**AFRICAN INSTITUTE FOR PROJECT MANAGEMENT STUDIES**

**Assignment Two - Certificate in Grants Management**

**PATRICK IYIOKE**

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**1**

**KEY CHALLENGES FACING NGOs IN PREPARING AND IMPLEMENTING BUDGETARY POLICIES IN AFRICA**

**1.1 Brief Overview of Budget**

Budgets are the financial plans of an organization for a fiscal period. According to Kimunguyi, Memba and Njeru (2015), budgets are the strategic plans of an organization in the form of financial figures. Shapiro (2001) also added that budgets are the mechanisms of an organization that drives the strategic goals of the organization in the next accounting period.

The importance of budgeting to an organization especially non-government organizations (NGOs) cannot be over emphasized. Kimunguyi et al., (2015) stated that budgeting is an essential element of the financial management of an NGOs. The authors further listed the importance of budgeting to NGOs some of which include: ensuring that strategic goals of the NGO are attained, ensuring that donor funds are used as specified, ensuring that expense lines are not over spent, carrying out regular comparisons between budgeted and actual figures, and ensuring that outcomes are met at the expected timeframe.

**1.2 Challenges facing NGOs in Preparing and Implementing Budgetary Policies in Africa**

Despite the importance of budgeting, some NGO’s still face some challenges in implementing budgetary policies in Africa, this is because of the peculiar nature of the socio-economic factors obtainable in many African countries. Bromideh (2011) outline some factors responsible for the low-level budget implementation rate by NGOs:

1. **Economic Factors:** Bromideh (2011) talked about national government economic policies and foreign exchange policies. The authors stated that budget implementation for NGOs usually entails the regular transfer of foreign aid in the form of money or relief materials at specific intervals. African countries that have stringent foreign exchange policy will make it difficult for NGOs in those countries to deliver within their required timeframe and hence affect budget implementation. Other economic factors according to the Kang’ethe and Manomano (2014) include: inflation, unemployment, interest rates and volatile prices.
2. **Political Factors**: African countries with unstable political situations like Nigeria and the Boko Haram situation, will make it difficult to access certain locations. These locations may have already been earmarked in the budget to carry out interventions. Bromideh (2011) stated that when situation in these locations gets out of control, most NGOs are forced to abandon the projects they have begun implementing which affects the budget implementation as these activities have been budgeted for.
3. **Social and Community Factors:** According to Bromideh (2011), some social vices that could hinder NGO project implementation include: fraud, scams, corruption, embezzlement, juvenile crimes, drug abuse and prostitution. African countries with high rate of such vices will have a difficult time for NGOs to complete project implementation as there would be high rate of criminal activities. Other social factors according to the Kang’ethe and Manomano (2014) include: poor internet facilities, bad road networks and inadequate basic amenities.

**1.3 Conclusion**

In summary, since Africa is composed of developing nations, there would always be numerous developmental issues that could affect NGO budgetary implementation. These reasons are peculiar to specific nations and they include: country’s colonial background, country’s political framework, country’s administrative system and the country’s economic development.

**2**

**ACCOUNTING STANDARDS AND ITS PURPOSE IN MODERN ACCOUNTING PRACTICE**

**2.1 Overview of Accounting Standard**

Accounting standards are the main principles that guide the financial reporting of an organization. Asuquo (2013) defined accounting standards as the common set of principles and procedures that guide financial reporting among companies in the same industry. Beke (2011) added that accounting standards serves as the rules on how transactions are recognized, measured and disclosed in the financial statements. Yallaiah, Raju and Sameena (2017) further explained that accounting standards covers all aspect of an organizations’ financial process, including asset classification, depreciation methods, revenue recognition, expenses and liability classification.

The essence of accounting standards is to ensure that financial reporting across industries are consistent and understandable (Beke, 2011). The author added that accounting standards has given rise to the use of common terminologies in economic transactions, use of uniform objective and ease in the computation of various financial ratios and trends analysis.

There are international organizations responsible for setting accounting standards in a transparent manner. The International Accounting Standard Committee (IASC) was responsible for the formulation of the International Accounting Standards (IAS) while the International Accounting Standard Board (IASB) is responsible for the formulation of the International Financial Reporting Standard (IFRS) which is being used by over 120 countries (Yallaiah et al., 2017).

**2.2 Purpose of Accounting Standards in Modern Accounting Practice**

According to Asuquo (2013), the main purpose of accounting standard is to promote transparency in the financial reporting of companies in all countries. Beke (2011) added that accounting standards provide useful and reliable financial information to all relevant stakeholders of an organization to help them make better decisions about providing resources for the organization. The general purpose of accounting standards in modern accounting practice can be categorized into the following headings:

1. **Comparing Financial Statements:** Comparing financial statement among companies is of paramount importance to an investor. Adoption of accounting standards by companies helps to make comparison feasible, since all companies within the same industry will be adopting the same set of accounting procedures (Omimi-Ejoor, Oghogho and Osahenoma, 2014). Ebimobowei (2012) also pointed out that accounting standards could be used to compare a company’s past performance with its current performance and this serves as a basis for assessing business performance.
2. **Harmonization of Accounting Procedures:** The adoption of accounting standards has brought about harmonization of accounting procedures all over the world. According to Yallaiah et al., (2017) this means that same procedures and same terminologies will be used around the world and would improve reliability of financial information.
3. **Reliability of Financial Statement:** When organizations adopt accounting standards, it implies that financial statements are accurate, reliable and as much as possible free from fraud/manipulation which in turn enables investors to make better and informed decisions (Asuquo, 2013).
4. **Regulatory Requirement:** Government of most nations require all companies to adopt accounting standards in preparing their financial statements, this is because adoption of accounting standards promotes transparency, brings about efficiency in the markets and improves in the economy (Beke, 2011).
5. **Conflict Resolution**: Just like any other endeavor, there could arise a situation in which there might be conflict of which accounting policy to use. When this occurs, the best option is to adopt the accounting standard relevant for such situation (Ebimobowei, 2012).

**2.3 Conclusion**

Accounting standards explains how economic events are to be recognized, measured and disclosed. These standards are the International Accounting Standards (IAS) and the International Financial Reporting Standard (IFRS). Together, these standards are a set of high-quality accounting procedures that provide guidance in the preparation of income statement, statement of financial positions, changes in financial position, cashflow statement and notes to the accounts. When companies use the same accounting procedures it promotes consistency, accurate and reliable information on company’s’ overall financial position.

**3**

**BUDGETING AND FUNCTIONS OF A BUDGET**

**3.1 Overview of Budget**

Budgets are the projected plans of the operations, revenue and expenses of an organization for a future timeframe (Ojua, 2016). Kovalevaa, Khvostenkoa, Glukhovaa, Nikeryasovab, and Gavrilovc (2016) defines budget as an estimate of the income and expenditure of an organization over a future timeframe usually one fiscal year. The authors added that the management of an organization uses budget as a tool for running an efficient and effective organization. Elias and Etim (2017) defines budget as a quantitative analysis of the plans, goals and objectives for a future timeframe.

Shim and Siegel (2005) defines budgeting as a continuous process that runs throughout the fiscal period of an organization. The authors stated that budget entails the continuous reallocation of resources to various units within an organization to ensure efficiency in the overall operations. The elements of budgeting according to Shim and Siegel (2005) includes:

1. Reliable prediction
2. Communication channels, responsibility and authority
3. Generating reliable and timely accounting information
4. Clarity of information being generated
5. Carrying along all levels of the organization (lower, middle and upper)

**3.2 Functions and Importance of a Budget**

The importance of a budget to an organization especially non-government organization can never be underestimated. The functions of budgeting have been categorized differently by different authors. Here are some functions of a budget:

1. **Control of Organizations’ Finances:** Shim and Siegel (2005) emphasized that budget is a tool which management uses to control the income and expenditure of an organization. Since budget is a compilation of the projected income and projected expenditure, this gives management a clear picture of the entire financial situation of the organization (Shim & Siegel, 2005).
2. **Focus on Organizational Goals and Objectives**: Shim and Siegel (2005) explained that an organization may get distracted with challenges and other petty organizational issues which may in the long run derail managements’ focus on the main goal. Since budgets are prepared in line with organizations’ goals and objectives it serves as a self-check to management to know when they may be derailing from stated objective and to quickly get back inline (Shim & Siegel, 2005).
3. **Efficient Use of Resources**: Sometimes, in the course of implementing projects there could arise unforeseen instances that were not provided for in the budget for example, a sudden hike in prices or the sudden unavailability of an item in the market. When these occur, the budget line item will be affected and management in their discretion and with donor approval could allocate resources/amounts from an excess line item to a deficit line item (Shim & Siegel, 2005).
4. **Timely Project Implementation:** Project implementation are always tied with meeting deadlines and timeframes. These deadlines and timeframes are well embedded in the budgets (activity-based budgets) of NGOs. Budget implementation therefore ensures that all outcomes and deliverables are finished in a timely manner (Shim & Siegel, 2005).
5. **Efficient Decentralization:** When NGOs have many base locations and management finds it difficult to control all locations from a central point, the use of budget can ensure effective decentralization without losing control of any location. This is especially so since all base location will be operating on their individual budget, and any slight variation will trigger management action (Shim & Siegel, 2005).

**3.3 Conclusion**

In summary, budgeting is a formal expression of the intended activities an organization intends to carryout in the next accounting period. These intended activities are in accordance with organizational goal and objectives and the timeframe for these activities could be short-term or long term. The overall functions of budgeting according to Kovalevaa et al. (2016) are: planning, coordination, communication, control and performance evaluation.

**4**

**IMPORTANCE OF CASH MANAGEMENT/CASH FLOW FORECAST**

**4.1 Overview of Cashflow Forecast**

Cashflow forecast is a financial management tool used by non-government organization to monitor cashflows that NGOs expects in the coming months. FMD Pro Group (2017) described cashflow forecast as the predicting of cash inflow and cash outflow by breaking down the annual budget of an organization into weekly, monthly or quarterly periods. The group added that cashflow forecast is an essential tool for maintaining adequate cash reserves for continued sustainability.

The use of cashflow forecast will enable non-government organizations to anticipate possible cash surpluses and cash deficits and identify ways to handle cash deficits (Li, Moutinho, Opong and Pang, 2015). The authors added that cashflow management is a mechanism that is future oriented, and they suggested means of anticipating efficient cashflow system by management which include: requesting prompt payment of funds from donors, delaying some activities that are not urgent, delaying certain payments, and negotiating soft loans from banks.

**4.2 Importance of Cashflow Forecast**

Cashflow forecast is an essential element in ensuring that the objectives of non-government organizations are being met. Cashflow forecast ensures that funds available to run the organization and pay debts as and when due (ABT Associates Inc., 2001). The following are the importance of cashflow forecast:

1. **Indicates the Financial Stability of the Organization:** Cashflow forecast gives an instant situation on the financial health of an organization (FMD Pro Group, 2017). Gamsakhurdia and Batiashvili, (2016) added that management makes use of cashflow forecast to determine the financial stability or financial instability of their organization and to take necessary actions when needed.
2. **Ensures availability of Cash to support Operations/Program Implementation:** Project implementations are usually time bound, and an effective way to ensuring that deliverables are being achieved within the stipulated timeframe is to ensure that there is readily available cash when the need arises, hence the need for cashflow forecast (ABT Associates Inc., 2001).
3. **Ensures availability of Cash to meet Obligations:** Obligations here refers to bills and debt payments. Gamsakhurdia and Batiashvili, (2016) emphasized on the importance of an organization to be credibly in the eyes of relevant stakeholders when it comes to payment of debt and bills when they fall due. Cashflow forecast will enable an organization to know when such obligations are due and to make available funds to meet these obligations.
4. **Provide for Capital Expenditure:** Most time, organizations especially NGOs will need to plan for the purchase of long term/capital expenditure such as building, vehicles and equipment. The efficient use of cashflow forecast will enable an organization plan better for such capital expenditure and it will give them ample time to make necessary savings for such acquisitions (Li et al., 2015).

**4.3 Conclusion**

In summary, cashflow forecast is the monitoring of cashflow throughout the fiscal year of an organization. The main purpose is to determine in advance when there might be cash deficit or cash surplus so that operations are not interrupted by the unavailability of cash. In situation where there might be cash shortage and yet there are activities to be carried out, it will give management ample time to either source of additional funds or delay the execution of such activity. Cashflow forecast is simple a tool used management to be proactive rather than reactive in cash management.

**5**

**CONTENTS OF BALANCE SHEET AND THE DIFFERENCE BETWEEN BALANCE SHEET AND TRIAL BALANCE**

**5.1 Contents of Balance sheet**

Balance is a statement that shows the overall picture of the financial wellbeing of an organization at a specific point in time (Hoyle and Skender, 2012). Balance sheet is also known as the statement of financial position of an organization (ABT Associates Inc., 2001). Barned (2012) added that balance sheet gives details of an organizations’ assets, liabilities and equity.

The contents of balance sheet include:

1. **Assets**: According to Hoyle and Skender (2012), assets are valuable items that are owned by the organization. ABT Associates Inc. (2001) stated that assets are further divided into current and fixed assets

* **Current Assets:** These are assets that can easily be converted to cash within one year. Examples include; cash in hand, cash in bank, amounts owed by debtors.
* **Fixed Assets**: The are items that cannot be easily converted to cash within a year. Examples of fixed assets include; furniture, equipment, vehicles and building.

1. **Liabilities:** Liabilities are amounts being owed to other stakeholders by an organization (Hoyle and Skender, 2012). According to ABT Associates Inc. (2001), liabilities are further divided into long-term and current liabilities.

* **Current Liabilities:** These are obligations that the organization can settle within one year. Examples include; outstanding invoice payments, bank overdraft, withholding tax and payroll taxes not yet remitted.
* **Long-Term Liabilities**: The are payables that cannot be paid within one financial year. Examples include bank loans.

1. **Fund Balances/Equity:** These are also referred to as accumulated funds which is derived from the operations of the organization (Hoyle and Skender, 2012). According to ABT Associates Inc. (2001), these funds are made up of grants and fund-raising funds. The authors further stated that fund balances are divided into capital funds, operating funds and restricted funds.

* **Capital Funds**: Accounting for all movement of fixed assets (asset purchase, asset revaluation, asset disposal and depreciation) are accounting for through the capital fund.
* **Operating Funds**: These funds accounts for the money used in the operation of the organization. In non-profit organization, the sources of these funds are usually a percentage of all grants.
* **Restricted Funds**: These are funds that are designated for specific purposes. These funds cannot be used for any other purpose apart from those specified by the donor.

**5.2 Difference between Balance Sheet and Trial Balance**

Balance sheet is a statement that shows the net worth of an organization (Hoyle and Skender, 2012). The authors added that balance sheet is a statement that depicts an organizations’ financial position by capturing assets, liabilities and capital at a specific date.

Trail balance is simple an accounting process that shows all ledger balances from all accounts of an organization and the debit side and credit side of a trial balance is always equal (Hoyle and Skender, 2012).

According to (Hoyle and Skender, 2012), the following are specific differences between balance sheet and trial balance:

1. **Definition:** Trial balance is a schedule of balances from all general ledgers of an organization while balance sheet is a statement that shows the financial position of the organization at a point in time.
2. **Components:** Trail balance is divided into debit and credit while balance sheet is made up of assets, liabilities and capital/equity.
3. **Balances Used:** Trail balance makes use of opening balances while balance sheet makes use of closing balances.
4. **Final Account:** Trial balance is not part of the financial statement, but balance sheet is an essential part of an organizations’ final account.
5. **Purpose:** Trial balance is prepared in preparation of final account and to check for arithmetical accuracy of the books while balance sheet is prepared as part of financial statement and to show the financial position of an organization.
6. **Reporting Time:** Trial balance can be prepared many times in an accounting year (monthly, quarterly, bi annually and annually) while balance sheet is prepared once a year which is at the end of the financial year of the organization.
7. **End Users:** Trial balance is prepared for internal use while balance sheet is prepared for external use.

**5.3 Conclusion**

In summary, trail balance is prepared to ascertain arithmetical accuracy of ledger postings while balance sheet is prepared to ascertain the financial position of an organization at a specific date. Also, the main components of balance sheet include; assets, liabilities and equity.

**6**

**ESSENCE OF FINANCE COMMITTEE IN GRANTS MANAGEMENT**

According to the grants management guide by AIPMS, finance committee is a standing committee of the board of directors that oversees the financial operations of the organization by working closely with the executive director and the finance team. The institute further stated the importance of the finance committee which includes, ensuring proper management of funds/grants, proper budget implementation, advising the board on finance issues, facilitating audit process and facilitating strategic financial plans of the organization.

On the other hand, grants management entails strategic planning and development, search for grant opportunities, grant implementation, project management and meeting deadlines (ABT Associates Inc., 2001). Grants management simply is the process of getting funds from donors to implement a project and the process of reporting the success of the project and how funds were used (Gross, McCarthy and Shelmon, 2005).

The importance of a finance committee in grants management cannot be overemphasized. In most instances, the presence of a finance committee facilitates the donor in giving funds; also, the presence of a finance committee will ensure that donor funds are used in accordance to donor specifications (ABT Associates Inc., 2001). According to Gross et al, (2005), the following are the essence of a finance committee in grants management:

1. **To Provide Oversight Functions on the Finance of the Organization:** The finance committee are usually made up of persons with sound financial background and they are tasked with the monitoring of the finances of the organization.
2. **To Provide Adequate Internal Control:** Another essence of the finance committee is to ensure that an adequate system of internal control exist in order to curtail error/fraud.
3. **To Provide Effective Risk Management:** Finance committee and top management are primarily responsible for providing adequate risk assessment of the organization and develop measures to guard against such risks.
4. **To Facilitate the Work of the External Auditors:** Finance committee are responsible for interpreting the findings of the external auditor to other members of the board. The finance committee are also responsible for recommending auditors to be appointed and determining their remunerations.
5. **To Supervise the Internal Auditors:** To ensure that the internal auditors carry out their duties with utmost level of professionalism and without bias, they usually report to the finance committee.
6. **To Ensure Compliance with Relevant Regulations:** The primary aim of the board is to ensure that the organization operates within stipulated regulations. The finance committee ensures that the organization abides by all financial and monetary regulations as required.
7. **To Prevent Fraudulent Practices:** It is the function of the finance committee to set up adequate measures to ensure that fraudulent practices are being eliminated this is because the perceived presence of fraud tarnishes the image of the organization and donors will not be willing to contribute funds.
8. **To Ensure Adequate Reporting of Misconduct (whistle blow):** Another function of the finance committee is to ensure that there are adequate procedures in reporting misconduct of any kind and that no stakeholder is being marginalized.

In conclusion, finance committee is an essential aspect of grants management this is because financial control is the heart of grants management. A well-structured finance committee will ensure that funds are properly used and accounted for and this in turn will improve donor confidence in the organization. A sound finance committee will ensure that funds are used in achieving the organizations’ objective and hence better grants management.

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