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Financial Management and Sustainability Toolkit for Creatives in East Africa

A toolkit by the Resource of Open Minds (R.O.O.M) project at **HIVOS**

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LIST OF ABBREVIATIONS

GAAP - Generally Accepted Accounting Principles

GOK - Government of Kenya

GRV - Guaranteed Residual Value

HIV - Human Immunodeficiency Virus

HIVOS - Humanist Institute for Development Cooperation

IFRS - International Financial Reporting Standards

IPSAS - International Public Sector Accounting Standards

LPOs - Local Purchase Order

M&E - Monitoring and Evaluation

NGOs - Non-Governmental Organisation

POs - Purchase Order

RFQ - Request for Quotation

ROOM - Resource of Open Minds

SWOT - Strengths, Weaknesses, Opportunities and Threats

INTRODUCTION

R.O.O.M developed this Financial Management and Sustainability Toolkit to support creatives in East Africa in planning for and delivering financially healthy enterprises.

This toolkit therefore contains a selection of practical guides and manuals, chosen as examples of good practices and for their global relevance, particularly for creatives. They cover the types of policies required to support an enterprise by a creative, and practice guidance and tools for the delivery of a successful enterprise.

By publishing this toolkit, Hivos supports the development of solutions to deep-seated problems so that creatives can make responsible and equitable choices within economic systems that serve their needs.

While we envision a region in which creatives are respected and used to strengthen communities, Hivos firmly believes in every creative's right to live in freedom and dignity, to enjoy equal opportunities, and to influence decisions made regarding the changes they want to see in their lives, communities and East Africa. Each creative is unique, and these individual differences are something to cherish, protect and empower through financial management.

How was the toolkit created?

We developed the toolkit with the input of a broad range of professionals working on entrepreneurship-related issues. We searched extensively for resources that relate directly to the implementation of enterprises and screened each potentially relevant document for technical accuracy.

Specifically, we looked for resources that emphasize best practices, such as planning, controlling, organizing and directing, and decision making for the individual short and long-term needs of creatives. We also checked that the document is relevant for a broad range of creatives.

This toolkit is considered globally relevant. It describes best practices that are easily adapted to other contexts and offers a good example of a practice on which another country can base its work.

Hivos works for a world where people can realize their full potential, unleashing their ingenuity and creativity to build fair, just and life-sustaining societies for themselves and generations to come.

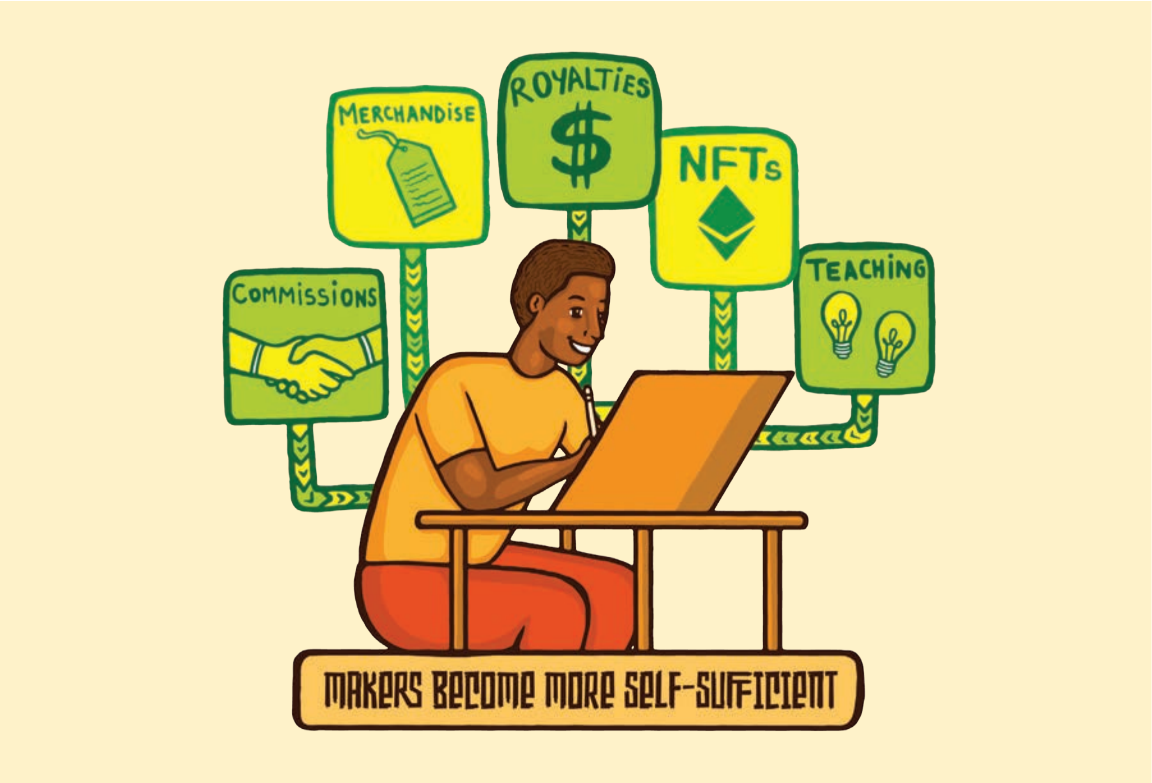

Illustration by Brian Omolo for
The 2021 AU/UN Year of Creative Arts Challenge.

A. FINANCIAL MANAGEMENT

A.1. What is financial management?

Financial management means planning, organizing, directing and controlling financial activities such as procurement and utilization of funds for an enterprise or entrepreneur. It requires the application of general management principles to financial resources of the enterprise or entrepreneur involvement in planning, controlling, organizing, directing and decision making.

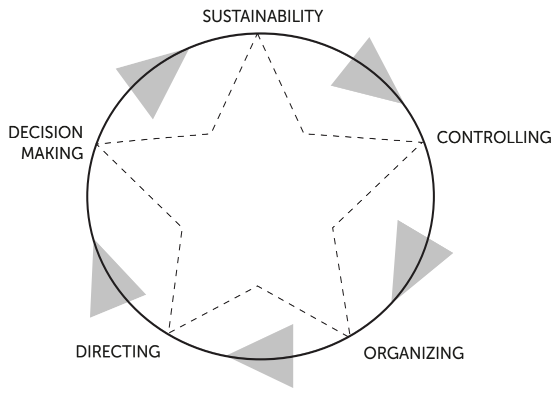

Figure 1: Financial management summary

A.1.1. Planning

An enterprise or entrepreneur should work towards a specific aim or mission to be effective and increase in potential. But how can an enterprise or entrepreneur tell what is and is not important to the goal? Planning aims to answer this question.

Planning entails determining what steps must be taken to achieve the objective, anticipating changes and obstacles, and determining how to best utilize resources and opportunities to achieve the desired outcome.

Some reasons that make planning important include:

- It aids in the setting of appropriate objectives - While a plan is a strategy for achieving a goal, it also aids in the development of Specific, Measurable, Achievable, Relevant and Time-bound (SMART) goals. Planning aids in rigorously evaluating the aim to see if it is achievable. It aids decision-making and enables the establishment of a timeline by forecasting when an enterprise or entrepreneur will achieve the objective. It also specifies how performance will be measured in relation to the established objectives and who will do so.
- It establishes control over objectives and standards - One of the most important functions of planning is to provide direction so that we can develop tactical goals. Planning identifies goals and assists an enterprise or entrepreneur in prioritizing actions based on their importance to the overall aim.
- It lowers the level of uncertainty - As change is always difficult to manage, the uncertainty of the future poses a significant danger to the long-term viability of an enterprise or entrepreneur. The greatest option is to anticipate issues and have contingency plans in place. Planning is extremely beneficial to lowering future uncertainty and preventing hazards.
- It prevents activities from overlapping - Effective planning clarifies duties and expectations thereby assuring that activities do not overlap and that coordination is maximised.
- It ensures that resources are used efficiently - Planning optimizes effectiveness of people and material resources. By starting with a good plan that focuses on the desired outcome and examines available capabilities, one can identify many opportunities to reduce operating costs.
- It encourages creativity and innovation - When an enterprise or entrepreneur faces a difficult task that pauses likelihood of obstacles, they brainstorm fresh ideas and solutions. An enterprise's leadership is responsible for deciding on a future course of action. They can recognize new prospects for business development, offer new products or services, or uncover new target markets by focusing on the need to achieve the goal. Planning becomes a continual process in this manner, which stimulates strategic thinking, creativity and innovation.
- It helps to make decisions - In two ways, planning improves decision-making and time management. First, it assists an enterprise or entrepreneur in maintaining a focus on the goal (s) and establishing how different courses of action might support or delay achievement of that goal(s). Second, the plan allows an enterprise or entrepreneur to see further ahead. With a clear road map, they may consider the impact of a decision on long-term responsibilities and activities. An enterprise or entrepreneurs' decisions without such a strategy may not be strategic, but rather based on the available data and current scenario.
- It improves team morale and motivation - When people appreciate the significance of their work, they become more involved and driven. Planning demonstrates the relationship between individual input and a bigger goal that it aids in achieving. It also demonstrates that everyone in an enterprise is critical to achieving the common goal. Within an enterprise, competition is reduced as a result and communal team spirit is fostered.
- It aids in gaining stakeholder credibility and trust- Enterprises and entrepreneurs recognize the importance of having a sound plan in place to persuade creditors and investors to lend a hand. However, the former occasionally forget that a volatile market climate can force them to engage stakeholders without preparing. If one needs to identify and engage new investors in a short amount of time, having a written business plan on hand will be extremely beneficial. The presence of clear goals and a documented plan also demonstrates your social responsibility and builds employee and client trust.
- It gives you a competitive advantage and allows you to position yourself strategically - Planning entails gaining a realistic understanding of an enterprise and entrepreneur's strengths and weaknesses and helps in identifying competitors' gaps and vulnerabilities. Acting on this information, rather than inertly repeating the same acts provides a significant competitive advantage. Furthermore, planning enables identification of emerging

markets and entry routes to such markets with new products or services ahead of one's competitors, giving entrepreneurs the first-mover advantage.

A.1.2. Controlling

According to Harold Koontz and Cyril O'Donnell, "Control is the measurement and correction of the performance of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are accomplished.

Controlling is an important managerial function or technique because it guarantees that activities are consistent with expected outcomes using appropriate feedback mechanisms. This process also includes fixing any deviations to guarantee that the results are delivered on time and within budget.

It is critical to note that without planning, control is impossible to achieve. The main reason for this is that if one does not know what must be accomplished, what resources are accessible, what numerous tasks need to be completed, etc, one cannot continue with any project.

Some reasons that make controlling important include:

- It is the basis for plan execution – Controlling is a necessary part of financial management as it ensures that plans are carried out correctly. It involves monitoring progress, identification and correction of deviations, and maintains everything on track. Without the watchfulness and feedback of an effective management system, even the best-laid out plans have a slim chance of succeeding.
- It aids in the achievement of objectives - Because the control process is goal-oriented, it keeps activities on track. If something goes wrong, corrective action is taken as soon as possible. It also aids in the reduction of waste and losses.
- It is the foundation of future action - Controlling systems offer feedback and highlight flaws in their designs. They aid in the future preparation of better plans as well as facilitate future decision making. Long-term planning is impossible until enterprises and entrepreneurs have timely access to control information.
- It encourages collaboration - Controlling makes it easier for teamwork to thrive since it gives common direction to all. Enterprises and entrepreneurs and their activities are built with a shared goal in mind.
- It enables enterprises and entrepreneurs to cope with changes and uncertainty - Enterprises and entrepreneurs function in complicated and ever changing environments. They must monitor developments in the environment and respond appropriately. To prevent mistakes from becoming significant dangers, timely actions can be taken.
- It boosts morale - Enterprises and entrepreneurs need positive attitudes about their workplace and work. Controlling aids in promoting a healthy attitude towards the workplace and work, thereby keeping morale at higher levels.

A.1.3. Organising

Louis Allen has defined organizing as follows:
"Organising is identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships to enable people to work most effectively together in accomplishing objectives."

According to Henri Fayol, also renowned as the Father of Modern Operational Management, "Organising is a key function of management which provides an organisation with everything useful to its functioning."

As a process, organizing entails:
- Identification of activities.
- Grouping of activities into categories.
- Assigning the identified duties.
- Delegation of authority and the establishment of accountability.
- Coordinating the authority and responsibility relationships.

Some reasons that make organizing important include:

- It coordinates and communicates – Organizing fosters a positive relationship between the enterprise and its employees and entrepreneurs, which aids in the achievement of the goals and objectives of the enterprise and entrepreneurs.
- It supports growth and diversification – Organizing aids in the growth and expansion as well as the understanding of additional activities.

- It ensures optimization of resources – Organizing directs the best use of resources, including; material, financial, and human capital.
- It identifies the activities that need to be undertaken to achieve the desired objectives.
- It assists in the grouping of activities for efficient action.
- It assists in the assigning of the activities.

A.1.4 Directing

According to Koontz and O'Donnell, "Direction is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise objectives."
Directing enables the use of techniques such as; influencing, leading, monitoring, and inspiring to function effectively to achieve goals and objectives. Because planning, controlling, and organizing are preparations for completing the work, directing is considered the "enterprise's or "entrepreneur's life-spark that sets the action in motion.

Directing has the following elements:

- Supervision – Watching work by keeping an eye and directing the work.
- Motivation – Encouraging, energizing, or persuading using positive, negative, monetary, and non-monetary incentives.
- Leadership – The method of directing and influencing work in the desired direction.
- Communication – Conveying information, experiences, or opinions to others.

Some reasons that make directing important include:

- It motivates – Directing assists in guiding and supervising. This motivates and aids in ensuring the achievement of predetermined goals and objectives.
- It creates a work environment – Directing establishes an atmosphere in which work can be undertaken to full potential to achieve predetermined goals and objectives.
- Mentoring – Directing aids in observing and advising.

A.1.5. Decision-making

Trewartha and Newport (1982) define decision making process as a process that involves selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem.

Decision making is a continuous and dynamic activity that is of vital importance and requires solid scientific knowledge, skills, experience in and mental maturity. Furthermore, decision making can be viewed as a checks and balances system that ensures growth. This implies that the decision making process aims for a specific outcome. The outcomes are predetermined goals and objectives whose attainment may encounter numerous challenges.

Challenges met are resolved through a decision-making process. A point to note is that no decision is complete on its own since new challenges may arise. When one problem is solved, another arises and so on, such that, as previously stated, the decision making process is a continuous and dynamic process.

Decisions cannot be made on the spur of the moment.

They take time and involve the following steps:
- Identifying the problem or issue;
- Information gathering and data collection;
- Developing and weighing possible options;
- Choosing the greatest option available;
- Planning and carrying out the chosen option(s); and
- Take action to follow up.

The above steps apply to most, if not all, decisions and ensure that the result is magnificent.

A.2. What are the objectives of financial management?

Financial management is concerned with procurement, utilization, allocation and control of financial resources of an enterprise or entrepreneur. The objectives can be:

- To ensure regular and adequate supply of funds to the enterprise or entrepreneur.
- To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share and expectations of shareholders.
- To ensure optimum funds utilisation and proper resource management. Once the funds are procured, they should be utilised in the maximum way at the least cost.
- To ensure safety on investment - Funds should be invested in safe ventures so that an adequate rate of return can be achieved.
- To plan a sound capital structure. There should be a fair

composition of capital so that a balance is maintained between debt and equity capital.

- For accountability to the Government of Kenya (GoK), donors, financiers and shareholders as they all need to know that funds are being used for approved purposes and that there is a value for money.
- For internal decision making to ensure that procurement decisions, fundraising decisions and cost control decisions are made in line with relevant laws and regulations.
- To gain the respect and confidence of the funding agencies.
- To prepare for long-term financial sustainability.

A.3. Your Responsibility as a creative in financial management

Creatives have the following basic responsibilities in financial management:

- Overseeing an enterprise's financial health.
- Creating basic financial reports.
- Directing investment activities.
- Formulating a financial strategy and plans for an enterprise.

In discharging these responsibilities, a creative may choose to delegate. However, this does not reduce their responsibility, since the support extended to creatives does not absolve them from the overall responsibility for errors in the management of resources.

A.4. Key information, summary and takeaway

Creatives should be familiar with financial management, which may be summed up by the below figure of processes in financial management.

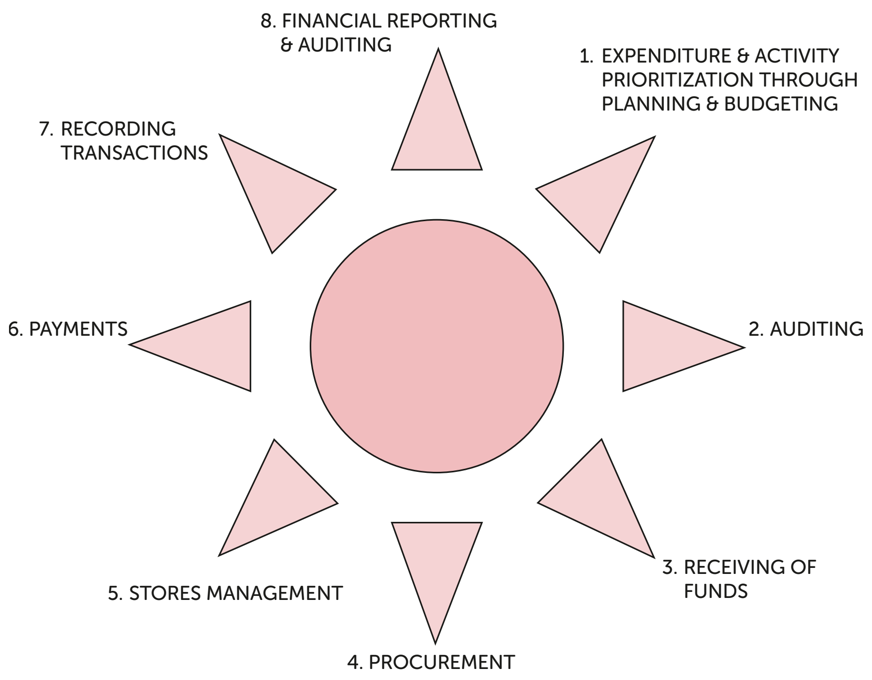

Figure 2: Components of financial management

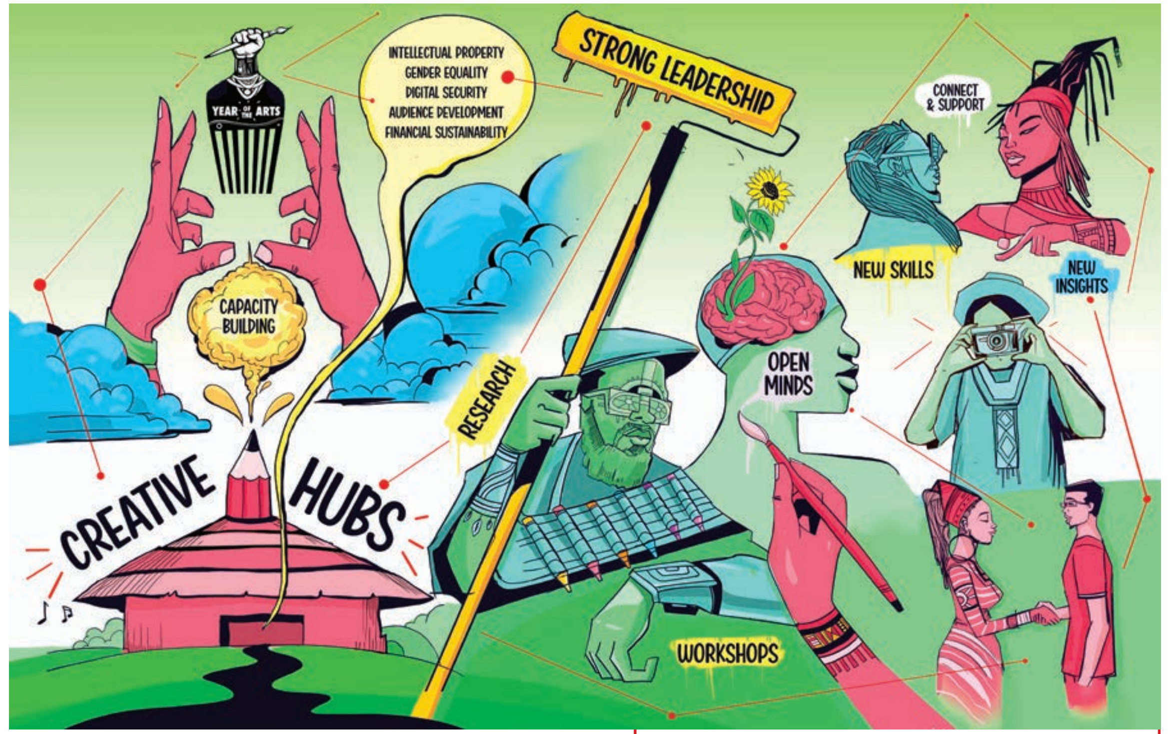

Illustration by Harrison Chege for
The 2021 AU/UN Year of Creative Arts Challenge.

B. PLANNING AND BUDGETING

B.1. Planning, Budgeting and Forecasting

Budgets are planning tools that help to express objectives in financial terms.

Planning and budgeting entail an enterprise's management or an entrepreneur deciding on their long-term and short-term objectives and forecasting the cost of achieving the stated objectives.

Three steps are identified as being essential to be followed to ensure successful budgeting, planning and forecasting:

1. Planning step - Identifying and outlining an enterprise or an entrepreneur's financial direction to create a model of expectation for the long and short- term.
2. Budgeting step - Laying out how the plan will be carried out month by month. This usually includes revenue and expenditure predictions as well as predicted cash flow and debt reduction. Budgets are frequently set before the start of a calendar or fiscal year with room for revision as revenues rise or fall. Budgets are compared to real financial statements to identify any discrepancies or inaccuracies.
3. Forecasting step - Predicting financial results for future months or years based on past data and market conditions. Forecasts can be changed as new information becomes available with the goal of assisting enterprises' management teams and entrepreneurs in anticipating results based on historical data.

Some reasons that make planning, budgeting and forecasting important include:

- Improved ability to make continuous improvements and foresee issues.
- Access to dependable financial data on which to make decisions.
- Assured and increased confidence in an enterprise or entrepreneur's decision making.
- It provides clarity and focus to an enterprise or entrepreneur.

B.2. Types of budgets

There are four common types of budgets that enterprises or entrepreneurs use:

- Incremental budget – To get the current year's budget, incremental budgeting takes the previous year's actual figures and adds or subtracts a percentage. It is the most widely used budgeting strategy because it is simple. If the key cost drivers do not change from year to year, incremental budgeting is reasonable. However, there are a few drawbacks to employing this method, namely:
- Inefficiencies are likely to persist. For example, if a manager knows he can increase his budget by 5% every year, he will simply take advantage of the opportunity to increase his budget rather than looking for methods to cut costs or save money.
- It will cause budgetary slack. For instance, a manager may exaggerate the size of the budget that the team needs, giving the impression that the team is consistently under budget.
- It is likely to overlook external activity and performance drivers. Certain input costs, for example, have experienced extremely significant inflation. Incremental budgeting ignores any outside influences and anticipates only a 15% increase in costs.
- Activity-based costing (ABC) budget – ABC budgeting is a top-down budgeting approach that determines the inputs required to support the targets or outputs set by the enterprise or entrepreneur. For example, for an output target of $100 million in revenues, a determination of the activities that need to be undertaken to meet the sales target is made first, followed by an estimation of costs of carrying out these activities.
- Value proposition budget – The budgeter examines the following questions when preparing a value proposition budget:
- What is the purpose of including this amount in the budget?
- Is the item of value to customers, employees, or other stakeholders?
- Is the item's worth greater than its cost? Is there another reason for the expenditure to be justified?

Value proposition budgeting is a way of thinking about making sure that everything in the budget adds value to the enterprise or entrepreneur. Although it seeks to eliminate wasteful expenses, it is not as accurate as our final budgeting option below; zero-based budgeting.

- Zero-based budget - Zero-based budgeting, one of the most widely used budgeting systems, assumes that all department budgets are zero and must be rebuilt from the ground up. Managers must be able to justify all expenditures. There are no automatic "okayed" expenditures. The goal of zero-based budgeting is to eliminate all expenses that are not regarded necessary for the company's successful and profitable operation. Bottom-up budgeting can be an extremely efficient approach to shake things up.

When there is an immediate need for cost containment such as when an enterprise is going through a financial restructuring or a big economic or market slump that compels it to drastically lower its budget, the zero-based approach is a good choice.

Zero-based budgeting is ideal for managing non-essential running costs rather than discretionary costs. However, because it is a time-consuming strategy, many businesses only use it on a limited scale.

B.3. Creating a budget

The following are the critical steps that should be considered to ensure that an enterprise or entrepreneurs' budget is as practical, realistic and useful as possible:

- Make time for budgeting – Invest time in creating a comprehensive and realistic budget to make it easier to manage and ultimately more effective.
- Use historical information as a guide - If accessible, gather previous valuables like sales and cost data. This will help fairly indicate what to expect in terms of sales and costs. However, you must also evaluate your sales plans, how you will employ your sales resources and

any changes in the competitive climate.
- Create realistic budgets - Budget for overheads and other fixed costs using historical data, your business plan and any changes in operations or priorities. Make sure your budgets include enough information to allow you to track your key drivers such as sales, costs and working capital.

An identification of the activities based on requirements, prioritising these activities and determining the expected income must be based on realistic facts and justifiable assumptions.

B.4. Key uses of budgets

There can be many uses of budgets within an enterprise. The two key uses mentioned in most academic literature on the subject are for planning and controlling. However, if a business goes into the effort of producing a budget, it would be sensible to know what other uses it could be put to. Some of the key uses of budgets may include:

- Track expenses – It is easy to lose track of where one spent that extra cash last month or how much they are spending on items. Budgeting ensures that the enterprise or entrepreneur stays on track. Setting realistic objectives will be easier if financial decisions are based on facts. Making a spreadsheet and saving receipts is an excellent approach to keeping track of finances.
- Set limits - Budgeting enables enterprises or entrepreneurs to set expenditure restrictions. They figure out how much money they should spend each month based on how much money they have coming in. Keeping track of where the money goes each month can help distinguish between fixed and non-fixed expenses. To avoid overspending, enterprises or entrepreneurs should reduce or eliminate non-fixed expenses and set spending boundaries that will assist in being accountable for their financial decisions.
- Reach goals - Enterprises or entrepreneurs have no way of knowing where each penny goes each month if they do not have a budget. Budgeting ahead of time helps to achieve goals and objectives faster.
- Build reserves (financial sustainability) - Many financial experts agree that paying off debt, investing as much as one can afford, and living within one's means are the greatest ways to generate wealth and be financially responsible. Budgeting can assist enterprises or entrepreneurs in putting their money to work for them and putting them on the path to financial independence and sustainability.

B.5. Levels of participation in the budgeting process

In the budgeting process, we want buy-in and acceptance from the entire enterprise as well as a well-defined budget that is not manipulated by people. With goal congruence and involvement, there is always a trade-off.

With all types of budgets, the three themes listed below must be considered:
- Imposed budgeting – This is a top-down approach in which an enterprise or entrepreneur sticks to targets they define. If an enterprise is in a turnaround situation and needs to reach certain difficult targets, imposed budgeting can be beneficial. However, there may be little goal congruence.
- Negotiated budgeting – This is a hybrid of top-down and bottom-up approaches to budgeting. Enterprise executives or entrepreneurs may establish some goals they want to achieve, but budget planning is a collaborative duty between executives and staff. Lower-level staff increased involvement in the budgeting process may make it simpler to stick to budget targets since they feel they have a more personal stake in the budget plan's success.
- Participative budgeting - Participative budgeting is a roll-up strategy in which employees recommend targets to enterprise executives from the bottom up.

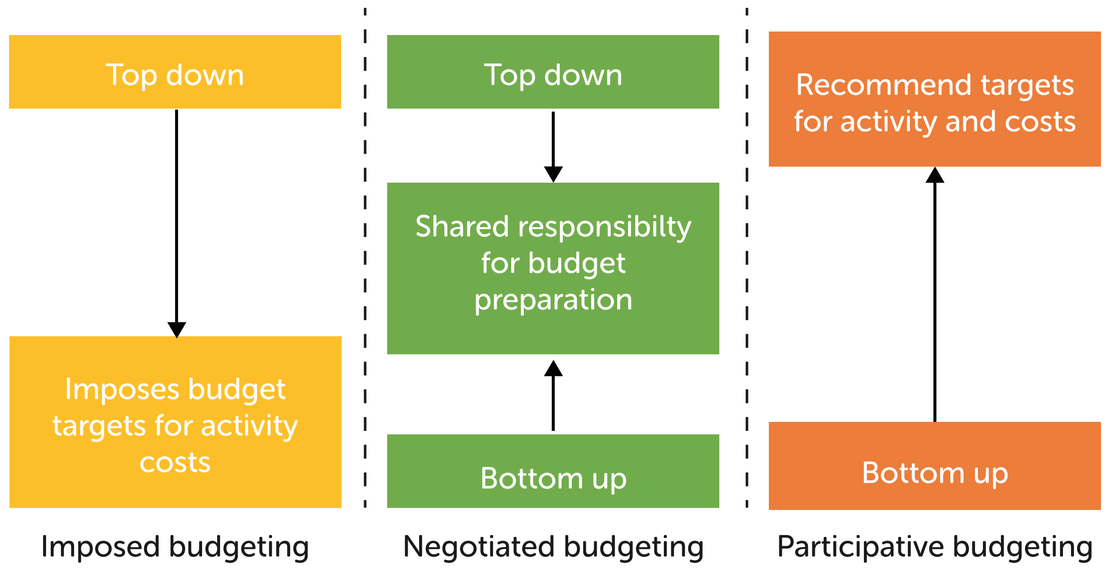

Figure 3: Levels of participation in the budgeting process

B.6. What is budget approval?

Within an enterprise, budgets of projected expenses and revenues for the period must be approved to make sure the numbers are in line with projections and priorities. Framers will make any changes as per need and, if the budget is sound, they will give the go-ahead for implementation.

B.7. Co-ordinating and controlling the implementation of the budget

Coordination and controlling of activities will be achieved through the budgeting process. Considering that all actions are brought together and reconciled into a common plan, the budgeting process assists with binding towards achievement of enterprises or entrepreneurs' goals and objectives.

Budgetary control is a systematic and formalized approach for accomplishing the planning, coordination and control responsibilities of management. Budgetary control aims to ensure that the activities carried out are providing the desired results.

B.8. Example of a budget and actual statement

Support organisation
Budget and Actual Statement from 1st January to 31st October

Budget Items	Actual budget 12 months	Budget Jan-Oct	Actual Jan-Oct	Difference Jan-Oct	% Difference Jan-Oct	Notes
INCOME						
NGO Grant	200,000	200,000	200,000	0	0	
Miscellaneous income	600,000	500,000	450,000	(50,000)	(10)	1
Department of Agriculture	110,000	91,700	93,400	1,700	2	
Fees and charges	2,600,000	2,350,000	1,655,000	(695,000)	(30)	2
Total Income	**3,510,000**	**3,141,700**	**2,398,400**	**(743,300)**	**(24)**	
EXPENDITURE						
Purchase of supplies	1,200,000	1,050,000	940,600	109,400	10	3
Salaries	793,000	665,400	654,800	10,600	2	4
Rent	1,200,000	1,000,000	1,000,000	0	0	
Vehicle & Other expenses	105,000	87,500	98,200	(10,700)	(12)	5
Equipment	200,000	200,000	205,000	(5,000)	(3)	
Loan charge	12,000	10,000	8,500	1,500	15	6
Total expenditure	3,510,000	3,012,900	2,907,100	105,800	4	
Total income less total expenditure	**0**	**128,800**	**(508,700)**	**(637,500)**		

Table 1 Example budget and actual statement

The example in Table 1 above shows more budget than actual for 'income' items and more actual than budget for 'expenditure'.

Notes:

1. Grant from Non-Governmental Organisation (NGO) has not yet been paid. Should be received in February.
2. Market price of supplies temporarily fell affecting charges which were reduced from January onwards.
3. Cost of purchases was less because of the fall in market prices. Some supplies were bought in advance.
4. One member of staff left in December 2021 and will not be replaced until February November.
5. Vehicle needed major repairs in March 2021. Telephone charges increased but are not included in the budget.
6. Balance of loan interest will be paid in January.

B.9. What can a budget and actual statement tell us?

The statement in Table 1 shows the different items in the budget listed under 'income' and 'expenditure' in the left-hand column. The next column shows the funds allocated to each budget line item. The 'budget' line items are then compared with 'actual' income and expenditure from January to October. The next column shows the difference between them. The '%' column shows any major differences and the notes explain why items are under or over the budgeted amount. In this example, an enterprise's management, an entrepreneur's committee or a manager might ask:

- Why has the NGO grant not been received, and does this have an impact (note 1)?
- Are the NGO and Department of Agriculture grants restricted to budget items?
- What is the longer-term impact of the fall in market prices (note 3)?
- How much of the supplies have been bought in advance (note 3)?
- What expenditure could we reduce to stay within the actual income?
- Who will fund the telephone costs not included in the budget (note 5)?
- Who will pay the 5,000 for equipment bought but not budgeted for?
- How much money is in our bank account – can we keep going?

B.10. Key information, summary and takeaway

Budgeting, planning and forecasting are ongoing processes that can be summed up by the below budget cycle:

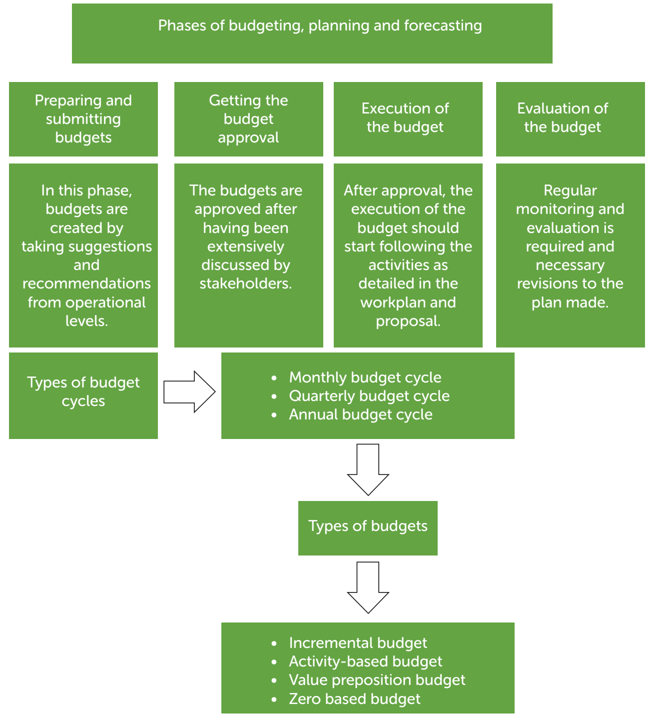

Figure 4 : Phases of planning, budgeting and forecasting

Illustration by Ian Njuguna for
The 2021 AU/UN Year of Creative Arts Challenge.

C. RECEIVING OF FUNDS

An enterprise or entrepreneur may have several sources of funds such as personal investments, venture capital, angel investors, business incubators, government grants, donor grants, and subsidies.

Strong internal controls of receipts to prevent mishandling of funds and safeguarding against loss must be in place. Internal controls related to receipts are the practices established to ensure all funds received are deposited in the bank and recorded.

Separation of duties and month-end reconciliations are the key processes used to ensure the safeguarding of receipts.

C.1. Types of funds

In the workshop's context on Financial Management and Sustainability for Creatives in East Africa supported by HIVOS, R.O.O.M program, the types of funding to be considered are restricted funds, unrestricted funds, designated funds, endowment funds, and general funds:

- Restricted funds - (also known as earmarked, tied, or ring-fenced funds) is money that has been set aside for a certain purpose and which must be used solely for that purpose. The sum of money is provided by a contributor for a certain cause and should not be set aside for a rainy day.
- Unrestricted funds - (sometimes known as "free money" or "general purpose revenue") are funds that can be used for any purpose. This money is provided to the organisation for general use by a donor or money earned by the enterprise or entrepreneur through membership fees or local fundraising.
- Designated funds - Unrestricted funds set aside for a specific purpose such as building repairs in the coming year. Later, these funds can be "undesignated".
- Endowment funds (or 'corpus funds') - Funds contributed by a donor (or occasionally saved from prior year's surpluses) that are invested to cover operating expenditures with interest. Only the fund's interest, not the fund itself, can be used in 'permanent' endowments. 'Expendable' endowments are monies that can be invested or converted into revenue. Depending on the donor, these monies can be restricted or unrestricted.
- General funds (or 'income and expenditure account') - Funds held from the current year and the previous year's surpluses.

- To maintain records for funds received, an accounting system is supposed to be present. The accounting system is likely to be based on the following:
- A paper-based system.
- A paper-based system supported by computer spreadsheets.
- An 'off the shelf' computerised accounting package.
- A specially designed accounting package for large organisations.

The following records are often kept in whatever system is in place:

- Cash/bank book, for each currency. This gives a daily listing for money coming in and money going out, for cash and bank separately.
- Bank records (bank statement or bank passbook).
- A record agreeing on differences between the bank statement/passbook with your bank book, called a 'bank reconciliation'.
- Payroll details.
- Cash advances and loans registers. These show details of sums advanced, repaid, accounted for and still outstanding.
- Records of funds given for a particular purpose, what has been spent and how much is left.
- Invoices and receipts that explain expenditure in the cash/bank book.
- Details of money owed to you (called 'debtors' or 'receivables') and what you owe others (called 'creditors' or 'payables').

*Illustration by Brian Omolo for
The 2021 AU/UN Year of Creative Arts Challenge.*

D. PROCUREMENT

The methods, organised processes and technologies used to speed up an organisation's processes of acquiring goods and services to achieve targeted goals while saving money, time and forming win-win supplier partnerships are referred to as procurement. Procurement can be done in a variety of ways, including direct, indirect, reactive and proactive methods.

D.1 The distinction between indirect, direct and service procurement

Direct, indirect and services procurement are all parts of the overall procurement process, although they differ in terms of definition, assignments and other factors. Stakeholders will have an easier time taking suitable measures to meet the demand if they inspect the differences between these processes and understand what they entail.

Direct Procurement	Indirect Procurement	Services Procurement
Acquisition of goods, materials and/or services for manufacturing.	Sourcing and purchasing of materials, goods, or services for internal use.	Procuring and managing the contingent workforce and consulting services.
Examples: Raw materials, machinery and resale items.	Examples: Utilities, facility management and travel.	Examples: Professional services, software subscriptions, etc.
Drives external profit and continuous revenue growth.	Takes care of the day-to-day operations.	Used to plug processes and people gaps.
Comprises stock materials or parts of production.	Used to buy consumables and perishables.	Used to purchase external services and staff.
Establish long-term, collaborative supplier relationships.	Resort to short-term, transactional relationship with suppliers.	Maintain one-off, contractual relationships with suppliers.

Table 2 - Distinction between indirect, direct, and service procurement

D.2 What is a procurement process?

It is the series of processes that are necessary to get goods or services from requisition to purchase order and invoice approval. Although we use procurement and purchasing interchangeably, they slightly differ from each other. Procurement covers the activities involved in obtaining necessary goods and services, whereas purchasing is the overarching process of obtaining goods and services.

Every procurement management process, regardless of its uniqueness, comprises the three Ps: Process, People and Paperwork.

- Process - The set of guidelines to follow while evaluating, ordering, purchasing and paying for products and services. The number of checkpoints/ steps increases as the purchase becomes more complicated.
- People - These are the stakeholders and their roles in the procurement process. Every stage of the procedure is initiated or authorised by them. The number of stakeholders participating is proportionate to the purchases risk and value.
- Paper - This refers to all the paperwork and documentation generated during the procurement process, which is gathered and maintained for future reference and auditing.

D.3. Steps involved in a Procurement Process

The requirements determination, supplier research, value analysis, raising a purchase request, review phase, conversion to purchase order, contract administration, monitoring/evaluation of received order, three-way matching, payment fulfilment and record-keeping are all part of the procurement management process.

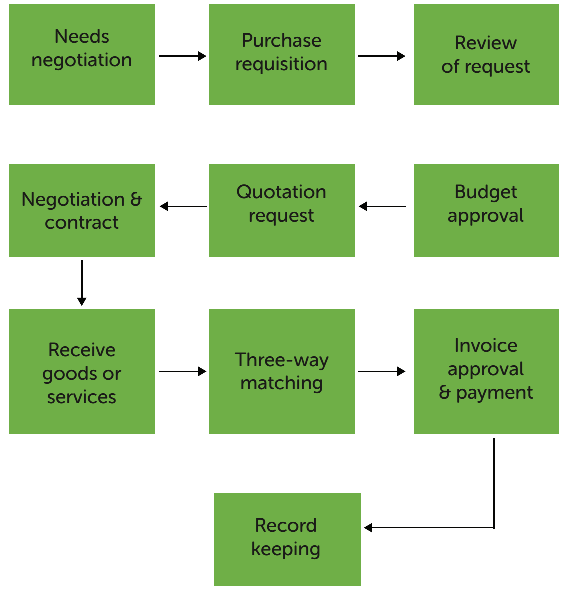

Table 3 - Steps involved in a procurement process

The following are the eight steps in the procurement process:

Step 1: Needs Recognition

The needs recognition stage of a procurement process enables an accurate sketch out of a plan for procuring goods and services promptly and at a reasonable cost.

Stakeholders	Procurement officers, department heads and functional managers.
Documents	Fact-finding agenda, emergency justification and needs analysis forms.
Questions	• Is there a real need for goods/services? • Can an existing contract or established source fulfil the need? • Will it require special approval of any sort?

Table 4 - Needs recognition

Step 2: Purchase requisition

Internal users/customers submit purchase requisitions, which are written or electronic papers requesting the procurement team's assistance in meeting an existing demand. It contains critical information needed to obtain the appropriate goods, services or works.

Step 3: Purchase requisition review

Only until the purchase requisition is authorised and cross-checked for budget availability will the procurement process officially begin. In the review step, an examination of the requisition package is done and a double-check of whether the requested items or services are truly needed, as well as whether the funding is available.

Purchase requests that are approved become Purchase Orders (POs), while those that are rejected are returned to the requisitioner with reasons.

Stakeholders	Procurement officers, end-users and departmental heads.
Documents	E-requisition submission form, purchase requisition form and sole-brand procurement.
Questions	• What is the available or approved budget for this purchase? • Is the good or service requested truly necessary?

Table 5 - Purchase requisition review

Step 4: Solicitation process

Stakeholders	Procurement managers.
Documents	Letter of invitation for suppliers' request for information, supplier general information worksheet, evaluation committee member participation form, market analysis worksheet.
Questions	• Are solicitation documents cross-checked for consistency and completeness? • How are we planning to handle queries from suppliers (written correspondence and/or by a pre-offer conference)?

Table 6 - Solicitation process

Step 5: Evaluation and contract

The procurement team, in collaboration with the evaluation committee, will study and assess supplier quotations once the solicitation process is formally closed to determine which supplier will be the best fit to meet the existing requirement.

Stakeholders	Procurement team and evaluation committee.
Documents	Evaluation committee agenda, Request for Quotation (RFQ) cost negotiation (best and final offer), contract terms and conditions, request for clarification, supplier technical evaluation template and solicitation review summary sheet.
Questions	• Is there a potential conflict of interest situation with any suppliers? • Have we shortlisted compliant/acceptable offers and rejected non-responsive offers?

Table 7 - Evaluation and contract

Once a vendor has been chosen, the contract is negotiated and signed, and the purchase order is sent to the vendor. When a vendor accepts and acknowledges a PO, a legally enforceable contract is formed.

Step 6: Order management

The vendor meets the deadline and provides the promised goods/services. After receiving them, the buyer inspects the order and informs the vendor of any problems with the supplies received.

Stakeholders	Inventory managers, requisitioners, vendors and procurement team.
Documents	Purchase order, shipping notifications, goods receipt notes, purchase invoices, goods return shipments, product/service quality check template, supplier assessment report.
Questions	• Are there any discrepancies in the three-way matching (PO, Guaranteed Residual Value (GRV) and Invoice)?

Table 8 - Order management

Three documents are lined up and reconciled at this step: purchase orders, packaging slips (which arrive with the order), and vendor invoices to spot inconsistencies and guarantee that the transaction is accurate. When discrepancies are detected, they must be addressed.

Step 7: Invoice approvals and disputes

After doing a three-way match, the invoice is accepted and forwarded to payment processing.

Stakeholders	Procurement managers, evaluation committee, arbitrator and vendors.
Documents	Original supplier contract, invoice approval form, dispute settlement form, complaints registration and meeting minutes, arbitration documents, and settlement receipts.
Questions	• Was the settlement handled within the stipulated time? • Were the dispute resolution clauses helpful in resolving any conflict?

Table 9 - Invoice approvals and disputes

Step 8: Record Keeping

Buyers keep track of the payment process for bookkeeping and auditing purposes. All relevant documents, from purchase orders to invoices that have been approved, are kept in one place.

Stakeholders	Procurement officers and requisitioners.
Documents	Procurement process evaluation and contract closure reports.
Questions	• Was the requirement adequately fulfilled? • Were the evaluation criteria and methods appropriate? • What problems were encountered?

Table 10 - Record keeping

When conducting procurement, the buyer must use appropriate methods depending on the procurement value (threshold).

An example of a public procurement threshold schedule is as follows:

Value of package (Kshs)	Preferred procurement method	Comments
1 – 5,000	Low value	Items can be purchased from the local shop without competitive bidding.
5,001 – 500,000	Request for quotation	3 – 10 applications are needed with no need for an advertisement from a list of pre-qualified suppliers.
501,000 – 3,000,000	Restricted tendering	3 – 10 quotations are needed but the tenders must undergo a pre-qualification process.
Over 3,000,000	Competitive bidding	Tender floated in national dailies.
Limited to budget allocation	Request for proposals	3 – 7 requests for proposals from a shortlist of selected candidates through an expression of interest procedure.
No limit but conditions met	Direct procurement	The conditions to be met are: • Item (s) can only be supplied by a monopoly. • Special reason advanced for direct procurement & accepted by the procurement committee. • Contract if for minor adjustment to an existing project. • Procurement relates to an emergency.

Table 11 - Example procurement threshold

D.4 Procurement methods

- Low - Value Procurement – An enterprise may use a low-value procurement procedure if:

  » The entity is procuring low-value items which are not procured on a regular or frequent basis and are not covered in any framework agreement.
  » The estimated value of the goods, works, or non-consultancy services being procured is less than or equal to the maximum value per financial year for that low-value procurement procedure as prescribed.

- Request for Quotations - Used for goods, works and services that are readily available in the market and whose costs are below a set threshold in a framework agreement. An enterprise may use a request for quotations from the register of prequalified suppliers for procurement if:

  » The estimated value of the goods, works, or non-consultancy services being procured is less than or equal to the prescribed maximum value for using requests for quotations as prescribed in framework agreements (Ksh 500,000 and below as per our example in Table 10).
  » The procurement is for goods, works, or non-consultancy services that are readily available in the market.
  » The procurement is for goods, works, or services for which there is an established market.

- Request for proposal - Used for the procurement of services or a combination of goods and services which are advisory or otherwise predominantly intellectual in nature.
- Restricted Tendering - Only a few suppliers are invited to bid for the supply of goods, works and services, e.g., insurance services are offered by a few insurance companies. An enterprise may use restricted tendering if any of the following conditions are satisfied:

  » Competition is limited because of the complex or specialized nature of the goods, works, or services. Hence, it is restricted to pre-qualified tenderers resulting from a framework agreement.
  » The time and cost required to examine and evaluate many tenders would be disproportionate to the value of the goods, works, or services to be procured.
  » If there is evidence to the effect that there are only a few known suppliers of the whole market of the goods, works, or services.

The procurement shall be processed through a pre-qualification to determine the pre-qualified bidders who shall participate in the bidding process through:

- Open Tender

This is a competitive procurement method that is open to all eligible suppliers of goods, works, or services. This is usually the preferred method of procurement because of its competitive nature. The accounting officer of a procuring entity shall take such steps as being reasonable to bring the invitation to tender to the attention of those who may wish to submit tenders.

- Direct Procurement

It is a non-competitive method whereby only one supplier is invited to supply goods, works, or services subject to fulfilment of certain conditions e.g., no reasonable alternatives exist to dealing with just one bidder, supply of electricity is only done by Kenya Power and Lighting Company.

D.5. Key information, summary, and takeaway

To undertake procurement processing, the below procurement cycle is key to ensuring the efficiency and effectiveness of the procurement process.

Figure 5 - Procurement cycle

Illustration by Harrison Chege for The 2021 AU/UN Year of Creative Arts Challenge.

E. STORES MANAGEMENT

The efficient handling of resources is referred to as store management. Store management is concerned with ensuring that all store keeping duties are completed efficiently and inexpensively by those who work there. Stores play a vital role in operations and are required for the proper management of any industrial unit or public endeavour of any size.

According to Alford and Beatty, "Store management is that aspect of material control concerned with the physical storage of goods."

According to Maynard, "Store management is to receive materials, to protect them while in storage from damage and unauthorized removal, to issue the materials in the right quantities, at the right time to the right place and to provide these services promptly and at least cost".

E.1. Objectives of store management

Some of the importance of stores management include:

- Cutting production costs by lowering material costs.
- Maintaining the value of materials.
- Providing services to user departments.
- Forming partnerships with other departments.
- Guiding materials managers.

E.2. Functions of store department

Some functions of stores management include:

- Receipting – Receiving and accounting for inventories.
- Storing - Storing and preserving the inventories protecting them from damage, pilferage and deterioration.
- Retrieving - It helps with ease of access to materials and ensures optimum space utilization.
- Issuing - Satisfying the demands of internal and external consumers by the proper issuing of inventories on receiving requisitions and/or orders.
- Recording - Keeping proper records of the issues and receipts.
- Housekeeping - Space is kept neat and clean so that material handling, preservation, storage, issue and receipt is done satisfactorily.
- Surplus items or stock - Scrap and surplus disposal management is a function of stores.
- Verification - Physical verification and purchase initiation to avoid stock-outs.

E.3. Types of stores

There are 4 main types of stores, namely:

- Main or Centralized Stores – These are typically 'wholesale' providers to other units, departments, or sub-stores that function on a retail basis, issuing products to customers directly. One central facility receives and distributes all materials.
- Branch or Decentralized Stores -These are used in large operations where a single main store cannot meet all the plant's needs without wasting time and causing inconvenience.
- Central store with sub-stores – These are found in large operations with a high number of product lines. It has a primary store that can act as a base as well as sub-stores for each unit, ideally positioned as close as possible to the unit. For a set length of time, say a fortnight or a month, the sub-stores get their supplies from the main store. Float or impress refers to a set amount of content delivered to a specific unit. The storekeeper of the sub-store will describe the material consumed and issue the quantity of material equal to the material consumed to replenish after the determined period has expired. This system of issuing and controlling materials is known as a periodic system of store control.
- Warehouse - These are godowns that take on the job of preserving and storing items as well as providing ancillary services to assist small and medium-sized operations that may not want to create their own storehouses for technical or economic reasons. These warehouses commit to preserving the commodities scientifically and systematically to preserve their original worth, quality and utility. They charge a certain rent at a predetermined rate.
- Tools and Miscellaneous Stores have all the tools that are required by other units. The tool inventory must be kept up to date to meet the demands of the job. These stores oversee distributing tools, spare parts and other items to various units within the enterprise.

E.4. Receiving goods

All supplies received in the store by the storekeeper are recorded and evidenced by an official "goods received stamp". Below is an example of a goods received stamp and its contents:

Date:________________ Order No:__________ D/N:__________

Receiving officer:____

Designation:____

Signature:____

Ledger folio:____

Figure 6 - Goods received stamp

When there are discrepancies during the 3-way match process, the stores unit should prepare a list of goods accepted. The ensuing list is called the "goods received note," which is signed by the supplier and the receiving officer. Below is an example of a goods received stamp and its contents:

GOODS RECEIVED NOTE

Date:________________ Order No:_________ Delivery No:_______

We have received the following items:

Serial No	Item Description	Units	Quantity	Comments

Signed: Supplier:___________________ Date:___________________

Receiving Officer:__________________ Date:___________________

Figure 7 - Goods received note

E.5. Stock taking

This involves counter-checking and verification of stores ledger balances against the physical stock to determine any discrepancies. A team is appointed to carry out the exercise. After taking stock, a certificate is prepared and issued. Stock taking can either be continuous or done annually. The purposes of stock-taking include:

- To reveal the rate of usage.
- To verify stores records i.e., stores ledger against the physical stock.
- To establish slow, fast-moving and dormant stock, and recommend appropriate measures to be taken e.g., transfer and disposal.

E.6. Disposal of assets

The following methods shall dispose assets that are rendered unserviceable, obsolete, or surplus:

- Transfer to another entity.
- Sale by Public Tender.
- Sale by Public Auction.
- Trade-in.
- Waste disposal management

The steps involved in the disposal of assets include:

- Identification of qualifying assets - At the end of every financial year, the user and stores unit shall identify disposable assets.
- Disposal plan – An appropriate asset disposal plan is prepared and approved.
- Disposal committee – A disposal committee is constituted according to the procurement and disposal policy. The committee is charged with deciding on the method of disposal and setting of reserve prices.
- After disposal – The committee issues a certificate of disposal showing the details of assets disposed and method of disposal.

The proceeds of disposal are receipted and accounted for in the cash books. In the stores' ledger, the storekeeper will make an entry to write off the disposed asset or if the asset disposed is a fixed asset, then appropriate disposal entry will be made in the fixed assets control register.

E.7. Key information, summary and takeaway

Typically, a store has a few processes and a space(s) for storage. The main processes of a store are to receive incoming material (receiving), to keep the materials for as long as they are required (keeping in custody), and to move them out of the store for use (issuing).

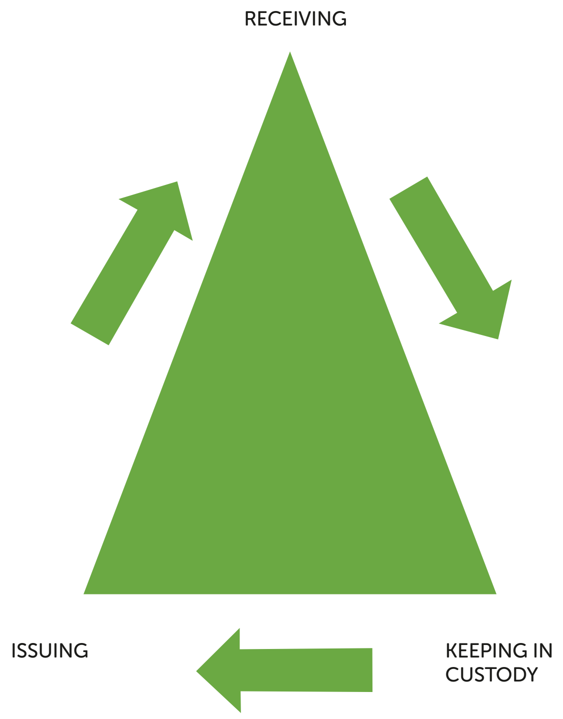

Figure 8 - Functions of stores management

Illustration by Ian Njuguna for
The 2021 AU/UN Year of Creative Arts Challenge.

F. PAYMENTS

The payment process involves receiving invoices from suppliers, checking the invoices, resolving issues with suppliers, paying suppliers and managing the funds to cover the payments. Funds are transferred from payer to payee following established payment flows that are characteristic of a given payment instrument.

Generally, the payee has provided services or goods to the payer, who will in return pay an agreed amount of money against a request for payment, usually an invoice document, as part of the invoicing process.

F.1. Modes of payment

There are several types of payment methods available that incorporate online and bank transfers. These include:

- Cash (bills and change) – One of the most prevalent methods of payment is cash. While cash has the advantage of being instant, it is not the most secure form of payment as once cannot retrieve it should it get destroyed or lost. There is no way to get those losses back. Today, cash payments include mobile money such as Mpesa and Airtel money.
- Cheques –These are paperwork that the buyer fills out and hands over to the seller. The seller presents the check to their bank, which executes the transaction and deducts the funds from the buyer's account a few days later. Cheques are slow and out-of-date considering the growing trend toward fast payment.
- Debit card – Here, money is taken directly from the buyer's account. It's like writing a personal check, but without the burden of having to fill it out.
- Credit card – In this case, the buyer's bill is temporarily deferred when paying with a credit card. The buyer receives a credit card statement with an itemized list of all purchases at the end of each month. As a result, instead of paying the supplier directly, the buyer pays the credit card company. The corporation may charge interest on the buyer's remaining balance if the entire balance of the bill is not paid. Credit cards can make purchases both online and in stores.
- Online payments- Also known as electronic payment (e-payment), this is payment for goods or services over the internet. It refers to any financial transaction carried out utilizing electronic devices such as computers, cellphones, or tablets.
- Bank transfers - When money is transferred from one bank account to another, it is referred to as a bank transfer. Transferring funds from your bank account is usually quicker, cheaper, and safer than withdrawing and paying cash.

F.2. Supporting document

Proper supporting documentation (itemized invoice) must be attached to the payment request to support the legality of a payment or to accurately describe the goods or services being purchased. The completeness of payment supporting documents must be ensured by individuals that prepare or approve disbursement.

Receipts, invoices, purchase orders, and proofs of payment are the most typical sorts of supporting papers:

- Invoices/Receipts
  - » Invoice/Receipt must be itemized and must be part of the payment documentation on the payment request. The invoice number provided on the invoice must be entered as it appears in the payment system to catch possible duplicate invoices.
  - » If the payment system identifies a duplicate invoice, there must be supporting documentation explaining why.
  - » If the invoice is not an original invoice, a confirmation should be made that the invoice is not a duplicate request by checking in the payment system.
  - » In the event an invoice is not available from the vendor, the following could process the payment:
  - » Contract – You may pay from a properly executed contract, which must be attached to the payment request.
  - » Vendor certification – If the vendor cannot produce an itemized invoice, the vendor can use a pre-approved reimbursement form to document items and/or services and sign the document to use in the place of an invoice.
  - » In the event a receipt is not available for a reimbursement request:
  - » Documentation instead of receipt – This form can be used as a receipt in the event a receipt is not provided by the vendor. If the vendor does not provide receipts, this form may be filled out and attached to the expense report to document the purchase and certify that no receipt was provided.
- Purchase orders - A PO is a commercial document and the buyer's first official offer to the seller that specifies the types, quantities and agreed-upon prices for products or services. It is used to keep track of what products and services are purchased from outside vendors.
- Proof of payment – Often needed in tandem with invoices. The following are acceptable proofs of payment:
  - » Credit card sales slip.
  - » Monthly credit card statement (when you do not have a receipt and the purchase was made with a credit card).
  - » Cheque - Photocopy of a cancelled check (front and back).
  - » Airline receipt or invoice/itinerary showing ticket number and form of payment.
  - » Lodging itemized receipt showing daily expenses and form of payment.

F.3. Imprest system

An imprest is a form of cash advance or float which is aimed at making payments that cannot conveniently be made through the cash office of an enterprise or its bank account.

There are 3 types of imprests:

- Temporary imprest - Mainly in respect of official journeys and are intended to provide funds to meet traveling, accommodation and incidental expenses.
- Standing imprest - Mainly meant to meet the routine expenses in an enterprise. It requires replenishing from time to time to the agreed fixed level by systematic reimbursement of expenses.
- Special imprest - Meant for expenses of confidential nature, details of which cannot be made public. Such expenditure is supported by a certificate that the funds have been paid and the money has been properly spent.

F.4. Petty cash payments

Petty cash, often known as a petty cash fund, is a small sum of money set aside for paying small bills without having to make a payment through the banking system. The amount of petty cash varies from one enterprise to another.

Petty cash is kept under control by using a petty cash voucher for each payment. Payments out of petty cash should be duly approved and adequately supported.

F.5. Key information, summary, and takeaway

Payments between enterprises are mostly done through the banking system. The diagram illustrates a typical sequence of payment operations.

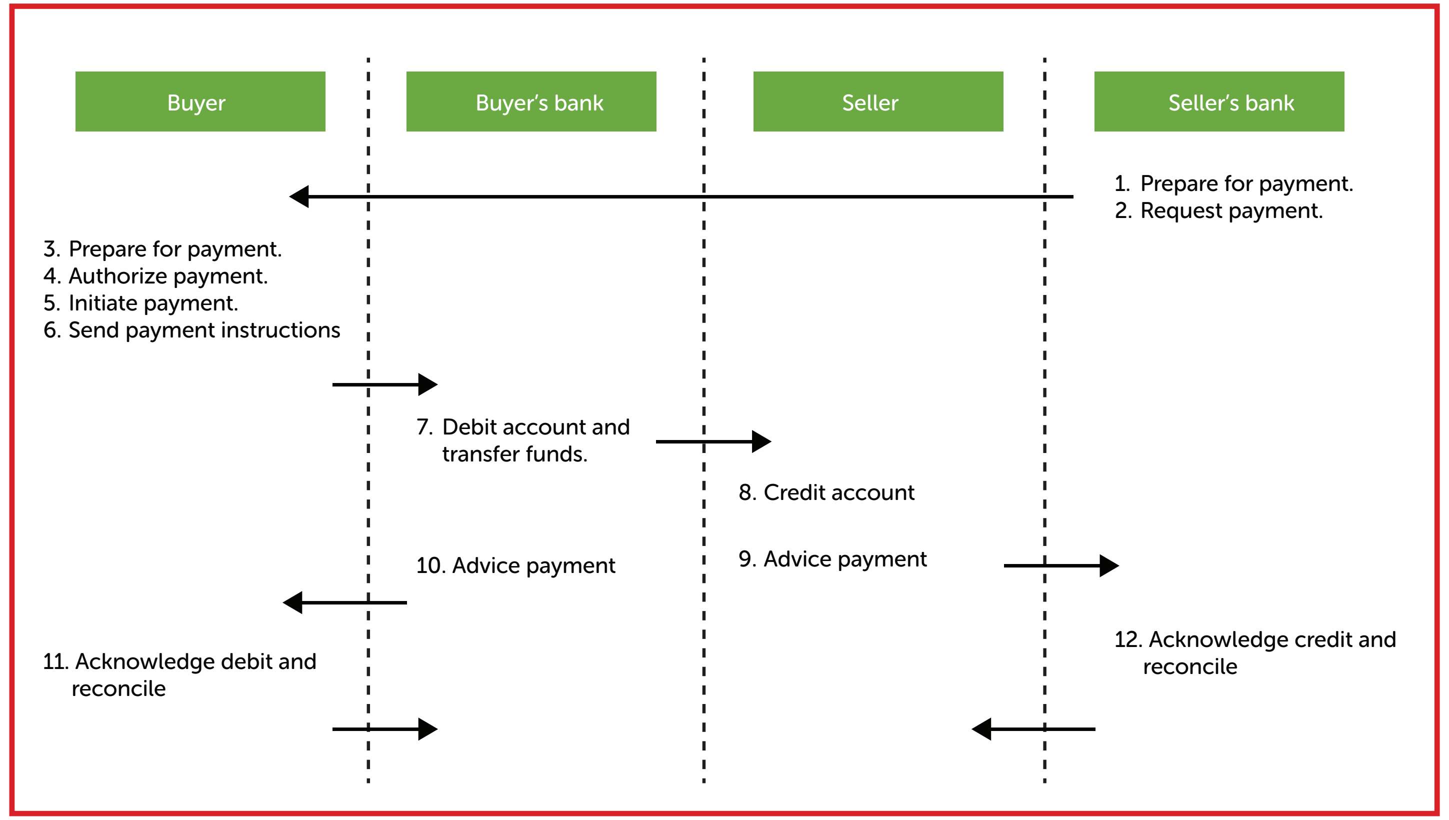

Figure 9 - Banking system payment operations process

Illustration by Brian Omolo for
The 2021 AU/UN Year of Creative Arts Challenge.

G. RECORDING OF TRANSACTIONS

Transaction recording is a simple accounting procedure that involves only a few stages. The first step is to figure out which accounts will be affected by the transaction. The second step is to record the information in the appropriate accounts. When entering numbers into the debit and credit sections, care must be exercised. The transaction is then recorded in a document known as a journal (the primary area in accounting records where a transaction is recorded).

G.1. What would you expect to see?

Any accounting system in place to record transactions is likely to be based on one of the following:

- A paper-based system.
- A paper-based system supported by computer spreadsheets.
- An "off the shelf" computerized accounting package.
- A bespoke accounting package, especially in large enterprises.

The following records are often kept in whatever system is in place in an enterprise:

- Cash/bank book, for each currency. This gives a daily listing for money coming in and money going out, for cash and bank separately.
- Bank records (bank statement and other correspondence).
- A record agreeing on differences between the bank statement and the bank book called a 'bank reconciliation'.
- Payroll details.
- Cash advances and loans registers. These show details of sums advanced, repaid, accounted for and still outstanding.
- Records of funds given for a particular purpose, what has been spent and how much is left.
- Invoices and receipts that explain expenditure in the cash/bank book.
- Details of money owing to you (called 'debtors' or 'receivables') and what you owe to others (called 'creditors' or 'payables').

To back up the electronic information, all computerized accounting systems must contain paper-based information. Auditors review both paper and computerized records always. Larger companies with more complicated accounting needs require additional records such as:

- A ledger – Shows expenditure by category. The ledger is the foundation of computerized accounting software.
- A journal – A component of the accounting ledger system where modifications to the accounts are recorded because of errors.

These 2 documents allow enterprises to produce an income and expenditure account and balance sheet at the end of the year.

G.2. Recording receipts

All funds received must be recorded and a serialized official receipt issued immediately. The official receipt provides evidence of receipt of funds. The official receipt should be pre-numbered and the following should be recorded:

- Date of receipt.
- Source of funds.
- Cheque number where applicable.
- Amount in figures and words.
- Purpose of the funds.
- Mode of payment-Cash/Cheque, pay-in-slips, in-kind, etc.
- Income account name.
- Signature receipt of funds.

The major sources of cash receipt in an enterprise include:

- Investment of capital by the proprietor or owner.
- Cash sales.
- Sale of an asset for cash.
- Collection from customers.
- Collection of interest, dividends, or rent.
- Loan from an individual, bank, or any other financial institution.
- Donor funding.

All cash received by an enterprise should be reported in its accounting records. In the cash receipts journal, a debit is posted to cash in the amount of money received. An additional posting must be made to balance the transaction.

G.3. Recording payments

All funds paid out must be recorded in a serialized official payment voucher and recorded in the cash book immediately. The official payment voucher provides evidence of payment of funds. Proof of payment from the bank further supports the payment if it was done through the banking system. Cash payments from petty cash may be supported by payment vouchers duly approved and receipts from suppliers. The official payment voucher should be pre-numbered and the following recorded:

- Date of payment.
- Payee.
- Payment voucher number.
- Cheque number.
- Amount paid.
- Purpose.
- Mode of payment.
- Invoice number and LPO number.

Payment vouchers together with supporting documents should be filed neatly and sequentially in files. Supporting documents include invoices, delivery notes, copies of LPOs, agreement forms, letters of invitation among other relevant documents.

All payments made by an enterprise should be reported in its accounting records. In the cash payment journal, a credit is posted to cash in the amount of money paid. An additional posting must be made to balance the transaction.

G.4. Bank Reconciliation

The cash balance on a company's balance sheet is compared to the same amount on its bank statement in a bank reconciliation statement. Reconciling the two accounts can assist you in figuring out if you need to make any accounting modifications. Regular bank reconciliations are performed to guarantee that the company's cash records are accurate. They also aid in the detection of fraud and money laundering. Sometimes there could be a difference between the bank statement balance and the enterprise accounting records. These include:

- Deposits in transit - Cash and cheques may have been received and recorded by the enterprise but are yet to be deposited in their bank account and therefore have not yet been recorded on the bank statement.
- Outstanding checks - Cheques may have been issued by the enterprise to creditors but the payments have not yet been processed by the enterprise's bank.
- Bank service fees - Banks deduct charges for services they provide to enterprises, but these amounts are usually relatively small and can only be recorded once the enterprise can verify these charges on their bank statement.
- Interest income - Banks may pay interest on some bank accounts. The enterprise can only record these interest incomes once they can verify them on their bank statement.

The below is the bank reconciliation procedure:

- Compare the enterprise's list of issued cheques and deposits to the cheques shown on the bank statement to identify uncleared cheques and deposits in transit;
- Using the cash balance shown on the bank statement, add back any deposits in transit;
- Deduct any outstanding cheques as this will provide the adjusted bank cash balance; next
- Use the enterprise's ending cash balance, add any interest earned and note the receivable amount;
- Deduct bank service fees, penalties and any other bank charges. This will arrive at the adjusted cash balance; and finally
- After reconciliation, the adjusted bank balance should match with the enterprise's ending adjusted cash balance.

Many enterprises now employ specialized accounting software for bank reconciliation to cut down on the amount of effort and modifications required, as well as to enable real-time updates.

G.5 Key information, summary and takeaway

Introducing regular routines ensures that the accounting record-keeping capability meets all the organization's requirements. These procedures are completed by a financial person, but the leader/manager verifies them, signs them off and takes any additional action that is required. The actual routines will vary depending on the organization's size and complexity, but they may include those illustrated in table 12.

Illustration by Harrison Chege for The 2021 AU/UN Year of Creative Arts Challenge.

Example of monthly accounting routines	
Monthly routine	Possible further action by the leader/manager
Update the cash/bank book.	• Check that all transactions have supporting documents (for example, invoices or receipts). • Count the cash and check that it agrees with the cash balance in the cash/bank book.
Agree on the cash/bank book (your record) with each bank statement (a process known as 'bank reconciliation').	• Make sure you see the bank statement; check that the two records agree and that the reasons for any differences are appropriate. • Follow up on any cause for concern.
Update details of cash advances to staff. (Cash advances register may be used.)	• Talk to anyone with a cash advance outstanding for more than a month.
List enterprises that owe you money and those that you owe money to.	• Contact those who owe you money that have not paid for more than a month. Initial contact should be by mail/email; after two months, by telephone or personal visit.
Compare actual income and expenditure with the budget from the start of the year to date.	• Focus on large differences and take any necessary action.
List income/expenditure committed but not yet received/paid.	• Check if the commitments change any of the 'actual' figures in the budget and the actual statement. • If any donor funds have not been received, contact the donor.
List any donor reporting needed over the next three months.	• Make sure the information is built into work plans and available on time.

Table 12 - Example of monthly accounting routines

Common concerns around account record keeping are illustrated in table 13.

Examples of common concerns	
Concerns	Possible solutions
Invoices and receipts are not always available to back up our transactions.	• Insist on receiving the correct paperwork before making any payment. Have separate files for 'money coming in' and 'money going out'.
Cash advances to our staff are not recorded and are out of control.	• Start a cash-advances register to show amounts advanced, repaid, or accounted for and what is outstanding. A review of this should be done each month and speak to those with unaccounted-for advances.
Our accounts do not show whether 'restricted' funds have been used for the purpose given.	• If you use a paper-based system, start a new book to record restricted funds and make sure this is linked to expenditure. • A computerized accounting system may have a facility for allocating the expenditure to a particular donor.
No one knows what money is due to be received.	• A separate record of amounts due will record any funding promised or invoices sent out. Keep a file divided into two halves. At the front, file details of money that should be received. When it is received, write the date, the amount received, and reference. Move this information to the back of the file. Review outstanding amounts and follow them up if necessary.
Staff do not know how our organization wants them to claim expenses, approve expenditures and take advances.	• If there is a written policy, see if it is understandable. If it is, circulate it. If not, consider writing down clearly how things should be done. In the longer term, putting things in writing is good practice for all financial tasks. Arrange some basic training on this procedure for existing staff and make it part of the induction program for new staff.
Only one person in our office can answer questions about invoices due to be paid.	• More than one person needs to understand the records well enough to answer questions and act if the finance person is not in the office. Look at the job descriptions and find tasks that someone else can do regularly, so they too become familiar with the records in the future. In a small enterprise, the leader, or in a large enterprise, the manager, should also be able to do this.
Our finance person is the only person who looks at the accounting records.	• Introduce a system where the leader or manager sees the accounting records monthly. These should include at least the cash/bank book with invoices/receipts, the bank Statement and reconciliation, and the advances/loans register. In larger enterprises, other records will be added. At the same time, count and agree on any cash balance on a weekly basis. The leader/ manager should sign the records to confirm approval. If only one person sees the accounts, there is danger of theft.

Table 13 - Common concerns around account record keeping

Illustration by Ian Njuguna for
The 2021 AU/UN Year of Creative Arts Challenge.

H. FINANCIAL REPORTING

Financial reporting is a regular accounting procedure in which financial statements are used to present a company's financial information and performance over a specific period, usually annually or quarterly.

A financial report, in simple terms, is essential for understanding how much money you have, where it comes from and where it needs to go. Financial reporting allows for informed decision-making based on the financial health of the enterprise. Your enterprise's financial reporting will also be used by potential investors, donors and banks to determine if they want to invest, lend, or support you financially.

H.1. Types of financial reports

There are several financial reports produced by enterprises for their stakeholders. These can be classified as:

- Annual accounting statements.
- Donor reports.
- Government reports.
- Beneficiary reports.

Each of these reports poses a challenge for finance professionals. Ideally, financial data is stored in a system that allows for the presentation of reports in a variety of formats to meet the needs of internal and external users. Although some computerized accounting products can do this, many businesses still rely on spreadsheets or must create these reports manually.

H.1.1. Annual accounting statements

Enterprises will at the end of each year produce legally required statements to report transactions. These reports include the income statement, balance sheet, and cash flow. For this context, however, we will discuss two presentations of annual accounting statements:

i. **Receipts and payments account**

The receipts and payments account (sometimes called a 'cash account') shows a summary of all cash and bank money coming in (receipts) and going out (payments) over the last year. It is the simplest form of the accounting statement. Items bought for longer-term use, for example, vehicles or computers, are listed alongside the day-to-day items such as rent and salaries. All the information for a receipts and payments account comes from the organization's records. It shows:

- The amount held in cash and bank at the beginning of the year.
- Money received (receipts).
- Money paid (payments).
- The amount held in cash and bank at the end of the year.

It only shows how much money is left over, not if there was a surplus or deficit. Small groups with a specific goal or activity and few employees often produce the receipts and payments account. Its key benefit is that it can be prepared by someone who isn't technically versed in accounting.

ii. **Income and expenditure account**

Also known as the account of operations, the statement of financial activity or disbursement account is an annual accounting statement to show what has happened over the last year. It includes only revenue items and the balance at the end represents surplus or deficit. This account serves the same purpose as the income statement.

The income and expenditure account is usually presented with a balance sheet. A balance sheet shows what the enterprise owns (buildings, vehicles, equipment and the amount in the bank account); what it owes (outstanding payments to suppliers and loans); and where the money has come from to fund what it owns (usually money built up from surpluses in previous years and any unspent donor funds held). These items are not included in the income and expenditure account.

A full explanation of these annual accounting statements is outside the scope of this toolkit. Useful publications are listed in the 'Further reading' list at the back of this toolkit. Table 14 highlights the important distinction between an income and expenditure account and the receipt and payment account discussed in an earlier module.

Basic of Distinction	Income & Expenditure	Receipt & Payment Account
Nature	It is like a profit and loss account.	It summarises the cash book.
Nature of Items	It records income and expenditure of revenue only.	It records receipts and payments of revenue as well as capital nature.
Period	Income and expenditure items relate only to the current period.	Receipts and payments may also relate to preceding and succeeding periods.
Debit Side	The debit side of this account records expenses and losses.	The debit side of this account records the receipts.
Credit Side	The credit side of this account records income and gains.	The credit side of this account records the payments.
Depreciation	Includes depreciation.	Does not include depreciation.
Opening Balance	There is no opening balance.	Balance in the beginning represents cash in hand/cash at the bank or overdraft at the beginning.
Closing Balance	Balance at the end represents excess of income over expenditure or vice-versa.	Balance at the end represents cash in hand and bank balance/ bank overdraft.

Table 14 - Distinction between income and expense and receipt and payment accounts

H.1.2. Financial reports to donors

Donors frequently request reports on the utilization of monies they have provided, often in their own manner. The following are some examples of financial reports to donors:

- A budget and actual statement, with comments to explain any adjustments every quarter and at the conclusion of their financial year.
- Annual accounting statements that have been audited such as the receipts and payments account, income and expenditure account, and the balance sheet.
- A separate report detailing income and spending for donor-funded portions of the program.
- Invoice copies (or originals).
- It is essential that donor reports are sent within the stipulated timeframe. Including this requirement in a workplan ensures deadlines are not missed. Also:
- Ensure that the budget format used by the donor and the budget format used by your accounting system are the same. Negotiate with the donor to accept your format if your system cannot deliver information in the donor's format or consider strategies to satisfy the donor while avoiding further burden. This simplifies reporting while also maintaining positive connections with the donor.
- Consider whether your accounting knowledge is adequate. A substantial infusion of fresh donor funds will boost your revenue and activities as well as the systems that support them. Before accepting funds, make sure you have the ability to manage and account appropriately.

H.1.3. Financial reports to the government

The government may require reporting on issues such as:
- Staff taxes deducted from salaries.
- Contributions from international institutions.
- Amounts paid to staff, etc.

H.2. Financial and management accounting

National legislation, which varies from country to country, usually requires accounting information reporting in the form of annual accounting statements. However, Financial accounting information, however, does not always provide all the information needed to successfully steer the enterprise and make informed decisions. Management accounting therefore comes in to identify, measure, analyse, and interpret accounting information so that it can help entrepreneurs to make informed operational decisions.

Most notably, there are several differences between financial and management accounting as illustrated in table 15.

Financial accounting	Management accounting
Examples include annual accounting statements, e.g, the income budget, actual statement, expenditure account and balance sheet).	Examples include the budget and the "budget and actual statement".
Required by law.	Required internally to allow for decision-making.
Shown to all stakeholders/donors.	Used internally but donors may see it.
Is usually audited.	Does not have to be audited.
The layout follows a standard format as per International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS), or Generally Accepted Accounting Principles (GAAP).	The layout is designed to help users to make decisions.

Table 15 - Difference between financial and management accounting

Budgeting reports, for example, are often generated for internal use and are not mandated by law. In spite of this, donors usually insist on a budget being produced. Management accounting includes budget information.

More management accounting information will be required at some point throughout an enterprise's growth to enable it to manage its activities more effectively. Although most computerized accounting packages can provide information in financial and management accounting formats, this may result in some additional financial work that may necessitate the services of a management accountant.

Illustration by Brian Omolo for
The 2021 AU/UN Year of Creative Arts Challenge.

I. DONOR FUNDS

Donors contribute free support, especially money to charity organizations. Sources can include donations, project funding, online crowdfunding, fund-raising events among others that are usually project-specific.

Funding for projects, charity and NGOs' activities can be difficult. These difficulties are compounded by strict donor constraints, further complicating the situation.

Challenges for projects, charities and NGOs include developing the managerial skills needed to secure and use funds for initiatives as well as sustaining long-term activities. The stringent limits that donor organizations have in disbursing cash for operations or properly understanding community needs on the ground are challenges for donor agencies.

This necessitates the development of a trusting relationship between donors and projects, charities and NGOs, which can contribute to the long-term financial sustainability of the organization. It is therefore necessary for projects, charities and NGOs to develop a "Funding Mix" as a collection of different sources that allows it to generate a consistent stream of income over time.

I.1 Managing and accounting for donor funds

A practical accounting system for an enterprise and sound financial management practices will ensure that management, accounting and reporting of donor funding are carried out per the funding agreement.

The funding agreement between the donor and the enterprise should typically define all aspects of the project and include the following:

- Activities to achieve the deliverables.
- Funding of the project.
- Reporting on activities.
  - » Narrative report.
  - » Financial report.
  - » Periods of reporting.
- Management of funding and procurement of goods.
- Stipulations in the budget regarding how the funding is to be applied.

Report intervals shall be determined by the donor and the enterprise through a formal funding agreement. A narrative and a financial report are generally included in reports. The narrative report details all the activities accomplished throughout the reporting period while the financial report breaks out all expenses over the course of the agreement.

During the project implementation, it may appear that certain activities are unable to be carried out as planned or are not as successful as expected, but with tweaks, better outcomes could be achieved. In such cases, the donor's permission must be acquired before any changes in the project's execution. If this necessitates budget line-item revisions, they are also discussed with the donor. Only when the donor's written agreement has been acquired in writing may the grant recipient make changes to the program.

Grantees are expected to keep their audit readiness up to date. This means that all financial and program-related records pertaining to their grants must be easily accessible for auditing. Failure to provide credible documentation to the auditor could result in questioned charges and ultimately cost disallowances. An annual audit by accredited auditors is required after each financial year. A copy of the audited financial statements is given to each donor. Donors frequently demand audited financial reports on the funds they have provided.

Grantees can also appoint someone from within their enterprise to conduct an internal audit for their own purposes.

The overall responsible person in the enterprise is accountable for all funding needs to ensure that, when reviewing the audited statement, they can answer the following questions:

- What is the relationship between the revenue and expenditure statistics and the actual expenditure for the prior year (which will be displayed)?
- How do they compare favourably against the year's budget?
- Why have there been substantial increases and/or decreases on certain items?
- Have all items of expenditure been included? Are they all justified?
- Has the audit fee been included?
- How does this balance sheet compare with the previous one? Is the enterprise in a better or worse position financially than it was last year?
- How do the total current assets compare with the total current liabilities?
- Is any deficit in the year being audited covered by a surplus from previous years?
- Even though the previous years' surpluses are part of the accumulated fund or equivalent item if there is a deficit, how will a similar situation be avoided this year?
- Are there any large sums of money owing to the enterprises? If so, what steps could be taken to retrieve the outstanding payments?
- Where are the financial reserves of the enterprises invested, and are they earning a reasonable income? Is the investment in line with the policies of the enterprises and are donors happy with the investment policy?

Grantees must ensure that they follow the below to ensure success in grant management:

- Building Trust - Problems can be avoided in all facets of grant management by keeping in touch with grant officers frequently. Every communication should be put in writing.
- Keep track of project start and end dates for spending - Make no payments or commit to anything before the contract's start date. All invoices must be dated between the official beginning and ending dates. It is fine to spend right up until the contract's end date if

the invoice is dated before the project's completion. Accrual of expenses is one approach for avoiding significant under-spending.

- Meet project deadlines while staying within budget - Check that the activities listed in the project proposal correspond to the actual activity and the amount of money spent. It's no good having 10 seminars in the proposal and just doing five of them because the cost is the same. Inform recipients and project officers about the donor, as well as their terms and conditions. Hold regular meetings with other personnel (e.g., project and administrative staff) to discuss the donor's conditions and to assess progress against the donor's project plans.
- Avoid underspending - For a donor, this is just as serious as, if not more serious than, overspending. Donors, too, have goals to fulfil, and they do not want the trouble of having monies returned to them. If you do not utilize up all your donors' allotments, you risk losing this money from the following year's allotment.
- Monitor donor-by-donor expenditure - Keep an eye on the specific expenditures given to each donor in multi-donor supported projects to ensure you do not under or over-spend for each contributor. The total expenditure may indicate that you are on track overall, but the donor-by-donor status is hidden.
- Spend Capital expenditure budgets early - Equipment should be procured in the first phase of the program. Donors rarely allow this to take place in the closing months or to be the subject of a no-cost extension.
- Ensure enough time for financial report writing - Putting together a financial report often takes longer than you expect! This is especially true if you need to ask busy program and project managers questions. Further, under or over-spending typically goes undiscovered for far too long due to delayed field reporting and poor follow-up at head office to pursue reporting.
- Ensure complete and accurate reports - Make sure all expenditure is reported in the correct period.
- Keep clear contract files and budget notes - On all grant-related papers, include dates and notes. It will then be evident to whoever oversees project implementation (typically two years after the first proposal) which version of the contract and final budget is current, as well as what adjustments the donor has requested and agreed to.
- Avoid surprises - If you cannot meet reporting deadlines or other requirements, notify the donor right away; do not ignore it. You might reach an agreement on unfavourable terms and conditions.

Illustration by Harrison Chege for The 2021 AU/UN Year of Creative Arts Challenge.

J. MONITORING AND EVALUATION

Monitoring is the routine collection and analysis of information to track progress against set plans and check compliance with established standards. It helps identify trends and patterns, adapts strategies, and informs decisions for project/program management.

J.1. Common types of monitoring

- Results monitoring - Tracks effects and impacts. This is where monitoring merges with an evaluation to determine if the project/program is on target towards its intended results (outputs, outcomes, impact) and whether there may be any unintended impact (positive or negative).
- Process (activity) monitoring - Tracks the use of inputs and resources, the progress of activities, and the delivery of outputs. It examines how activities are delivered – the efficiency in time and resources. It is often conducted with compliance monitoring and feeds into the evaluation of impact.
- Compliance monitoring - Ensures compliance with donor regulations and expected results, grant and contract requirements, local governmental regulations and laws, and ethical standards.
- Context (situation) monitoring - Tracks the setting in which the project/program operates, especially as it affects identified risks and assumptions, but also any unexpected considerations that may arise. It includes

- the field as well as the larger political, institutional, funding, and policy context that affect the project/program.
- Beneficiary monitoring - Tracks beneficiary perceptions of a project/program. It includes beneficiary satisfaction or complaints with the project/program, including their participation, treatment, access to resources, and their overall experience of change.
- Financial monitoring - Accounts for costs by input and activity within predefined categories of expenditure. It is often conducted with compliance and process monitoring.
- Organizational monitoring - Tracks the sustainability, institutional development, and capacity building in the project/program and with its partners. It is often done with the monitoring processes of the larger, implementing organization.

Evaluations involve identifying and reflecting upon the effects of what has been done and judging their worth. Their findings allow project/program managers, beneficiaries, partners, donors, and other project/program stakeholders to learn from the experience and improve future interventions.

J.2. Why is Monitoring and Evaluation (M&E) important?

A well-functioning M&E system is a critical part of good project/program management and accountability. Timely and reliable M&E provides information to:

- Support project/program implementation with accurate, evidence-based reporting that informs management and decision-making to guide and improve project/program performance.
- Contribute to organizational learning and knowledge sharing by reflecting upon and sharing experiences and lessons so that we can gain the full benefit from what we do and how we do it.
- Uphold accountability and compliance by demonstrating whether our work has been carried out as agreed and in compliance with established standards and with any other donor requirements.
- Provide opportunities for stakeholder feedback, especially beneficiaries, to provide input into and perceptions of our work, modelling openness to criticism, and willingness to learn from experiences and to adapt to changing needs.
- Promote and celebrate our work by highlighting our accomplishments and achievements, building morale, and contributing to resource mobilization.

J.3. Comparing monitoring and evaluation

The key distinction between monitoring and evaluation is the assessment's timing and focus. Monitoring is continual and concentrates on current events. Evaluations, on the other hand, are carried out at certain points in time to analyse how well things went and what difference they made.

Managers often employ monitoring data to track project/program execution, outputs, budgets, and procedure compliance, among other things. Evaluations can also help with implementation (e.g., a midterm evaluation), although they are less common and focus on broader changes (outcomes) that demand more methodological rigor in analysis, such as an intervention's impact and relevance.
While it is vital to recognize their differences, it is also crucial to remember that monitoring and evaluation are inextricably intertwined; monitoring often offers data for evaluation, and monitoring includes parts of evaluation (assessment). Monitoring, for example, might reveal that 200 community facilitators were trained (what happened), but it might also reveal that post-training exams (assessments) were conducted to determine how well they were trained. This monitoring data might be used in an evaluation to see if the training made a difference in terms of the main goal or change it was attempting to achieve, such as increasing condom use, and whether this was meaningful in reducing Human Immunodeficiency Virus (HIV) transmission.

J.4. M&E methods

- Questionnaires and Surveys - Questionnaires and surveys can be quite simple or extremely complex. These can be structured around a set of closed questions (yes/no or multiple choice).
- Focus Groups - Employs a small group of people who represent various viewpoints to collect general information, clarify details, or gain opinions about a topic through group discussion. They can also be utilized to reach an agreement. Focus groups are useful for assessing change perceptions, assessing the quality of project services or service providers, and finding areas for improvement in M&E.
- Strengths, Weaknesses, Opportunities, and Threats (SWOT) - To determine the project's or group's strengths, weaknesses, opportunities, and threats, as

well as how such an assessment will change over time. This method is effective for qualitatively examining, for example, project services, relationships between project stakeholders and the organizations of the implementing partners, local groups, and the project team itself from an M&E viewpoint.
- Dreams Realized or Visioning - A focused conversation about people's dreams or shared goals for the future of a project or activity. From the standpoint of M&E, this is an excellent way for defining indicators, determining if primary stakeholders' well-being is improving or not, and assisting project stakeholders in reflecting on the relevance of activities based on people's development ambitions.
- Mapping or Sketching - To provide a visual representation of information in a particular geographical context based on the stake- holders' perceptions of any focus issue or indicator that is being monitored and evaluated.
- M&E Wheel "Spider Web" - To provide a visual index that helps in assessing the issue being monitored or evaluated in terms of its ideal, or in comparing two or more monitoring sites and how they change over time. This method can also measure how well a project is meeting anticipated targets, or how an enterprise's capacities change over time. From an M&E perspective, the spider web provides a visual means of measuring changes in ratings on chosen indicators.

J.5. Financial controls – Is trust enough?

Financial controls are the financial management systems that aim to protect the enterprise's assets and reduce and or eliminate the risk of error and theft. All enterprises need financial and or internal controls. In some instances, it is a legal requirement to ensure adequate financial controls are in place.
People in the non-profit sector sometimes argue that internal controls systems and financial controls are unnecessary because everyone trusts one another. Despite the importance of trust, controls are required to demonstrate to stakeholders and anyone outside the organization that the leadership team is efficiently using financial resources and other resources of the enterprise.

The key financial controls include the following:

- Cash controls - Systems for managing cash amounts.
- Bank controls - Systems for making sure that the bank account cannot be misused.
- Budgeting and accounting controls - Systems that provide sufficient information to manage the activities of the enterprise.
- Purchase and authorization controls - Making sure that different people are involved at each stage.
- Management controls - Extra checks made by management.
- Physical controls - Keeping property and equipment in good order, secure, and guidance on the personal use of items owned by the enterprise.

J.6. When things go wrong – fraud

Fraud occurs when deception is used to obtain an enterprise's money, goods, or services for personal gain. Alteration or forging of cheques, claiming travel expenses not incurred, theft of cash are examples of fraud.

The cost of fraud can be measured in terms of the cash stolen, but the most significant cost is to the organization's reputation. In addition, there is a hidden cost in terms of staff time and morale in developing new methods and rebuilding the enterprise's reputation. Enterprises must be prepared for the possibility of fraud.

Although it is impossible to detect all instances of fraud, stringent financial and internal controls can help you recognize when something is not quite right. There are several accounting indicators or signals to keep an eye out for. These include:

- Accounting records are inaccurate, corrected, and/or out of date.
- Bank statements and 'bank reconciliations' are missing.
- Invoices, receipts, bank statements, and other documents are often missing.
- Financial and stock records contain many errors.

J.7 Steps to minimize fraud

- Introduce the concept of separation of duties - The separation of roles impacts every aspect of financial management. Its goal is to prevent fraud and errors by ensuring that no single person is liable for the entirety of any transaction, such as placing an order, authorizing a payment, or signing a check. Each task should be carried out by a different person.
- Ensure that sound financial controls are in place:
  - » The leader and senior staff should publicly clarify that theft of any sort is totally unacceptable.
  - » Explain to staff that controls are important for the

protection of the organization and staff, even if sometimes hard to follow.
» The senior staff themselves should follow the rules strictly.
» The leadership team should implement controls and be prepared for possible fraud.
» Accurate and up-to-date financial information should be available in a user-friendly format.
» Leaders and managers should sign off monthly accounts and make random checks on financial systems.
» Leaders and managers should follow up on any complaints received.
» When recruiting staff and volunteers, always follow up on references provided and check certificates of qualifications.
» Provide training in financial management.
» Arrange a regular external audit.

- Make it easy for staff to tell someone if they are suspicious - Make it easier for employees to express their concerns by creating a culture that encourages them to do so responsibly and with precise evidence. Introduce a confidential "whistle-blowing" program, describing what it is and the types of issues that can require reporting.Have a fraud policy in place:
  » Create a set of routine controls.
  » Make it clear how people can express their concerns.
  » Indicate when the police should be notified.
  » Determine who will oversee any investigation.
  » Specify how a sensitive investigation should be handled.
  » Determine which documents should be kept as evidence.
  » Specify how all instances should be recorded in a fraud register.

The fraud policy should be made known to all staff. It should be updated after any theft or fraud is suspected or proved.

Illustration by Ian Njuguna for The 2021 AU/UN Year of Creative Arts Challenge.

K. AUDITING

Auditing is a crucial process in the financial management of any enterprise. It follows financial reporting. Auditors examine the systems and records of an enterprise to assess the effectiveness of internal controls, the performance and financial position of the enterprise at a particular point.

K.1 Definition and legal provision

An audit can be defined as an independent assessment of a system or an enterprise's procedures to assure stakeholders that the enterprise's objectives have been met within the laid down policies and procedures. Audits can either be external or internal.

K.1.1 External audit

Audits conducted by third parties can be immensely beneficial in removing any prejudice from an examination of an enterprise's financial records. Financial audits are conducted to determine whether the financial statements include any material misstatements. A financial statement user can be certain that the financials are accurate and full if the auditor's view is unqualified, or clean. As a result, external audits enable stakeholders to make better, more informed judgments about the enterprise under audit.

External auditors work to a separate set of criteria than the enterprise that hired them to conduct the job. The most significant distinction between an internal and an external audit is the concept of the external auditor's independence.

When third parties do audits, the resulting auditor's view on an enterprise's financials, internal controls and systems can be candid without influencing everyday work relationships.

K.1.2 Internal audit

Internal auditors work for the enterprise they are auditing, and the audit report they produce is delivered directly to management and the board of directors. While consultant auditors are not employed by the enterprise they are auditing, they apply the enterprise's standards rather than their own.

These auditors are utilized when an enterprise does not have the resources in-house to audit specific aspects of its operations.

K.1.3 Audit reports

Audit reports are formal documents that express the auditor's opinion. It may draw attention to limitations in the audit's scope be it internal or external. Audit reports are included with the annual financial statements and distributed to donors and other stakeholders. It can also be offered to potential donors as a fund-raising technique.

Example of an audit report with no negative comments ("unqualified" audit report)

We have audited the accounting records of the Mary Rice Centre, together with the financial statements for the year ended 31 December.

These have been prepared in accordance with the accounting policies shown in the notes to the accounts. The audit was conducted in accordance with generally accepted auditing standards. As with many similar enterprises of this size, the procedures of internal control rely on the close involvement of the Centre's management. We have accepted the assurance of the Centre's management that there has been appropriate authorization and incurring of expenditure for the benefit of the Centre. Funds raised because of voluntary donations cannot be verified until they appear in the Centre's accounting records.

The financial statements have been prepared under National Accounting Standards. In our opinion, the accounts present a true and fair view of the state of the Mary Rice Centre's affairs for the year ended 31 December.

Auditor's signature:____________________________

Date:____

Figure 14 - No negative comment unqualified audit report

Example of an audit report with a negative comment ("qualified" audit report)

We have audited the accounting records of the Mary Rice Centre, together with the financial statements for the year ended 31 December. These have been prepared under the accounting policies shown in the notes to the accounts. The audit was conducted under generally accepted auditing standards.
As with many similar enterprises of this size, the procedures of internal control rely on the close involvement of the Centre's management. We have accepted the assurance of the Centre's management that there has been appropriate authorization and incurring of expenditure for the benefit of the Centre's. Funds raised because of voluntary donations cannot be verified until they appear in the Centre's accounting records. While conducting the audit, we have found examples of grant income received which has not, in our opinion, been used for the purpose for which it was given. These items were not accounted for in a way that we would normally expect of an enterprise of this type.

The financial statements have been prepared in accordance with National Accounting Standards. Except for the comment in the previous paragraph, in our opinion, the accounts present a true and fair view of the state of the Mary Rice Centre's affairs for the year ended 31 December.

Auditor's signature:____________________________

Date:____

Figure 15 - Negative comment qualified audit report

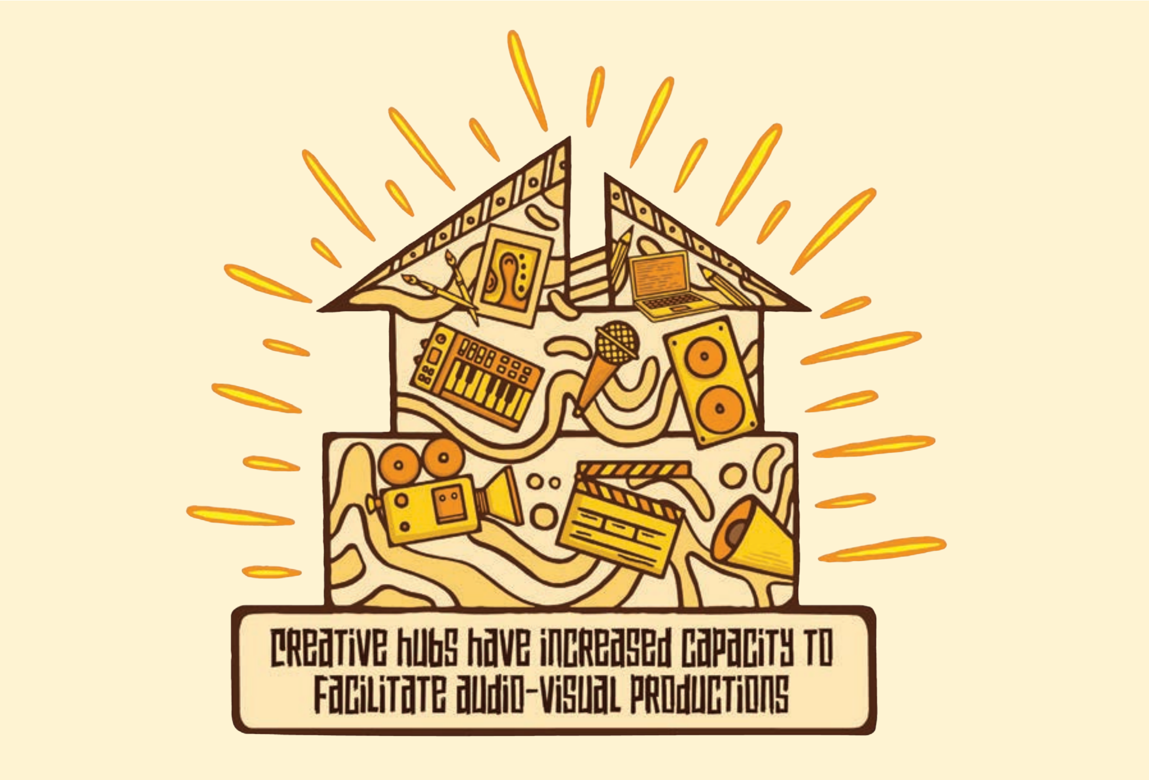

*Illustration by Brian Omolo for
The 2021 AU/UN Year of Creative Arts Challenge.*

L. FINANCIAL SUSTAINABILITY

Financial sustainability refers to an enterprise's ability to build a resource base such that it can maintain its institutional structure and provide benefits to the beneficiaries and intended client population after donor funding ends.

L.1 Moving towards financial sustainability

Three areas to consider include:

L.1.1 Developing financial management

This entails a consideration of the below:
- Implement financial management systems that provide information that enables sound financial and programmatic decisions, improving efficiency.
- Identifying potential cost savings and developing strategies for reducing core costs.
- Improving financial projections/budgeting.

L.1.2 Resource mobilization

This entails consideration of the below:

- Designing a comprehensive resource mobilization strategy.
- Building capacity to develop and market successful project proposals to attract new donors.
- Forging partnerships with government and other

enterprises to use idle capacity. This entails sharing project costs and capitalizing on economies of scale.
- Reserves – if there is not enough funding, an enterprise can use some of its savings from previous years.

L.1.3 Income generation/self-financing

This entails consideration of the below:
- Exploring income generation through the sale of products and services.
- Marketing and sale of technical assistance and soft assets.
- Maximizing membership dues and hard assets rental fees.

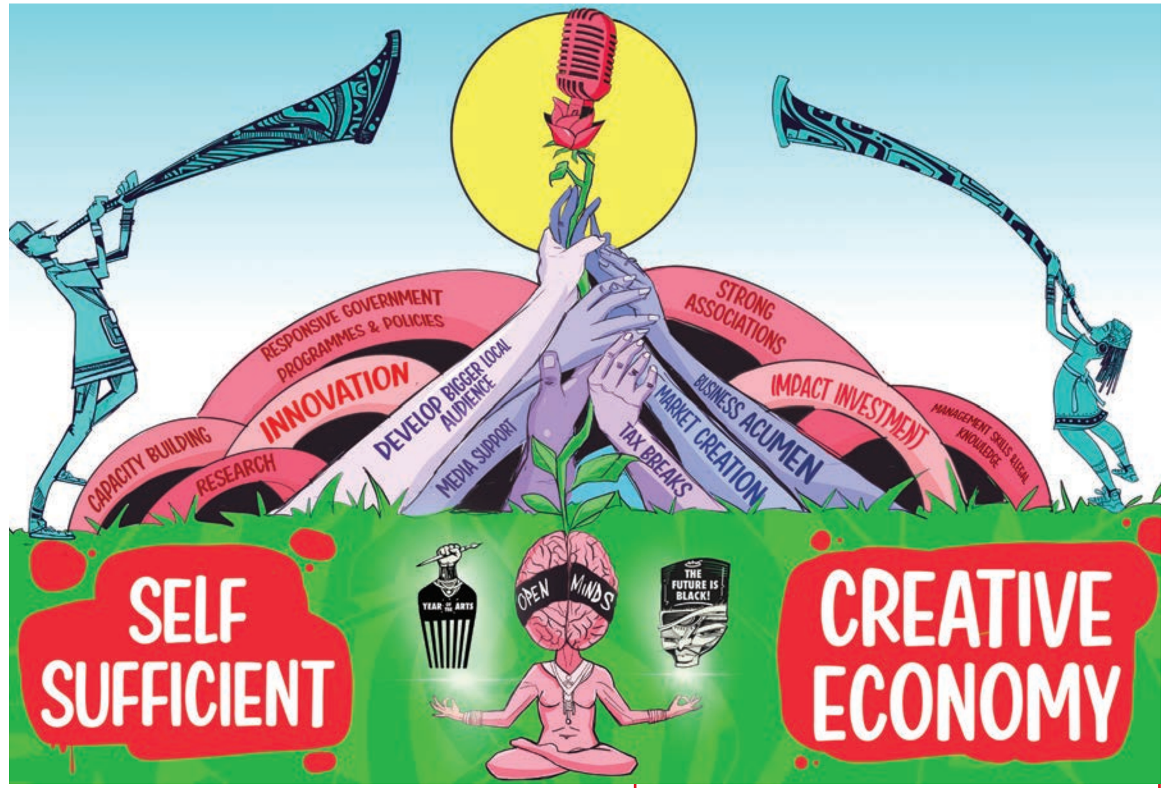

Illustration by Harrison Chege for
The 2021 AU/UN Year of Creative Arts Challenge.

Illustration by Ian Njuguna for
The 2021 AU/UN Year of Creative Arts Challenge.

M. BEST PRACTICE PRINCIPLES

M.1. Best practice: "top ten" principles for budgeting

- Always start with the objectives for the organization/activity and involve other people. Ask the person responsible for each activity to prepare a budget.
- Use finance staff to provide technical advice, but not to decide priorities (unless it is their budget).
- Be as realistic as possible. Add notes to the budget to show how calculations were made. Show whether income is 'guaranteed' or 'not yet confirmed'.
- Allow plenty of time and get approval from the management committee and/or donors before the start of the period/year.
- Show the agreed budget (and any alterations) to group members or staff. Tell them what they must do to keep within the budget.
- If external funding is required, submit the budget (or part of it) to donors.
- Provide detailed budget-monitoring reports for those with day-to-day management responsibility, and a summarized report for the management committee.
- Monitor the budget against actual income and expenditure regularly. Take any necessary action. The management committee, leader, and managers should review these reports regularly.
- Add notes to budget-monitoring reports, to explain major differences between the budget and actual income and expenditure.

- Keep donors informed of any changes to the budget (for example, if the expenditure is more than the budget for one item and under budget in another).

M.2. Best practice: "top ten" principles for controlling cash

- Keep the minimum amount of cash needed for you to operate efficiently.
- Record all cash items received or paid in a cash book as soon as possible after the transaction has taken place.
- Issue pre-printed numbered receipts, with the organization's name, for any cash received, and keep a copy.
- Request a receipt and keep it when money is paid out in cash.
- Keep cash in a secure place – preferably in a lockable tin which is kept in a safe. If not, use a locked cupboard or drawer.
- A senior person should count the cash regularly and check that it agrees with the cash book. This person and the cashier should sign the cash book to confirm that the count has been made.
- Someone other than the cashier should authorize any large or unusual payments. Set a limit above which the cashier must obtain the approval of a manager.
- The person responsible for cash (the 'cashier') should not (ideally) be the one dealing with other accounting records.
- The cashier should check regularly how much cash is left and tell a senior person if there is not enough for day-to-day operations.
- Make one person responsible for the control of cash at any one time.
- When a new person takes over, both people should agree and sign the cash balance.

M.3. Best practice: "top ten" principles for controlling bank accounts

- Register bank accounts in the name of a group or organization – never in the name of an individual.
- Tell the bank that all requests for withdrawals (cheques, for example) should be signed by two people. Sometimes it is more practical to require any two signatories from three named individuals.
- Never sign blank cheques or expect others to do so.
- Each time that the bank statement is received (or the passbook is updated), check that the organization's bank records in the cash/bank book agree with it.
- Write cheques for as many payments as possible, to avoid holding large amounts of cash.
- Transfer large amounts directly through the bank from one account to another.
- Pay money into the bank as often as practical, to avoid keeping large sums of cash on the premises. In rural locations, this cannot be done very often. Consequently, make use of people going to the town where the bank is, to pay money in. Cheques can sometimes be requested to avoid large amounts of cash building up. If cash is held, it must be kept secure.
- The person who is involved in preparing cheques should not also sign them.
- Keep cheque books in a safe, locked cupboard, or drawer.
- Keep the fewest possible separate bank accounts, although some donors will insist that you keep a separate bank account for their funds.

M.4. Best practice: "top ten" principles for budgeting and accounting accounts

- Prepare the budget in line with enterprise objectives before the start of the year and get the management committee to approve it.
- Produce the budget and actual reports as soon as possible after the end of the period.
- Add notes to explain large differences in the budget and actual statement.
- Compare regular summaries of income and expenditure with the budget. Make sure that the management committee and managers monitor the summaries.
- Prepare a cash-flow forecast to show when shortages may occur.
- Record everything, keeping accurate and up-to-date accounting records.
- Make sure that there is a supporting document (an invoice, for example) for every transaction, and file the documents in order.
- Keep a system to alert you when money is still owed to you.
- Record 'restricted' donor funding separately in the accounting system.

- Provide financial reports when required and include them in work plans.

M.5. Best practice: "top ten" principles for purchase and authorization controls

- Make sure there is a budget for goods and services ordered.
- Allow only nominated people to place orders.
- Ask for at least three quotes for goods and services valued at more than a certain amount.
- Check goods and services received for quality before paying for them.
- Match invoices against original orders and pay on original invoices only.
- Keep clear records of money owing and paid to other people.
- Do regular stock-takes of goods held, and check that they agree with stock records.
- A senior person should authorize expenditure before it is made.
- Cheques should be authorized by a different person from the one who signs them.
- Ask self-employed individuals to provide evidence of their self-employed status before making a payment (so that if you don't deduct tax, you are not liable to pay it to the tax authorities).

M.6. Best practice: "top ten" principles for management controls

- Allocate responsibilities to staff.
- Write job descriptions for staff and volunteers.
- Recruit suitably qualified staff and volunteers: Crosscheck their references and qualifications.
- Identify and deal with staff who are not performing adequately.
- Make sure that everyone knows the policies and procedures.
- Write them down and talk about them regularly, for example in staff meetings.
- Develop staff and volunteers, for example through induction and training for new staff.
- Arrange an annual external audit.
- Act on the auditor's recommendations.
- Write minutes for all meetings.
- Communicate openly with staff, volunteers, and other stakeholders.

M.7. Best practice: "top ten" principles for physical controls

- Keep all premises locked and safe.
- Allow only authorized staff and volunteers to use premises and equipment.
- Keep an up-to-date record of items owned and check it regularly.
- Register all items in the organization's name.
- Keep stock records for purchases, items issued, and the balance left.
- Count stock regularly and agree on it with the records.
- Arrange insurance cover, if possible, for valuable items, including cash.
- Write clear policies on the use of equipment: for example, vehicles and photocopiers.
- Keep confidential information locked away.
- Use a safe for cash, cheque books, and other valuable documents.

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'Guidance notes' on capacity-building topics, including budgeting and core costs www.bond.org.uk (click on 'Publications/International programme work/Assessing funding opportunities')

Capacity.org
Resources for capacity-building (English, French, and Spanish)
www.capacity.org

Civicus
'Toolkits' for capacity-building (English, French, Spanish, and Russian) www.civicus.org/new/content/toolkits1.htm

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A survival guide for humanitarian programme managers www.fme-online.org

Gender Budgeting
What it is, what it is not, and how it can be used in non-government organizations www.johncammack.net (click on 'Resources')

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https://www.nid.org.na/images/pdf/ngo_management_training/Practical_Guide_to_the_Financial_Management_of_NGOs.pdf
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ANNEXURE
Annex 1: Expense Summary

Name of donor:										
Name of organization:										
Year:		Exchange rate			Project period					
Item	Description	Budget €	Over/Under (Ksh)	Total (Ksh)	Jan (Ksh)	Feb (Ksh)	Mar (Ksh)	Apr (Ksh)	May (Ksh)	Jun (Ksh)
1	PROGRAM A									
1.1	ACTIVITY 1									
	Sub activity 1									
	Sub activity 2									
1.2	ACTIVITY 2									
	Sub activity 1									
	Sub activity 2									
2	PROGRAM B									
2.1	ACTIVITY 3									
	Sub activity 1									
	Sub activity 2									
2.2	ACTIVITY 4									
	Sub activity 1									
	Sub activity 2									
3	OTHER DIRECT COSTS									
	Bookkeeping costs									
	Rent									
	Bank charges									
	TOTAL									

Annex 2: Purchase requisition

Name of donor: ____

Name of requisitioner: ____

Date: ____

Project: ____

Budget line item: ____

Supplier: ____

Item	Description	Quantity	Comments
1			
2			
3			
4			
5			
6			
7			

____________________ Signature: Requisitioner

____________________ Signature: Program Manager

Annex 3: Purchase order

Name of donor: ____

Name of organization: ____

Date: ____

Project: ____

Budget line item: ____

Supplier: ____

Item	Description	Quantity	Cost	Comments
1				
2				
3				
4				
5				
6				
7				
		Total		

________________________ ________________________

Signature: Program Manager Signature: Executive Director

Annex 4: Good /Service receipt form

Name of donor: ____

Name of supplier: ____

Date: ____

Project: ____

Budget line item: ____

PO & Invoice ref: ____

Item	Description	Quantity	Comments
1			
2			
3			
4			
5			
6			
7			

________________________ ________________________

Signature: Supplier Signature: Store Manager

Annex 5: Income /cash receipt form

Received from: ______________________________

Purpose: ______________________________

Date: ______________________________

Project: ______________________________

Amount received: ______________________________

Description

__________________ __________________

Signature: Finance clerk Signature: Finance Manager

Annex 6: Payment voucher

Name of payee: ______________________________

Serial number: ______________________________

Date: ______________________________

Project: ______________________________

PO & Invoice ref: ______________________________

Item	Description	Amount	Budget Line	Budget Code
1				
2				
3				
4				
5				
6				
7				
Total				

__________________ __________________

Signature: Finance clerk Signature: Finance Manager

Annex 6: Attendance register: workshops & seminars

Name of organization: ____________________
Theme/Subject/Content: ____________________
Date: ____________________
Project: ____________________
Venue: ____________________

	Name	Signature	Organization	Email address	Comments
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					

__________________ __________________

Signature: Workshop facilitator Signature: Program Manager

Annex 6: Travel/ daily allowance claim form

Name: ____________________
Position: ____________________
Date: ____________________
Project: ____________________
Reason for travel: ____________________

Date		Description of claim	Amount per period or per rate (days/KM etc)	Total amount
From	To			

I certify the above to be true and correct

Signature Approved by: Name, signature & date

Annex 7: Petty cash requisition

Donor: ____
Payable to: ____
Description: ____
Date: ____
Transaction code: ____

GL Description	GL Code	GL Department	Amount
Total payments			

____________________ ____________________
Approved by: Date:

____________________ ____________________
Received by: Date:

____________________ ____________________
Paid out by: Date:

Annex 8: Missing receipt affidavit

Donor: ____
Payable to: ____
Description: ____
Date: ____
Expense type: ____
Transaction code: ____

Declaration

I declare that this expense is fully compliant with (organization name) ____,
Policies and all other relevant regulations. This expense was fully related to the business of (organization name) ______________________________________.
I am not able to obtain proof of purchase for this expense. I will not attempt to reclaim this expense from any other source.

____________________ ____________________
Submitted by: Date:

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