**ASSIGNEMENT 2**

**MODULE 2**

**NAME: ADRORU JACQUELINE**

**COURSE NAME: CERTIFICATE IN GRANTS MANAGEMENT**

**QUESTIONS:**

1. Highlight with examples the key challenges facing NGOs in preparing and implementing budgetary programmes/policies in Africa
2. Define accounting standards and explain their purpose in the modern accounting practice.
3. Define Budgeting. Give five functions of a budget.
4. Discuss the importance of cash management (cash flow forecasts)
5. What are the contents of Balance Sheet? Differentiate between a Balance sheet and Trial Balance.
6. Why is financial committee essential in Grant Management?

**SOLUTIONS**

1. Highlight with examples the key challenges facing NGOs in preparing and implementing budgetary programmes/policies in Africa.

The following are the key challenges facing NGOs in preparing and implementing budgetary programmes/policies in Africa.

1. ***Limited/ Insufficient funding***

Most donors have always budget ceilings which tend to be so insufficient at the time of budgeting and implementation. Thus NGOs have to eliminate or reduce some budget items/activities based on priorities to fit within the ceiling yet such items/ activities eliminated/ reduced would contribute and compliment over all objectives greatly to the achieve success of the project.

Therefore, working on budgets may take longer to ensure that budgets submitted fit within the ceiling and during implementation, there are usually challenges of insufficient funds which affects work quality and some project objectives may not be achieved which affects the entire project objectives.

1. ***Drastic Budget cuts***

Similar to the above, it is the drastic budget cuts by donors. This happens during implementation where the initial approved budget is reduced by the funder for some reasons that are beyond the NGO control for example; donor may change funding priorities and divert funds to their own priorities. These cuts come in most cases when there are commitments by the NGOs to various stake holders which affect again the NGOs especially at the implementation point resulting in to staff layoffs, project activity cuts in some instances which can result in to litigations hence costly and detrimental to NGO.

1. ***Dynamic environments***

The NGO and donor operational environment has become so dynamic where planning for Budgets and implementation has proved complex. Each donor has different and ever changing requirements to manage the challenges faced by them. The donor interests continue changing from time to time as such aligning the organizations strategic plans to the donor funds has become so complex.

1. ***Conflicts between the governments programs and NGO programs***

In Africa, most government interests are in conflict with the NGO programmes more especially in the fields of; Democracy, governance, and Human rights. This results in to arrest of some NGO staff and in some instances closure of the NGOs by the government authorities. Some governments have put stringent policies for funding to pass through the government Authorities to scrutinize the purpose of the funding, activities to be approved by government authorities before implementation can start yet there is a lot of bureaucracy with most government authorities thus delaying the implementation of activities and sometimes certain activities are halted or disapproved by the government authorities

1. ***Stringent and changing Donor policies***

Donors like USAID have stringent policies especially on procurements based on geographic code, debarred countries, restricted goods, Allowability of costs. Some of the restricted goods are necessary for the project success-thus require prior approval which is a rigorous process while some goods/products are only produced in debarred countries, these both create delay in project implementation. Again USAIDs buy America and fly America policy restrict NGOs from procuring goods and services of certain category with origin only from USA using their funds.

USAID has stringent policies in relation to reporting which is very hectic and involves a lot of paper work. Sometimes the donor policies conflict with the organization or government policies- this results in to too much reporting requirements and failure to comply with such policies results in to closure of programmes. USAID policies and reporting requirements are so stringent which makes it difficult to utilize their funds in some instances thus affecting both budgeting process and program implementation

Besides the stringent policies, USAID continue to revise their policies from time to time as such some policies have continued to change thus require frequent training of program staff to ensure that they are informed and comply to the policies which prove to be expensive and time consuming. For example, USAID updated its 1420 (contractor employee biographical datasheet) and it no longer requires reference to proposed candidate's salary history. Instead, contractors are to provide rational for proposed salary with supporting rationale for the market value of the position.

1. ***Insecurity/ Civil Insecurity***

This is common in the developing countries like most African Countries where there are civil wars, for example, South Sudan, Somalia, Sudan, Dr Congo which have civil insecurity for a couple of years making access to program sites difficult in some areas. While most donor focus on changing the lives of people in deprived communities through Education, Health, poverty eradication, nutrition, food security, insecurity has threatened these projects to greater extend by either making access to such locations difficult or destroying the facilities established to run such projects. This has not only made the access difficult but also resulted in to donor withdrawal from funding a number of programs as well as reducing program budgets. Typical example is significant reduction of funding by USAID on South Sudan programmes.

1. ***Lack of sustainability***

Donors fund projects for specific period of time ranging from 1 to 5 years mostly, most project cannot be sustained after donor withdrawal or after the funding period has ended. This is because most donors do not provide follow up or sustainability funds. Also most programmes are Sloley run on donor funds without a cost share component or with a minimum cost share contribution from the communities thus making it difficult to sustain such programs after donor funding period. This is marred by the high level of corruption and embezzlement of funds by people entrusted to run the project

1. ***Donor dominance/Influence***

Some donors influence the budgeting process as well as implementation a lot yet they may not be well equipped with all the relevant information about the program or the implementation environment. Sometimes the donors require certain positions to be occupied by expatriates from their own countries yet such personnel have high costs of employment where they are paid highly thus the same funds are returned to the funding country inform of salaries for expatriates while small portion is retained for the program activities thus the program impact become insignificant at the end of the project.

1. ***Non Compliancy by Implementing Partners.***

Where the program is implemented in partnership with other players like CBOs and consortium partners, there is tendency by some partners not to comply with the donor policies and regulations due to either low level of skills or intentional. This is in form of delayed reporting, spending funds on unallowable and unallocable goods and services and costs are unreasonable sometimes, embezzlement of funds. This happens mostly at the implementation stage which can result in to shortage of funds or funding cuts or project closure by the donor

1. Define accounting standards and explain their purpose in the modern accounting practice.

**Definition of Accounting Standard:**

These are written uniform set of rules for financial reporting applicable either to all or to a certain class of entity issued from time to time by International Accounting Standard Boards that are used as guideline to prepare, present, analyse and interpreted Financial statements in a true and fair manner. Examples of Accounting standards include; Disclosure standard, Presentation standards, and Content standards

**Purposes of accounting standards in Modern Accounting are as follows:**

**Improve the Credibility and Reliability of Financial Statements:**

Financial statements of business enterprises are used by diverse stake holders for making sound economic decisions such as shareholders (existing and potential), suppliers (existing and potential), trade creditors, customers employees, taxation authorities, and other interested parties.

It is necessary, therefore, that the financial statements, the users use and upon which they rely, present a fair picture of the position and progress of the enterprise. It is the function of accounting (and auditing) standards to create this general sense of confidence by providing a structural framework within which credible financial statements can be produced.

The value of the information provided by each enterprise to its investors is greatly enhanced if it can be compared easily; with information from other enterprises. In the absence of standards, there would be no incentives to encourage an enterprise to conform to any particular model for the sake of comparability.

#### Guide and shield to Accountants and Auditors:

Accountants and auditors face the threat of stern sanctions and bad name to their professions which result partly from changed penalties and remedies available under the company law and partly from the greater willingness of aggrieved parties and to take their causes before the courts. Some entities may provide insufficient disclosure or use of inappropriate accounting principles which results in to dangerous cases of undetected fraud, and of audited accounts considered to be misleading due. Therefore, Accounting standards mitigate such risks as long as an entity or a certified accountant subscribe to an accounting body

#### Measure of Managerial Performance and Accountability:

Through the accounting standards, it is easy to determine specific corporate accountability and regulation of the company and thus help in measuring the effectiveness of management’s business decisions. Through the standards, assessing managerial skill in maintaining and improving the profitability of the company, depict the progress of the company, its solvency and liquidity and generally they are important factors increasing the effectiveness of management’s performance of its roles and responsibilities.

Through the harmonization of Accounting Standards, it is easy to measure and compare the performance of an entity against others in the same or similar line of business due to uniformity in financial reporting which permit better comparisons in profitability, financial position, future prospects and other performance indicators. Management’s basic purpose should be to make a choice of the best method (standard) available.

#### Improve Accounting Theory and Practice:

Financial accounting has lacked, especially in the past, a coherent logical conceptual framework and structure for accounting measurements, financial reporting objectives and substantiated evidence on accounting practice and usefulness of accounting data. This encouraged the emerging intelligentia of accounting to develop accounting theories, to improve existing practices or to rectify their defects. Accounting standards has yielded achievements and resulted into a greater awareness of alternative possibilities for defining and measuring financial performance.

Generally, Accounting standards provide guidelines and protects entities from misrepresentation, and declaration of accounting information that may be misleading. This information enhances better decision making by stewards managing entities after analysing and drawing logical and informed conclusions from financial statements of an entity while gauging against other entities and standards.

1. Define Budgeting. Give five functions of a budget.

**Budgeting** is the process of preparing detailed statement of financial results that are projected for a certain period of time.

The **budget** is the plan which intends to figure out expected operations revenue and expenses of an organization for a future time period.

The budget is a detailed schedule of the proposed combination of the vari­ous factors of production which is the most profitable for the ensuing period. It is a formal planning framework that provides specific deadlines to achieve departmental objectives and contributes towards the overall objectives of an organization.

These targets guide the business operations and help in overcoming problem and analyzing the future. Budgeting influences strategies which tend to change if conditions or managerial objective change such as changing product lines.

Budgeting moves an organization from an informal, ‘reactive’ style to a formal ‘proactive’ style of management. As a result, less time is spent solving unanticipated problems and more time is spent on positive measures and preventive actions.

A budget incorporates expected performance and present managerial targets.

The existence of a well-laid plan is the major step towards achieving coordination. Executives are forced to think of the relationships among individual operations, and the company as a whole.

The following are the functions of a budget

**FORECASTING**: this entails making at calculated attempt into knowing what the future holds. Forecasting may not be perfect as evidence has shown but it is better to have a forecast to work with than not having any as this will help you get prepared. There are many statistical tools developed over the years to help managers and [accountants](https://www.accountantnextdoor.com/qualified-accountant-who-is-a-qualified-accountant/) make better forecast.

Forecasting is a complex exercise that requires you to consider many variables in the light of; the action of competitors, government actions, economic outlook, relationship between price and demands, etc.

**PLANNING**: generally speaking, planning depends on forecast that has been made in the past to make decision about the future. The estimated data generated by forecasting are used to make plans. Government agencies, for example health authorities use forecast from estimated population to plan on the number of health centers to open in a community and the number of beds and other health equipment that will be put in that hospital.

Business also use forecast figure to estimate the use of materials and make plans to ensure that they are provided as and when due. The list can go on and on….

Financial models on computers makes the mixture of variables on an ‘what if’ scenario possible so that the best possible mix of variables are achieved. Spreadsheet is one of the most popular financial models to use for planning and forecasting.

Budgeting ensures coordination in the absence of which different departments in an organization may act in a manner which is beneficial only to their individual departments, but not to the firm objectives as a whole. A sales department may sell more than the production department can produce or vice versa.

**COMMUNICATION**: budgeting in an organization acts as a communication tool in the following ways:

**Gathering information:**information about a company and the activities of its competitors are gathered during the process of making all kinds of budget. It is quite impossible for a single individual to gather all these information that are needed to make a functional budget. Managers and other non-managerial staff will need to be consulted and information obtained from them. This information will then be analyzed, challenged and criticized in order to come up with filtered information.

**Disseminating information:**budgets when not acted upon are useless, so, the budgetary system has an inbuilt information dissemination ability that ensures that responsible managers actually got the budget which they will work with.

Budgeting committee is usually formed to act as a forum where representatives from different parts of the business will assemble to iron out issues that relates to resource planning of the business.

**MOTIVATION:**motivation is the driving force that makes people to run towards their goals rather than trudge towards it. Motivation is a relative and subjective term, we are not here to discuss motivation but, to see how budgeting affects the**motivation of staff**.

Two factors needs to be considered here: **how to make people follow a budget**, and **setting the difficulty level of budgeting**. There are two main approaches that companies can employ to make their staff heed towards a budget, each having its advantages and disadvantages. They are

**Authoritarian method** and **participatory method**, these two approaches represent two extremes. The ideal method that is actually used in practice is the one that strive to achieve a balance between the two extremes.

Again, budgets can either be made so difficult or so easy. For a budget to motivate staff, its level of difficulty must be somewhere around the middle of difficulty and easiness.

**EVALUATION:**evaluation means to judge something with a sort of standard. The budget represents that target performance which will then be compared with actual performance. And this will then lead to corrective action being taken. Evaluation in real life is not as easy as I have presented it here.

If not handled with, evaluation can encourage actions that will harm the organization in the long run. Again, there are some non-quantifiable aspects of a business that is hard to measure. Examples are; customer services, staff morale, innovation, environmental friendliness, etc.

There are [**non-financial factors**](https://www.accountantnextdoor.com/investment-appraisal-8-non-financial-factors-that-every-accountants-and-managers-should-consider/) that have effects on appraisal that must be considered before judging a manager as to whether he or she properly managed the[**investment**](https://www.accountantnextdoor.com/what-is-a-good-investment/) under his or jurisdiction. Other [business success factors](https://www.accountantnextdoor.com/business-success-in-today%e2%80%99s-world-%e2%80%93-8-key-factors/) equally needs to be considered.

**ANNUAL BUDGETS** helps to sharpen your understanding of your goals.

It gives you the real picture - by accurately showing you what you can afford and where the gaps in funding are, your budget allows you to plan beforehand to meet needs, and to decide what you're actually able to do in a given year

It encourages effective ways of dealing with money issues - by showing you what you can't afford with known income, a budget can motivate you to be creative - and successful - in seeking out other sources of funding

It fills the need for required information - the completed budget is a necessary element of funding proposals and reports to funders and the community

It facilitates discussion of the financial realities of the organization It helps you avoid surprises and maintain fiscal control.

Budgets help to restrain the empire building efforts of executives. Budgets broaden individual thinking by helping to remove unconscious biases on the part of engineers, sales and production officers.

Budgets help to search out weaknesses in the organizational structure. The formulation and administration of budgets isolate problems of communication, of fixed responsibility, and of working relationships.

1. Discuss the importance of cash management (cash flow forecasts)

Cash flow forecasting is an essential tool for business planning. It can be done in various ways, with the [spreadsheet method](https://blog.floatapp.com/float-vs-spreadsheet/) being the most traditional.

The follow are the cash management (cash flow forecasts)

**Helps to understand the impact of future plans and possible outcomes**

For many small businesses, one late payment can lead to cash in the bank taking a drop very quickly. But modelling alternate scenarios can help business owners to understand how various situations will impact their cash flow, which is a crucial part of business planning.  Using scenarios to test different possible future situations can provide the peace of mind a business owner needs to [confidently put plans in place](https://blog.floatapp.com/scenario-planning/)

**Keeps track of overdue payments**

Keeping on top of consistent late payers is often the bane of a business owner’s life. Having insight into late payers and the impact they have on the bottom line can alert clients to the need for more effective [credit control](https://try.floatapp.com/how-to-get-paid-on-time/).

**Helps to Plan for upcoming cash gaps.** Seeing cash gaps before they hit, allows your clients to put plans in place to avoid them. Anything from reducing payment terms, to looking for loans and alternative finance can be vital steps towards closing that cash gap.

**Manage surplus cash**

For most businesses, it’s rare to see excess cash in the bank. But using additional cash for reinvestment in new markets, or for the repayment of loans, can be essential to keeping afloat.

Knowing when they’ll have surplus cash in the bank, and being able to see where and when the surplus will occur, means that business owners are better able to plan for what to do with the surplus.

Providing additional advice on what to do with a cash surplus is essential to your position as a trusted advisor.

**Track whether spending is on target**

Every business has revenue goals and targets that are time sensitive. But cash flow forecasting can help a business owner to understand exactly when and if they will reach those goals.

Forecasting allows you to see the breakdown and impact of your budgeting. Whether over or under budget, seeing the movement of cash into and out of the business can help to increase the accuracy of future budgeting.

**Invest time in good governance**

Investors aren’t usually involved with the daily operational tasks of a business. This means that they’ll think of the business at a higher level, and they’ll expect their clients to do the same.

Your clients will need to provide stakeholders and investors with clarity on what the future of the business looks like, meaning they will need to maintain a cash flow forecast (including best, average, and worst case scenarios). This will increase trust and accountability between clients and investors, making it more straightforward to raise further investment if needed.

Giving board members, potential investors, and finance providers, the ability to [see the predicted future](https://www.accountingweb.co.uk/business/management-accounting/what-is-the-ideal-monthly-management-pack) of a company can be vital to their continuing, or additional, investment.

Good governance is vital to the success and longevity of any business. And offering additional insight into the potential of a business encourages confidence and the reassurance that their investment will be safe.

**Saves time over a spreadsheet using online tools**

Building a cash flow forecast in a spreadsheet, particularly if you’ve never done it before, can take a lot of time and effort. However, using [cloud-based software](https://floatapp.com/) can often take the pain out of forecasting your cash.

Saving you both time and money in the long-run, online tools are invaluable to actionable and efficient planning.

**Helps clients to know the difference between profit and cash flow**

Cash flow forecasting enables a business owner to differentiate between two valuable financial metrics – profit and cash flow. Knowledge of their current and future cash position is essential for any business owner to know how much cash is available in the bank at any one time, under any given scenario.

But forecasts in [a spreadsheet](https://blog.floatapp.com/float-vs-spreadsheet/) can be difficult for non-financial people to get to grips with. So with a [collaborative cloud-based tool](https://floatapp.com/), and your knowledge as a financial advisor, you can go a long way toward calming fears, and soothing sleepless nights.

There are a growing number of businesses on platforms like [Xero](https://www.xero.com/signup/?xtid=x30floatcashflowforecasting) and [QuickBooks Online](https://quickbooks.intuit.com/uk/), making it easier than ever for business owners to integrate with forecasting software that does the hard work for them.

[Float](https://floatapp.com/) can make forecasting far simpler, and more visual, than a traditional numbers-heavy spreadsheet. Tracking budgets vs. actuals, Float provides a more *realistic* view of cash – allowing business owners to understand what their cash situation is at a glance. With the additional benefit of easily creating various ‘what if’ scenarios, Float can allow for future planning, regardless of the route taken.

Encouraging insight and confidence in financial planning, cash flow forecasting can help to ensure the prosperous future that every business owner wants. There are many advantages to a cash flow forecast, and getting your client to understand them is essential to having confidence in their finances.

1. What are the contents of Balance Sheet? Differentiate between a Balance sheet and Trial Balance.

Balance sheet is a statement of the assets, liabilities, and capital of a business or other organization at a particular point in time, detailing the balance of income and expenditure over the preceding period.

The **balance sheet** contains statements of assets, liabilities, and shareholders' equity. Assets represent things of value that a company owns and has in its possession, or something that will be received and can be measured objectively.

The following are the components of a balance sheet.

Most of the contents of a business's balance sheet are classified under one of three categories: assets, liabilities, and owner equity.

**ASSETS.**

Assets are items owned by the business, whether fully paid for or not. These items can range from cash—the most liquid of all assets—to inventories, equipment, patents, and deposits held by other businesses. Assets are further categorized into the following classifications: current assets, fixed assets, and miscellaneous or other assets

Current assets include cash, government securities, marketable securities, notes receivable, accounts receivable, inventories, prepaid expenses, and any other item that could be converted to cash in the normal course of business within one year.

Fixed assets, meanwhile, include tangible assets such as real estate, physical plant, leasehold improvements, equipment (from office equipment to heavy operating machinery), vehicles, fixtures, and other assets that can reasonably be assumed to have a life expectancy of several years and **intangible** assets such as goodwill, intellectual property rights (such as patents, trademarks and website domain names) and long-term investments

It is recognized, however, that most fixed assets—although not land—will lose value over time. This is known as [depreciation](https://www.referenceforbusiness.com/knowledge/Depreciation.html). When determining a company's fixed assets, then, a business owner needs to make certain that depreciation is figured into the final value of his or her fixed assets. The net fixed asset value of a company's holdings is calculated as the net of cost minus accumulated depreciation.

Finally, businesses often have assets that are less tangible than securities, inventory, or high-speed printers. These are classified as "other assets" and include such intangible assets as patents, trademarks, and copyrights, notes receivable from officers or employees, and contracts that call for them to serve as exclusive providers of goods or services to a client.

**LIABILITIES.**Liabilities, on the other hand, are the business's obligations to other entities as a result of past transactions or events. These entities range from employees (who have provided work in exchange for salary) to investors (who have provided loans in exchange for the value of that loan plus interest) to other companies (who have supplied goods or services in exchange for agreed-upon compensation).

Liabilities are typically divided into two categories: short-term or current liabilities and [long-term liabilities](https://www.referenceforbusiness.com/knowledge/Long_term_liabilities.html).

Liabilities that qualify for inclusion under the short-term or current designation include all those that are due and payable within one year.

These include obligations in the areas of accounts payable, taxes payable, notes payable, accrued expenses (such as wages, salaries, withholding taxes, VAT and Pay As You Earn) and other expenses that are supposed to be paid off over the next year. Such obligations include the portion of long-term debt that is scheduled to be paid off during the course of the coming year.

Long-term liabilities are those debts to lenders, mortgage holders, and other creditors that will take more than one year to pay off.

They are amounts due to be repaid in loans or financing after one year, for instance bank or directors' loans, finance agreements, capital and reserves - share capital and retained profits, after dividends (if your business is a limited company), or proprietors capital invested in business (if you are an unincorporated business)

**OWNERS' EQUITY.**Once a business has [determined](https://www.referenceforbusiness.com/knowledge/Determinacy.html) its assets and liabilities, it can then determine owners' equity, the book value of the business's assets once all liabilities have been deducted. Owners' equity, which is also sometimes called stockholders' equity, is in essence the net worth of the company.

The following are the Differences between a Balance sheet and Trial Balance

**Trial Balance** is a part of the accounting process, which is a schedule of debit and credit balances taken from all the ledger accounts. As every transaction affect two sides, i.e. every debit has a corresponding credit and the reverse is also true. The total of debit and credit balances are equal in the trial balance.

In contrast, the **Balance Sheet** is the statement that exhibits the company’s financial position, by summarizing the assets, liabilities, and capital on a particular date.

In general, the trial balance is prepared at the end of the month or at the end of the accounting period, i.e. it can be prepared as per the requirement of the entity. On the other hand, balance sheet is prepared only at the end of the accounting period. The differences are discussed below

**Meaning**

Trial Balance is the list of all balances of General Ledger Account Whereas Balance sheet is the statement which shows the assets, equity and liabilities of the company.

**Division**

Trial balance is divided into the Debit and Credit columns while balance sheet is divided in to Assets and equity & liabilities heads

**Stock**

In preparation of trial balance, Opening stock is considered where as in preparation of balance sheet closing stock is considered.

**Part of Financial Statement**

Part of the financial statements are not used in the preparation of trial balance while the financial statements are used when preparing balance sheet.

**Objective**

The objective of a trial balance is to check the arithmetical accuracy in recording and posting while the major objective of a balance sheet is to ascertain the financial position of the company on a particular date.

**Balances**

In preparation of a trial balance, Personal, real and nominal account are shown whereas when preparing balance sheet Personal and real account are shown.

**Preparation**

Trial balance is preparedat the end of each month, quarter, half year or financial year while a balance sheet is prepared at the end of the financial year.

**Use**

Trial balance is an internal document used within the accounting departments and Internal Use while the balance sheet is referred to as an external report because it is used outside the company by investor, lenders and other External stake holders.

1. Why is financial committee essential in Grant Management?

The role of the **finance committee** is primarily to provide **financial** oversight for the organization. Typical task areas for small and midsized groups include budgeting and **financial** planning, **financial** reporting, and the creation and monitoring of internal controls and accountability policies.

Financial committee is essential in grants management because of the following reasons

To help a board fulfill its fiduciary responsibility. A Finance Committee gives the board control over the finances of the organization, and is the tool by which it exercises fiscal responsibility.

To protect the organization from legal challenges and liability. As explained above, the board has a legal duty to exercise control over the financial dealings of the organization. If the financial operation is negligent or, worse, engaged in illegal actions, the board is considered responsible, unless it can show that it exercised reasonable care to keep that from happening. The presence of a Finance Committee is generally considered evidence of reasonable care, as long as the committee does its job (i.e., doesn't ignore obvious evidence of a problem, or simply let the director do something that any reasonable person would know is illegal or foolish).

Boards are legally liable for the actions of their organizations. That doesn't mean that they are blamed for everything the organization does, but that they are expected to oversee the organization, and take action to keep it from harm. If they have done their best in this effort, then they have fulfilled their legal obligation. They are not blamed if they are lied to, or if information is hidden from them, unless they have good reason to believe that such a thing is happening, and don't investigate.

To guard the organization against illegal, unethical, or incompetent activities by fiscal managers. An alert and informed committee should be able to catch both intentional and unintentional mismanagement of funds. Examples of the former might include misappropriation of funds, embezzlement, outright stealing, taking a kickback from a contract, or paying people for work not done. Unintentional mismanagement could involve, for example, major accounting or bookkeeping errors, misunderstanding of the terms of a grant or contract, or failure to address potential budget cuts.

In the case of intentional mismanagement, the committee can take proper action: reporting the situation, recommending the firing of those responsible, making restitution, etc. In the case of unintentional mismanagement, the committee can step in to offer help and advice to correct the situation. In either case, having a Finance Committee can literally save the organization.

To protect the organization from actual or apparent conflict of interest. We've used the term conflict of interest several times. A conflict of interest is a situation in which an individual's personal interest - or the interests of her family, friends, business associates, etc. - is, or appears to be, in conflict with her responsibilities to others, an organization, a job, an office, or a principle she is required to uphold. Thus, a member of a compensation committee voting on his own - or his brother's - salary is in conflict of interest. A Finance Committee can make sure that any potential conflict is avoided by the board or staff member in question withdrawing from the decision-making process on any issue in which she has a personal stake, or by simply avoiding the issue in the first place.

To act as the board's eyes and ears in the financial operation, relieving the whole board of having to struggle with the complexities of the organization's finances. The committee can "translate" the finances into ordinary language and simple numbers, so that board members who are not financially sophisticated can still understand clearly the organization's financial challenges and situation, and make informed decisions.

A Finance Committee may be especially valuable and necessary on a board where a majority of members are uncomfortable with fiscal matters and/or numbers. This is often the case on the boards of human service and community-based organizations, where many members may be either recipients of services or people who are heavily focused on the interpersonal and emotional, rather than the more mathematical and logical aspects of their intelligence.

To act as an advisory panel to the financial operation. Especially if it's made up of people with expertise, the committee can provide advice on fiscal issues in general, correcting inefficiencies and misguided accounting practices, dealing with anticipated shortfalls or surpluses, investing, etc.

To evaluate both the financial operation and the people in charge of it from a position of knowledge. A committee that works closely with the financial operation is in a much better position to monitor and evaluate performance than is a board that doesn't have that connection. It makes the financial operation accountable, and can - and should - let the board know when someone's doing a particularly good job, as well as when someone isn't working up to standard.

To help in the hiring of fiscal staff or a new director. Having intimate knowledge of the financial operation gives committee members a much better perspective on the skills and temperament needed to do the jobs well.

To make the audit easier, both by assisting the fiscal operation in gathering material and cleaning up records, and by working with the auditors beforehand to make sure that they have everything they need to complete the audit efficiently and effectively.

To interpret the audit for the rest of the board. Audits often point out important financial questions, or raise warnings about the future. They can highlight both the good and bad points of an organization, if you know how to read them. A knowledgeable committee can help the rest of the board understand exactly what the audit has to say, and what that means for the financial future or the direction of the organization.

To help recommend the hiring, retention, or firing of potential or current auditors. A committee that understands audits, knows what questions to ask potential auditors, and can observe an audit, will have valuable information to pass on to the board. It can also help the organization avoid the kind of conflict of interest by auditors that hurt not only the investors, but the accounting firm.

COMPILED BY

ADRORU JACQUELINE