**MODULE 2 ASSIGNMENT**

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

As highlighted by Isaac Shapiro, inherent in preparing budgets are a number of assumptions that are made about the economic status and stability of the environment the proposed programme will be operating in (Shapiro, 2001). Operating in African states that are still in their developing stages, can mean that the assumptions made at the start of the budgeting process, may not endure through the entirety of the project cycle and may change rapidly when budgetary programmes are implemented. As many aid and development programmes are based on filling the gaps that exist in provision of state services, the great challenge in preparing the budgets to fill those gaps, is that the gap may change is size and scope fairly rapidly and the needs of beneficiaries change. Shapiro identifies the reasons for this to be ‘a limited capacity to absorb external shocks […and…] narrow tax bases that yield erratic levels of revenue’ (Shapiro, 2001: 21).

This pattern can be seen in African countries such as in Kenya, where a lack of public record keeping has led to difficulties for development programmes supporting public service delivery. Kemoni and Ngulube note, in the Millenium Development Goals status report that, ‘a major problem hindering a detailed assessment of the progress of the MDGs [Millennium Development Goals] in Kenya was paucity of data’ (Kemoni and Ngulube, 2008). It hindered the project as it became difficult to measure the progress of the project as its baseline data was incomplete and therefore flawed and it further prevented implementors of the project from realising how far behind the goals they were. This lack of basic record keeping by the state, meant that it became difficult for NGOs at the preparation stage of their budgets, to make accurate assumptions on which to base their project and therefore budget design.

Another way in which enacting budgetary programmes in developing countries is challenging, is because assumptions made by NGOs in their assessment of need are based on data obtained by the organisation itself, partner organisations and other stake holders, census information and other government data which is sparse and incomplete due, in large part, to a lack of government resources (Shapiro, 2001).

An example of this can be seen in Zambia, where provision of programmes to combat aids by deliverance of antiretrovirals, is rendered difficult by the scarcity of staff and high staff renewal rate, which includes doctors as well as a rage of medical support staff (Hanefield and Musheke, 2009). Similarly in South Africa providing vaccine coverage for the HPV vaccine, a lack of school nurses and health care professionals were thought to be a significant barrier to the programme’s success (Harries et al, 2009). Thus budgeting the cost of staff can be difficult to anticipate as staff need to be replaced regularly and enticed to stay through further allowances (Schatz, 2003). This can be especially difficult as many donors would like as much of their money as possible to go directly to beneficiaries rather than staff costs and it can be necessary to seek additional funds to supplement the fluctuant costs of human resource provision.

Furthermore, in Zambia, whilst a large proportion of the funding comes from the same donor, the budgetary programmes are enacted by many different and separate NGOs meaning that it can be difficult to determine data on what type of programmes are being instigated and in what geographical areas (Hanefield and Musheke, 2009). Therefore in order to perform an accurate assessment of need, thought needs to be put into the type of intervention currently ongoing in the region, whilst there may be some HIV provision, it may only be for treatment and not for prevention. Thus, when preparing budgets, the lack of accurate data can make budgeting uncertain and the needs assessment process more difficult. If the needs become evolved as the implementation of the project progresses, this can mean adapting project activities accordingly and have an impact adherence to the budget initially outlined.

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

Accounting standards are the minimum requirements of accounting that every organisation must follow, they are established by governing bodies.

For Non-Governmental Organisations (NGOs), they would be required to adhere to the Financial Accounting Standards Boards (FASB), whilst Government organisations adhere to the Government Accounting Standards Board (GASB) (Larkin and DiTommaso, 2016). If Non-Governmental organisations receive government grants, they will also be subject to Government accounting standards. There are also International Public Sector Accounting Standards which stipulate rules for various organisations such as the World Food Programme (Missoni and Alesani, 2013).

They exist to advance the standards of fiscal accounting, to ensure that accuracy is maintained in financial reporting to the government, the taxpayer and the donating public (El-Ayouty et al., 2000). Those that require financial reports, monitoring and evaluation such as donors, can receive that information knowing that the standard kept is that of specified accounting standards (The World Bank, 2002). This is important for an organisation’s legitimacy and financial reliability. These standards are a way of ensuring that taxes are paid, or that tax-exempt statuses are valid and that external audits of the organisation’s fiscal accounting are performed.

In the modern accounting practice, they exist, in some cases, to establish that the organisation is spending money in the manner that it promised to do. This can sometimes be determined by an investigation as part of the financial audit. One programme might have multiple grants and sources of funding supporting it and, therefore, it is the job of the audit to establish that each funding stream is being used exactly as stipulated in the agreed terms and that money has not been redirected to purposes other than that originally intended, unless authorised by the donor (Stillman, 2007). External audits can typically be requested by donors or executive boards of an organisation. Alternatively, compilations and reviews can be requested which are less involved processes done by accountants. Modern accounting standards combat against fraud and help ensure the integrity of the sector at large (Stillman, 2007). They engender public trust in governmental and non-governmental organisations.

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

**Definition of a budget.** A budget can be defined as a document that lists the income and outgoings of an organisation. Budgeting is therefore both; the practice of being aware of the amount of money required to pay bills, the amount of the bills and who they are payable to; and, an awareness of what financial income is anticipated, from which sources this will come and the anticipated amounts. Being aware of these factors and using them to make strategic decisions and plan activities in relation to financial constraints is budgeting in action. Al Kliman defines budgeting as translating organisational policies into fiscal planning terms or ‘as a method of allocating scarce resources among competing needs’ (Kliman, 1990: 110).

**Plan of the fiscal year.** In its most basic sense, a budget outlines the plan of incomings and outgoings therefore, its most basic function, is to enable the formation of a plan for the fiscal year. By this plan, a budget can show the basic financial capacity of an organisation as anticipated in any given financial year.

**Identify priorities.** This plan of the financial year can forecast, in advance, the anticipated activities that are already funded and also identify areas that are yet to be allocated funds. One of the functions of the budget, is therefore to help identify the gaps in funding and the subsequent funding priorities for the organisation. It helps the organisation to be able to target their efforts and resources towards a particular goal or gap.

**To Fulfil donor’s requirements.** A third function of the budget, is that it serves to fulfil a donor’s requirement. As part of the application process for grants of any sort, a key component is the anticipated budget which shows the organisation’s financial health and how this grant, if granted, will fit into the overall budget. It will enable the donor to see how the organisation intends to divide the funds and allocate them to particular activities, this, in turn, will show how realistic the planned programme is. For most donors, the budget is the most important part of the application and is the deciding factor in awarding a grant.

**To enable a review of the health of an organisation.** The budget also forms the picture for subsequent financial documents that may be required throughout the year such as a balance sheet. This may also be a requirement of funding stipulations from donors once funding is granted: that balance sheets be formed, to show a snapshot of the health of an organisation at any given moment. As well as externally, it could be requested internally, by the organisation’s governing board, their board of trustees for example, to give an overall picture of the stability of the organisation. The first budget which is formed before the start of the financial year, will function as the basis for any further financial documents which help aid an assessment of its progress or review of its effectiveness at any point throughout the year.

**Internal monitoring and performance.** According to Debbie Budlender and Guy Hewitt, budgets also perform the function of holding managers to account, being used ‘as an internal management tool to increase budgetary performance’ (Budlender and Hewitt, 2003: 71). Whilst it should be noted that Budlender and Hewitt were writing specifically of gender budgets, this is applicable to budgets in all types of organisations. They are used as an way of setting goals internally, within an organisation, they allow a managers effectiveness to be monitored and reviewed.

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

Cash management or cash flow is the giving or receipt of tangible money throughout an organisation, rather than what is owed which is intangible. It is the tracking of money that can be used to pay everyday expenses. Diligent management of cash is important because a statement of cash flows is often required for fiscal statements such as the balance sheet (Maynard, 2017). A lack of cash available to pay these expenses is a problem even if a large amount is owed to the organisation, without the flexibility of being able to access cash rather than just intangible assets, an organisation can develop cash flow concerns which can be avoided by good cash management and the capacity to forecast cash flow problems, thus preventing financial blockages.

It is important that an organisation establishes what method of accounting it will use - a consistency is required across the organisation. Some organisations use cash accounting, whereby a liability (cost) is recorded on the date they were paid by the organisation, rather than the date the payment was received, which is known as accrual accounting (Missoni and Alesani, 2013). As Missoni and Alesoni point out, using a cash format for accounting, can lead to liabilities not being funded and especially with larger organisations, whose accounting is more convoluted, appropriate documenting of liabilities is vital to enable longer-term strategies to be formed and an organisation to be fiscally secure (Missoni and Alesani, 2013). Cash flow statements are also required as part of accrual accounting fiscal statements, thus a reliable record of cash management is sometimes necessary to comply with modern accounting standards (Missoni and Alesani, 2013; Larkin and DiTommaso, 2016).

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

Balance sheets or statements of financial position, are documents which show the income and outgoings of an organisation. This document is not a projection of intended outcomes or deficits at the beginning of a financial year, but rather it captures an accurate depiction of a moment in time. It provides a snapshot of the organisation’s budgetary health on any particular day. The contents of a balance sheet are the assets – what the organisation possesses either in cash or in credits to be paid or items of value – and liabilities – what the organisation owes to others (Missoni and Alesani, 2013).

The balance sheet also indicates how much cash the organisation has at that moment in time by showing the assets, ordered by which can most readily be transformed into cash (Missoni and Alesani, 2013). From this, one can the cash available to hand, which gives a picture of how many days an organisation could continue to carry out its activities with the current cash at hand (Missoni and Alesani, 2013).

By contrast a trial balance is a document which shows a timetable of the credit and debit balances from the ledger accounts on a given date (Maheshwari et al, 2012). For every instance in which the account is credited, there is written a relating debit and, therefore, every debit to the account has a relating credit. The summation of these debit and credit balances makes the trial balance (Sofat, 2010).

The main difference in the trial balance and the balance sheet, is that the trial balance is purely meant to test the accuracy of the ledger, whereas the balance sheet is intended to show a picture of the financial status of the organisation (Sofat, 2010; Maheshwari et al, 2012).

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

A financial committee is essential to ensure that all finances are being managed legally and ethically. If it is working effectively, a financial committee will protect the organisation from scandals and legal proceedings, that may affect its reputation and subsequent relations with donors and funding contract both in the present and in the future.

The mandate of the financial committee is to guarantee sufficient funds for the organisation’s planned activities and to ensure adequate contingency planning is in place for alternative funding in crises. The committee undertakes the role of ensuring the organisation is broadly operating within the remit of its mission statement and that activities are in line with donor’s stipulations. They are ultimately accountable for the finances of the organisation and therefore must include in part members with some financial knowledge (Landskroner, 2002).

Typically, the committee is permanent for the life of the organisation, is headed by the board treasurer and has fiduciary responsibility for the fiscal wing of the organisation (Henderson et al., 2015). A competent board can reveal errors and problems and rectify therefore they become a liability to the organisation and in this in this way it protects the organisation.

An financial committee allows other members of the organisation to get on with the business of running programmes and is one step removed from the programmes themselves in order to be more impartial and make strategic decisions in the broader context of the organisation’s direct as a whole, that cannot reasonably be made by those who have been the project designers and assessed need from the start of the project cycle (Henderson et al., 2015).

A committee ensures that cash flow is not becoming problematic and that there is overall adherence to the annual budget. They are expected to anticipate areas of difficulty, areas of change and ensure compliance with fiscal reporting mechanisms such as FASB and GASB (Landskroner, 2002). Donaldson and Hawkes write on the importance of transparency from the financial committee with regard to financial intermediaries (Donaldson and Hawkes, 2018). They are required to uncover activities which are unlawful or not in line with the ethical commitments of the organisation such as safeguarding of the beneficiaries of aid and report them to donors and the public to show transparency and enable questionable activities to be externally investigated (Henderson et al., 2015).

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