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**MODULE NO: 2-**

**MODULE TITLE: MANAGING FINANCES**

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Qn 1: **Highlight with examples the key challenges facing NGOs in preparing and**

**Implementing budgetary programs/policies in Africa**

A budget is a detailed plan outlining the acquisition and use of financial and other resources over a given time period. Budget is a standard against which the actual performance can be compared and measured; it stipulates which activities and programmes should be actively pursued.

NGOs have a responsibility of creating accurate and up-to-date annual budgets in order to maintain control over their finances and demonstrate to their partners especially the donors how their money is being used. The challenge begins at the preparation stage, there is no format for preparation of budget as it depends on the volume of funds, number of funders that one has and their requirements as well as the scope of activities and programmes to be implemented, this in itself is a challenge as it may mean having more than one budget and coming up with one from many at times.

The preparation of the budget requires estimation and identification of the expenditure lines-expenses. This estimation is normally a challenge where the costs are not correctly determined and estimated. For example in the project that I manage, where we give funds, I have noted a lot of discrepancies that come as a result of grossly underestimation of costs and failure I identify the expenses at the budgeting stage. This has resulted into delays that could have been avoided and sometimes addendums and requests for Non objection from us to the NGOs. So the challenge of inaccuracies at the budget preparation are real and they affect most of the organizations in preparing of budgets.

Estimation of income sources is also normally a challenge. Ideally due to the unpredictability of funding from the unknown sources, the budgeting process becomes challenging.

Another challenges is where organizations are unable to allocate expenses correctly, this is due to different factors, often times due to limited capacity of the staff supposed to do allocation, or intentional mismanagement of funds and therefore inappropriate allocations. This makes monitoring or tracking of the budget a nightmare.

The poor money management practices in most NGOs make it difficult where delay by one donor to disburse funds makes the organizations use other funds from another donor to execute activities, what is commonly referred as comingling of funds. It is a bad practice and it affects implementation of sound budget system. For example an NGO I worked with before used funds from one donor to fiancé activities of another donor as the later donor was reviewing reports, there were some changes as a result of the review and not all the expected funds were disbursed. This cause a big challenge as money had been spent and now it was not going to be available.

Proper budget preparation requires time and adequate time, human resources and competent human resources as well as appropriate tools to facilitate the process of budget preparations, these are always not available which impedes the process. The limited time coupled with limited technical capacity to not only prepare the budget but also to monitor its implementation makes it a challenge.

Poor leadership and governance in the institutions leads to weak or no follow up and this results mismanaged institutions. The standing committees of the boards are either not functional for either limited interest of limited capacity in some instances both, which allows the management or the chief executive to go unsupervised. The weak financial operations unchecked worsen the bad situation as data is not properly posted, books of accounts not well kept, and eventually the organizations are taken up by a storm when there is nothing that can redeem them.

Noncompliance to the accounting standards make it difficult to effectively and efficiently do financial reporting. This could be due to limited capacity in terms of human resources and tools- software or intentional for selfish reasons. Whichever the case might be this will result into inability to properly monitor the budget.

The use it or lose it principle, where is organizations have not been able to utilize some of the money, they are required to lose it. This accounts for inaccuracies and failure to comply with the accounting standards.

At budget preparation, there is inability to achieve the required value of new businesses, management of acquisition and maintenance costs, time constraints, desire for comfort budgets, lack of continuity in the committee, competence levels of budgeting teams, non-adherence to the laid down budgets by departments, lack of adequate authority to spend despite allocation, non-achievement of the main top line income earners, cost fluctuations or inflation on costs, lack or poor participation, poor co-ordination of the exercise, measurement of some factors is difficult (estimations) and at times it is inflexible to changes/adjustments and also it is expensive as a control/monitoring tool. Once it has not been got correctly at planning level, the implementation is also a disaster.

Making budget preparation participatory sometimes makes it very lengthy and time consuming but also the expectations by the different stakeholders are a number of times not met.

**Qn2. Define accounting standards and explain their purpose in the modern accounting**

**Practice.**

Accounting is simply a system for providing financial information about a business or other type of organization. This system includes the everyday tasks of documenting, classifying, analyzing, and interpreting the financial (bookkeeping) records of an enterprise. These jobs, taken together, can be used to evaluate the progress or failures of a business and to track its financial condition.

While accounting standards are common set of principles, standards and procedures that define the basis of financial accounting policies and practices. Accounting standards improve the transparency of financial reporting. International companies like the one I work for follow the [International Financial Reporting Standards](https://www.investopedia.com/terms/i/ifrs.asp), which are set by the International Accounting Standards Board and serve as the guideline.

Their main aim of accounting standards is to ensure transparency, reliability, consistency, and comparability of the financial statements.

Accounting standards provide a uniform standard for financial reporting. When financial information is made available to the public, it should serve the purpose of helping stakeholders including donors, investor, lenders etc. make informed decisions depending on the financial condition of the entity.

Accounting standard ensure complete transparency on the part of the reporting entities. Information provided under the different given standards is not only clear and easily understood but is also identifiable and verifiable.

Accounting standards hold organizations and companies to strict set of standards, hence they have to comply to the reporting guidelines and provide all the information that is required hence facilitating transparency in financial reporting

When the accounting standards are used, they facilitate donor decision making process as well as investors to easily evaluate companies simply by reviewing their financial statements. If an investor or donor is torn between two companies or organizations in the same field, that investor or donor can compare their respective statements to determine which is doing a better job at generating revenue and managing cash flow.

Proper use of accounting standards facilitates planning and reflection within organizations as they are able to gain insights into their own practices and performance.

Accounting standards minimizes the risk of erroneous financial reporting by having numerous checks and safeguards in place hence reliability and accuracy.

**3. Define Budgeting. Give five functions of a budget.**

Budgeting refers to the process of formally estimating income and expenses based on future plans and objectives. In other words a budgeting is translating plan or plans into money. It results into a document that estimates revenues and expenses for an upcoming period based on the goals of the organization or business.

The main purpose of a budget in any organization is for planning and controlling in order to achieve organizational goals and objectives (Schick, 1999).

A budget is management tool, it sharpens understanding and facilitates prioritization of goals, objectives and results. A budget aids focus on crucial things that are most important to the achievement of the objectives of the institution and It r can also act as a fundraising tool.

A budget gives the true financial picture and status of the entity. This therefore helps one to plan before hand on what needs will be met, what is affordable and manageable within a given period where funding gaps exist and therefore rigorously think and explore ways of raising money. It therefore encourages one to be creative and seek out other sources of funding.

A completed budget is a necessary element of funding proposals and reports to funders and the community. It is a basis for financial accountability and transparency.

A budget helps to monitor income and expenditure and therefore helps in avoiding surprises and maintain fiscal control.

A budget facilitates discussion of the financial realities of the organization and appropriate decision making to address the realities in the organization.

**4. Discuss the importance of cash management (cash flow forecasts)**

Cash management is defined as the collection and concentration as well as payment of cash. Its aim is to handle an enterprise's cash balances in a manner that helps to avoid insolvency and also maximizes availability of money not invested in inventories or assets that are fixed. In organization, there may be late release of funds by donors and yet activities have to be conducted some inevitable payments like salaries and utilities have to be paid and yet there is not money available. This causes a great deal of challenges which unfortunately most grassroots organizations are always grappling with. Problem of prognosticating cash flows accurately and absence of perfect coincidence between the inflows and outflows of cash add to the significance of cash management To deal with this, it is always important to understand forecast the cash flow so that appropriate planning is done.

Anticipating when there will be cash flow challenges putting in place strategies to deal with the challenges and making investments for example a nonprofit could buy an asset like a building. In an NGO where I worked a couple of years ago, the organization procured a commercial building in the city center and it is rented by a commercial bank that pays rent annually. This money is kept a side and is used when there are cash flow problems. Therefore anticipation and appropriate planning is very important in cash management.

Proper cash management ensures that the organization is able to exist and fulfil their purpose, mission and vision. It ensures that there is enough money to continue providing the services, continue to implement the interventions and fulfil the objectives of existence.

Cash management ensures that the available resources-money is used effectively and efficiently as a decision is taken based on careful considerations.

Cash Management is a control tool, it ensures that the money available is put to the right use.

Proper management of cash ensures that obligations are met correctly and therefore it helps in maintaining good relationships with the suppliers, and anyone else whom the organization pay for goods and services. Suppliers and providers are much more likely to provide quality services when they are paid timely.

The organization will get the reputation of one that takes care of business, and is serious about its financial commitments as well as its mission once there is proper cash management. This kind of reputation can add greatly to resource mobilization efforts and success as supporters want to put their money where they are sure that it will be well managed and no comingling of funds.

Fundraising success, since people want to put their money where they know it will be well-managed to do the most good.

Cash management save the organization managers worry and stress as they have proper cash flow planning in place and therefore know how much money is available and how it will be spent.

Cash management facilitates efficiency as there is no time wasted on tracking down documentation for expenses to cover up any inaccuracies or any other engagement in other forms of waste motion

Cash management is important as one is able to know when they have in flows and therefore money to spare and they make investments that will be able to generate funds to cover periods that will have limited or no cash flow.

Good money management is largely a matter of making good decisions and setting up good systems to manage your financial operation. If you can set up systems that work for your organization to handle your daily accounting, payroll, payables/receivables, and grants management issues; if you can anticipate and deal with cash flow problems; and if you can invest wisely when you have money to spare, then you'll have your money management under control. This will allow you to do a better job at whatever it is your organization is trying to do, and thus to provide more benefit for your target population and for society.

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

A Balance Sheet is the statement that exhibits the company’s financial position, by summarizing the assets, equity and liabilities as at a particular date.

The balance sheet contains (records) assets classified as long-term possessions and current assets - short-term possessions.

The balance sheet contains (records) current liabilities - what the business owes and must repay in the short term and long-term liabilities - including owner's or shareholders' capital.

Trial Balance is a part of the accounting process, which checks the double entry accuracy in recording and posting 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.

The trial balance and balance sheet differ in a number of ways including the following;

The trial balance checks the double entry accuracy in recording and posting of data from the ledgers while the balance sheet provides the financial position of the organization. So the two serve two different purposes.

The trial balance is not part of the financial statements while the balance sheet is part and parcel of the financial statements.

The trial balance is prepared at the end of each month, quarter, bi- annual or end of a financial year while the balance sheet is prepared at the end of the financial year.

Trial Balance does not include closing stock while the Balance Sheet does not include opening stock.

Trial Balance is prepared after posting into ledger whereas Balance Sheet is prepared after the preparation of Trading and Profit & Loss Account.

The trial balance is prepared for internal use only, however, the balance sheet is prepared for both internal and external use, i.e. to inform outside parties about the financial condition of the entity.

Balances of all personal, real and nominal account are shown in the trial balance. On the contrary, Balance sheet shows the balances of personal and real account only.

The Trial Balance and Balance Sheet are very dissimilar from each other. The preparation of Trial Balance is not compulsory at all, but the preparation of Balance Sheet is obligatory for every company. The Trial Balance is not read by the users of the financial statement or stakeholders, but Balance sheet is used by them.

**6. Why is financial committee essential in Grant Management?**

Grant Management refers to the process, methods and tools an organization harnesses in order to oversee its [grants](http://wiki.optimy.com/grant/). The process of grant management starts with selection of projects to promote or implement, support their implementation, monitor them and finally assess their success in achieving the objectives of which they were established to meet. The oversight role in an organization is the governance role played by the Board of Directors.

The Board therefore decides on how they will play this role and given the different departments of functions in and organization, a board may form working Committees to pay attention to different activities in the organization. For example Programme and research Committee, Finance and Audit or Finance and Administration Committee. For the purpose of this assignment, I will address myself to the Finance and Audit Committee and their role in grant management.

A Finance Committee as alluded to above, is a Committee of the board which works with the Chief Executive or director and the fiancé staff to monitor the finances of the organization. The Board policies might provide for setting up committees for which this can be one of them, but it can also be established out of necessity. The Members of the Committee are drawn from the Board members and can co-opt experts in the field depending on what has been a greed. A CPA (Certified Public Accountant), a lawyer, a banker, or an investment analyst might all be good candidates for committee membership, for instance. Committee members, whether board members or not, should also have no financial interest in the organization, except for their fiduciary responsibility. It is a committee that must have experts in Finance and the Chair for example in the organizations I am affiliated to is the treasurer, this Committee give the board control over the organization’s finances. This Committee is essential in grant management as they play different roles that ensure sound management of organization’s finances as seen below;

The Finance and Audit Committee on behalf of the board oversee the finances of the organization. They periodically approve and review budgets to ensure compliance to the requirements of different donors as well as compliance to the sound governance principles. Compliance is key in grant management and the committee enforces this through close follow up of the money management issues in the organization and if there are any potential problems, the Committee addresses them or flags them off before it is too late. This is one of the reasons the Committee should have people of the required expertise so that they can help to correct the organization's books and accounting procedures in case of any lapses. The committee can provide advice on fiscal issues in general, correcting inefficiencies and misguided accounting practices, dealing with anticipated shortfalls or surpluses, investing, hence support the finance function in an advisory role.

The Committee also plays a role when it comes to external audit, they can work with the relevant finance staff to directly or indirectly prepare for the audit.

The Committee may participate in formulating and following up the implementation of the audit Action plan. The safeguards the financial resources of the organization by ensuring that there are no illegal or unethical activities by the managers and that funds are appropriately managed If any anomalies are detected resulting from any misunderstanding of the grant conditions the Committee is able to address them before they are out of hand. For example there was a recently a case where the grant agreement clearly sets that a maximum of 60,000 euros is what can go to a profit making private sector company. In the implementation of the programme, more than 80,000 euros was given t the private sector company and this was detected by the Finance Committee during their review of the quarterly financial report, it was raised at that point and some corrective measures had to be taken.

The Committee can support in hiring of competent staff especially the finance staff and the Organization’s director. The members of the Committee have insight and perspective on the skills competences and attitudes that are needed to execute the tasks well. The right staff in place ensures that proper and efficient follow up and monitoring of grants which contributes to grants management.

Furthermore, the audit function is very important in ensuring that it is regularly conducted correctly by the right firm or team of experts. The Committee may help retain or recommend to the Board firing of auditors based on the competences and on the way the organization audit processes ad findings are. The audit is to check on the accuracy and compliance to the accounting standards and procedures but also identify areas of weaknesses and provide strategies to address these as way of ensuring that the performance of the organization is strengthened enhanced and improved.

The Finance Committee is able to clearly interpret the financial statements, audit findings to the rest of the board and recommend any changes to the some policies from an informed point of view. They can highlight both the good and bad points of an organization, if you know how to read them. A knowledgeable committee helps 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.

The Committee monitors and evaluates performance of 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.

The follow up of money management as well as supporting the audit function in the organization is very important in grant management as it is able to facilitate compliance to accounting standards and procedures, ensure fiduciary oversight and correct accounting and control environment within the organization. These are all practices that guarantee proper management of grants as expenditures are clear and planning is enhanced by appropriately and correctly generated expenditures.

References

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