

# Diploma in Financial Management & Accountability

*- a joint initiative of TISS & FMSF*

## Course Material



Budgeting & Monitoring  
Paper - IV  
Unit -9  
Faculty - Joselyn Martins

## UNIT 9

### Reporting

#### 9.1. INTRODUCTION:

A sound Management System in any organization has two important elements:

- Program Management
- Finance Management

According to one author,

→Performance measured gets better fast.

→Performance measured and reported gets better faster.

→Performance measured, reported and managed gets better fastest.

#### 9.2. MEANING OF REPORTING

Reporting is a process through which the organizations are able to document, seek information, analyze the results, and make suitable decisions for managing the organization performance in the best manner.

#### 9.3. SIGNIFICANCE OF REPORTING

Reports reflect the organization's present financial situation. It is an important tool through which the organization's stakeholders are able to judge the performance to know whether or not the organization has carried out the activities as per the plan or has there been any deviation.

Reporting is, thus, very crucial to enhance the accountability and transparency of the organization.

We also know that one of the important functions of accounting is that it serves as a means of information/ communication to the management. This function is mainly performed through generation of reports.

Whether you are monitoring or evaluating, at some point, or points, there will be a reporting process. This reporting process follows the stage of analyzing information.

#### **9.4. WHY IS THERE THE NEED FOR REPORTING?**

Effective reports are critical organisational documents because they:

- Communicate information and ideas about your work, and that of your organisation.
- Reflect and explain progress with work - and lack of progress.
- Make it easier for your organisation to assess progress and plan anew.
- Promote accountability.
- Promote discussion and informed decision-making.
- Emphasize problems and make recommendations.
- Share information, learnings and experiences.
- Provide analysis and offer insights into the way forward.
- Help with effective and strategic planning.
- Help members to participate in the democratic processes of your organisation.

#### **9.5. WHO DO WE WRITE REPORTS FOR?**

Who you write reports for varies from organisation to organisation. Depending on the purpose of your report, your audience could include:

- staff
- members
- executive committee
- board

- funders
- other organisations
- members of the public

It is important to be completely clear about why you are writing your report.

## 9.6. TYPES OF REPORTS

There are many different kinds of reports - we are sure you are familiar with them. They include:

- External reports
- Internal reports
- Financial reports
- Non-financial reports
- Annual reports
- Committee reports
- Staff reports
- Membership reports
- Research reports
- Special reports
- Progress reports

Some of these reports are discussed below:

- **External Reports:** The external reports are generated primarily, to comply with the requirement of the government, legal and tax purposes, donor, etc.
- **Internal Reports:** The internal reports are generated, and oriented towards the management to enhance the internal control and monitoring measures and thereby enable it to periodically analyze the performance and take corrective measures wherever applicable and make plans for the future accordingly.

- **Committee reports:**
  - A committee member is usually delegated to write a committee report.
  - Committee reports are progress reports, and are written more frequently than annual reports. They are short reports to explain progress.
- **Financial reports:** The financial reports submitted must be transparent and clear with supporting schedules. For example, the overall financial statement should reflect the fund status of each project and the expenditure incurred must be in accordance with budget line items of the project approved. The reporting must be in such a manner that the report to a funding agency relating to that project must be clearly reflected in the overall financial statement of the organization. This integrated approach will facilitate to read and understand the financial statement better.
- **Non- Financial Reports :** They primarily consists of narrative reports which details about the activities carried out during the specific period of reporting. In fact, these reports are generally prepared to comply with the funding partners' requirement and secondly for the monitoring and analytical purpose of the organization carrying out the said activities. In fact there are certain key aspects which needs to be taken care of while preparing such reports which is not only a requirement of the funding partner but will also enhance the review and improvement process of the organization implementing the activities. The report needs to be prepared in such a way that it is possible to compare the actual achievement of the project with the planed measures.

### **9.7. DIFFERENT WAYS OF REPORTING**

The following are some of the ways of reporting in a development organization:

1. Reporting to the Board/ Governing Body.
2. Reporting to the Executive Committee/ Director.

3. Reporting to the Government.
4. Reporting to the Funding Partner/ donor agency.
5. Reporting to the public at large/ community.

### **Reporting To The Governing Structures**

The following reports are generally submitted to the Governing structures:

- a) Quarterly or Half-Yearly Reports
  - b) Annual Audited Financial Reports
  - c) Legal Compliance Status Reports
  - d) Budget Comparison Reports
  - e) Investment Status Reports
  - f) Funding Partner Status Report.
- a) **Quarterly or Half-Yearly Reports:** Boards of the non-profit organisations could meet every quarter during the financial year. In the quarterly meetings the following reports should be presented to the board for review of the Board:
- Receipts and Payments Accounts
  - Income and Expenditure Accounts
  - Balance Sheet
  - Financial Report on Project( Donor's requirement)
  - A report of the Key Financial Ratios
  - Legal Compliance Status Report
  - Annual Budget Comparison Report
  - Investment Status Report

- b) **Annual Financial Report:** Normally it is a requirement that every non-profit organisation should present its audited financial statement in the Board meeting after the end of the financial year and adopt the same before filing it with the appropriate Governmental Authorities.

The Board may review the following reports:

- i) Audited financial statements including –
  - a. Receipts and Payments Accounts
  - b. Income and Expenditure Accounts
  - c. Balance Sheet
- ii) A report of the Key Financial Ratios
- iii) Legal Compliance Status Report
- iv) Annual Budget Comparison Report
- v) Investment Status Report

c. **Legal Compliance Status Report:** This is a report that informs the board whether the organisation has complied with the necessary laws e.g. filing the Income Tax returns, reporting to the Ministry of Home Affairs under FC(R) A etc.

If there is any action against the organisation by the government it should be reported to the Board. Information should not be purposely concealed from them. If there is any violation of the laws, it will have serious implications causing immense damage to the organisation.

d. **Project status Report:** An organisation often implements many projects simultaneously. Therefore it is important for the Chief Functionary as well as the board to understand the Status or the Stage of completion of each project. This report therefore gives complete details about each project at any particular point of time. The sample format of a project status report is given below:

S.no.	Project Number	Funding Partner	Month and Year	Amount received	Purpose	Areas to be implemented	Percentage of the amount spent	Remarks

- e. **Budget Comparison Report:** Unless the plan is reviewed regularly any deviation from it can be rectified in a timely manner. A budget is a financial plan and hence it needs to be compared with the actual Financial Statements (monthly, quarterly, half yearly or annually) periodically wherein every deviation can be identified. After analyzing the deviations, corrective measures must be taken immediately. A Budget Comparison Report is a management tool to assist in the above process. The sample format of a Budget Comparison report is given below:

Budget Code	Budget Item	Note	Budget amount	Actual Expenses	Variance	Favorable adverse Variance	Reasons





**Audit Report**

We have audited the Financial Statement of \_\_\_\_\_  
of Project \_\_\_\_\_ implemented by \_\_\_\_\_  
in respect of \_\_\_\_\_ funded by XYZ for the period from  
to \_\_\_\_\_ and report that:

- a Separate and proper books of accounts as is considered necessary for the purpose of audit have been maintained.
- b The Statement of account referred to above is in agreement with the books of accounts.
- c According to the information and explanations given to us/me, the expenses have been adequately authorized and is within the budget as approved by XYZ.
- d In so far as the own contributions of the project partner both cash and non-cash form are concerned, they have been verified with reference to reasonable source of evidence.
- e The agreement between XYZ and the project partner has been adhered to.
- f The said accounts according to the information and explanations given to us/me reflect a true and fair view of the transactions for the project.

Place:

Date:

Signature &  
Seal of Chartered  
Accountant

## **9.8. REPORTING TO THE EXECUTIVE DIRECTOR\COMMITTEE**

While it is the Board which frames policies, it is the executive director\Committee which implements such policies and takes care of the day to day affairs of the organisation. Therefore following reports will be required for the executive director more frequently than they are required by the Board.

- i) Monthly Financial Reports-
  - a. Receipts and Payments Accounts
  - b. Income and Expenditure Accounts
  - c. Balance Sheet
- ii) Annual Budget Comparison Report
- iii) Investment Status Report
- iv) Donor agency Status report
- v) Bank reconciliation statement
- vi) Legal Compliance Status Report

### **Summary Of The Activities**

The reports need to provide a summary of the major activities carried out during the period in focus. This should be structured according to the approved budget line items. It needs to also include the relevant statistical data along with meaningful photographs of the progress made.

### **Assess The Activities Carried Out:**

The report needs to assess the achievement in comparison to the planned objectives along with the indicators identified for assessing achievements.

### **Analyze Deviations**

It is very crucial that the report not only shares the success stories but also speaks about deviations and failures including the indicators identified for overcoming the same. It will be more meaningful if the report also speaks about the steps/ strategies worked out by the organization to overcome the same.

Another important element is that these narrative reports needs to draw link to the corresponding expenditure incurred for the particular activity which will enable not only the reader but will also enable the organization to review periodically its progress and the strategies adopted.

### 9.9. PROGRAMME BASED FINANCIAL REPORTING

Program based financial reporting is essential to understand the expenses of each program and the unutilized balance and how it is kept. Further, budget comparison report of each program facilitates analyzing the reason for variance. Program based financial reporting can be consolidated into overall financial report of the organization.

#### Frequency Of Reporting

The frequency of reporting is crucial for online monitoring. The reports to the various Governing structures depend on the site and complexities involved in the organization. For example, reporting to the Governing Body could be once in a quarter or six months. Reporting to the Director could be monthly. Reporting to the General Body could be once in a year. Timely submission of reports is a very factor for a healthy financial management.

The form and content of the narrative report needs to be mutually agreed upon between the organization and the funding partner so that one common format is evolved taking into consideration the requirement at both ends.

Below is a table, suggesting different reporting mechanisms that might be appropriate for different stakeholders and at different times in project cycles.

Target group	Stage of project cycle	Appropriate format
Board	Interim, based on monitoring analysis	Written report
	Evaluation	Written report, with an

		Executive Summary, and verbal presentation from the evaluation team.
Management Team	Interim, based on monitoring analysis	Written report, discussed at management team meeting.
	Evaluation	Written report, presented verbally by the evaluation team.
Staff	Interim, based on monitoring	Written and verbal presentation at departmental and team levels.
	Evaluation	Written report presented verbally by evaluation team and followed by in-depth discussion of relevant recommendations at departmental and team levels.
Beneficiaries	Interim, but only at significant points, and evaluation	Verbal presentation, backed up by summarized document, using appropriate tables, charts, visuals and audio-visuals. This is particularly important if the organisation or project is contemplating a major change that will impact on beneficiaries.
Donors	Interim, based on monitoring	Summarized in a written report.
	Evaluation	Full written report with executive summary or a

		special version, focused on donor concerns and interests.
Wider development community	Evaluation	Journal articles, seminars, conferences, websites.

#### 9.10. LINKAGE BETWEEN PROGRESS AND FINANCIAL REPORT:

Financial statements provide valuable insight into an organization's performance. Analysis of financial statements is of interest to the donors agency, Government and others. Similarly the progress report, which details of the activities carried out, is prepared by the organization for the monitoring and analytical purpose of the organization and its various stake holders.

In fact there are certain key aspects which need to be taken care while preparing such reports and statements, which is not only the requirement of the funding partner but also enhances the review and improvement process of the organization implementing the activities by providing a linkage between the progress and the financial reports.

##### Item of Expenditure

The expenditure incurred by the organization should be booked in the books of accounts as per the pre defined head under budgeted activities. Similarly the progress reports should be prepared keeping in mind the budgeted activities. Meaning that non-financial activities should be reported in line with the heads used in the financial statements. Thus providing a proper linkage between the two.

##### Budgeted Income

Donation in cash	5000
Government Grants	5000

##### Budgeted Expenditure

Project- Non Formal Education

Material cost	2500
Salary to project co-coordinator	5000
Administrative Expenses	2500

If during the period the accountant books the salary to the project coordinator under the administrative expenses head or any other head instead of booking it under project non-formal education - salary to project coordinator then it would defeat the purpose and no proper linkage between the financial and progress report could be drawn.

#### Time Frame

Both the reports should relate to the same time frame. Usually the time between the reporting of progress report and financial report is more. For effective analysis both the progress report and financial report should be prepared and reported at the same time.

#### Other Points

Any deviations from the budgeted activities or any agreed procedure should be brought to the notice by providing a note at the end of each such report.

Once a linkage is established between the financial report and progress report a proper analysis of both can lead to following rewards

- Proper analysis/ monitoring of the budgeted activities.
- Whether the budget set for different activities are reasonable and realistic. If any changes required can be done by analyzing the activities carried out.
- Reasons for any deviations in the actual expenditure from the budgeted expenditure can be drawn up from the progress report. Further measures to be taken for the proper implementation of the activities due to such deviations.

### 9.11. ILLUSTRATIVE MODEL OF FINANCIAL NARRATIVE REPORT OF SUSTAINABLE DEVELOPMENT PROGRAM

#### Introduction:

This report provides an explanatory value to the audited finance report of the half year ended 31<sup>st</sup> March, 05. This report may be read with the financial statements.

#### Overview:

The sustainable development program is being undertaken in the coastal villages of Orrisa. Under this program efforts are being made towards capacitating the villagers in identifying sustainable sources for livelihood.

The financial expenditure under this program are mainly divided into five broader categories, they are as under:

- Direct Program Support 50%
- Program technical assistance 10%
- Program implementation 24%
- Administrative expenses 16%
- Capital expenditure- Non recurring

#### Statement of Expenses:

Description	Budget Amount	Actual Expenses	Variance
<b>A. Direct program Support</b>			
(i) Sustainable Fishing	1,50,000	1,23,000	27,000
(ii) Sustainable agriculture	2,00,000	2,64,000	(64,000)
(iii) Sustainable Forestry	1,00,000	1,00,000	Nil
(iv) Sustainable Institution Building	2,00,000	2,00,000	Nil
<b>B. Program Technical Assistance</b>			
(i) Technical Fees	22,000	12,000	10,000
(ii) Seminar and Workshop	60,000	64,000	(4,000)
(iii) Research Material & Equipment	48,000	NIL	48,000



Description	Budget Amount	Actual Expenses	Variance
<b>C. Program Implementation</b>			
(i) Program Admn. Salaries	2,00,000	2,00,000	Nil
(ii) Travel and Conveyance	1,12,000	1,19,000	(7,000)
<b>D. Administrative Expenses</b>			
(i) Admn. Salaries	1,60,000	1,60,000	Nil
(ii) Telephone	1,00,000	1,00,000	Nil
(iii) Stationery & Consumables	25,000	25,000	Nil
(iv) Postage and Courier	1,30,000	1,30,000	Nil
(v) Hospital	-	3,000	(3,000)

### Expenditure Analysis:

The financial statement provides the details of expenditure against all the above mentioned broad heads. As it can be seen that under each head the amount available at the beginning of the period, amount spent during the period and the amount available at the end of the period have been provided in the statement.

#### 1. Direct Program Support:

The allocated budget under this head for the period was Rs. 6.50 lakhs under the following broad sub-heads:

- (i) Sustainable fishing Rs.1,50,000
- (ii) Sustainable agriculture Rs. 2,00,000
- (iii) Sustainable forestry Rs. 1,00,000
- (iv) Community Institution Building Rs. 2,00,000

- i) **Sustainable Fishing:** Under this head out of the allocated amount of Rs. 1,50,000 lakhs only Rs. 1,23,000 was spent. The main reason for the under utilization to the extent of Rs. 27,000 was due to the inability of the contractor to complete the 'fish drying rack' within the contracted time. However, the rack was completed in the month of April and the same amount will be accounted in the next period. Rs 74,000 spent under the

head fish net revolving fund, were transferred to a legally registered SHG. This SHG has been formed by the fisherman of ten nearby villages. It was heartening to know that the SHG could give matching contribution of Rs 74,000. This SHG provides low interest loans to around 75 fishermen families.

- ii) **Sustainable Agriculture:** Under this head there was an over utilization to the extent of Rs. 64,000 largely due to the sudden increase in the cost of ten bore wells which dug during the period. Rs. 34,000 and Rs. 26,000 were given to two groups of SHG towards vegetable cultivation and poultry. The experience of supporting small SHG in this village has been very promising. The x village revolving fund has grown 5 fold in last 3 years without any external support. The delinquency rate is also 3% which is extraordinarily good. The Rs. 34,000 was spent on a pilot project on organic manure.

2) **Program Technical Assistance:**

Under this head expenditures pertaining to technical assistance are incurred. Rs. 12,000 was spent on payment of technical fees to the agricultural university for testing of soil and identification of the appropriate seed in this area. The expenditure was Rs. 10,000 less than the budgeted as the local people could convince the local authorities to get the work done on cost to cost basis. Rs.64,000 spent under the head workshop and seminar was actually towards an exposure, visit of 30 farmers, to the All India Agricultural Trade Symposium. Infact the farmers' federation was able to establish an export marketing tie-up with an international organization during the visit.

3) **Program Implementation :**

Under this head the salary and travel cost of the program manager and the project officer are incurred. The travel expenditure was slightly higher by Rs. 7,000, because of the annual insurance expenditure against the vehicle. This incidentally was due during the project period.

4) **Administrative Expenses:**

Under this head the following administrative expenditure are incurred:

Salaries		10,000
Telephone		2,000
Stationery & Consumable	4,000	
Postage/ Courier	1,000	
Hospitality		3,000

There was no variation under this head except Rs. 3,000 spent under the head hospitality which was on account of visits made by the representatives of the donor agencies.

5) **Capital Expenditure:**

Rs.15,000 has been incurred under this head as one time expenditure., The budget allocation was Rs. 15,000 but actually 34,000 was spent on purchase of a two wheeler for the project officer. The initial idea was to purchase a second hand two wheeler. The additional amount was paid from the general reserves of the organization and only Rs. 15,000 has been charged to the program.

**9.12. SUMMARY**

- Meaning of reporting
- Significance of Reporting
- Need for Reporting
- Types of Reports
- Linkage between Progress & Financial report

**Self- Assessment Exercise**

**Short Answer type questions:**

1. *What do you understand by the term “Financial Reporting”?*
2. *What are the different types of reports?*
3. *What are the characteristics of an effective “Management Information system”?*
4. *List out the contents of a Financial Report?*
5. *What are the benefits of “Program based Financial Reporting”?*