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BGR



IWRM in the Cuvelai-Etосha Basin

Training Module

on

Financial Management

for

Basin Support Officers and Basin Management Committee members

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Developed by

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Learning objectives

At the end of this module it is expected that a Basin Support Officer (BSO), Basin Management Committee (BMC) members and other participants will be empowered to understand:

- A. Basic financial procedures
- B. Management of funds to avoid, detect and report on misuse of funds
- C. They will also acquire skills and understanding of banking procedures, budgeting, invoicing, preparing quotations and financial documentation and reporting.

Materials needed:

- Flip chart stand and paper
- Brown sheets
- Pens
- Cards
- Notebooks

Chapter 1: BACKGROUND AND INTRODUCTION

1.1. Introduction

Basin Support Officers (BSOs) oversee formulation and implementation of basin plans and also coordinate stakeholder engagement processes e.g. stakeholder meetings/workshops. These activities require BSOs to manage and handle funds on behalf of the Basin Management Committees (BMCs). The BSOs report to BMCs on a quarterly basis on technical activities and financial matters. The BMCs then report to the forum. As such, all levels of basin management (BSOs, BMCs and forum) require basic knowledge and skills in financial management.

Financial management has three key areas, namely:

- Financial planning
 - To ensure that enough funding is available at the right time to meet the needs of the business/project
 - Normally done through budget

This section will enhance the understanding of BSOs and BMCs on budgeting (learning objective A).

- Financial control
 - To ensure compliance with organisational and/or donor policies and procedures
 - Allows for efficiency, accountability and transparency
 - Key elements here are accounting records and documentation, internal control, budget control and financial reporting

This section will enhance the understanding and skills of BSOs and BMCs in management of funds to avoid, detect and report on misuse of funds. It will also give them understanding and skills in accounting procedures (which include payments, accounting documentation & reporting) – (Learning objectives B & C).

- Financial decision making, BMCs not involved in this
 - Investments and dividends

The module will focus on the first two key elements of financial management. BSOs and BMCs at this stage do not have a financial investment function and for this reason the module will not put much emphasis on the last element of financial management.

1.2 Government finance system

Basin management activities are funded by the Government with support from International Cooperating Partners (ICPs). The following government finance systems therefore apply to management of funds.

1. State Finance Act
2. Treasury Instructions
3. National Development Plan
4. Macro-economic Framework
5. Fiscal Policy Framework
6. Medium Term Expenditure Framework (MTEF)
7. Annual Budget, appropriated (approved) by Parliament
8. Budget Implementation
9. Budget Control Procedures (Treasury Instructions, Integrated Financial Monitoring System (IFMS), Internal Audit of revenues and expenditure
10. External Audit – Office of the Auditor-general

New legislation to come

1. State Finance Bill
2. Audit Bill
3. Treasury Regulations
4. Tender Board Bill and Regulations

Chapter 2: FINANCIAL PLANNING

Financial planning is normally done through a budget.

2.1. What is a budget

A budget is a spending plan, based on income and expenditure. A good budget helps to keep track of spending and savings. A budget is often compiled annually.

Typically, governments have different types of budgets – operating; capital and cash flow budget.

Items funded in **capital budgets** often include land acquisition, construction of infrastructure e.g. state facilities, roads, dams etc.

Operating budget focuses on current operational expenses such as salaries, office costs, per diems, travel costs, workshops etc. BSOs and BMCs manage an operating budget.

Cash flow is the movement of money into or out of a project. It is usually measured during a specified, limited period of time.

BSOs prepare and oversee annual operating budgets on behalf of BMCs and forum. Funding for basin activities comes from national government and may also come from donors. It is therefore important for BSOs and BMCs to understand the different types of budgets within government and the procedures to apply for funding.

2.2. Managing a budget

An important measure of the success of a project is the achievement of its intended results within defined budget. To ensure that a project remains within its budget, the budget is continuously reviewed to compare it to actual income/expenditure. This is usually done on a monthly basis.

Managing a budget is important for some of these following reasons:

- To forecast resource usage;
- To keep team informed;
- For budget revisions – i.e. to inform and seek approval from donor;
- Makes you cautious on unplanned & unbudgeted activities.

Exercise: Discuss how BSOs/BMCs can manage their budgets
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Chapter 3: FINANCIAL CONTROL

3.1. Introduction

Good financial management is guided by internal control systems and procedures. Organisational financial management in Namibia is guided by the Generally Accepted Accounting Principles (GAAP) which also sets out legal and reporting requirements. This chapter will summarise some of these generally accepted principles and practices.

The objectives for financial control are:

- To promote a high level of compliance with organisational and/or donor policies and procedures;
- To promote efficiency and allows the organisation/project to carry out its activities in orderly manner;
- To secure the accuracy and reliability of records and to comply with all relevant legislative prescriptions;
- To allow for accountability and transparency;
- To safeguard assets;
- To assist with planning for financial sustainability.

The key elements of financial control that will be discussed in this chapter are:

- Management structure and responsibilities;
- Accounting records and documentation;
- Business conduct.

3.2 Management structure and responsibilities

Financial duties and responsibilities must be separated so that no one employee has sole control over all procedures and systems.

In the case of basin management, financial management principles and procedures of the government apply. The BMCs have their own constitutions which outlines mandates. However, when it comes to financial management the constitution is aligned with government financial management requirements. Financial management responsibilities are therefore separated amongst the Department of Water Affairs and Forestry, BSOs, BMCs and forum.

In line with GAAP the responsibilities of the various structures of basin management could be as follows (however, for accuracy these have to be compared to the constitutions of the respective basins):

a. Basin forum

The BMC is governed by its Forum, which is responsible for the oversight of the activities of the basin.

The responsibilities of the Forum are therefore to:

- Establish broad policies, including financial and personnel policies and procedures. These are part of the basin constitution;
- Review financial information such as budgets and financial statements;
- Identify and proactively deal with emerging issues;
- Interpret the basin's mission to the public;
- Assist with soliciting prospective donors and funds.

The Forum is equivalent to the Board of Directors. Another typical function of the Board of Directors is to approve annual financial audits.

b. Basin Management Committee

The BMC through its Executive Committee (Exco) is responsible for the day-to-day oversight and management of basin activities.

The BMCs have whatever authority as may be designated by the Forum. These could include:

- Authority to make spending decisions within the parameters of the approved budget;
- Recruit consultants;
- Amend operating procedures and controls;
- Enter into contractual agreements;
- Have signatory rights over accounts in the basin.

c. Basin Support Officer

- Preparation of budget
- Management of assets
- Cash receipts
- Payment of accounts
- Cash disbursements e.g. travel disbursements
- Keeping the accounting records and reconciling the accounts
- Financial reporting to BMC, Forum and MAWF

d. Ministry of Agriculture Water and Forestry (MAWF)

The primary functions of Accounting are responsibility of MAWF in Windhoek (and project in event that activities are donor funded). These consist of:

- General ledger
- Approval of basin budget and fitting in into overall ministerial budget
- Cash and investment management
- Retain custody of original grants and contracts
- Accounts payable
- Cash disbursements

- Payroll and benefits
- Financial statement processing
- External reporting of financial information
- Bank reconciliation of all bank accounts
- Compliance with government reporting requirements
- Annual audit.

3.3 Accounting

Records and documentation

Accounting is the process of recording, classifying and summarising business transactions. Accounting and financial management functions are outlined in 3.2. Accountants use Accounting software e.g. – Pastel or AccountMate. The software has passwords used to restrict access to accounting software and data

In Accounting, financial duties and responsibilities must be separated and clear, no one person has sole control over cash receipts, payments, payroll, and reconciliation of bank accounts. As an example, the same person will not be performing the following duties:

- The person who does requisitions to purchase goods or services should not be the person who approves the purchase. In the case of basin management, the BSO will normally do the requisition and approval is made by the MAWF in Windhoek.
- The person who approves the purchase of goods or services should not be the person who compiles the monthly or quarterly financial reports. The BSO will typically compile the quarterly financial reports which are presented to the BMC and then to MAWF.

Accounting records and documents are maintained for these reasons:

- Accurate, current, and complete disclosure of the financial results for reporting requirements;
- Records identify adequately the source and application of funds for sponsored activities. These records contain information pertaining to awards, authorisations, obligations, unobligated balances, assets, outlays, income, and interest;
- Effective control over and accountability for all funds, property, and other assets. A project or organisation has the responsibility to ensure that assets are safeguarded and are used solely for authorised purposes (e.g. project vehicles). An asset register is important especially for regional offices. Equally important is an asset insurance (which in this case is probably done from head office);
- Determines the financial status of the project or organisation.

There are standard rules available for record retention (i.e. no of years).

The common accounting records are:

- General ledger - the collection of all asset, liability, net assets, income and expense accounts;
- Balance sheet - a statement of financial conditions of a business on a specific date. It defines the assets, equity (who owns it), liability (debt);

- Income statement – summarises the income and expenditure as well as surplus;
- Cash flow statement – shows money coming in and going out (cash book);
- Trial balance – a summary of all general ledgers (debit and credit entries);
- Financial reports to donors.

Balance Sheet					
For the Year End 2001 through 2005 (all numbers in 000s)					
ASSETS	2001	2002	2003	2004	2005
Current Assets					
Cash and Equivalents	\$32,615	\$20,576	\$295,794	\$261,237	\$432,893
Net accounts receivable	563,995	361,644	376,110	391,154	469,385
Inventory	500,148	470,693	485,400	500,654	574,162
Other current assets	10,000	10,000	10,000	10,000	10,000
Total Current Assets	\$1,106,758	\$862,913	\$1,167,304	\$1,163,046	\$1,486,440
Fixed Assets					
Capital assets	\$100,000	\$600,000	\$600,000	\$1,100,000	\$1,600,000
Accumulated depreciation	84,000	172,200	264,810	362,051	464,153
Total Net Fixed Assets	\$16,000	\$427,800	\$335,190	\$737,950	\$1,135,847
TOTAL ASSETS	\$1,122,758	\$1,290,713	\$1,502,494	\$1,900,995	\$2,622,287
LIABILITIES					
Current Liabilities					
Accounts payable	\$263,520	\$224,895	\$233,712	\$242,896	\$280,910
Short-term notes	70,000	0	0	0	0
Other short-term liabilities	0	0	0	0	0
Total Current Liabilities	\$333,520	\$224,895	\$233,712	\$242,896	\$280,910
Long-term liabilities	\$225,000	\$195,000	\$45,000	\$45,000	\$45,000
Total Liabilities	\$558,520	\$419,895	\$278,712	\$287,896	\$325,910
Shareholders' Equity					
Capital stock	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000
Retained earnings	444,238	750,818	1,103,782	1,493,099	2,176,377
Total Shareholders' Equity	\$554,238	\$860,818	\$1,213,782	\$1,603,099	\$2,286,377
TOTAL LIABILITIES & EQUITY	\$1,112,758	\$1,280,713	\$1,492,494	\$1,890,995	\$2,612,287

Figure 1: An example of a balance sheet

Trial Balance December 31, 2005		
Account Title	Debit	Credit
Cash	\$7,000	
Accounts Receivable	3,000	
Office Supplies	3,000	
Office Equipment	5,000	
Bank Loan		\$5,000
Accounts Payable		1,000
Common Stock		10,000
Consulting Revenue		7,000
Rent Expense	600	
Salaries Expense	2,500	
Supplies Used	1,200	
Utilities Expense	700	
Total	\$23,000	\$23,000

Figure 2: An example of a trial balance

Payments of accounts – general principles

- Assets or expenses and the related liability are recorded by an individual who is not responsible for ordering and receiving;
- The amounts recorded are based on the original supplier invoice for the related goods or services;

- The supplier invoice should be supported by an approved purchase order where necessary, and should be reviewed and approved by an authorised signatory or designee prior to being processed for payment;
- Invoices and related general ledger account distribution codes are reviewed prior to posting to the subsidiary system.

The aim is to ensure that:

- Disbursements are properly authorised;
- Invoices are processed in a timely manner;
- Supplier credit terms and operating cash are managed for maximum benefits.

Methods of Payment

1. Petty Cash

Petty cash is usually used for small payments or where cash is needed (e.g. for a travel advance). Whatever payment is being made the recipient should sign to evidence receipt. Each petty cash payment is allocated a sequential voucher number which is written on the supporting documentation and this is filed in voucher number order.

2. Cheque

Payment by cheque is made where bank account information is not available (and therefore electronic transfer is not possible). The cheque should be marked "Not-transferable" (which means that the payee cannot be changed). The following details should be completed:

Date

Payee

Amount in words and figures

2 authorised signatures

Counterfoil

The cheque number is written on the supporting documentation and this is filed in cheque number order. The details of each cheque payment should be recorded on the cheque counterfoil or cheque stub.

3. Electronic Transfer

This is the preferred method of payment because it is quicker, avoids trips to the banks and suppliers, and reduces bank charges and the risk of fraud. In order to make an electronic payment it is necessary to have the bank account information from an internal source (e.g. a letter on headed paper from the Finance department of the payee).

The electronic payments are allocated a sequential reference number, is written on the supporting documentation and this is filed in reference number order.

4. Letter of Instruction to Bank

This can be used for transfers between accounts. It requires a letter to be sent to the bank to instruct the bank to do the transfers.

5. Foreign Currency Transfer

A Payment Request form should be completed in the usual way. Then an application form (obtainable from the bank) must be used to make payments to overseas accounts.

Remember

- **To keep original receipts**
- **To make sure that recipients sign**
- **Double check receipts with money paid out**
- **Reference number is important for all payment methods (not always possible with petty cash)**
- **Balance petty cash regularly**

3.4 Business conduct

Financial management is also about how an organisation or project conducts its business conduct and ethics. Business conduct for basin management is guided by Government rules and regulations (where donor funding is provided, donor requirements may apply). For unethical practices the Government regulations will apply. BSOs, BMCs and Forum members must report mis-use of funds and other un-ethical behaviours through the relevant authorities. This section must therefore be read in line with such requirements.

Practice of Ethical Behaviour

Unethical actions or the appearance of unethical actions, are unacceptable under any conditions. The reputation any organisation or project depend to a very large extent on its ethics. Each representative of an organisation or project (including employees, volunteers and board members) must not only apply his/her own sense of personal ethics, but also the shared values of the organisation, which should extend beyond compliance with applicable laws and regulations in business situations, to govern behaviour where no existing regulation provides a guideline. Each employee is responsible for applying common sense in business decisions where specific rules do not provide all the answers.

In determining compliance with this standard in specific situations, employees should ask themselves the following questions:

- 1. Is my action legal?**
- 2. Is my action ethical?**
- 3. Does my action comply with project or organisational policy?**
- 4. Am I sure my action does not appear inappropriate?**
- 5. Am I sure that I would not be embarrassed or compromised if my action became known within the organisation or publicly?**

Each project or organisation representative should be able to answer “YES” to all these questions before taking action.

Each director, manager and supervisor is responsible for the ethical business behaviour of his/her subordinates. Directors, managers and team leaders must carefully weigh all courses of action suggested in ethical, as well as economic terms, and base their final decisions on the guidelines, as well as their personal sense of right and wrong.

Annexures

Annex 1: Presentation on Financial Management

See separate document for presentation.