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

**Admission number:** ACPM PGD/108/2018

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**Submission Date**: July 10, 2019



**ASSIGNMENT-6**

1. At times the donor may appoint a financial management agent to supervise the funds that are provided for a particular project. What are the functions of such an agency?

Before we look at the functions of such an agency appointed to supervise the funds that are provided for a particular project, we need to have a full understanding of key terms such as:-

* Project/Project Management/Project Implementation
* Financial Management

Project management is defined broadly as the activities needed to lead and coordinate project implementation, including administration, monitoring and reporting on project progress, finance, and accounting, procurement tasks, and supervision of consultants and construction contractors.

The definition is wider than the often-used concept of project management, which would not necessarily include such activities as contract supervision, procurement, or even accounting. It is considered appropriate since it coincides with the main tasks that the SES deems necessary for any agency that wishes to manage projects efficiently: project administration, including procurement and reporting, and project supervision.

Project implementation includes project management and technical tasks such as detailed design of works or training of staff or project beneficiaries.

Implementation efficiency is the degree to which project tasks can be completed in accordance with time limits, available resources, and quality standards. It incorporates the level of economy with which inputs are transformed into outputs.

In other words, Project management is the application of processes, methods, knowledge, skills and experience to achieve the project objectives.

Meanwhile a project is a unique, transient endeavour, undertaken to achieve planned objectives, which could be defined in terms of outputs, outcomes or benefits. A project is usually deemed to be a success if it achieves the objectives according to their acceptance criteria, within an agreed timescale and budget.

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

Therefore the functions of such an agency are as stated below:

* Monitor utilization of payment made to implementing and facilitating organizations and actual expenditure against budgets and disbursements and ensure that all payment documentation is in order and in accordance with any special requirements of the donor.
* Conduct periodic spot checks of implementing and facilitating organizations to ensure that adequate financial management controls are enforced.
* During the operations period, appropriate simplified accounting and procurement guidelines (for goods, works and services) to implementing organizations.
* Review financial management capacity of implementing or facilitating organizations that have submitted approved proposals, negotiate agreements and sign contracts with implementing organizations.
* Facilitate any and all financial reviews of the funds accounts under the authority of the donor, including periodic audits and financial reviews by or through independent accounting agencies as appointed by the donor.
* Implement and enforce an adequate control system and provide training and support to the implementing organizations.

1. Why are internal controls important in any organization?

Internal controls are processes effected by plan management and other personnel, and those charged with governance, and designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting. The plan’s policies, procedures, organizational design and physical security all are part of the internal control process. The following are some general characteristics of satisfactory plan internal control over financial reporting:

• Policies and procedures that provide for appropriate segregation of duties to reduce the likelihood that deliberate fraud can occur

• Personnel qualified to perform their assigned responsibilities

• Sound practices to be followed by personnel in performing their duties and functions

• A system that ensures proper authorization and recordation procedures for financial transactions

Effective internal control reduces the risk of asset loss, and helps ensure that plan information is complete and accurate, financial statements are reliable, and the plan's operations are conducted in accordance with the provisions of applicable laws and regulations.

When internal control is effective, you have reasonable assurance that your plan is achieving its financial reporting objectives. When it is not effective, you have little or no such assurance.

An effective system of internal control protects your plan in two ways:

• By minimizing opportunities for unintentional errors or intentional fraud that may harm the Plan. Preventive controls, which are designed to discourage errors or fraud, help accomplish this objective.

• By discovering small errors before they become big problems. Detective controls are designed to identify an error or fraud after it has occurred.

The prime purpose of corporate internal control is to promote economical as well as efficient operations that go with the objectives of an organization.

Other prime purposes are to protect firm's resources against mismanagement or fraud, to ensure whether the organization’s activities are in accordance with laws and regulations, and above all, to develop consistent financial as well as managerial data in order to present them timely. In short, the activities that are covered in the implementation of a good corporate internal control are overseeing activities in connection with authorizations and reconciliations, reviewing of employee performance, security of assets, and segregation of duties.

A host of benefits can be derived through the implementation of an effective corporate internal control system. Since a good internal control system ensures that the resources are utilized only for their intended purposes, a great advantage is that it helps to overcome the risk associated with the misuse of organization's funds and other resources.

Another prime benefit is that prevents errors and irregularities by detecting them in a timely manner, thereby promoting reliable and accurate accounting records. Also, a great benefit is that it can quickly resolve issues arising as a result of reporting errors. Above all, it protects the interests of employees by clearly specifying them their duties and responsibilities and safeguarding them from against being accused of irregularities or misappropriations.   
  
The type of corporate internal control system adopted in a business organization depends upon the varying requirements of an organization. However, the most common types that are implemented in many of the business organizations include preventive internal control, detective internal control systems, and corrective controls.

Preventive control system is designed in such a way to detect and eliminate errors and irregularities before they have occurred. In detective corporate internal control, it corrects errors and irregularities that have been detected. When comes to preventive control system, it is designed to avoid errors or irregularities from taking place in the first place.

No matter it is of any type, an effective internal control system consists of certain important steps, such as, control environment, assessment of risk, control activities, information as well as communication, and monitoring. The foundation for all others steps involved in internal control systems, control environment provides a framework for the organization by including in it elements such as integrity and ethical values.

Assessment of risk involves the analysis and establishment of plans in order to prevent the risks associated with the attainment of company's objectives. Control activities include policies and procedures formulated by management in order to ensure the effectiveness of carrying out of activities with regard to the achievement of organizational goals.

The information and communication step covers understanding of policies and procedures, validation of information, and evaluation of employee performance. Perhaps the most prominent of all steps of internal control systems is monitoring, which is the practice of assessing the overall performance of an organization.

Above all, the full benefits of internal control system could be achieved only if it is implemented in an effective way. Hence, it is evident that it could be devised only by an expert. Perhaps for this reason, now many learning centres across the globe conduct specialized courses for corporate internal control, such as, certificate in corporate internal control, covering sessions such as concepts of Internal Control, risk assessment and management, defect management, and corporate governance and corresponding standards.

1. Monitoring as well as evaluation are very important aspects in grants management. Substantiate the statement above, supported by examples and relevant scholarly literature

**Monitoring** is the systematic process of collecting, analysing and using information to track a programme’s progress toward reaching its objectives and to guide management decisions. Monitoring usually focuses on processes, such as when and where activities occur, who delivers them and how many people or entities they reach.

Monitoring is conducted after a programme has begun and continues throughout the programme implementation period. Monitoring is sometimes referred to as process,performance or formative evaluation*.*

Monitoring and evaluation are separate practices dedicated to the assessment of an NGO’s overall performance. Monitoring is a systematic and long-term process that gathers information in regards to the progress made by an implemented project. Evaluation is time specific and it’s performed to judge whether a project has reached its goals and delivered what expected according to its original plan.

Monitoring and Evaluation (M&E) are important for us to assess that a project is achieving set targets. For instance, by monitoring the development of the project one will easily understand whether strategic changes need to be made and act accordingly. Second, M&E are relevant to donors who need to assess whether an NGO is a reliable partner. By reviewing milestones and final outcomes of projects, donors will decide on the accountability of an NGO, upon which further collaborations could be established. As such, to develop a strong M&E plan is of vital importance.

What we need to know is that Monitoring is for NGOs, not for donors! Hence there are things one has to consider while developing an M&E strategy:

* Evaluation. Clearly state what are the milestones of the project and what are the final outputs. On the one hand, this will strengthen the overall consistency of the project proposal. On the other hand, you will make sure that the donor has concrete ways to assess the partial and final results of the project, thus contributing to guarantee a successful communication.
* Monitoring of outputs. Clearly elaborate on a methodology able to constantly monitor the development of the project so that the evaluation of partial and final outputs is consistent with the monitoring process. For instance, if your output is to train 10 students to use specific software, make sure to monitor the progress they make every week. In this way, you will be able to provide evidence on how the final output has been reached.
* Monitoring of outcomes and impacts. Outcomes and impacts are more difficult to assess. Whereas it is clear how to measure the success of an implemented project by stating that a certain goal was reached, to measure the impact of an activity in community dynamics is more challenging. Thus, find your way to monitor what happens ‘around the project’. For instance, you can elaborate on a strategy able to prove that not only these students are learning how to use new software, but also that by acquiring a new skill the quality of their lives is somehow improving. By designing a monitoring strategy able to assess outcomes and impacts, you will succeed in proving to your donor that the implemented activities will have a positive, long-term effect in the community. Further, you can draw on the results of your monitoring practice to design new follow-up projects or to ensure potential new donors on the NGO’s capacity to proactively engage with real problems and positively affect the lives of those you and with whom you are working.

Overall, you should also consider the M&E exercise as a way to make the activities of your NGO transparent and easy to account for. There is nothing worse for a donor than not being able to understand how an NGO is administering a given budget or implementing a project. Thus, everything you do – including difficulties you face and changes you made to overcome contingent problems – needs to be visible. Monitoring serves the purpose of making what you do visible in the sense that it provides tools and instruments to communicate with your donor and the wider public throughout the implementation of the project.

In summary, Monitoring and Evaluation (M&E) is an area of growing importance for the development community. It allows those involved in development activities to learn from experience, to achieve better results and to be more accountable. There is increased interest in M&E among the development community due to a stronger focus on the results produced by interventions. M&E processes allow those involved to assess the impact of a particular activity, to determine how it could be done better and to show what action is being taken by different stakeholders. This should translate into a more effective and transparent way of working. However, there is some confusion about what M&E entails. It details nine different M&E tools and approaches, including data collection methods, analytical frameworks and types of evaluation and review. For each, it lists their purpose and use; advantages and disadvantages; the required costs, skills and time; and key references. The choice of which to use in a given context will depend on considerations such as the purpose for which M&E is intended, the main stakeholders, how quickly the information is needed and the cost.

1. For important financial management in an organization, what type of system should be implemented?

To achieve its financial management responsibility, an implementing organization should implement a system that provides for the following:

* Accurate, current and complete disclosure for the project, in accordance with reporting requirements of the financing agreement;
* Records that identify the sources and application of funds for donor funded project(s);
* Effective control over and accountability for all funds, property and other assets. The implementing: organization shall adequately safeguard all such assets and ensure that they are used solely for approved purposes;
* Comparison of the actual outlays with budgeted amounts. Financial information shall relate to performance and unit cost data wherever appropriate.
* Procedure for determining the reasonableness, eligibility and allocation of costs, in accordance with the terms of the grant;
* Accounting records are supported by documentation that at a minimum will identify, segregate, accumulate and record all costs incurred under the project and which fully disclose
* The amount and disposition by the organization of the proceeds of the grant,
* The total costs of the project,
* The amount of that portion of cost of the project supplied by other sources, and such other records as will facilitate an effective audit;
* A systematic method to ensure timely and appropriate resolution of audit/review findings and recommendations.

However in a different scenario, it is no secret that an organisation cannot thrive, let alone survive, if it does not have a full grasp of its financial management. Many leaders continuously grapple and struggle with the question of what is required to have effective financial management.

**Another scholar called Gabriel ACLAIM** presents the simple “**Face of Effective Financial Management**” model to explain the key components of effective financial management. The premise of the model is that there are hardcomponents of the financial management system (eyes, nose and mouth) that are supported by the soft ones, as discussed below.

**Hard components of an effective financial management system**

* **Budgeting:** A budget is simply a “plan in numbers”. Budgets enable the organisation to allocate resources according to strategic areas of priority. As goes the saying “A budget tells your money where to go; otherwise you wonder where it went”. An organisation should develop budgets for each department or project, based on the plans for the year. These are then consolidated into a master budget and approved by the Board. During the year, to implement the approved annual budget, mini-budgets should also be prepared based on the events that are set to be conducted. As a rule of thumb, a good budget is one that a person who did not prepare it can implement it without referring to the preparer for clarity. In other words: it should be easy to read and understand, the calculations should be clear, the costs should be justified, and explanatory notes made for assumptions. Good practice in budget preparation requires involvement of staff from various departments to enhance ownership and ease implementation.
* **Accounting:** Also referred to as bookkeeping, this relates to the process of organizing transactions in a manner that enables the organisation makes sense of the financial transactions taking place. The transactions should be captured in standard accounting documents (payment vouchers, goods received notes, stock issue vouchers, receipts, etc.) and categorized using various meaningful criteria (such as by transaction type, department, location, etc.). The organisation should have an accounting software suitable for its financial reporting needs. The documents supporting the transactions should be adequately filed, both physically and electronically, in an orderly manner that enhances easy retrieval.
* **Reporting:** Periodically, it is important for the finance department to prepare and share (and explain in lay terms) financial reports with the relevant users to guide their decision-making. The Board of Directors, Management, Banks (or Donors), Clients (or Beneficiaries), Government, among others, all have differing financial information needs. These may include: to ascertain the performance of the organisation against the budget; to keep tabs with whether or not it has adequate funds to meet liabilities as and when they fall due; to find out whether it is using various resources effectively and efficiently for the achievement of objectives; to confirm that the organisation is meeting its statutory obligations, etc. The finance department should bear the various users of reports in mind as it determines the depth, simplicity, frequency and format of the financial reports.
* **Internal controls:** Every organisation faces threats that could deter it from achieving its set objectives. Some are within the control of the organisation while others are not. Internal controls are, therefore, all the actions taken by the organisation to prevent or detect or correct these threats to the organisation that are within its control. Internal controls include: checks conducted by management such as reviewing financial reports; limitation of access to unauthorized persons; carrying out reconciliations of positions that should ideally be the same, for example a cash count to the actual cash; physical verification, for example of fixed assets; authorizations and approvals of transactions; use of standard documents; and segregation of duties.

**Soft components of an effective financial management system**

* **Culture and Values:** A saying goes that *“*Culture eats Strategy for Breakfast*”*. One could as well add that *“*Culture eats Systems for Lunch*”*. However good the Hard *or* Corefinancial management components discussed above are, if there is no culture of integrity, accountability, transparency and stewardship, among others, the organisation would still have a weak financial management system. For instance, the internal controls may require that one returns a receipt as evidence of a payment made, if there is no honesty, the person could submit a receipt that is fraudulently inflated, hence causing financial loss to the organisation.
* **Enabling environment:** The environment in the organisation should support effective financial management. This may include: having a clear and appropriate organisational structure; Board members and Management who lead by example and do not manipulate the systems; proper integration between finance and non-finance departments; suitable working environment.
* **Staff:** There is need for staff that have the right values, attitudes, skills, experience and knowledge to handle financial management roles. This also includes staff that fall in departments other than finance but have financial management roles to play such as authorization of expenditure, preparation of budgets, and review of financial reports, among others.

1. Enumerate the process of procurement for goods and services in an organization for project implementation

Managing project procurements and acquisitions requires the project manager to efficiently collaborate with the purchasing department on the process of planning and managing procurements. Project procurement management is a section of the Implementation Plan to determine how “the ordered products necessary for producing deliverables can be delivered on time and within the allocated budget”. Note that the “Procurement Management” section of the Implementation Plan will be necessary only for projects that have to deal with substantial buy-in of expertise or capital items. For any other projects where there is no high level of procurement expenditure it is enough to include a procurement item list and a vendors list in the project implementation plan.

A Project Procurement Process [also called “Project Procurement Management Process”] is a method for establishing relationships between an organization’s purchasing department and external suppliers to order, receive, review and approve all the procurement items necessary for project execution. The supplier relationships are managed on a contractual basis. The process aims to ensure timely delivery of the purchased items which are selected and acquired according to the specifications and requirements set up by the purchasing department and approved by the project manager.

The procurement process includes five major steps, as follows:

* Specification. This step involves the purchasing department in communicating with the project manager to develop and approve a list of procurement items necessary for project implementation. The department must specify the approved items to external vendors.
* Selection. This step of the project procurement process requires the department to find potential suppliers which can procure the necessary items, according to the specifications. For this purpose the department needs to set vendor selection criteria, which may include such measures as Delivery, Service Quality, Cost, and Part Performance.
* Contracting. The department must communicate with the suppliers on delivery dates and payment conditions in order to ensure “on-time” delivery of the ordered items within the stated project budget. All the conditions should be listed in a procurement contract. Also a detailed delivery schedule should be negotiated with the procurers and approved by the purchasing department.
* Control. Success of the procurement management process depends on how the purchasing department controls the delivery and payment processes. Through arranging regular meetings with the vendors, tracking delivery progress, reviewing the ordered items against the approved product specifications, and making necessary changes to the procurement contract, the department can control the process and ensure successful accomplishment.
* Measurement. The final step of the project procurement management process refers to using a system of performance indicators and measures for assessing the effectiveness and success of the entire process. The project manager needs to set up such a system and the purchasing department needs to use it in measuring the process. Special meetings and workshops can be conducted to view KPIs, intermediate results of staged delivery, performance of procurers, adherence to product specifications, communications with suppliers, and the like. In case any deviations or gaps are revealed the department should notify the project manager and make necessary changes to the procurement plan.

Project Procurement Plan

Planning of project procurements is carried out within the procurement process and results in developing a plan. A procurement plan is a convenient tool for organizing and managing activities and tasks related to the procurement management process. A template of the plan is to be designed by the purchasing department in cooperation with the project manager. A project procurement plan should be reviewed and approved by the project manager before any supplier relationships get started.

A Project procurement plan Template documents:

* Deliverables to be procured by proposed agreements/contracts.
* Effective resource management strategies for negotiating and managing the agreements/contracts.
* The need for staged delivery and desirability of testing the procured items before introducing them into the implementation process (this item is optional).
* The chosen procurement method (payments, expressions of interest, request for price/quote, request for tender).
* Key stages of the process for selecting suppliers and vendors.
* The model of procurement funding.
* The sample of procurement contract/agreement.
* References to quality approvals, quality assurance and risk management.

1. How are travel imprests supposed to be treated

The imprest system is a form of financial accounting system. The most common imprest system is the petty cash system. The base characteristic of an imprest system is that a fixed amount is reserved, which after a certain period of time or when circumstances require, because money was spent, it will be replenished. This replenishment will come from another account source, e.g., petty cash will be replenished by cashing a cheque drawn on a bank account.

The imprest system ensures that one must document how the petty cash is spent. In a petty cash system, petty cash receipts are written for each amount issued. So, when all of these receipts are totalled at the end of the month and deducted from the opening petty cash float, the calculated value must agree with what is left in the petty cash float. Under the imprest system, only that which is recorded as spent is replenished. Any shortfalls might need to be replenished by the guardian, usually a bookkeeper, of the petty cash float from their own personal resources.

The Financial Reporting treatment of imprest, travel advances and petty cash accounts is illustrated in the example below.

Example:

Assume the following conditions apply to the state agency in this section’s example:

The example agency has:

$10,500 authorized Petty Cash in appropriation 94992 ($10,000 of this is held in a local bank account, and $500 is in a lock box at the agency)

A bank statement showing $9,000 as the bank balance

$1,000 in outstanding reimbursements to employees

The Financial Reporting treatment of the example is illustrated in this chart:

|  |  |
| --- | --- |
| Stage | Description |
| 1 | For the AFR and USAS, $500 should be reflected in GL 0020 – Petty Cash on Hand. |
| 2 | For the AFR and USAS, $10,000 should be reflected in GL 0042 – Petty Cash in Bank on the balance sheet. |
| 3 | In the Deposit and Investment Note, the Carrying Amount will be $10,000. The Bank Balance will be $9,000 and should be provided. |
| 4 | The $1,000 of unreimbursed expenditures should be monitored in a subsidiary Petty Cash ledger. Outstanding reimbursements should not be reported as Accounts Receivable in USAS. |
| 5 | The $10,500 amount authorized in this example should be confirmed to the Comptroller's office as required by its policy for USAS Balances for Imprest, Petty Cash, and Travel Advance Accounts |

1. Enumerate the disbursement procedure

Before we look at the procedures for disbursement; lets define the term disbursement is the act of paying out or disbursing money. Examples of disbursements include money paid out to run a business, cash expenditures, dividend payments, the amounts that a lawyer might have to pay out on a person's behalf in connection with a transaction, etc.

Disbursement procedures are can be categorise into four:

1. Direct Payment
2. Commitment
3. Reimbursement
4. Imprest Fund

From the above categories, we therefore say funds shall be disbursed to the implementing organization in accordance with the disbursement schedule included in the project grant agreement.

For each disbursement, the implementing organization shall make a written request to the FMA/ Donor describing the amount required and the purposes for which the funds shall be applied. All monies received shall be banked in a separate bank account opened for the donor funds.

The first disbursement shall be an advance payment and shall be made after the project grant agreement is signed and presentation of evidence that a separate bank account has been opened for the project. Subsequent disbursements shall be made on application by the implementing organization and after previously disbursed funds have been properly accounted for and substantiated;

Upon receipt of each disbursement, the implementing organization shall send a copy of the bank credit slip, bank statement or Receipt Confirmation to the Donor.

In summary, the following guidelines are intended to ensure that cash/cash equivalents are disbursed only upon proper authorisation, for valid business purposes, and that all expenditures are properly recorded and accounted for.

The term ‘cash/cash equivalent’ encompasses physical cash as well as cheques and other cash-equivalent documents such as pay orders. This distinction is made because, at many emergency operations, there may not be banking facilities in operation and only cash payments are acceptable. Where banking facilities are available and operational, the use of cash to conduct daily operations must be discouraged and kept to a minimum.

The general procedures for cash disbursement control are as follows:

* A limited number of persons should be duly authorised to sign cheques and cash disbursements, and the specimen signatures of these persons should be kept on file.
* Other staff with authority to approve and encumber funds on behalf of the organization (procurement request forms, purchase orders, goods/services received forms, office leases, transport contracts, etc.) must also have their own Authorised Signatory Limits Form.
* All requests for disbursements must be made with an approved Cash Disbursement Voucher. This includes payments to vendors; cash float requests, travel expense reimbursements and petty cash float replenishment.
* Expenses must be authorised by the staff member’s manager/budget holder (provided that signatory authority has been granted), except for when the manager/budget holder is not working in the same location. A staff member’s expenses must not be authorised by the claimants themselves or by anyone who reports to the claimant.
* The person authorising a cash disbursement must determine that:
  + Payment has not been made previously
  + Documents have the required approvals and comply with purchasing, receiving and payment procedures.
* Supporting documents must always accompany the Cash Disbursement Voucher, and must be examined beforethe Cash Disbursement Voucher is signed and the cash or cash equivalent issued.
* All Cash Disbursement Vouchers issued should be entered in numerical order in a disbursements ledger on a daily basis. Separate disbursements ledgers should be kept for each cash/cash equivalent account and expenditure incurred must be booked daily.

Reference Note:

1. The Coso website at coso.org
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4. Google search engine ‘’ACLAIM Africa Limited offers [Finance Consulting](http://aclaimafrica.com/finance/), [Finance Training](http://aclaimafrica.com/finance-for-non-finance-managers-training/) and [Outsourced Finance Management](http://aclaimafrica.com/outsourced-financial-management/) services to support organisations to have a beautiful face of effective financial management.