

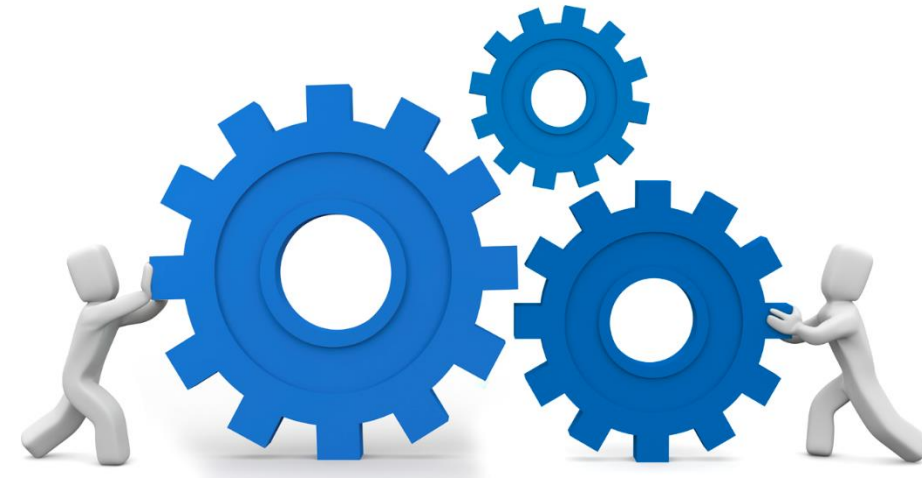


VIRTUAL SEMINAR - TECHNICAL ENHANCEMENT WORKSHOP

28TH – 29TH December, 2021

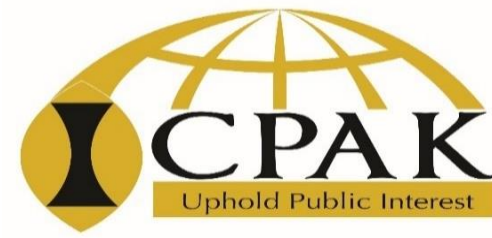
Enhancing proper financial management and budgeting practices for entities

- **Linking budgets to Planning and Policy**
- **Budgeting and Budgetary Controls**



CPA Andrew Rori

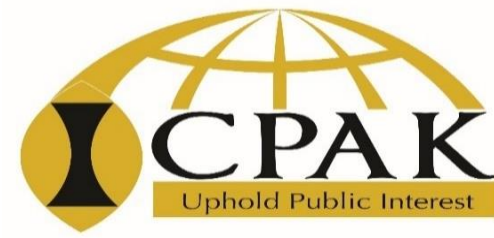
Session objectives



At the end of the session the participants should be able to:

- a. Explain the basic considerations in budgeting and budgetary controls;
- b. Discuss the importance of preparing a budget; and
- c. Link policy, planning and budgeting

Quote



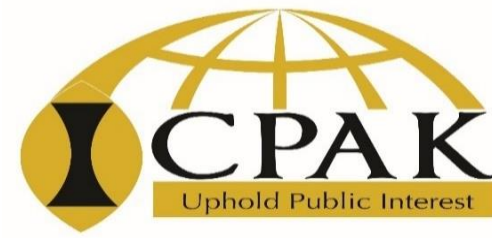
“Don’t tell me what you value, show me your budget and I will tell you what you value”

Joseph Biden Jr.

46th President of the United States of America

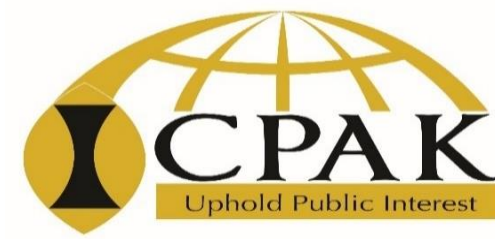


Background to policy, planning and budget



1. A plan is a “set of desirable targets to be reached in a given period of time, and defined means or ways by which the targets will be achieved.”
2. Planning involves making decisions or choices about ways of achieving desired results, generating and using available resources.
3. Planning involves the application of tools to stimulate and guide development process.
4. Planning links policy → plans → budget

Background to policy, planning and budget



Budget is more than just a number of figures

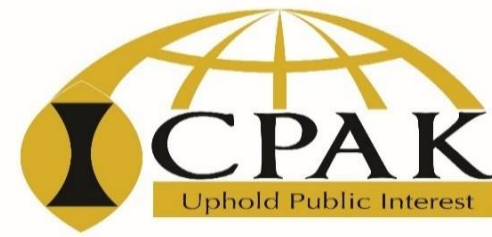
- A financial plan of expenditure and benefits expressed in quantitative/monetary terms, covering a specific program or project and period of time.

Budget should express:

- targets of an entity policy
- measures and instruments to reach these targets
- costs connected to the targets and measures

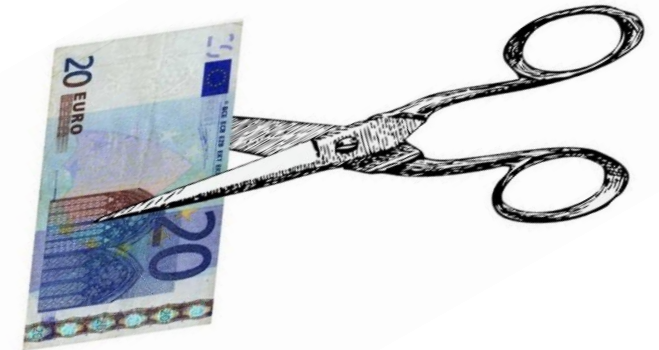


Background to policy, planning and budget

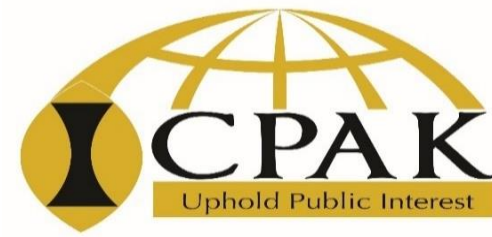


Elementary questions in the budget

1. What is it that you want to achieve (what's your goal)?
2. What measures are you going to take to achieve that goal?
3. What is it going to cost?



Rationale for budgeting



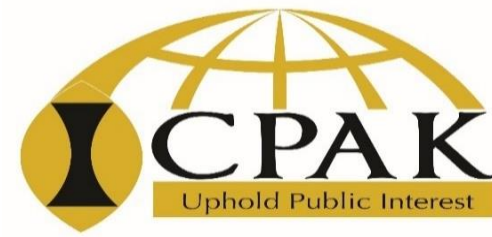
1. Minimizing uncertainty

Attempting to make program administration more predictable by identifying and determining what is required, how much of it is available and when it is available.

2. Policy Direction

As a plan the budget indicates a specific policy direction for a specific period of time/program which requires approval by the top management and governing unit.

Rationale for budgeting



3. Resource allocation

- The budget determines how limited resources are to be divided among the competing alternatives in achievement of specified goals.

4. Accountability instrument

- Provides a basis for budgetary control

5. Performance evaluation

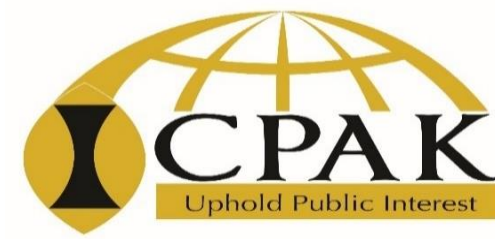
- Benefits versus Cost
- Short term, Mid term and long term goals

Reflection

A budget is a financial tool driven by strategy, goals and objectives. Is there a linkage between your budgets and strategy?



Reflection



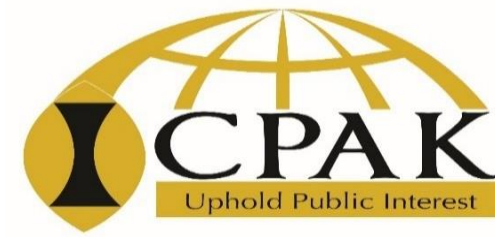
“The budget is the single most important policy vehicle for giving effect to an entity’s **priorities.**”

“It is in the budget where **policy objectives are reconciled** and **implemented** in **concrete terms.**”

Source: OECD Website on budgeting and financial management in the public sector (<http://www1.oecd.org/puma/budget/>)



Components of a budget



Key Components of a training Budget

Expenditure side includes:

- **Discretionary costs**

Expenditure items where contractual/legal obligation have not yet been entered into – may or may not be incurred (optional) even though still factored in the budget e.g. acquisition of goods and services

- **Mandatory costs/ Non discretionary**

Contractual/Legal obligation exist and must be incurred e.g. employee compensation, loans and interest

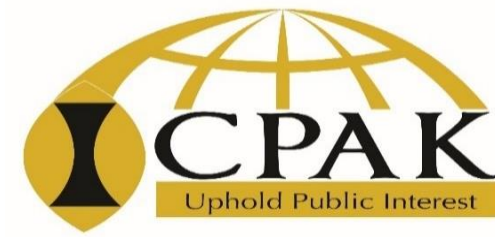
This concept is particularly important in expenditure prioritization. Non discretionary cost MUST be catered for first before discretionary

Revenue/Financing Side includes:

- Total Revenue
- Project Grants
- Other revenues on case by case assessment

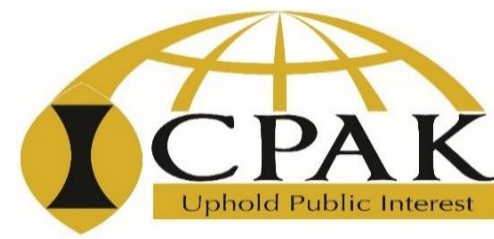
Financing Gap

Budgeting and financial reporting



- Determining the expenditure required to purchase the resources needed to achieve an activity or strategy - costing;
- The allocation of resources to match requirements - budgeting; and
- Financial reporting should link plan, budget and results. Underlying all of this is good recording of transactions and reporting!

Understanding costs



Costs come in many forms – for effective budgeting an entity must understand the various types of costs involved

Types & Approaches to Budgeting

Line Budgets

Incremental Budgets

Zero Based Budgets

Activity Based Budgets

Rolling Budgets

Programme Based Budgets

Line Budgets

Budget expressed in terms of the kinds and quantities of goods and services to be purchased

Budget is expressed in broad expenditure categories - little information given for the expenditure details

A Department has to keep expenditure within the amounts approved for each object (votes)

Historically, a popular approach

Incremental Budgets

Previous period budget is used as a base

Line item increments done based on previous period performance of the line item & taking into account inflation rates, exchange rates etc – unless item has been freshly introduced in current budget

Key challenge: Any previous period's weaknesses in the budget are rolled-over into the current period

Zero Based Budget

Assumes we are starting afresh every budget period

Any item in the budget must be justified for inclusion based on its merit/necessity of the expenditure

Amount for inclusion must be assessed afresh regardless of allocations of the item in previous period/ budget

Activity- Based Budgeting

Allocations are done at the activity level

Each activity is assessed to merit allocation on a cost vs benefit analysis

Value adding activities get priority while non value adding activities are good candidates for cost control in an environment of limited funds

Very common amongst NGOs/Non Profit Organizations

Rolling Budgets

A rolling budget is continually updated to add a new budget period as the most recent budget period is completed.

Thus, the rolling budget involves the incremental extension of the existing budget model.

By doing so, an entity always has a budget that extends one year into the future

Good example is the public sector MTEF approach – 3 year rolling

Programme- based Budgeting

Programme Budgeting is an approach and process that relates resources to proposed and actual results

Appends performance targets and/or results into the budget

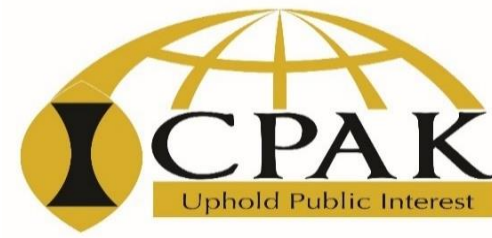
Programme– based Budgeting cont'd

Clusters related activities that represent the highest level of classification of the work undertaken by a department in carrying out assigned responsibilities

Allocates money to functions/activities and focuses on total cost of providing a service, supported by line item detail.

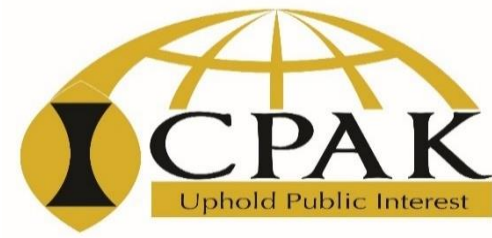
Emphasis is on the end product, not the means

Financial management and budgeting



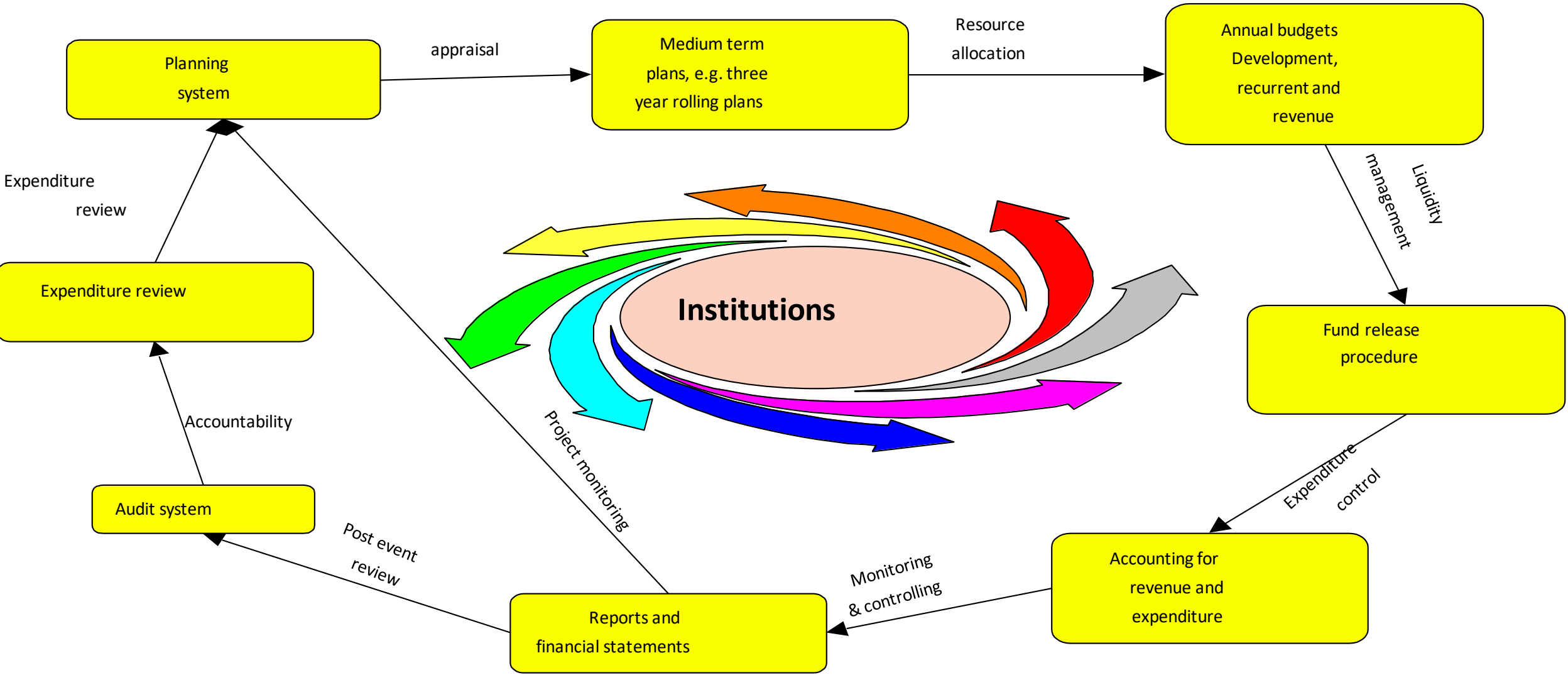
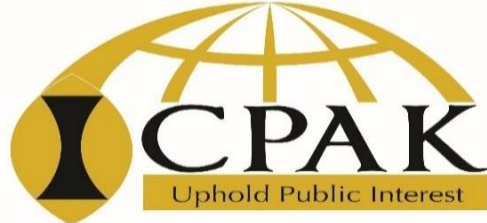
- Identify activities
- Determine cost for each activity
- Determine cost drivers
- Collect activity data
- Calculate program cost
- Develop the budget
- Implement the budget
- Monitor, evaluate and report

Budget execution and expenditure controls

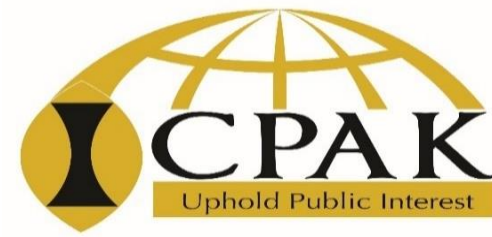


- Reporting on performance against predetermined objectives
- Is there a link between annual work plan (AWP) - budget – Procurement Plan - Cash flow forecasts – Financial reports? Is one more important than the other? What are we missing?
- Production of the financial reports – timelines and reliability

Expenditure Management Cycle

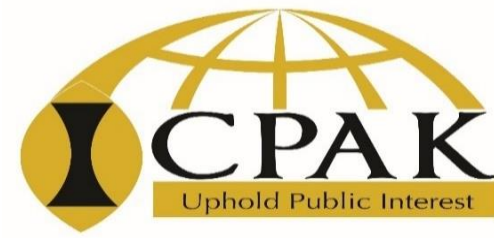


Good practices

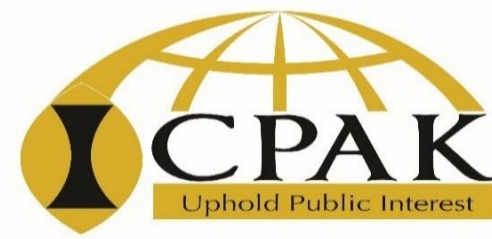


- Attaining and maintaining good basic institutions/organogram
 - Basic finance management institutions must work well for good policy and program outcomes
 - Too often countries/entities reach for advanced reforms, neglecting basic institutions/financial management norms
- Dedication to continuous system examination, learning and improvement
 - institutional development is long term
- Proper monitoring and reporting

Conclusion



- Always stick to the guidelines given if any
- Always be as close to reality as possible
- A budget is an estimate until approved
- Financial reporting should link the plans and budgets



Parting Shot

“ Between a plan and its achievement is a leader in the middle. With his one hand he makes the plan, with the other one, he carries them through.”

Israelmore Ayivor.