

Title: Accounting for donor funds in a project environment

"Of the numerous formal measures employed to assess Community Based organisations (CBO) capacity two, stands out. They are the CBO ability to effectively manage conflict and financial resources. Failure in these two capabilities cannot be compensated by abilities elsewhere. Poor management in these areas breeds distrust, eroding a necessary foundation for effective collaboration".

Alan Fowler

1. Introduction

A project is a time-limited initiative that is undertaken to create a unique product or service. While planning and organising to achieve project objectives, accounting is used as a key service to mobilise resources for project execution. Problems needing solutions are numerous especially of those community peoples in perennially neglected rural sectors of developing nations. Charities, foundations, trusts and the international concern development organisations, together with Community Based Development Organisations in different jurisdictions are a direct response to assist governments in reducing human misery, and to improve the welfare of indigenous peoples.

With numerous problems and the scarce resources to meet those needs, work teams emerge under project umbrellas to channel resources to targeted beneficiaries. Work teams are made up of people of different professional and cultural backgrounds. Depending on the type of project, a project teams may meet with indigenous peoples of targeted client communities. The teams interactions and project interventions, if not handled properly could cause conflicts. In project execution and resource allocation, project accounting of budgetary planning, monitoring and control has proven to be a great tool in managing finances in a project based environment.

Projects by nature are term based assignments that may range from one day to several weeks, months or years. Projects are a proven vehicle to short term or emerging problems. As project resource controllers, project accountants are at the centre of project action, and should be able to blend accounting skills with team dynamics in a project environment.

2. Definition of a project

Every organisation operates under certain characteristics and projects by nature function as task assignments, and therefore they are recognised as task culture organisations.

2.1. Project or Task culture, (Athena)

A project is an organization driven by the need to bring together people with different skills in order to accomplish a common objective. Each individual may be attached to a number of tasks at any one time or to one task for a period which is less than the total time needed to accomplish the task. Some projects operate within a matrix structure (having a 'discipline boss' and a 'project boss'). It can operate with a small administrative core to offer resource, regulation and compliance support to core project activities. Within the project culture, communication across disciplines needs to be good, and there is emphasis on individual initiatives and creativity provided it is working towards project completion. Task culture is geared to the solution of a succession of problems/completion within a project. Both Apollo and Athena cultures rate multi-directional communication very highly. Bureaucracies thrive on communication; much of it is redundant in a project environment. Problems/projects are best solved and completed where there is good communication between the team members concerned. When problems or the project concept is not well understood, conflicts may arise. Specifically, the characteristics of a project are:

- a) Commonly people operate within a matrix structure (having a "discipline boss" and a "project boss").
- b) Small central administrative core;
- c) Little hierarchy. Information relationships are encouraged.
- d) Good communications across disciplines;
- e) Emphasis on individual initiative, and creativity provided it is working towards project completion;
- f) They have a specific purpose;
- g) Not usually routine;
- h) With defined cost and time constraints;
- i) Often complex;
- j) Comprise of interdependent activities.

2.2 The life cycle of a project

As time based assignments, projects have many phases. One view is it that there are seven phases through which it operates. The seven phases are as follows:

Phase 1: Local Situation analysis

In the context of the global initiative, the baseline assessment or situation analysis is called the local situation assessment. Once a development idea, or problem that needs assistance from elsewhere is animated, knowing exact

details of the problem(s) is crucial. The details will assist to direct necessary interventions, before the project is fully developed. The analysis usually referred to as baseline surveys, are necessary for each new project, and for each new location because problems and resources are not necessarily the same in each and every community or for every similar project.

Phase 1 is the starting point and must be properly determined, else success is not certain. The project accountant as a key team member should ensure that the foundation of baselines is properly determined, because wrong sampling elements or basis, results in waste of resources. If the base is wrong there is the possibility of repeating the process for want of a solid project base. Phase 1 foresees preventative measures to build a solid waste free project. Phase 1 lays the groundwork for project formulation.

Projects are unique in that, its phase 1 (start up charges), may be considered and are part of the total project cost. Meanwhile for trading companies, start up charges are deferred and later depreciated over the years, because the money was spent on a non existing company. As not-for-profit ventures determine project cost from start to finish are summed up, with no legal implications.

Phase 2: project formulation

Knowing available resources maximises resource allocation, and project interventions. A project plan is therefore developed to guide project activities and should include statements of all items noted:

- The objectives: What the project is intended to achieve
- The activities: What is to be done? These should be closely linked to the objectives and should have indicators. Indicators are results that show the activity is taking place or an objective is achieved. For each objective and activity there should be an indicator to help the project team know what has been achieved
- A timeframe: When activities are to be carried out
- The resources: Financial, material, skill people, time, etc
- Monitoring plan: To be checking how objectives and activities being met, and how resources are being used and deviations
- Evaluation plan: Verify objectives to see what has been achieved, and within which timeframes

Phase 3: Resource mobilisation

Resources available or out of the community or project area are mobilised towards project execution. Project accountants must be at their best in terms of organisational skills to put things in order. Beneficiary contributions in kind or cash, donor or own funds allocation must be at the right place and at the right time.

Phase 4: Implementation

In implementation, plans are correctly interpreted and put into action. A well balanced team on project design is in place to carry plans through. Effective relations are needed with the project team, and conflicts noticed must be cleared immediately. Leadership skills are at best, linking partners, beneficiaries and stakeholders where needs be.

Phase 5: Monitoring (process evaluation)

Monitoring provides continuous feedback on work done. It shows whether the project is on course or should be modified. Forms to collect relevant observations are designed. Monitoring should use a guide which must be:

- Developed through a consultative process
- Understood by all who use it
- In accordance with the way in which the project is designed
- In a timely manner to report deviations from plans
- Flexible enough to remain useful over the lifecycle of the project
- Indicates what action to take when project moves off course
- Include both text and pictures, which are easy to interpret
- Cost effective to implement

Phase 6: Impact Evaluation

It provides an opportunity to appreciate what has been done and to determine the effectiveness of the project. It identifies successes and failures of the project. The information obtain here is necessary to correct future interventions.

Phase 7: Re-plan

Lessons learnt through monitoring and evaluation could be used to rewrite and to review the project plan, to make it more relevant and feasible, or to review the situation and determine newly emerging needs and problems.

The project accountant, specifically certified project accountants by nature of their training should master these key dynamics of the project, knowing what a project is, its phases, and the people that work for it and how to handle conflict situations in a project environment.

3. Conflicts within a project environment

3.1. The Personnel element: Coordination and conflict

In a project environment, and as key team members, the project accountant is both a coordinator and an integrator; he or she should be able to reconcile differences of positions. Charles Handy, on his work on conflict identified three ways in which differences are expressed, which he stated as follows:

- By argument: this is the constructive exchange of ideas with the positive intention of reaching an agreement
- By competition: Constructive competition between individuals or groups has the beneficial effects of; setting or improving standards of achievements, stimulating activities, sorting out the good and successful employees from the bad, unsuccessful ones
- By competition: Harmful competition occurs when one person or group can only do well at the expense of another, this is known as 'zero sum' competition, because if one person gains, another loses an equal amount. Competition for resources, recognition and better results, if zero sum, will degenerate into conflict
- By conflict.

3.2. The personnel element: Theories of conflict in organizations

The 'happy family' view; this view presents an organization as:

A co-operative structure, designed to achieve agreed common objectives, i.e. with no systematic conflict of interest; and as a harmonious environment, where conflicts are exceptional and arise from, misunderstanding, personal factors, the expectations of inflexible employees or factors outside the organization and its control.

Peter Drucker (The practice of management) writes that "*Any business must mould a true team and weld individual efforts into common efforts. Each member of the enterprise (project) contributes something different, but they must all contribute towards a common goal. Their efforts must all pull in the same direction, without friction, without unnecessary duplication of efforts*". This kind of view is reasonably common in management literature, which attempts to come up with training and motivational techniques for dealing with conflicts which arise in what are potentially 'conflict-free' organizations.

Conflict is thus blamed on bad management, lack of leadership, poor communication, or 'bloody-mindedness' on the part of the individual or interest group that impinge on the organization. The theory is that a strong culture, good two-way communication, co-operation and motivational leadership will 'eliminate' conflict. The 'happy family' view starts from believes in a 'social order' or 'industrial peace': conflict is a threat to stability, and must be avoided or eradicated.

The 'evolution' view; this view regards conflict as a means of maintaining the status quo, as a useful basis for evolutionary - rather than revolutionary - change. Conflict keeps the organization (project) sensitive to the need to change, while reinforcing its essential framework of control. The legitimate pursuit of competing interest can balance and preserve social and organizational arrangements.

A flexible society or project may benefit from conflict, as such behaviour acts as leeway to create and modify norms and to assume its continuance under changed conditions. This 'constructive conflict' view may perhaps be the most useful for managers and project accountants as it neither: attempts to dodge the issues of conflict, which is an observable fact of life in most organizations or projects; nor, seeks to pull down existing organizational structures altogether.

3.3 Some common causes: Causes, symptoms and tactics of conflict

Conflicts may be caused by differences in the objectives of different groups of individuals. It is the function of management to; create a system of planning whereby individual or group objectives are formulated within the framework of a strategic plan. A poor planning structure leaves the door open for conflict to enter where formal objectives, roles, authority relationships etc overlap or are unclear. Management should provide leadership and also encourage individuals to accept the goals of the organization as being compatible with their personal goals. Poor leadership might also lead to conflict, with the goals of the individuals of the groups diverging and at odds with each other.

The tactics of destructive conflicts may be because a team leader withholds information from a colleague or information is presented in a distorted manner, or a group may impose rules and procedures to enforce its influence on units that might have neglected its authority.

Conflict is an aspect of being, humans will usually agree and disagree on issues that affect their lives, their work, their groups and their community. These agreements and disagreements are a result of interaction to get out ideas and tap people's wisdom. Without interactions, there will be little or no conflict, but there must be interactions on various aspects of activities, including doing work on predetermine objectives and tasks.

4. The project accountant's tool on donor projects

4.1 Budgets

The purpose of a budget is to coordinate the activities of all different units of the project. If it is a multi-activity or section project tasks, budgeting is done through participation by employees in preparing the budget. When employees prepare the project budget, participation in the process motivates them to raise their targets and standards and to achieve better results. Budgets enable targeted activities of the project to be communicated to each team member responsible for implementation; budgets compel planning and also set control standards. Budgeting in a project environment is a critical aspect of implementing plan project activities.

4.2. The scope of project budgeting

A project budget is set around its programme income in relation to planned activities. By nature, most project budgets are assumed to start from a no activity level, i.e. zero bases as compared to ongoing trading companies programme budgets. Charities and the public affairs make good use of Zero Base Budgeting (ZBB) principles. So then, what is ZBB?

4.3. Zero Based Budgeting (ZBB)

Zero Based Budgeting was introduced in 1969 into Texas instruments in America and was later adopted by some public authorities before it was introduced to the Federal government of the USA in 1977 by President Carter. The simple theory behind ZBB is that all income and expenditure is zero until its existence or necessity can be proved or justified from an in depth examination of each individual department or activity by the manager concerned. Thus ZBB represents a structured and systematic system featuring:

- Each and every activity is subjected to a detailed scrutiny; its worth is evaluated and justified before a budget allowance is granted;
- Only those activities relevant to the efficient and profitable operation of the business as envisaged in its aims and objectives are accepted into the budget;
- The most efficient use of scarce economic resources becomes more likely. The use of fixed assets, working capital and capital funds can be more closely related to the business activity;
- The review and evaluation of each aspect of the business for budget purposes helps the subsequent monitoring processes;
- Management involvement, communication and cooperation are helped and as a result the monitoring of managerial performance becomes easier.

4.4 ZBB V Conventional budgeting

The approach of ZBB assumes starting from scratch, while conventional budgeting starts by taking a prior period and updating every figure in the light of changed business aims and objectives, product profile, production and marketing ability and the general economic environment which dictates costs of capital and inflationary influences. Some organisations use a combination of both ZBB and conventional budgeting so that the two check each other i.e. the updates from last year should equal ZBB for the current year. Some critics of ZBB from traditional industry backgrounds wonder whether ZBB is in fact possible unless a new business is being commenced. The sceptics point out that an existing company, which already has fixed assets, stocks, loans, staff, customers, creditors is hardly starting from a zero basis.

4.5 Stages in ZBB implementation

The Stages involved in ZBB implementation are:

- Setting up of an operational plan
- Setting up by each decision unit of a decision package
- Ranking of decision package using cost benefit analysis
- Allocation of resources to chosen packages.

After this analysis, the budgeting session will have to put the submissions (decision packages) together as in a traditional budget ensuring that revenue, capital and cash flow come into an orderly master budget. The whole process will need good liaison, co-operation and communication.

5. The main concerns of project stake holders

The concern of donors of project funding is to ensure that funds are managed to obtain Value for Money (VFM), that is, through the three elements of:

- Economy (doing things cheaply)
- Efficiency (doing things well)
- Effectively (doing the right things)

5.1 Economy

A system or operation should be economical, which means that it ought to acquire its resources (e.g. manpower, equipment, materials) of a suitable quality and in sufficient numbers to do the work properly, but at the lowest cost. Economy does not mean skimping and saving, because too much cost cutting and expenditure control could result in the work not getting done properly. It is perhaps better to think of economy as avoiding waste and unnecessary spending.

5.1.1. Economy performance indicators

The performance indicators to measure economy will be concerned with matters such as “*Did the manager spend more than he needed to on the resources he used? Could he have done the job, with less money?*” For example:

- If the manager paid external consultants \$1,000 to do a job, was the price too high? Should he have been able to negotiate a lower fee?
- If a manager buys an office flat screen computer for \$10,000, could he have bought a smaller, less powerful but much cheaper laptop to do the same job? Is the machine he bought too powerful for its use?

5.2 Efficiency

This is the most important of the three Es as it embraces both inputs and outputs. The greater the output, for the same or less input, then the most efficient is the process. The first stage in maximising investment is to introduce a culture into the organisation that inefficiency is bad or that non maximising policies actually prevent the charity from achieving its objectives. A resource that is not being used is a cost to the project.

Another problem is the apportionment of administrative costs. For example; A project may operate from its own building, but it does not bring the potential cost of renting the building into their management accounts, even if that is done, they may not be willing to start evaluating the staff accommodation and other uses for their effectiveness. Some questions that may strengthen the efficiency of project management are:

- Are we maximising the building's potential?
- Have we costed the floor area and space?
- Does all the staff require desk/office space?
- Could some employees work from home?
- Do we need to be in this location?

These elements need to be balanced for better accountability. A system or operation should be efficient and embrace all related expenditure items contributing to its functioning, which means that it should use its input resources to good effect to produce its outputs, with all necessary cost elements accounted for. Efficiency can be measured by ratios of outputs to inputs, or quantity of output produced per \$1 spent, and so on. Greater efficiency results in lower unit costs.

5.2.1 Efficiency performance indicators

The performance indicators to measure efficiency will be concerned with matters such as: “*Were the resources at the manager's disposal used efficiently? Was there a satisfactory ratio of output produced per unit of resource input?*”

Examples of productivity measures are:

- a) Units produced or transactions processed per labour hour
- b) Average time per transaction
- c) Sales revenue per employee
- d) Cost per employee
- e) Profit per employee
- f) Units produced or transactions processed per machine per day

5.3 Effectiveness

A system or operation should be effective, which means that it should be successful in accomplishing the targets that were set for it. Targets for a service are targets for outputs, and these might be expressed in terms of quantity or quality, and there may well be multiple targets.

5.3.1 Effectiveness performance indicators

The performance indicators to measure effectiveness are concerned with matters such as; “*Has the manager achieve the short term targets that were set by him (or for him)? Does he appear to be achieving the longer term targets that were set?*” Targets for achievement include:

- a) Accomplishing budgetary levels
- b) Accomplishing a planned weekly / monthly output target
- c) Accomplishing outputs as targeted.

These examples of targets for monitoring effectiveness are all quantitative and fairly short term. Some targets will be quantitative and qualitative performance indicators relate to effectiveness rather than to efficiency or economy.

As another example, targets for a hospital might be set in terms of treating a target number of patients;

- Reducing the percentage of total time that beds are empty
- Speeding up the treatment of patients

- Handling more of one type of case (e.g. heart surgery) and less of others
- Keeping within budgetary limits for spending.

An assessment of effectiveness must ask the question “*Has this area of operation achieved the targets that were set for it, and if not, by how much did it fall short, and why?*”

6. The producers of Financial Management Information (FMI)

The project environment is unique in its requirements, and to deliver the goods, there is a need for the project accountant to orientate or be trained on the peculiarities of the service environment. To deliver the above objectives, and to meet stakeholders expectations, the project accountant should have skills necessary to serve the project team by controlling staff conflicts and the finances of the project, carrying out the finance technical work, providing financial advice and providing financial services to other sections of the project as it is currently the practice of the merged function of the head of finance and administration, or project support services officer.

The resulting output of the project accountant in a projects environment is cost benefit Financial Management Information, which is appropriate to the needs of all project stakeholders. Besides meeting project objectives and satisfying client beneficiaries, there is also a need for financial information.

6.1 “Needs derived objectives” of FMI users

When the users’ requirements are analysed, the planning information needs of the project, donor beneficiaries and other stakeholders can lead to the following derived objectives:

- To provide financial information useful for determining the flow, balances and requirements of short-term financial resources of the donor(s)
- To provide financial information useful for determining and predicting the economic conditions of donors and changes thereon
- To provide financial information useful for monitoring performance under terms of legal, contractual and fiduciary requirements
- To provide information useful for planning and budgeting, and for predicting the impact of the acquisition and allocation of resources on the achievement of the project(s) objectives
- To provide information useful for evaluating managerial and the project(s) performance.

7. Conclusion

Projects are assignments undertaken to achieve a unique result. In the context of this paper, projects are properly determined within seven phases, and the project accountant should be versed with project dynamics, including work team behaviour at the work site and how to handle conflicts. Donors or project stakeholders’ main emphasis is on maximising their scarce resources, thereby requiring cost effective actions, so that their funds can deliver value for money services.

The project accountants primary tool in a project environment is the budget, and commonly the charities preferred method of budgeting is the zero base budget. Zero Based Budgeting is chosen for its applicability of scope in that sector.

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Table 1: Guide to codification of sources finance documents

Stage	Action	Verifiable indicator
1. Needs identified	Needs are discussed in group session, or bought by an appointed member or official of the group	<ol style="list-style-type: none"> 1. Receipts or invoices 2. Physical items inspected for quality 3. The receipt(s) approved
2. Financial administration ¹	<ol style="list-style-type: none"> 1. Confirm items put into use 2. Receipts are handed to the staff recording financial information 	<ol style="list-style-type: none"> 3. Codes are in place 4. Codes understood by those recording financial information
3. Financial administration ²	<ol style="list-style-type: none"> 1. Items on receipt (s) are entered on vouchers. 2. All vouchers are processed, grouping similar codes, manually this takes a little more time, but with a computer system it is a matter of few minutes. 	<ol style="list-style-type: none"> 1. Vouchers are available 2. Each voucher item has a code. 3. Voucher(s) are approved 4. Each cost group is summed up 5. There is a grand total summing all costs groups 6. Financial reports are available after processing the vouchers for a given period.

Table 2: Typical Project accounting milestones

Duration	Milestone
Day 1 to 12 Months	<ol style="list-style-type: none"> 1. Group reputation is enhanced 2. Financial reports are available 3. Transparency in money management 4. Quality financial records are available 5. Costs consciousness instilled in members 6. Members are aware and trained on financial management 7. Project costs identified under different cost categories 8. Financial data is processed after expenditures 9. If a computer based system, soft copies of financial reports are available after each processed period
1 to three Months	<ol style="list-style-type: none"> 1. Quarterly financial reports are produced 2. The cost of running the group is monitored 3. Expenditures are compared with the budget 4. Budgets are reviewed
6 Months, and above	<ol style="list-style-type: none"> 1. Half year's financial results are available 2. Financial resources and activities are adjusted to meet annual plans

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