros and cons of paying for insurance is a common dilemma for managers.

■ Safeguarding Fixed Assets

Fixed assets may represent considerable wealth held in the form of land, buildings, vehicles, machinery and office equipment and, often over-looked, require special attention to ensure their value is maintained and that they do not disappear through lack of vigilance.

The measures to safeguard these assets will include Assets Registers, a vehicle policy and maintenance policies for equipment.

The Assets Register

An *Assets Register* should be established with an entry or record sheet for each item. Each asset should be tagged with a unique reference number for identification purposes. The register will record important information about each asset, such as:

- where and when the item was purchased and how much it cost
- where it is held or located
- how much it is insured for
- repair history
- serial numbers
- details of guarantees or warranties.
- depreciation rate and method, where relevant.

The record sheet should also state who is responsible for its maintenance and security. The Assets Register should be checked by a senior manager or committee member every quarter and any discrepancies reported and appropriate action taken. See **Appendix 19** (page A21) for a sample Assets Register record sheet.

Building and Equipment Maintenance policy

To preserve the value of buildings and equipment, an organisation must have a pro-active policy of maintenance. For buildings this may require a professional planned maintenance contract for which a realistic budget must be provided.

Office equipment such as photocopiers and electrical equipment should also receive regular services by qualified technicians to ensure they are safe and operating properly.

Vehicle policy

Every organisation that owns vehicles should have a vehicle policy. This will set down the policy on a range of issues such as:

- Depreciation
- Insurance
- Purchasing, replacement and disposal
- Maintenance and repair
- Private use of vehicles by staff
- What to do when accidents happen
- Driver qualifications and training
- Carrying of passengers

The costs of repair and replacement must be also adequately reflected in the budget process.

For each vehicle there should be a log of journeys so that the running costs per KM can be assessed and private use closely monitored. (See **Appendix 19**, page A24 for a sample.) Once you have 12 months information on the costs of running a vehicle, it is possible to calculate its average running costs per kilometre. See below for a worked example.

Calculating Vehicle Running Costs: A worked example

Vehicle make/model:	Toyota Hiace Van	
Date purchased:	26 December 1999	
Purchase price:	\$20,000	
Depreciation period /method:	5 years, straight line method	
Maintenance:	Service every 6,000 km or every 3 months	
KM run	From 1 January to 31 December 2000:	
	Km on clock on 31/12/00	20,601
	LESS Km on clock on 01/01/00	<u>(201)</u>
	Total KM run during year:	20,400
1. Depreciation		\$
Purchase Price	= \$20,000	
Depreciation period	= 5 years	
Annual depreciation charge	= \$20,000 / 5	4,000
2. Fuel consumption		
Total fuel bills for the year		5,500
3. Maintenance costs		
Total of invoices for the year for: repairs, service costs, spare parts, tyres, etc		900
4. Insurance and tax		
Insurance, road tax for the year		<u>3,300</u>
TOTAL VEHICLE RUNNING COSTS:		3,300
Cost per Km calculation:		
	$\frac{\text{Total costs for the year}}{\text{Total no. of Km run}}$	$= \frac{\$13,700}{20,400 \text{ km}}$
		\$0.67

In conclusion: using the information from our accounts and the vehicle log sheet, we can see that each kilometre run with the Toyota Hiace Van cost approx. 0.67 cents.

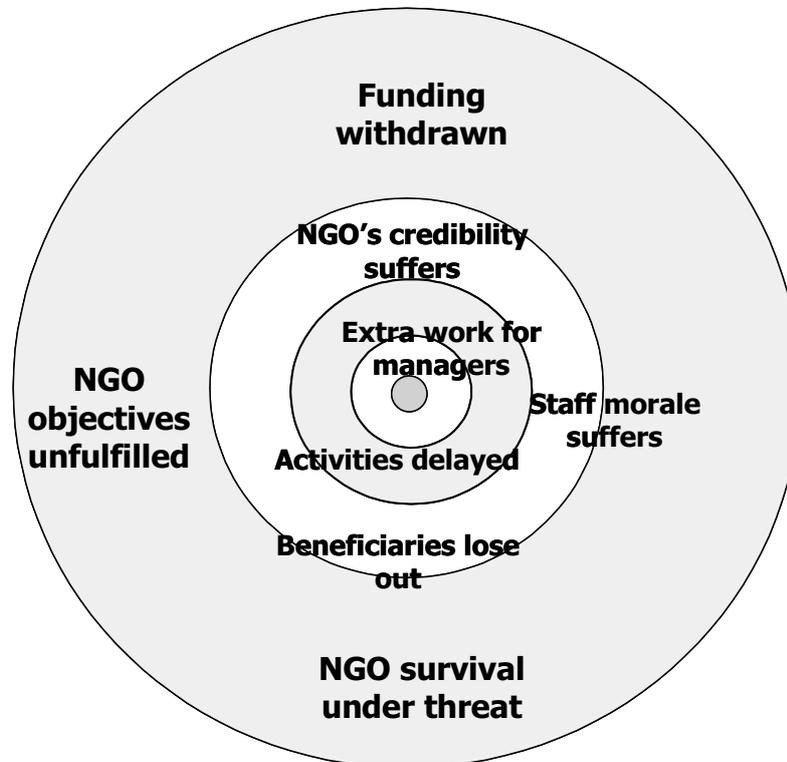
Dealing with Fraud and Other Irregularities

There will be occasions when internal control systems fail to prevent losses through theft, fraud or other irregularities. Fraud is defined as: a deliberate, improper action which leads to financial loss to the organisation. This includes theft of goods or property; falsifying expenses claims; and falsification (or destruction) of records to conceal an improper action.

Fraud does not include: accounting errors; actions condoned by established practice; and cases where no loss is incurred. Other irregularities include unauthorised activities for private gain: e.g. 'borrowing' from petty cash; use of vehicles; or abuse of telephones and other equipment.

Inevitably, the impact of fraud has a damaging effect on the organisation. Imagine a stone falling into a pond: the initial splash is the loss of funds or equipment but it does not stop there, as the diagram left illustrates. **Figure 6.1** illustrates this effect.

Figure 6.1: The Ripple Effect of Fraud



Incidents of fraud and irregularities require sensitive handling to minimise the long-term impact. It is important to be prepared to deal with any occurrences of fraud or financial irregularity by having a written procedure which covers steps that need to be taken.

■ Deterrence

The procedure should state clearly that routine controls, checks and balances are in place to safeguard the assets of the organisation and to protect staff from any suspicion of, or temptation to, fraud or other impropriety. Paid staff and volunteers are therefore obliged to co-operate fully with internal control procedures and failure to do so will be dealt with as appropriate within the organisation's disciplinary code.

■ Types of irregularity

The procedure will identify different types of irregularity; how seriously they are viewed; and how they will be dealt with. For example, all instances of theft and fraud will be viewed as Gross Misconduct and will result in immediate dismissal and loss of terminal benefits. A clear statement of the organisation's policy on the circumstances in which the Police will be informed must also be made. This must take in account local circumstances.

■ Detection

A procedure for reporting suspicions of irregularities should be made clear to all. This should make it easy for people to report concerns in confidence and without fear of retribution.

When an irregularity is reported or detected, record the details in writing; report it immediately to a superior. Follow up all reports or suspicions immediately; do not allow rumours to spread or let the ‘trail’ go cold.

■ Investigation

When an irregularity comes to light, it must be dealt with quickly and sensitively; look for corroboratory evidence before instigating a formal investigation. If all the evidence points to an irregularity, the individual(s) involved should be formally interviewed with a third person present to take notes.

Protect documents and records by either removing access to them by those involved in the irregularity or by suspending the people involved during the investigation. The policy will identify who is responsible for conducting a formal investigation. This will depend on the nature of the irregularity; it could be conducted by the senior manager, the internal auditor, the external auditor or, in more serious cases, the Police.

■ The Aftermath

Don’t under-estimate the long-term and less tangible impacts of fraud. It will involve a lot of a managers’ time during the investigation and afterwards. In particular:

- People will be distressed by the experience and need to be supported. Colleagues will suffer all the mixed emotions of a bereavement: anger, guilt, disappointment and loss. They will be worried that their own jobs are under threat.
- New staff may need to be recruited and trained.
- Donors will need reassuring that their resources are safe and the project will not suffer.

■ Summary

Here are some tips on how to deal with fraud and other irregularities – to keep **RISKS LOW**:

DO

Report the incident to a superior or Board member

Investigate incidences, gather the facts

Secure the assets and records

Keep calm!

Swiftly act

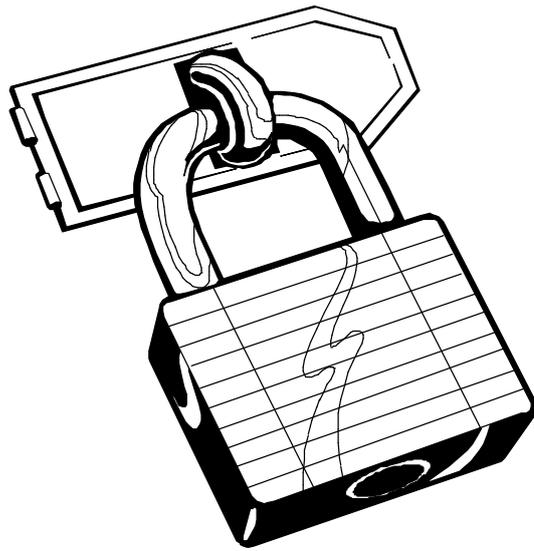
DON'T

Look the other way

Overlook the ‘fall out’ of a fraud

Withhold information to protect others

Above all, remember that prevention is better than cure!



Managing The Audit

An Independent Check on Accounting Records and Systems

Introduction

This chapter:

- ❑ Explains what an audit is.
- ❑ Describes the different types of audit.
- ❑ Provides an overview of the audit report.
- ❑ Gives advice on how to prepare for and manage the external audit.

What is an Audit?

An audit is an **independent** examination of records, procedures and activities of an organisation, resulting in a report on the findings.

There are two kinds of audit:

- The Internal Audit
- The External Audit

As the name implies, an external audit is primarily for the benefit of those outside the organisation, e.g. stakeholders and funders. Internal audit is undertaken for the benefit of those inside the organisation, i.e. trustees and management.

The audit should be a positive experience and not one to be feared; it is an opportunity to receive feedback on strengths and weaknesses in systems. Use your auditor to discuss ways of improving your accounting systems and procedures.

■ Why do NGOs need audit?

Audits are important for NGOs as they demonstrate a commitment to transparency and accountability and bring credibility to the NGO. It is also a legal requirement in most countries to have the financial statements reviewed by an independent auditor once a year.

Internal Audit

An internal audit review is undertaken at the request of the managers of the organisation. It focuses on reviewing compliance with systems and procedures as set by the Board and managers. The internal auditor's report will highlight findings and make recommendations for action, where needed. It may be carried out by someone within the organisation, or an outsider may be engaged to carry out an 'internal audit'.

An internal audit will include a range of checks as part of the independent review, including:

- financial accounting systems and procedures;
- management accounting systems and procedures;
- internal control mechanisms.

The internal auditor reviews the adequacy of the design of the systems of procedures, and checks that they are being properly implemented. A report is presented to the governing body and management, who respond by taking corrective action, perhaps changing a procedure, or training a staff member.

The 'Three E's' influence an internal auditor's approach:

- Economy – paying no more than necessary for the resources needed.
- Efficiency – getting the greatest benefit with the fewest resources.
- Effectiveness – describes how successful we are at meeting objectives or 'doing the right thing'.

External Audit

An external audit is an independent examination of the financial statements prepared by the organisation. It is usually conducted for statutory purposes (because the law requires it). External auditors may also be engaged to do other specific assignments, (e.g. a fraud investigation).

■ Purpose

The purpose of external audit is to verify that the annual accounts provide a true and fair picture of the organisation's finances; and that the use of funds is in accordance with the aims and objects as outlined in the constitution.

The purpose of an external audit is NOT:

- To act as a fraud investigation
- To prepare the accounts
- To provide a certificate to say "there are no problems"
- Proof that internal control systems are effective
- Evidence that accounts are 100% error free

Although it is not the prime role of the audit to detect fraud, this may of course come to light during the checks that take place. Auditors have thus been described as ‘watchdogs not bloodhounds’.

■ **Appointment**

An external audit can be conducted either as part of the annual review of accounts or as a special review by a donor agency. It is conducted by a firm of accountants with recognised professional qualifications.

Auditors are appointed by the Board of Trustees (or Annual General Meeting) or by a donor for a special audit. They are independent of the organisation employing them. Being independent means that the auditor must not have been involved in keeping the accounting records and is not personally connected in any way with the organisation being audited.

■ **What is involved?**

Auditors only have a limited time in which to complete their work, so they concentrate on testing the validity of a sample of transactions and results rather than vigorously checking everything. Although an auditor’s independence must be respected and observed at all times, they are nonetheless providing a service for a fee – you have a right to expect value for money.

Auditor-speak de-mystified:

Material: An item is said to be ‘material’ if it is considered to be significant to the users of the financial statements.

Test basis: A representative sample, the rest of the transactions are assumed to be similar to the sample tested

■ **The audit report**

An audit results in a report addressed to members which gives an ‘audit opinion’ as to the ‘true and fair’ view given by the financial statements. (of the state of affairs of the organisation and operations for the period.)

Auditor-speak de-mystified:

‘True’ means that the transaction did take place and that an asset exists.

‘Fair’ means that a transaction is fairly valued and that assets and liabilities are fairly stated.

If the auditors do not agree with the financial results as presented by the organisation, they may issue a report saying that, in their opinion, the accounts are not fine. This could be disastrous for an NGO seeking donor support.

The table below summarises the types of opinion.

Auditor Opinion	Comment
Unqualified	The accounts do give a true and fair view – 'clean' audit report.
Qualified: Subject to	The accounts are basically OK, apart from specific identified issues, e.g. an incorrect accounting policy, or specific unsupported expenditure.
Qualified: Disagreement	There are so many errors that the accounts do not give a true and fair view.
Qualified – disclaimer	The auditors are unable to give an opinion, because the records are so poor or incomplete. This is very bad indeed.

If the auditors propose any adjustments or changes to the draft financial statements, these must also be approved by the Board. The audit report is addressed to the members and it is usual to formally accept the report at the Annual General Meeting.

Auditors will also often provide a **Management Letter**. This is separate to the audit report and is, addressed to management. The report highlights weaknesses identified in the internal control systems and makes recommendations for improvements. Managers have an opportunity to respond to the findings outlined in the management letter and explain what action they will take.

■ Donor Audit

On occasion, donor agencies may request an independent external audit of records and activities and will appoint a qualified person to undertake a review. The primary purpose of such a review is to check that grants are being used as intended and in accordance with the budget in the original funding agreement.

The auditor or evaluator will almost certainly wish to interview staff and committee members and may even request to observe the organisation in pursuance of its activities. Every co-operation should be given during such visits and an effort made to be open and honest about organisational strengths and weaknesses.

What Does the Auditor Need?

An auditor will need a quiet place to work where the checks can take place without interruption. If individual staff members are to be interviewed, then a private room where confidential discussions can take place will also be required. Depending on the type of audit taking place, the auditor will usually give advance notification of the records needed.

Ensure that all the records are up-to-date and properly filed as this will facilitate the routine checks and cause minimal disruption for the organisation. This will also help to save on audit fees. A checklist of records and other documentation which might be requested by the auditor follows over page.

An Auditor's Checklist

Group of Records	Description of item
A Primary records of account:	<input type="checkbox"/> Bank Book and Petty Cash Book completely up to date to the year-end <input type="checkbox"/> File of invoices/vouchers for all items of expenditure <input type="checkbox"/> File or book of receipts for moneys received <input type="checkbox"/> Bank statements, paying in slips and cheque books <input type="checkbox"/> Wages book and records <input type="checkbox"/> General Ledger, if kept
B Summaries and reconciliation statements:	<input type="checkbox"/> A Trial Balance and/or a summary of all receipts and payments by budget category <input type="checkbox"/> Bank reconciliation statements for all bank accounts at the year-end cut-off date <input type="checkbox"/> Petty cash reconciliation statement to the year-end cut-off date <input type="checkbox"/> Stock sheets
C Schedules:	<input type="checkbox"/> Schedule of Creditors (money owed by the organisation) <input type="checkbox"/> Schedule of Debtors (money owing to the organisation) <input type="checkbox"/> Schedule of Grants Due <input type="checkbox"/> Schedule of Grants Received in Advance <input type="checkbox"/> Fixed Assets Register
D Other information:	<input type="checkbox"/> A letter from bankers to confirm balances [this will be requested by the auditors themselves] <input type="checkbox"/> Constitution of the organisation <input type="checkbox"/> List of Committee members and staff <input type="checkbox"/> Minutes of Board and management meetings <input type="checkbox"/> Donor agencies funding agreements and audit requirements

Acknowledgement:

Grateful thanks to Samantha Musoke, ACA, of Aclaim Africa, Uganda, for her input to this chapter.

Recommended Reading

Financial Management and Accounting:

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2. *Financial Management for Development.* John Cammack. INTRAC 2000
3. *Basic Accounting For Small Groups,* Cammack, J. Oxfam, 2003.
4. *Basic Accounting for Credit and Savings Schemes.* N., Elliott, Oxfam, 1996.
5. *A Practical Guide to Financial Management for Charities and Voluntary Organisations.* Kate Sayer. Directory of Social Change 2002.
6. *The Good Financial Management Guide.* Haroon Bashir. NCVO 1999.
7. *Accounting and Finance for Charities.* David Wise. ICSA Publishing/Prentice Hall Europe 1998.

Strategic Financial Management:

8. *The Virtuous Spiral – A Guide to Sustainability for NGOs in International Development..* Alan Fowler. Earthscan/INTRAC, 2000.
9. *Financial Stewardship of Charities.* Adrian Poffley. Directory of Social Change 2002.
10. *Not Just For A Rainy Day? Guidelines on developing a reserves policy and putting it into practice.* Shirley Gillingham and John Tame. NCVO 1997.
11. *Managing Your Solvency – a guide to insolvency and how to ensure that you continue as a going concern.* Edited by Michael Norton. Directory of Social Change 1994.
12. *Towards Financial Autonomy - a manual of financing strategies and techniques for development NGOs.* Fernand Vincent. IRED Publications 1996.
13. *NGO Funding Strategies: An Introduction for Southern and Eastern NGOs.* Jon Bennett. INTRAC 1996.

General and Project Management:

14. *Managing Without Profit – The Art of Managing Third-sector Organizations.* Mike Hudson. Published by Penguin Group 1999.
15. *The Complete Guide to Business and Strategic Planning for Voluntary Organisations.* Alan Lawrie. Directory of Social Change 2001.
16. *The Complete Guide to Creating and Managing New Projects for Voluntary Organisations.* Alan Lawrie. Directory of Social Change 2002.

Fundraising and Proposal Writing

17. *The World-wide Fundraiser's Handbook – A Resource Mobilisation Guide to Fundraising for NGOs & Community Organisations*. Michael Norton. Directory of Social Change, 2003.
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21. *How to Write in Plain English* by The Plain English Campaign PO Box 3, New Mills, High Peak SK22 4QP, UK. (Also available free via website <http://www.plainenglish.co.uk>).
22. *Writing for Change – an Interactive Guide to Effective Writing*. (CD-Rom and guide). Alan Barker and Firoze Manji. Fahamu/IDRC. 2000.

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Appendix 1: Chart Of Accounts – Milestone Project

Account Description	Category Code	Comments
INCOME: DONOR		
- DFID	1010	<i>For grants received from this donor</i>
- Smile Trust	1020	<i>For grants received from this donor</i>
- Vanguard Society	1030	<i>For grants received from this donor</i>
INCOME: GENERAL		
- Bank Interest	1110	<i>Interest received on bank accounts</i>
- Donations & fund-raising	1120	<i>Fund-raising activities, miscellaneous donations</i>
- Sales	1130	<i>Sales of trainees' work</i>
- Training fees	1140	<i>Course participants' contributions</i>
EXPENDITURE: ADMINISTRATION		
- Audit/accountancy	3010	<i>Audit fees, other accountancy expenses</i>
- Bank charges	3020	<i>Service fees, interest charged on OD balances</i>
- Board meetings	3030	<i>Room hire, refreshments, AGM expenses</i>
- Depreciation	3040	<i>Cost of depreciation of fixed assets</i>
- Postage & stationery	3050	<i>Postage, office and photocopier consumables</i>
- Publicity	3060	<i>Posters, leaflets, advertising training courses</i>
- Rent, insurance & utilities	3070	<i>Office rent, insurance and utilities</i>
- Repairs & renewals	3080	<i>Servicing, small items of equipment, office repairs</i>
- Telephones/fax	3090	<i>Telephone accounts, not repairs</i>
EXPENDITURE: PERSONNEL		
- In-service training	4010	<i>Course fees, meals & accommodation</i>
- Recruitment	4020	<i>Recruitment advertising costs, interview expenses</i>
- Salaries & benefits	4030	<i>Gross salaries, housing, medical aid and pensions</i>
- Travel & subsistence	4040	<i>Per diem, meal and overnight allowances, bus fares</i>
EXPENDITURE: VEHICLE RUNNING		
- Fuel	5010	<i>Petrol, diesel and oil costs</i>
- Vehicle insurance/tax	5020	<i>Vehicle Insurance premiums and road tax</i>
- Vehicle maintenance	5030	<i>Service, repairs, tyres, spare parts, car wash</i>
EXPENDITURE: TRAINING		
- Fees & honoraria	6010	<i>Guest speakers' & external trainers' fees/expenses</i>
- Food & accommodation	6020	<i>Room hire, food for trainees</i>
- Training materials	6030	<i>Tools, protective clothing, papers, pens, metal, concrete, etc</i>

FIXED ASSETS:		
- Office Equipment	0110	<i>Computers, printers, desks, chairs, etc.</i>
- Project Equipment	0120	<i>Large tools and training equipment</i>
- Vehicles	0130	<i>Cars, mobile workshop</i>
CURRENT ASSETS:		
- Bank Deposit Account	0210	<i>High interest call account</i>
- Bank Current Account	0220	<i>Cheque account</i>
- Petty Cash	0230	<i>For adjustments to the petty cash Imprest float</i>
- Debtors & prepayments	0240	<i>Money owed to us and prepaid amounts</i>
- Grants receivable	0250	<i>Grants due for this year from donors</i>
- Stocks	0260	<i>Stocks of raw materials</i>
LIABILITIES:		
- Creditors & accruals	0510	<i>Money owed by us and accrued expenses</i>
- Grants In advance	0520	<i>Designated donor funds received for this year and not yet spent</i>
- Reserves	0530	<i>Funds designated for use in future years</i>

PROJECT COST CENTRES

Description	Code	Comments
- Co-ordination	01	<i>Transactions to be allocated to the Co-ordinator's Department</i>
- Building Department.	02	<i>Transactions to be allocated to the Building Trades Department</i>
- Metalwork Dept.	03	<i>Transactions to be allocated to the Metalwork Department as a whole</i>
- Metalwork: Furniture Project	03-01	<i>Transactions to be allocated to the Furniture section of the Metalwork Department only</i>
- Metalwork: Vehicles Project	03-02	<i>Transactions to be allocated to the Vehicle section of the Metalwork Department only</i>

Appendix 2: Sample Delegated Authority Document

AREA OF AUTHORITY:	LIMITS APPLIED:	DESIGNATED PERSONS:
<ul style="list-style-type: none"> ▪ <i>Legal documents (where not covered below)</i> 		Any <u>two</u> from: Ch, Tr, Se, CE.
<ul style="list-style-type: none"> ▪ <i>Leases on property and equipment</i> 	Up to \$25,000 Over \$25,000	Any <u>one</u> from: Ch, Tr, Se, CE. Any <u>two</u> from: Ch, Tr, Se, CE.
<ul style="list-style-type: none"> ▪ <i>Current Account Cheques</i> 	up to \$2,000 Over \$2,000	Any <u>two</u> from: Ch, Tr, Se, CE, one other designated BM Any <u>two</u> from: Ch, Tr, Se, one other designated BM.
<ul style="list-style-type: none"> ▪ <i>Bank Account Transfers</i> 	Up to \$25,000 Over \$25,000	Any <u>two</u> from: Ch, Tr, Se, CE, one other designated BM Any <u>two</u> from: Ch, Tr, Se, one other designated BM.
<ul style="list-style-type: none"> ▪ <i>Staff advances/loans</i> 	Max. \$2,000	CE (or in case of CE, Ch or Tr)
<ul style="list-style-type: none"> ▪ <i>Staff expenses</i> 		LM for all staff below CE level Ch or Tr for CE
<ul style="list-style-type: none"> ▪ <i>Board Member expenses</i> 		Ch or Tr
<ul style="list-style-type: none"> ▪ <i>Orders for Goods & Services</i> 	Up to \$1,000 Up to \$5,000 Up to \$25,000 Up to \$50,000 Over \$50,000	SO, providing within budget OM, providing within budget CE, providing within budget Ch or Tr, providing within budget Any 2 BM and minuted by full Board Meeting.
<ul style="list-style-type: none"> ▪ <i>Petty Cash expenditure</i> 	Up to \$50 (single transaction) Over \$50	AO FC
<ul style="list-style-type: none"> ▪ <i>Safe Keys</i> 		FC and Tr
<ul style="list-style-type: none"> ▪ <i>Receipt of cash & cheques</i> 		AO
<ul style="list-style-type: none"> ▪ <i>Banking of cash & cheques</i> 		AC
<ul style="list-style-type: none"> ▪ <i>Annual / sick leave</i> 		LM
<ul style="list-style-type: none"> ▪ <i>Maternity / Paternity Leave</i> 		CE (or in case of CE, Ch or Tr)
<ul style="list-style-type: none"> ▪ <i>Contracts of Employment</i> 	All staff	Ch, Tr or S

KEY: Ch = Chairperson; Tr = Treasurer; S = Secretary; BM = Board Member
 CE = Chief Executive; OM = Operations Manager; FC = Financial Controller;
 AO; Accounts Officer; AC = Accounts Clerk; SO = Senior Officer; LM = Line Manager.

Appendix 4: Bank Book – Payments Page

MILESTONE PROJECT – January 2001

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
					ANALYSIS OF PAYMENTS CATEGORY									
Date	Payee/ details of transaction	Cheque Or ref. no.	Cost Centre	Amount Paid UC *	Postage & Stat'y 3050	Rent, Ins & Utilities 3070	Reprs/ Ren 3080	Teleph. Fax 3090	Salary & Ben. 4030	Travel & Subs 4040	Fuel 5010	Food & Accom. 6020	Training Materials 6030	Other [add code]
03/01	SPM Lettings	13571	01	400.00		400.00								
03/01	Petty cash imprest	13572	02	176.54	14.00					15.00	30.00	73.00	44.54	
03/01	Safeway Insurance Co. - office	13573	01	956.00		956.00								
04/01	Stoneman Petrol Stn - Dec.a/c	13574	03	561.75							561.75			
04/01	NGO Assembly - room hire	13575	01	50.00								50.00		
04/01	Pat's Restaurant - deposit	13576	01	150.00								150.00		
04/01	H. Brown - Dec. expenses	13577	02	65.35						65.35				
10/01	JS Supplies - Dec. a/c	13578	02	672.34	75.75		288.70						307.89	
10/01	SEB - Electricity Dec.	13579	01	367.21		367.21								
11/01	Pat's Restaurant - bal. For food	13580	01	675.00								675.00		
11/01	D&J Timber Supplies - stocks	13581	02	1,085.49									1,085.49	
12/01	Office Supplies Ltd, desk/ chair	13582	01	1,500.00										1,500.00 [0110]
13/01	Petty cash imprest	13583	01&02	199.15	65.44		20.56			7.50	86.15		19.50	
17/01	Jo Joshi - Nov/Dec. expenses	13584	03	167.35						167.35				
25/01	Telecoms - Phone bill	13585	01	765.90				765.90						
29/01	J. Joshi - Jan. salary	13586	03	2,300.00					2,300.00					
29/01	H. Brown - vol. Allowance	13587	01	800.00					800.00					
29/01	P. Khan - vol. Allowance	13588	03-02	800.00					800.00					
PAGE TOTAL:				11,692.08	155.19	1,723.21	309.26	765.90	3,900.00	255.20	677.90	948.00	1,457.42	1,500.00

* UC = Unit of currency

Appendix 5: Petty Cash Book

MILESTONE PROJECT

Period covered: *1 to 12 January 2001*

Date	PCV No.	Details of transaction or cheque reference	Cash In UC	Cash Out UC	Cash Balance UC	ANALYSIS OF PAYMENTS						
						Postage & stat'y 3050	Repairs & Ren. 3080	Travel & Subs 4040	Fuel 5010	Food/ Accom 6020	Training Mats. 6030	Other
<i>3/1</i>		<i>Cash balance brought forward:</i>	<i>23.46</i>	<i>-</i>	<i>23.46</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>3/1</i>	<i>-</i>	<i>Top up cheque no. 013572</i>	<i>176.54</i>	<i>-</i>	<i>200.00</i>							
<i>3/1</i>	<i>1</i>	<i>Milk & coffee for office</i>	<i>-</i>	<i>10.57</i>	<i>189.43</i>		<i>10.57</i>					
<i>3/1</i>	<i>2</i>	<i>Calculator batteries</i>	<i>-</i>	<i>9.99</i>	<i>179.44</i>		<i>9.99</i>					
<i>5/1</i>	<i>3</i>	<i>Stamps</i>	<i>-</i>	<i>7.00</i>	<i>172.44</i>	<i>7.00</i>						
<i>6/1</i>	<i>4</i>	<i>Petrol - Jo's van. Bldg dept</i>	<i>-</i>	<i>45.00</i>	<i>127.44</i>				<i>45.00</i>			
<i>7/1</i>	<i>5</i>	<i>Fax paper</i>	<i>-</i>	<i>13.49</i>	<i>113.95</i>	<i>13.49</i>						
<i>10/1</i>	<i>6</i>	<i>OHP materials, pads & pens</i>	<i>-</i>	<i>29.45</i>	<i>84.50</i>	<i>9.95</i>					<i>19.50</i>	
<i>10/1</i>	<i>7</i>	<i>Petrol for Hari's car</i>	<i>-</i>	<i>35.65</i>	<i>48.85</i>				<i>35.65</i>			
<i>11/1</i>	<i>8</i>	<i>Oil</i>	<i>-</i>	<i>5.50</i>	<i>43.35</i>				<i>5.50</i>			
<i>12/1</i>	<i>9</i>	<i>DHL to New York</i>	<i>-</i>	<i>35.00</i>	<i>8.35</i>	<i>35.00</i>						
<i>12/1</i>	<i>10</i>	<i>Lunch/bus fare, Treasurer</i>	<i>-</i>	<i>7.50</i>	<i>0.85</i>			<i>7.50</i>				
		PAGE TOTAL:	<i>200.00</i> A	<i>199.15</i> B	<i>0.85</i> C	<i>65.44</i>	<i>20.56</i>	<i>7.50</i>	<i>86.15</i>	<i>-</i>	<i>19.50</i>	

UC = Unit of currency

Total A must = B + C

Appendix 6: Sample Bank Reconciliation Form

Milestone Project January 2001

Bank account details: <i>RNU Bank, Current account no. 00067891</i>	
Bank statement date:	<i>31/01/2001</i>
Bank statement sheet number:	<i>37</i>

A. Balance as on bank statement:	12,133.58
---	------------------

Less payments in cashbook, not on statement	
<i>04/01 chq no. 13575 NGO Assembly</i>	<i>(50.00)</i>
<i>25/01 chq no. 13585 Telecomms Co.</i>	<i>(765.90)</i>
<i>29/01 chq no. 13586 J. Joshi</i>	<i>(2,300.00)</i>
B. Total deduction	(3,115.90)
Plus receipts in cashbook, not on statement	
<i>28/01 Course fees</i>	<i>1,500.00</i>
C. Total addition	1,500.00
Less receipts on statement, not in cashbook	
<i>None</i>	
D. Total deduction	0.00
Plus payments on statement, not in cashbook	
<i>Ledger fee</i>	<i>35.00</i>
E. Total addition	35.00
F. Balance in Bank Book [A-B+C-D+E]	10,552.68

Reconciliation performed by: *A. D. Ministrator*

Signed: *ADM*

Date: *7/02/01*

Reconciliation checked by: *A. Treasurer*

Signed: *AT*

Date: *9/02/01*

Appendix 7: Sample Receipts & Payments Account

Receipts and Payments Account for the Milestone Project			
1 January to 31 December 2000			
	UC		UC
<u>Receipts</u>		<u>Payments</u>	
<i>Opening balance 1 January 2000</i>	2,880	Salaries & benefits	46,580
Grants Received:		Training Expenses	20,588
– DFID	48,000	Vehicle Running	14,886
– Smile Trust	43,000	Audit/accountancy	510
Donations & fundraising	750	Bank charges	455
Training Fees	13,540	Board meetings	2,156
Sales	11,406	Postage & stationery	4,768
Bank Interest	<u>832</u>	Publicity	396
		Rent, insurance & utilities	9,986
		Repairs & renewals	689
		Telephones/fax	9,450
		Office Equipment	<u>1,850</u>
		Total Payments	112,314
		<i>Closing balance 31 December 2000</i>	8,094
	<u>117,528</u>		<u>120,408</u>

UC = Unit of Currency

Appendix 8: Sample Income & Expenditure Account

MILESTONE PROJECT

Statement of Income & Expenditure for the year ended 31 December 2000

	UC	UC	1999 UC
INCOME:			
Donor Income:			
– DFID	48,000		45,000
– SMILE Trust	<u>48,000</u>	96,000	45,000
Other Income:			
– Donations & Fundraising	6,750		6,600
– Training Fees	14,640		12,250
– Sales	11,765		6,768
– Bank Interest	<u>832</u>	<u>33,987</u>	<u>698</u>
TOTAL INCOME		<u>129,987</u>	<u>116,316</u>
EXPENDITURE:			
Personnel		52,580	48,780
Training		20,588	18,743
Vehicle Running		15,686	12,670
Depreciation		12,455	13,633
Administration:			
– Audit/Accountancy	587		500
– Bank Charges	455		387
– Board Meetings	2,058		1,480
– Postage & Stationery	4,838		6,776
– Publicity	396		325
– Rent, Insurance & Utilities	9,994		6,524
– Repairs & Renewals	539		324
– Telephones & Fax	<u>9,341</u>	<u>101,309</u>	<u>6,803</u>
TOTAL EXPENDITURE		<u>129,516</u>	<u>23,119</u>
EXCESS OF INCOME /(EXPENDITURE) FOR THE YEAR:		471	(629)

UC = Unit of Currency

Appendix 9: Sample Balance Sheet

Milestone Project

Balance Sheet as at 31 December 2000

	2000 UC	1999 UC
FIXED ASSETS		
Vehicles & Equipment:		
- Value at 1 January	122,696	130,329
- Plus: Additions during the year	1,850	6,000
- Less: Depreciation for wear & tear	<u>(12,455)</u>	<u>(13,633)</u>
	112,091	122,696
CURRENT ASSETS		
Cash at bank and in hand	8,095	2,880
Grants Receivable	10,000	5,000
Debtors & Prepayments	<u>2,459</u>	<u>1,000</u>
	20,554	8,880
Less: CURRENT LIABILITIES payable within one year		
Creditors and accruals	<u>(3,262)</u>	<u>(2,664)</u>
Net Current Assets	17,292	6,216
Net Assets	129,383	128,912
ACCUMULATED FUNDS		
Balance at beginning of the year	128,912	129,541
Plus surplus/(less deficit) for period	<u>471</u>	<u>(629)</u>
Balance at the end of the year	129,383	128,912
<i>Represented by:</i>		
General Purposes Fund	6,146	5,675
Designated Fund	22,919	11,773
Capital Fund	<u>100,318</u>	<u>111,464</u>
	129,383	128,912

UC = Unit of Currency

Appendix 10: Schedule of Creditors & Debtors

Schedule of Creditors as at 31 December 2000

Invoice Date	Payee	Description	Amount	Date paid	Account Name
31/12/00	Electricity Supply Co.	December electricity bill	375.21	21 Jan 01	Rent/utilities/insurance
31/12/00	Telecomms Ltd	December telephone a/c	657.30	28 Jan 01	Telephones & fax
21/12/00	City Stationers Ltd	Photocopying paper	145.25	05 Jan 01	Postage & stationery
31/12/00	Newman's Garage	Dec petrol a/c, new tyres	1,362.00	25 Jan 01	Vehicle running
21/12/00	P. Dlamini	Travel expenses – Nov/Dec	135.00	18 Jan 01	Travel & subsistence
31/12/00	PWC	Audit Fee (estimate)	587.00		
		TOTAL CREDITORS	3,261.76		

Schedule of Debtors as at 31 December 2000

Due Date	Payee	Description	Amount	Date recvd.	Account Name
31/12/00	SMILE Trust	Final instalment of grant due	10,000.00	30 Jan 01	Grant - Smile Trust
31/12/00	Trainees	Training fees due	2,100.00	Jan/Feb	Training Fees
31/12/00	Various	December 2000 sales invoices	359.00	Jan/Feb	Sales
		TOTAL DEBTORS	12,459.00		

Appendix 11: Milestone Association Budget Summary

1 January to 31 December 2001

		TOTAL BUDGET	DEPARTMENTAL BUDGETS		
			01 Co-ord. UC	02 Building UC	03 Metalwork UC
INCOME		UC	UC	UC	UC
DONORS	DFID	90,000	20,000	35,000	35,000
	Smile Trust	90,000	18,000	36,000	36,000
	Vanguard Society	15,000	0	0	15,000
OTHER	Bank Interest	1,000	1,000	0	0
	Donations	8,000	2,000	3,000	3,000
	Sales	24,800	0	15,300	9,500
	Training Fees	42,500	500	21,000	21,000
	TOTAL INCOME:	271,300	41,500	110,300	119,500
EXPENDITURE					
ADMINISTR- ATION	Audit/accountancy	4,500	1500	1500	1500
	Bank charges	600	200	200	200
	Board Meetings	1,200	400	400	400
	Depreciation	6,000	2,000	2,000	2,000
	Postage & stationery	7,500	2,500	2,500	2,500
	Publicity	1,500	500	500	500
	Rent, ins. & utilities	9,000	3,000	3,000	3,000
	Repairs & renewals	1,500	500	500	500
	Telephones/fax	6,300	2,100	2,100	2,100
STAFF	Salaries	47,700	0	23,850	23,850
	Housing costs	7,200	7,200	0	0
	Medical insurance	8,600	0	4,300	4,300
	In-service training	4,500	1,500	1,500	1,500
	Recruitment	0	0	0	0
	Travel & subsistence	3,000	1,700	650	650
VEHICLE RUNNING	Fuel	9,000	4,000	2,500	2,500
	Vehicle Insurance	18,000	6,000	6,000	6,000
	Vehicle maintenance	24,000	8,000	8,000	8,000
TRAINING	Fees & honoraria	3,000	0	1,500	1,500
	Food & accomm.	16,000	0	8,000	8,000
	Training Materials	92,200	0	41,500	50,700
	TOTAL EXPENDITURE:	271,300	41,500	110,300	119,500

UC = Unit of currency

Appendix 12: Milestone Project Budget Worksheet

Metalwork Section – Direct Project Costs Budget

Budget Period: 1 January to 31 December 2001

Budget Currency: UCs

Total Budget: 107,000 UCs

Ref	Budget Item	Unit	Unit Cost	Quantity	Total Cost	Notes	Budget Code
A	Project Staff Costs				30,210		
A1	Metalwork trainer salary	Month	1,775	12	21,300		4030
A2	Social Security/Employers' Taxes	Month	213	12	2,550	12% of salary	4030
A3	Medical Insurance	Lumpsum	4,300	1	4,300	20% of salary, rounded to nearest 100	4030
A4	In service training	Days	150	10	1,500	For team training and technical training in RSA	4010
A5	Travel and subsistence	Lumpsum	650	1	650	25 per month plus 350 for field trip to RSA	4040
B	Direct Project Costs				76,790		
B1	Fuel	KM travelled	1	5,000	2,500	Est. 425 km per month for 11 months, plus 325 in December	5010
B2	Insurance for project vehicle	Lumpsum	6,000	1	6,000	Insurance as per quotation, plus road tax	5020
B3	Vehicle maintenance	Quarter	2,000	4	8,000	Est. cost of quarterly service and new tyres, based on previous year	5030
B4	Fees for guest tutors	Daily fee	125	12	1,500	Fees for 2 guest tutors x 2 days at 3 workshops	6010
B5	Food & accommodation for trainees	Participant	100	80	8,000	For 20 participants per workshop, based on previous year	6020
B6	Training Materials	Workshop	12,675	4	50,700	Raw materials and tools for trainees	6030
	TOTAL DIRECT COSTS				107,000		

NB: Central support costs are to be added .

Appendix 13: Milestone Project Summary Cash Flow Forecast

1 JANUARY 2001 TO 31 DECEMBER 2001

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
<u>Incoming cash</u>												
DFID grant	18,000	0	0	24,000	0	0	24,000	0	0	24,000	0	0
Smile Trust grant	0	0	22,500	0	0	22,500	0	0	22,500	0	0	22,500
Vanguard Society grant	0	0	7,500	0	0	0	7,500	0	0	0	0	0
Bank Interest	40	5	0	0	71	0	0	74	0	26	96	0
Sales income	2,000	2,000	2,000	2,000	2,000	2,000	1,500	1,800	2,000	2,000	2,500	3,000
Donations	0	0	2,000	0	0	2,000	0	0	2,000	0	0	2,000
Training fees	3,500	7,000	0	7,000	3,500	0	0	7,000	3,500	0	7,500	3,500
A TOTAL CASH IN	23,540	9,005	34,000	33,000	5,571	26,500	33,000	8,874	30,000	26,026	10,096	31,000
<u>Outgoing cash</u>												
Administration costs	2,000	2,000	5,000	2,000	2,000	7,100	2,000	2,000	2,000	2,000	2,000	2,000
Staff costs	5,600	5,600	5,600	5,600	5,600	5,600	6,200	6,200	6,200	6,200	6,200	6,400
Vehicle Running costs	22,000	2,500	2,500	3,000	2,500	2,500	3,000	2,500	2,500	3,000	2,500	2,500
Training programme	1,000	25,000	2,000	2,000	25,000	1,000	2,000	25,000	2,000	1,000	25,000	200
B TOTAL CASH OUT	30,600	35,100	15,100	12,600	35,100	16,200	13,200	35,700	12,700	12,200	35,700	11,100
C Net cash flow [A - B]	(7,060)	(26,095)	18,900	20,400	(29,529)	10,300	19,800	(26,826)	17,300	13,826	(25,604)	19,900
D Cash balance at start of month	8,095	1,035	(25,060)	(6,160)	14,240	(15,289)	(4,989)	14,811	(12,015)	5,285	19,111	(6,493)
E Cash balance at end of month [C + D]	1,035	(25,060)	(6,160)	14,240	(15,289)	(4,989)	14,811	(12,015)	5,285	19,111	(6,493)	13,407

Appendix 14: Milestone Project – Budget Compared To Actual Report

1 January to 31 March 2001

		TOTAL BUDGET	1 January to 31 March 2001		VARIANCE (adv)/fav	VARIANCE %	NOTES
		UC	BUDGET UC	ACTUAL UC	UC	UC	
Income (actual = receipts)							
Donors	DFID	90,000	25,000	25,000	0	0%	
	Smile Trust	90,000	25,000	25,000	0	0%	
	Vanguard Society	15,000	3,750	6,350	2,600	69%	Project tools purchased/reimbursed early
Other	Bank Interest	1,000	250	205	(45)	-18%	
	Donations	8,000	2,000	350	(1,650)	-83%	Fundraising strategy to be reviewed
	Sales	24,800	6,200	5,462	(738)	-12%	
	Training Fees	42,500	14,167	14,500	333	2%	
TOTAL		271,300	76,367	76,867	500	0.7%	
Expenditure (includes commitments)							
Administration	Audit fees	4,500	0	0	0	0%	
	Bank charges	600	150	105	45	30%	
	Board Meeting	1,200	150	127	23	15%	
	Depreciation	6,000	0	0	0	0%	Year end book adjustment
	Post & stationery	7,500	1,875	636	1,239	66%	Delay in printing the annual report
	Publicity	1,500	375	200	175	47%	
	Rent, ins. & utilities	9,000	2,250	2,100	150	7%	
	Repairs & renewals	1,500	375	327	48	13%	
	Telephones/fax	6,300	1,575	1,982	(407)	-26%	Aware of problem, making efforts to improve
Staff	Salaries & benefits	63,500	15,875	15,150	725	5%	
	In-service training	4,500	1,125	1,000	125	11%	
	Recruitment	0	0	0	0	-	
	Travel & subs.	3,000	750	835	(85)	11%	
Vehicle Running	Fuel	9,000	2,250	3,675	(1,425)	-63%	Error on our original budget – request review
	Vehicle Insurance	18,000	17,500	17,500	0	0%	
	Vehicle maintenance	24,000	6,000	5,608	392	7%	
Training	Fees & honoraria	3,000	750	500	250	33%	
	Food & accomm.	16,000	4,000	4,930	(930)	-23%	Costs for April course incurred in this quarter
	Training Materials	92,200	23,050	26,450	(3,400)	-15%	Costs for April course incurred in this quarter
TOTAL		271,300	78,050	81,125	(3,075)	-4%	
SURPLUS/(DEFICIT)		0	(1,683)	(4,258)	(2,575)		

UC = Unit of currency

Appendix 15: Sample Donor Monitoring Report

DFID No.12345

STATEMENT OF ACTUAL EXPENDITURE FOR QUARTER ENDING:

30-Sep-01

AND ESTIMATED EXPENDITURE FOR QUARTER ENDING:

31-Dec-01

Rate applied: 3.75

		1	2	3	4 [2 - 3]	5	6	7	8 [7 - 4]	See Report note no.
Budget items:		Annual Budget GBP	Budget last Qtr GBP	Actual last Qtr GBP	Balance remaining GBP	Spent to date GBP	Spent to date %	Budget next Qtr GBP	Grant claim GBP	
Administration	Audit fees	1,200	0	0	0	1,267	106%	0	0	
	Bank charges	160	40	29	11	91	57%	32	21	
	Board Meeting	320	27	23	4	303	95%	27	23	
	Depreciation	1,600	0	0	0	0	0%	1,600	1,600	
	Post & stationery	2,000	500	426	74	1,814	91%	187	113	1
	Publicity	400	100	43	57	189	47%	200	143	
	Rent, ins. & utilities	2,400	600	586	14	1,745	73%	573	560	
	Repairs & renewals	400	100	57	43	212	53%	187	143	
	Telephones/fax	1,680	420	572	(152)	1,548	92%	415	567	2
Staff	Salaries & benefits	16,933	4,233	4,280	(47)	12,411	73%	4,280	4,327	
	In-service training	1,200	300	859	(559)	1,170	98%	30	589	3
	Recruitment	0	0	0	0	36	-	0	0	
	Travel & subs.	800	200	210	(10)	585	73%	195	205	
Vehicle Running	Fuel	2,400	600	773	(173)	2,622	109%	874	1,047	4
	Vehicle Insurance	4,800	0	40	(40)	4,720	98%	0	40	
	Vehicle maintenance	6,400	1,600	1,297	303	5,087	79%	1,307	1,004	
Training	Fees & honoraria	800	200	400	(200)	653	82%	147	347	
	Food & accomm.	4,267	1,067	1,027	40	3,501	82%	1,040	1,000	
	Training Materials	24,587	6,147	6,157	(11)	18,455	75%	6,133	6,144	
TOTAL		72,347	16,133	16,780	(647)	56,409	78%	17,226	17,873	
Total apportioned to DFID:		24,000	5,324	5,537	(213)	18,615	78%	5,385	5,599	
% apportioned to DFID:		33%	33%	33%	33%	33%		33%	31%	

Schedule of DFID grants received/due:

	GBP
Qtr 1	6,667
Qtr 2	5,867
Qtr 3	5,867
Qtr 4	<u>5,599</u>
TOTAL	24,000

Appendix 16: Milestone Project - Budget Forecast to 31 December 2001

	TOTAL	Actual - 1 January to 30 September			TOTAL	Forecast	TOTAL	
	BUDGET	Quarter 1	Quarter 2	Quarter 3	To 30 Sept	Quarter 4	ANTICIPATED	
	UC	UC	UC	UC	UC	UC	UC	
Income								
DFID	90,000	25,000	22,000	22,000	69,000	21,000	90,000	
Smile Trust	90,000	25,000	25,000	25,000	75,000	15,000	90,000	
Vanguard Society	15,000	6,350	0	8,500	14,850	0	14,850	
Bank Interest	1,000	205	196	226	627	200	827	
Donations	8,000	350	895	3,250	4,495	800	5,295	
Sales	24,800	5,462	4,670	6,785	16,917	7,000	23,917	
Training Fees	42,500	14,500	6,900	11,200	32,600	9,500	42,100	
TOTAL	271,300	76,867	59,661	76,961	213,489	53,500	266,989	
Expenditure								
Audit fees	4,500	0	4,750	0	4,750	0	4,750	
Bank charges	600	105	125	110	340	120	460	
Board Meeting	1,200	127	924	85	1,136	100	1,236	
Depreciation	6,000	0	0	0	0	6,000	6,000	
Post & stationery	7,500	636	4,568	1,598	6,802	700	7,502	AGM costs were under estimated.
Publicity	1,500	200	350	160	710	750	1,460	Expect the major event in November
Rent, ins. & utilities	9,000	2,100	2,243	2,199	6,542	2,150	8,692	Expenditure levels are generally on track.
Repairs & renewals	1,500	327	256	213	796	700	1,496	Major repairs expected in the month of December
Telephones/fax	6,300	1,982	1,678	2,145	5,805	1,558	7,363	Phone rates were raised by phone company.
Salaries & benefits	63,500	15,150	15,340	16,050	46,540	16,050	62,590	On track
In-service training	4,500	1,000	167	3,222	4,389	111	4,500	Last Qtr will not be very busy.
Recruitment	0	0	135	0	135	0	135	
Travel & subsistence	3,000	835	569	789	2,193	731	2,924	Estimate based on activity plan
Fuel	9,000	3,675	3,257	2,900	9,832	3,277	13,109	Estimate based on activity plan
Vehicle Insurance	18,000	17,500	50	150	17,700	0	17,700	
Vehicle maintenance	24,000	5,608	8,603	4,865	19,076	4,900	23,976	Estimate based on activity plan
Fees & honoraria	3,000	500	450	1,500	2,450	550	3,000	On track
Food & accomm.	16,000	4,930	4,350	3,850	13,130	3,900	17,030	
Training Materials	92,200	26,450	19,667	23,090	69,207	23,000	92,207	
TOTAL	271,300	81,125	67,482	62,926	211,533	64,597	276,130	

Appendix 17: Sample Financial Management Work Plan

KEY: ----- = daily x = no. weeks

			JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
FINANCIAL ACCOUNTING ROUTINES														
Banking	Daily		-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Payroll	Monthly		x	x	x	x	x	x	X	X	x	x	x	x
Prepare Payment vouchers/cheques	Daily		-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Prepare/check Purchase Orders	Daily		-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Reimburse/reconcile p.cash / advances	Weekly		xxxx											
Update Cash Book	Weekly		xxxx											
Bank reconciliation	Monthly		x	x	x	x	x	x	X	X	x	x	x	x
Trial Balance	Monthly		x	x	x	x	x	x	X	X	x	x	x	x
Filing	Daily		-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Update stock records	Weekly		xxxx											
Reconcile stock records	Monthly		x	x	x	x	x	x	X	x	x	x	x	x
YEAR END														
Year-end reconciliation	Annual		-----											
Prepare financial statements	Annual			-----										
Prepare year-end schedules	Annual		-----											
Auditor's visit	Annual				x									
Income Tax annual return	Annual								-----					
BUDGETING														
Prepare first draft budgets	Annual									xxxx				
Revise budgets	Annual										x	x		
Budget to Board for approval	Annual												x	
REPORTS														
Prepare Budget Monitoring Report	Quarterly		x			x			X			x		
Prepare Cash Flow Report	Monthly		x	x	x	x	x	x	X	x	x	x	x	x
Prepare Donor Reports														
- DFID	Quarterly			x			x			x			x	
- USAID	Quarterly		x			x			X			x		
REVIEWS														
Assets Register	Quarterly		x			x			X			x		
Insurance cover	Six months					x						x		
Chart of Accounts	Annually													x
Delegated Authorities	Six months							x						x
Pay award	Annually				x									
Update Finance Manual	Annually													x

Appendix 18: A Checklist for Good Practice

A. Minimum Requirements	
Standard	Why
<input checked="" type="checkbox"/> A valid supporting document for every transaction, (securely filed and stored for the minimum period required.)	Protection for staff, evidence and details of transaction.
<input checked="" type="checkbox"/> A cash book for every bank account, reconciled every month.	To organise and summarise transaction information; check for errors and omissions.
<input checked="" type="checkbox"/> A Chart of Accounts – used consistently in the accounting records and budgets	Principle of consistency; to facilitate production of financial reports.
<input checked="" type="checkbox"/> A budget detailing costs and anticipated income for all operations.	Planning, fundraising, control and reporting.
<input checked="" type="checkbox"/> Clear delegation of authority – from governing body through the line management structure.	To know who is responsible for what and within what limits.
<input checked="" type="checkbox"/> Separation of duties – sharing finance administration duties between at least two people	To prevent temptation to steal and reduce opportunity to commit fraud; to share the load.
<input checked="" type="checkbox"/> Annual financial statements – preferably audited by an independent person.	Accountability to stakeholders; transparency.
B. Good Practice	
Standard	Why
<input checked="" type="checkbox"/> Additional accounting records when staff employed (wages book) or assets owned (Assets Register).	To meet statutory and audit requirements; for control purposes.
<input checked="" type="checkbox"/> Budgets based on real activity plans, which include the full cost of running a project.	Realistic, more likely to meet targets.
<input checked="" type="checkbox"/> Budgets with clear calculations and notes.	Easy to read and make adjustments. Easy to justify calculations.
<input checked="" type="checkbox"/> Separate core costs budget.	Encourages active management and financing strategy for core costs
<input checked="" type="checkbox"/> Monthly cash flow forecast.	Helps to identify and take action to avoid short-term cash flow problems.
<input checked="" type="checkbox"/> Use of Cost Centres where multiple donors and/or projects.	To separate restricted funds and related transactions; to facilitate reporting to managers and donors.
<input checked="" type="checkbox"/> Funding grids for multiple donors situations.	To avoid double-funding situations and identify areas of shortfall.
<input checked="" type="checkbox"/> Budget monitoring reports at least monthly.	To monitor progress; control purposes.
<input checked="" type="checkbox"/> Written policies and procedures, including a code of conduct for staff & board members.	To prevent confusion about organisation rules and expected practice.
<input checked="" type="checkbox"/> Diversified funding base – mix of restricted and unrestricted funds.	Less vulnerable to financial shocks; helps to build up reserves.
<input checked="" type="checkbox"/> At reasonable level of reserves.	Less vulnerable to financial shocks; helps overcome cashflow problems

Appendix 19: Sample Standard Forms

Payment Voucher

DATE:		AMOUNT:	
SUPPLIER or PAYEE DTLS:		CHEQUE NO. or PCV REF.:	
INVOICE NO.:		ORDER NO.:	
COST CENTRE or DEPT. REFERENCE:		BUDGET CATEGORY / CODE:	
<p>DETAILS OF PAYMENT OR REQUEST FOR FUNDS:</p> 			
<p>HAVE ESTIMATES/QUOTATIONS BEEN OBTAINED? YES/NO</p> <p><u>If yes</u>, please attach copies and indicate preferred supplier with reasons.</p> <p><u>If no</u>, please state why not obtained.</p>			
CHECKED BY:			
ORIGINATED BY: DATE:		AUTHORISED BY: DATE:	
ENTERED IN RECORDS BY:		DATE:	

Bank Reconciliation Form

Bank account details:	
Bank statement date:	
Bank statement sheet number:	

A. Balance as on statement:	
Less payments in cashbook, not on statement (e.g. un-presented cheques)	
B. Total deduction	
Plus receipts in cashbook, not on statement (e.g. unbanked income)	
C. Total addition	
Less receipts on statement, not in cashbook (e.g. income received directly into bank account)	
D. Total deduction	
Plus payments on statement, not in cashbook (e.g. direct debits & bank charges)	
E. Total addition	
F. Balance in Bank Book [A-B+C-D+E]	

Reconciliation performed by:

Signed:

Date:

Reconciliation checked by:

Signed:

Date:

