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**Course Name:** Post Graduate Diploma in Finance Management (PGD-FM)

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**Assignments**

1. Discuss why financial management is important to NGO’s
2. Discuss the principles of financial management
3. Which are the building blocks of financial management
4. Discuss briefly the tools of financial management
5. Define financial accounting and management accounting
6. What makes good financial policies
7. Discuss the importance of financial planning
8. Discuss the tips that are involved in preparing a cash flow forecast

**Qn.1.**

Financial management is crucial for the success of any organization, be it private, government or non-governmental organization. For any organization to be successful, they ought to watch their finances and make the right decisions at the right time, ultimately leading to a thriving business. Most businesses have a well-structured finance department responsible for looking after the accounts and finances of the company. On the other hand, NGOs most often do not consider financial management to be a priority and lack adequate financial knowledge. This is often characterized by poor financial planning and adequate financial systems in place. This practice makes NGOs very vulnerable to financial losses

Financial management is the process of planning, organizing, controlling and monitoring financial resources with a view to achieving organizational goals and objectives. It is an ideal practice for controlling the financial activities of an organization such as procurement of funds, utilization of funds, accounting, payments, risks assessment and every other thing related to money. (Funds for NGOs, Grants, and Resources for Sustainability)

It’s the responsibility of NGOs management to plan their expenditures and their investments’ and manage funds in a way that leads to a sustainable enterprise.

As a NGO you might be thinking your primary task is to work towards social service and not financial management. But unless your finances and funds are sorted, you cannot achieve your objectives. The primary significance of financial planning and management in NGOs lies in achieving its overall goals and objectives. Here are some points indicating the importance of financial management for an NGO.

* **Being accountable to the donors**: Most NGOs rely completely on funding and therefore having proper accounting systems in place becomes all the more important. As a NGO you need to be accountable to the donor agencies and individuals who support your cause. With proper systems in place you can keep track of your expenditures and submit timely reports to them. This would lead to enhanced trust between you and the donor, thereby increasing the chances of your NGO getting a continuous support from them. With limited funding it is important for an NGO to manage all the funds in a careful manner. Furthermore, proper finance systems will also help the NGO maintain financial reports and showcase their entire spending to the regulatory bodies as per the agreed terms.
* **Securing future**: The present financial condition of any organization determines its future. In a similar manner, NGOs should also opt for sustainable use of finance. This simply means that NGOs should spend in their present ventures, keeping in mind the future. After all, it is quite important to have future plans and become well secured as well as future-ready.
* **Eliminating fraud and theft**: Malpractices and illegal deeds such as overuse of resources, fraud and theft have become prevalent among NGOs. Firm checks are mandatory, for minimizing such illicitness and preventing abuse of resources. With complete financial planning, coordination and control, these issues can be easily addressed.
* **Making productive decisions**: With sound financial management, NGOs can make more productive decisions concerning resource allocation, fund raising, fund mobilizing and other undertakings. Good decision making skill enables right amount of funds to be invested at the right place. Funds are therefore efficiently and optimally utilized.
* **Achieving objectives**: Every NGO is guided by certain policies and procedures, which are related to its overall objectives. Each decision that is undertaken by the authority is driven towards successful achievement of its set goals and objectives. Without organizing finance, it will be difficult for the organization and its employees to reach its aim and fulfil purpose of its existence.
* **Enhancing credibility**: Managing finance is a matter of skills and tactics that ideally changes from time to time. With excellent finance management, NGOs enhance their image that enhances its value and making them more credible. By framing well defined financial plans and policies NGOs also earn good reputation within its community. They can also improve their current position and look forward to gain trust, faith and reliability.
* **Strengthening fundraising efforts**: Most of the NGOs solely survive on its funds. Well organized financial resources help in strengthening fundraising efforts by giving an overall idea about available finance and the amount of finance that needs to be accumulated. Thus, employees get a fair idea regarding the expected amount and plan their fundraising ventures accordingly.

**Qn. .2.**

Financial management is the process of using funds effectively, efficiently and transparently. It is accomplished through a combination of procedures, methods, rules of conduct and standards. Effective and efficient financial management systems have key characteristics in common. In a management there must be principles that we should note. As well as with its own financial management and they are discussed as below:-

### Stewardship: The organization must take good care of the resources it is entrusted with and make sure that they are used for the purpose intended. The board of trustees has overall responsibility for this. In practice, managers achieve it through careful strategic planning, setting up appropriate controls, considering risks, and by setting up systems that work in tune with the two golden rules of NGO field work.

### Accountability: The organization 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.

### Transparency: The organization 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.

### Integrity: On a personal level, individuals in the organisation must operate with honesty and propriety. For example, managers and trustees should lead by example in following procedures and by declaring any personal interests that might conflict with their official duties. The integrity of financial reports depends on the accuracy and completeness of financial records.

1. **Viability:** 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.
2. **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.
3. **Consistency:** The organisation's financial policies and systems must be consistent over time. This promotes efficient operations and transparency, especially in financial reporting. While systems may need to be adapted to changing needs, unnecessary changes should be avoided. Inconsistent approaches to financial management can be a sign that the financial situation is being manipulated.

**Qn .3.**

In any setting, there is no such thing as a model finance system that suits every NGO. But there are some basic building blocks, which must be set up to achieve good practice in financial management. And these building blocks includes the following:-

* **Accounting Records:** Every organization 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 organization is being managed and whether it is achieving its objectives.

Accounting records fall into two categories: Supporting documents – these are the paper- work, such as receipts and invoices, which provide evidence, or proof, that a transaction took place. There should be at least one supporting document for every transaction taking place. Books of Accounts – these are the books or ‘ledgers’ where information of financial transactions are recorded and summarized. They can either be kept as special books with lots of columns or on a computer accounts program designed for that purpose.

There are two main approaches to keeping accounts: Cash accounting – a simple bookkeeping system which is relatively easy to use. This uses a Cashbook to record the date that payments are made and cash is received. It also gives a summary of cash available in the bank.

* **Financial Planning:** Linked to the organization’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 organization 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 organization.
* **Internal Controls:** A system of controls, checks and balances– collectively referred to as internal controls– are put in place to safeguard an organization’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 protects staff involved in financial tasks.
* **Budgeting:** Once a budget is approved, it becomes the guide for all expenditures. Budget management and control is the ongoing process of comparing actual results with budgeted amounts in order to monitor adherence to the planned budget, identify and understand variances, and proactively plan for necessary revisions.

**Qn. 4.**

First, we need to define what financial management is before we have a look on the tools of financial management. Financial Management is therefore a vital activity in any organization. It is the process of planning, organizing, controlling and monitoring financial resources with a view to achieve organizational goals and objectives. It is an ideal practice for controlling the financial activities of an organization such as procurement of funds, utilization of funds, accounting, payments, risk assessment and every other thing related to money.

In other terms, Financial Management is the application of general principles of management to the financial possessions of an enterprise. Proper management of an organization’s finance provides quality fuel and regular service to ensure efficient functioning. If finances are not properly dealt with an organization will face barriers that may have severe repercussions on its growth and development.

Experienced leaders understand the importance of effective financial management systems.  Ones’ company can impress lenders, business partners or a potential acquirer with five financial management tools.  Use this guide as a checklist of some key financial tools that may help to strengthen and make financial processes more efficient.

Five Important Sets of Tools:

* Reporting/Analytics
* Cash Position Management
* Accelerate Receivables
* Control Payables
* Manage Expenses

## Reporting/Analytics

The analytic tools a company uses to track data and distill it into financial Key Performance Indicators (KPIs) are of primary importance.  In recent years, companies have witnessed an explosion of data spanning markets, customers, operations and detailed financial transactions.  The name “Big Data” has come to represent the amount of data, easier means of collecting it and tying it together and the strategic importance of putting this data to work.  Producing reports is one thing; being able to articulate the implications of those detailed snapshots on a company’s bottom line and being able to communicate them across the organization are the true tests of financial sophistication.  Key tools and sophisticated financial approaches include:

Turn-key banking products that help your Reporting and Analytics

Online information reporting tools, most with instant access to detailed information on daily financial transactions across multiple platforms, provide robust support for reporting and analytics. From simple online banking, to more integrated Treasury Management systems that provide customized reporting and transaction detail, your bank can provide a host of reporting and analytic systems to support your specific needs.

* **Automated reporting and business intelligence systems** assimilate information from disparate systems into an integrated real-time view of financial and business processes. They often use Enterprise Resource Planning (ERP) systems as a backbone. ERP systems can be customized to your business specifications, consolidating any element of financial and management accounting (general ledger, payables, receivables, budgeting by P&L centers, etc.), human resources (payroll, recruiting, 401K), manufacturing (inventory, work flow management, cost control) and Customer Relationship Management (CRM) data. Business intelligence features, such as dashboards that graphically display specific KPIs at a glance, can also be programmed to improve decision making and provide data on the fly. As a whole, this automated reporting enables the management and finance teams to spend less time on the details of core business process reporting and more time evaluating opportunities.
* **Continuous budgeting** allows companies to make decisions based on real data and current market conditions with up-to-date assumptions. Business intelligence and ERP systems themselves can assist in providing the data necessary to transition from annual to planned monthly or quarterly budgeting.
* **Break-even analysis** indicates exactly what level of sales your company needs to fulfill obligations and sustain operations. More advanced planning techniques apply break-even analysis to scenarios that game different levels of external conditions (raw materials cost, labor costs, economic conditions, etc.) and business strategies for your company.
* **Audited statements** provide an objective third-party assessment of financial statements and provide a level of confidence and credibility in company financial statements.
* **Online information and reporting tools** offer visibility into detailed information on daily financial transactions across multiple platforms.
* **Inventory management systems** helps keep inventory levels in check, reduce carrying costs and pinpoint obsolete items in need of liquidation.
* **External industry analysis** for your industry segment or marketplace helps you understand the future of the industry, emerging competitive issues and top groups with whom to benchmark and share data.

**Qn.5.**

Before we look at what financial and management accounting are; let us first define the term **‘‘Accounting’’** refers to the process of recording, classifying and summarizing in monetary terms, the business transactions and events and interpreting the results. It is used by entities to keep a track of their financial transactions.

Financial Accounting and Management accounting are the two branches of accounting. Financial accounting stresses on giving true and a fair view of the financial position of the company to various parties. On the contrary, management accounting aims at providing both qualitative and quantitative information to the managers, so as to assist them in decision making and thus maximizing the profit.

We can therefore say Financial Accounting is an accounting system which is concerned with the preparation of financial statement for the outside parties like creditors, shareholders, investors, suppliers, lenders, customers, etc. It is the purest form of accounting in which proper record keeping and reporting of financial data are done, to provide relevant and material information to its users.

In a different scenario, Financial Accounting is based on various assumptions, principles and convention like going concern, materiality, matching, realisation, conservatism, consistency, accrual, historical cost, etc. The financial statement consists of a Balance Sheet, Income Statement and Cash flow statement which are prepared as per the guidelines provided by the relevant statute. And normally, the statements based on the financial accounting are prepared for one accounting year, to enable the user to make comparisons regarding the financial position, profitability and performance of the company in a specific period. Not only external parties but internal management also gets information for forecasting, planning, and decision making.

MeanwhileManagement Accounting, also known as Managerial Accounting is the accounting for managers which helps the management of the organisation to formulate policies and forecasting, planning and controlling the day to day business operations of the organisation. Both the quantitative and qualitative information are captured and analysed by the management accounting.

The functional area of management accounting is not limited to providing financial or cost information only. Instead, it extracts the relevant and material information from financial and cost accounting to assist the management in budgeting, setting goals, decision making, etc. The accounting can be done as per the requirement of the management, i.e. weekly, monthly, quarterly, etc. and there is no format set on the basis of which it is to be reported.

**Conclusion:**

Financial Accounting and Management Accounting are of great significance, in fact, they help the organisation in various ways. As financial accounting is helpful in the proper record keeping of in numerous transactions and comparison of the performance of two periods of an entity or between the two entities, while the management accounting is helpful in analysing the performance, making a strategy, taking an effective judgement and preparation of policies for the future.

**Qn. 6.**

We need to know what a policy is all about before we can have a look at what make a financial policy good. **A policy** sets out a set of principles and guidelines for a key area of activity within an organization. It removes any questions about how important resources are used. For example, a Vehicle Policy will clarify who can drive the NGO‟s vehicles, how they are disposed of and rule on private usage by staff.

Policies are usually written by senior managers and then discussed and agreed by the Board or management team. Once approved, a policy is binding on everyone in the organization and failure to do so could result in disciplinary action.

Policies should stand the test of time – whilst it is important to be flexible, NGOs should not change policies too often.

There is no one financial management system that works for everyone. However, every effective financial management system is based on a few simple principles. Below are some established good practices in the financial management of a business.

* **Consistency:** Financial policies and systems must remain constant over time. If a company establish cash on delivery rule, for example, then that company needs to stick to that policy regardless of where they are in the cash flow cycle.
* **Accountability:** Financial management system should create a paper trail that shows how resources have been used and who has authorized the decisions behind their use. Your system should create transparency, rather than make processes so complicated that it is difficult to determine who has done what.
* **Financial stewardship:** The processes that your business adopts should demonstrate that your organization values its financial resources and uses them for the purposes they are intended.
* **Compatibility with existing technology:** There are various be spoke financial management systems on the market, most of which come in the form of software, and all of which tout a complete financial management solution for a business. Before one spend many thousands investing in a system, make sure it is compatible with your existing technology.
* **Accounting standards:** Accounting standards in South Africa are rigorous and extensive. Ensure that your financial management system complies with the latest accounting standards, and that there is a process whereby the system will be updated to reflect the latest changes, when they take place.

Conclusively; a consistent **policy** will ensure better accountability, transparency, better information dissemination and timely reporting. Accountability: The financial systems should be such that it makes the organization more accountable to its stakeholders. As an NGO all you should account for all the resources and its expenses.

**Qn.7.**

Financial Planning is the process of estimating the capital required and determining its competition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

Financial Planning has got many objectives to look forward to:

1. **Determining capital requirements-** This will depend upon factors like cost of current and fixed assets, promotional expenses and long- range planning. Capital requirements have to be looked with both aspects: short- term and long- term requirements.
2. **Determining capital structure-** The capital structure is the composition of capital, i.e., the relative kind and proportion of capital required in the business. This includes decisions of debt- equity ratio- both short-term and long- term.
3. **Framing financial policies** with regards to cash control, lending, borrowings, etc.
4. A finance manager **ensures that the scarce financial resources are maximally utilized in the best possible manner** at least cost in order to get maximum returns on investment.

Financial Planning is process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be outlined as-

1. Adequate funds have to be ensured.
2. Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained.
3. Financial Planning ensures that the suppliers of funds are easily investing in companies which exercise financial planning.
4. Financial Planning helps in making growth and expansion programmes which helps in long-run survival of the company.
5. Financial Planning reduces uncertainties with regards to changing market trends which can be faced easily through enough funds.
6. Financial Planning helps in reducing the uncertainties which can be a hindrance to growth of the company. This helps in ensuring stability and profitability in concern.

**Qn.8:**

**A cash flow forecast** is an estimate of the amount of money one think s/he could bring into his/her business and how much you're expecting to spend. It also includes all your itemised projected income and expenses.

Cash flow forecasting is, hands down, one of the most important things a business should be doing. In short, it’s how a company can predict your annual profits vs. your end-of-year debt. It also allows you to get a clear glimpse of where you are making the most and see who you owe money. So how do you go about setting up your cash flow forecasting? Here are four tips on how to do so.

**1. How Much Money Will You Be Bringing In:** The first step in any cash flow forecast is to estimate how many sales you think you will be bringing in either weekly or monthly. A great way to come up with these estimates is to reference your previous sales history. Look at the past couple of years and try to get a good idea of, considering the past year’s performance at that time, what kind of weekly or monthly sales you expect to see. Obviously your sales won’t always be consistent, so take into consideration patterns that are the same each year (seasons and holidays, for example) and factors that could change each year, such as trade shows or promotions, when making your projections. It’s very important that you think in length about your future plans. Any new marketing efforts you make or products you bring into the mix should allow you to increase your sales forecasts. On the other end, if, for example, you know of a new competitor entering the market, you might want drop your figures a bit as they may gain a bit of your market share.

If you don’t have previous sales to reference (as you’re a new business), try to put together an estimate by looking at industry standards, considering performance of similar businesses, or even a customer survey.

**2. Consider the terms on which you will be paid:** If you’re an experienced business owner, than you know that you don’t always receive the money you earn immediately. For many of your sales, you could be waiting 30+ days to see that cash. Therefore, it’s crucial when doing a cash flow forecast to estimate when you expect payment from your sales. You might be a retail shop who gets all money at the point of sale, but for those that operate on traditional trade credit or simply just bill your customers, you need to evaluate what your average DSO is and consider this in your projections. This way, you not only know how much you expect to make, but when you can expect to receive it.

**3. How much money will you spend:** When making your cash flow forecast, it’s absolutely crucial you are able estimate how much your company spends. Of course, these costs are going to be both fixed and variable, but you need to do the best you can. Your fixed costs are such things as rent and how much you’re paying employees, where variable costs are, most of the time, associated with the sale of the product or service you are providing. Therefore, reference back to your forecasted sales to help estimate some of these variable costs.

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