

CMD S

ACCOUNTING FOR MANAGEMENT & DEVELOPMENT IN THE NON-PROFIT SECTOR

*C Masters Development Services CC T/A
Registration number: 1996/049880/23*

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13th July 2007

Dear Malcolm

SYSTEMS AUDIT OF EJN

It has been a pleasure to meet you and your colleagues during this assignment with EJN and to find out more about the work of EJN. Thank you for the time that you and the team have set aside to assist me and for all the other arrangements that made my visits to EJN so productive. Thank you, too, for the openness with which you have responded to my enquiries and for the positive responses you have given to my suggestions for change. I know that EJN has, in its staff workshops, been looking at various ways to strengthen financial and programmatic reporting and to add further internal systems and controls. I therefore hope that, as you consider the recommendations in this report, you will find that they help to strengthen the management of EJN's resources and lead to greater impact for your work.

Work undertaken:

The work that I undertook reflected the terms of reference that were set out by NCA and Diakonia Sweden and that have been copied below as Appendix 1 for ease of reference. I have addressed each point during my discussions and verification work. However, the report does not follow the terms of reference on a point by point basis but, instead, groups my findings and recommendations under a number of headings.

Please note that the work I undertook did not constitute an audit and I have only referred to documentation where it has been necessary to confirm my findings. My work has been tailored to responding to the terms of reference and provides an assessment of the effectiveness of EJN's controls, reporting and human resource management. The work will not necessarily have identified all weaknesses in the organisation's systems and procedures but will provide a basis to plan the strengthening of those systems and procedures. The intention of the report is not to be critical but to assist you and your colleagues to move forward with greater confidence in the management and financial reporting systems of EJN, in a way that reflects:

- the growth in the organisation, both in terms of financial and human resources; and
- the consequent need for more formalised policies, systems and procedures.

In this regard, I hope that, where CMD S can provide the relevant experience and skills, my colleagues and I can accompany you on the journey.

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Findings and recommendations:

The findings and recommendations set out below address the requirement to “identify internal management gaps in a fairly precise way”. They do not therefore specifically comment on those aspects of management that are operating effectively. In reading this report, it must be borne in mind that no organisation has perfect systems and that the recommendations set out below need to be addressed in a systematic way that reflects both the priority of each issue and the resources available to the organisation to address each issue. In addition, this review was not directed at the effectiveness of EJN’s programme work and it may be necessary to have a review of the content of the programme work at some point in order to gain a more complete picture of the effectiveness of EJN as an organisation.

1. Effective legal structure and organisational governance

1.1. Legal structure and compliance

EJN is an **association of members**. The “core” membership is made up of the National Councils of Churches (“NCC’s”) that are members of the economic justice network of FOCCISA. A list of the member NCC’s, including contact people and their contact details, is maintained by the Administration Department. There is also provision for associate and honorary membership but there are no members in these categories at present. EJN adopted a new constitution in October 2006 that has enabled it to apply for registration as a Non-profit Organisation under South African legislation but, at present, it is not formally registered. Once registered, EJN will be required to submit an annual narrative and financial report to the Director of Non-profit Organisations (for which reporting standards are prescribed).

With regard to its **responsibilities as an employer**, EJN is registered with the South African Revenue Service and pays over amounts due on a timely basis. It is not possible to say whether, at present, EJN fully complies with South African labour legislation (derived from a number of Acts) based on this review. I identified certain areas of conflict with the Basic Conditions of Employment Act (see 3.1 below) but these would be addressed by the revision of the human resource (employment) manual.

EJN **will be applying for income tax exemption under the Income Tax Act** in order to gain public benefit organisation status. Whether or not EJN has income tax exemption, a tax return should be submitted annually. Income tax exemption would mean that, apart from any income that may be generated from trading activities unrelated to the objectives of the organisation (of which there are currently none), no income tax liability will arise on any surplus generated in the relevant year.

EJN is not required to register for VAT (value-added tax) but may, in due course, wish to consider voluntary registration if its activities fall under the definition of “welfare activities” in the VAT Act.

1.2. The role and functioning of the Steering Committee

At present, the Steering Committee generally meets twice per year and is able to do other business by “tele-conference”. Good practice in governance would indicate that governing bodies should meet at least 4 times per year in order to fulfil their oversight responsibilities, which relate, in particular, to strategic direction, progress monitoring and risk management. My view is that, although the Steering Committee does approve the annual financial statements, it does not play a sufficient role in assisting with the strategic visioning, in approving annual workplans and the related budgets and in monitoring financial performance against those budgets. It is also not able to function effectively in its financial oversight because EJN is not currently able to produce suitable reports, including a comparison of income and expenditure against budget (see section 3.3 below).

In order to determine whether the Steering Committee, in its current format and with its current working practices, is fully able to address all aspects of governance, I recommend that EJV prepares:

- A **schedule of matters that require the attention of the Steering Committee** during the course of a year; and
- Annually in advance, a **schedule of Steering Committee meeting dates, together with an outline agenda for each meeting**, that takes account of all matters in the generic schedule proposed above and of the timescales required for approval/decision.

If these documents show that the Steering Committee will be unable to cover all necessary business, it may then become necessary to **consider the formation of Steering Committee sub-committees or task teams**, that can also call on external expertise and that can report back to the Steering Committee on the work that they have carried out between Steering Committee meetings.

Whilst the decision taken to elect only General Secretaries of the National Councils of Churches to the Steering Committee of EJV reflects the importance of the work of EJV, it may limit the range of skills and expertise available to the Steering Committee which could have a potentially negative impact on the governance of the organisation and the support that the Committee is able to provide to the Director. I recommend that there are **between 8 and 12 members of a governing body** as this should both allow a variety of skills, experience and background to be present and enable the meetings to be manageable. Taking these factors into account, I recommend that the Steering Committee **considers the setting up of an Advisory/Management Committee** which would meet with, and support, the Director between Steering Committee meetings and which could report back to the Steering Committee on its activities. Terms of reference for the Advisory/Management Committee could be approved by the Steering Committee and the persons elected to that committee could be:

- Situated close to the offices of EJV.
- Expert in particular fields valued by EJV (such as development economics, finance, international law, government, human resource management and so on).
- Drawn from a variety of relevant disciplines and backgrounds (academic, other NGO's, churches, youth networks, sympathetic business people etc.).

To augment the work of the Steering Committee, the **value of "partnership meetings"** was raised with me more than once as a mechanism for:

- Stimulating thinking around the vision and strategies of EJV.
- Confirming the mandate of EJV in relation to its various activities.
- Providing an opportunity for planning together with the National Councils of Churches and for reinforcing the need for good stewardship of available resources (for example to try to avoid "no shows" at conferences when flights/accommodation etc. has been paid for).

I recommend that regular use of such meetings is considered and that, among others, the CWCI is approached for possible funding as they specifically support conferences and workshops.

1.3. Reserves and accumulated funds

It is clear, from the annual financial statements of EJV, that the organisation is operating with limited reserves (at 31st December 2006 reserves [funds carried forward] represented under 2 month's of expenditure and that at 31st May 2007 this had reduced to little more than 1 month's expenditure). I recommend that the **Steering Committee develops a "reserves policy"** that sets a level of reserves that EJV should aim to build up, together with a **strategy for achieving greater financial sustainability**.

1.4. Secretarial duties

The constitution requires (in paragraph 8.7) the Director to be the secretary to the Steering Committee and to take the minutes of the meetings. I recommend that this is reviewed as the Director is responsible for presenting reports and recommendations to the Steering Committee and is also a voting member of the Committee. My view is that the Steering Committee should **identify**

another Steering Committee member, or a staff member from the hosting National Council of Churches to carry out the secretarial duties, or find another solution in order to ensure that:

- the Director is able to focus his attention on the reports he has to present and the decisions he has to ask for; and
- the minutes impartially reflect the actual decisions taken.

2. **Organisational management and planning and monitoring**

2.1. **Executive management team**

EJN does not have a formal executive management team. Because of the increasing delegation of authority, and notwithstanding the regular discussions between the Director and the Programme Manager and the Director and the Finance Manager, I believe that it would be helpful, in terms of accountability and decision-making, to **formally constitute a management team and to hold formal management team meetings** at appropriate intervals (perhaps monthly) at which specific “business” is carried out. This must include consideration of financial reports, co-ordination of fundraising and funder reporting and a review of progress on the relevant projects but could also include other matters that require management action. This would not remove the need for, or value of, staff workshops and the actions agreed at such workshops could be monitored by the management team.

2.2. **Annual review and planning process**

EJN has adopted **an annual planning and review process, with external facilitation**, to formulate its plans for the next financial year. For planning for 2007, this was the “Strategic Review and Thinking Process” held in September 2006. I believe that this process should begin earlier and I understand that it is intended to hold the review, at which lessons learned are reflected on, in August 2007.

At present, **it is not possible to share systematically the planning process with the core members of the network** and to:

- take account of the priorities of those members with regard to economic justice in the plans of EJN; and
- obtain or assist in the development of related plans from the core members so that there are known activities, timeframes and deliverables.

It is recommended that an **annual partnership meeting (refer to section 1.2 above) or other similar meeting is considered for the purpose of co-ordinating the planning of the network.**

2.3. **Dissemination of information**

In the first half of the year, **a work planning meeting was held, at which what was planned was compared with what was done/achieved.** Actions that remain outstanding were given a timeframe and the responsible persons were identified. Subsequent monthly reports to the Director should then show the progress made towards achievement of the activities outstanding. There is also discussion of lessons learned. The 2007 work planning meeting clearly identified a “gap” in terms of responsibility and resources for publications and communication. As these are a vital component of the information dissemination “strategies” of EJN (which also include the re-development of the website that is currently being undertaken and the issue of newsletters), I recommend that **the budget for 2008 includes the costs of recruiting and remunerating a Communications Officer**, for whom a job description will also be required.

2.4. **Impact monitoring**

In common with many development organisations, particularly those that focus on advocacy and campaigning, there is a continuing challenge of monitoring impact and **EJN has no formal evaluative framework at present**, although there are principles and outlines for monitoring. There are certainly specific outputs that can be monitored, including:

- ✓ Reports from conferences held (at which the tool for participant evaluative feedback is subject to a process of continual improvement and from which evaluative comments are being used for EJN's organisational memory and learning)
- ✓ The production of research papers
- ✓ Presence with the Ecumenical Advocacy Alliance and other networking
- ✓ The carrying out of training

However, the real impact of much of the work of EJN depends on the quality of the information presented and on how the information disseminated is used and understood by the recipients. I therefore recommend that:

- Increasing use is made of **mechanisms that enable delegates and participants at conferences and training workshops to make realistic and observable commitments** to use information obtained and that provide opportunities for feedback on those commitments.
- The **monitoring capacity within EJN is increased** – this might initially mean sacrificing some programme activities in order that programme staff allocate more time to monitoring and follow up but, in the longer term, might mean bringing in additional resources (be that capacity building for existing staff members, outsourcing some monitoring functions or adding to internal resources – either by increasing the programme staff or adding a PME [planning, monitoring and evaluation] specialist).
- There is work undertaken not to increase the number of impact indicators but to **refine and deepen the impact indicators** so that it becomes more possible to track the ways in which the work of EJN is influencing the work of the relevant NCC's, their constituencies and the targets of their advocacy and campaigning.

2.5. Narrative reporting

The responsibility for the preparation of narrative reports has recently moved to the Programme Manager, who is also taking responsibility for the preparation of proposals and for the content of funding contracts. He, and the Director, are aware that **there has been a backlog of narrative reporting** and are confident that this will soon be overcome. They have also taken steps, that I fully support, to introduce a **calendar and reminder system for funder reporting** and this will be augmented by the visual reminder of a wall planner.

One of the problems faced by EJN, and by many similar organisations that receive funding from a number of partner organisations, is the need to report in a variety of different formats and at varying levels of depth. This would be overcome if:

- the APRODEV or ACT Development agencies were able to agree on a common reporting format; and/or
- the reporting could be carried out through a Funder "Round Table" meeting.

I recommend that EJN uses its status as a partner of a number of development agencies to continue to **dialogue with those agencies about a common reporting format or mechanism**.

2.6. Formal appraisals

There is currently **no system for formal performance appraisals of staff members**. Performance is currently monitored through on-going team-based accountability but there are a number of reasons for suggesting that this method may not be sufficient to ensure the continued efficient and effective working of EJN:

- It is acknowledged that there have been problems in meeting internal and external deadlines.
- Staff members have a desire to know, on an objective basis, how well they are performing.
- The Director is to some extent "isolated" and gets little feedback (or encouragement) regarding his own performance.

EJN is in the process of considering the implementation of a system of formal staff appraisals and is planning a half-day workshop at which the importance of appraisals and the different methods of appraisal will be discussed. I recommend that this process is taken forward with some urgency so

that a **suitable, formal appraisal system can be documented and implemented as soon as possible.**

2.7. Other human resource management issues

- 2.7.1. Existing human resource policies are documented in what is referred to as the “policy document” but they:
- Do not fully cover all the areas of policy and procedure that would enable EJN’s management and staff members to be clear about their rights and responsibilities (such as the conditions for staff loans, sabbatical leave, performance appraisal [see also section 2.6 above] and grievance procedures).
 - Conflict, in some cases (for example - maternity leave and notice periods), with the Basic Conditions of Employment Act.

I recommend that EJN considers **purchasing (and adapting, where necessary) a generic human resource (employment) manual** that would be in compliance with current labour legislation and would cover all major aspects of human resource policy. Once reviewed for compliance with existing EJN policy and, where appropriate, revised to take account of the recommendations of this report, the manual could then be systematically adopted and periodically reviewed.

- 2.7.2. Because an organisation such as EJN requires highly competent and able staff members, it is important to ensure that a **remuneration policy** is in place that enables the organisation to attract and retain suitable staff members. I understand that the addition of medical aid and provision to the salary package is being considered and this provides an opportunity for a **formal remuneration policy to be developed and adopted.**

- 2.7.3. The current **job descriptions** list the tasks that the relevant postholders are expected to do and, in certain cases, also specify the performance indicator (for example – the Financial Co-ordinator must “ensure that monthly accounts reach the Accountant by the 10th of each month...”). Some contain the requirements (in terms of skills/educational achievements etc.) that postholders must meet. I recommend that the **job descriptions of staff members are standardised** and that they **contain performance indicators** that will enable formal appraisals to be carried out (see also point 2.6 above).

- 2.7.4. **Responsibility needs to be clearly assigned for the maintenance of the full set of original HR documents** that needs to be held per staff member.

3. Financial review

3.1. Preparation of annual financial statements

There were **errors in the annual financial statements** for the year ended 31st December 2006. Those already identified have caused some concern to EJN’s funding partners, despite the fact that the underlying records maintained by the Finance Manager (see also section 3.3 below) appear to have been correct. In reviewing the annual financial statements, I identified a further error (a late adjustment by the auditors, that was made without the knowledge of EJN’s management, to inexplicably include income from 2 funders – Church World Service and Christian Aid for the EPA’s project – as “income from subsidiaries”). In addition, there was a reference to “(Loss)/profit” at the foot of the income statement and a heading of “General expenses” after the project expenses (use of the words “(Deficit)/surplus” in the first case and “Programme support costs” respectively would be better).

There was also a qualification to the audit opinion concerning the fact that the statements do not comply with all South African Statements of Generally Accepted Accounting Practice (“SAGAAP”) which was not explained.

In order to deal with these matters and, as far as possible to avoid errors in the annual financial statements in future years:

- You may wish to **notify the 2 partner organisations concerned of the wrongly classified grant income** (as they may not otherwise be able to confirm the amount of their grants in the annual financial statements of EJN).
- You could **ask the auditors to provide a brief letter explaining the ways in which the annual financial statements do not comply with SAGAAP** so that steps can be taken to meet the aim of complying with SAGAAP in future years. It would also be helpful if the auditors could agree to the letter being shared with partner organisations if required.
- You will need to **allocate responsibility**, either within EJN or to an external service provider, **to prepare draft financial statements and accompanying lead schedules** prior to audit and to proof read draft audited financial statements before they are signed and distributed.

The auditors did provide a **management letter** which I reviewed.

3.2. Budgeting

Budgeting is carried out largely by referring to actual costs for “core” and other relevant activities for the prior period and by considering the likely funding that will be attracted to the work of EJN. In this regard, I have the following recommendations:

- ❑ As is planned by the Director, **the planning and budgeting process should begin earlier (August 2007 is the target for 2008)** in order to ensure that the workplans and budgets are completed and approved by the Steering Committee in sufficient time to send out funding proposals in time for (prospective) funders to ensure that funding is approved and available for the start of the new year.
- ❑ The organisational budget should be built up in a columnar format that considers the core organisational costs (those costs that would be incurred whether or not any activities were carried out and would be managed by the Director) and the costs of each programme and its activities, which would be managed by the Programme Manager. In preparing those programme budgets it is good to first **cost the activities as accurately as possible and then to compare the costing with any historical data** that is available (as the activities and their costs could vary considerably from one year to another).
- ❑ The budget (and the proposal budgets that are drawn from it) should be supported by as full a **record of the basis of the costings** as possible in the form of notes/workings. These will ensure that further detail can be supplied to prospective funders if required and that, when actual expenditure is compared with budget, the budget assumptions can be reviewed.
- ❑ When proposals are submitted to funders who will consider funding only programme costs, the accompanying **budgets should include a realistic share of core (indirect) costs**, such as general and financial management, office and other infrastructural costs and so on.
- ❑ Financial management, including the need to process and record income and expenditure and the reporting to funders, will be improved if the **Finance Manager is involved in the formulation of funder budgets and is aware of the provisions of all approved funding contracts and of the relevant workplans**.

Much of this is reflected in the “Additions to existing Financial Guidelines”, prepared by EJN in July 2007, which are intended to be followed for “all future projects proposals and budgets”. The document is attached to this report as Appendix 2.

3.3. Maintenance of the accounting and payroll records and provision of financial reports

Although the financial records of EJN were, at one stage, being maintained on the Pastel accounting software within the organisation, a “two tier” system has more recently been in place. The Finance Manager maintains meticulous and detailed records of income and expenditure on spreadsheets (and also carries out the bank reconciliation thereon) but then provides the schedules and the supporting documents to an outsourced accounting firm (who are also, as an interim measure, currently the auditors of EJN) to put into Pastel using a basic chart of accounts that does not readily address EJN’s need to be able to monitor financial performance by funder and by project, as well as by income and expenditure type. I believe that this:

- is a duplication of cost and time;
- increases the risks of loss of supporting documentation;
- can cause delay in the availability of financial reports for a month; and
- can lead to additional sources of error.

Similarly, the Finance Manager maintains the payroll on spreadsheets, calculates statutory deductions and prepares payslips for all staff members, which also increases the risk of error and consumes valuable time.

I therefore recommend that:

- Appropriate **Pastel accounting and payroll software is purchased** as soon as possible and installed at EJN.
- The **Finance Manager is offered any training or mentoring that she requires** in order to become proficient in the use of the 2 software packages and that another colleague also receives basic training in entering transactions to the cash books within Pastel so that there is support and basic cover for the Financial Manager.
- The **chart of accounts in the accounting package is re-designed** to ensure that it meets the needs of EJN for financial reporting to the management of EJN (in terms of comparison of actual income and expenditure against the relevant budgets); if the Pastel software in itself is not sufficient, it may also be necessary to **introduce a spreadsheet to report on income, expenditure and balances by funder** (a “funder analysis”).
- **Budgets and actual transactions are entered on the accounting system** at least for the financial year commencing 1st January 2008.
- The **employee details are set up on Pastel payroll** and the payroll recreated on the system from March 2007 onwards.
- With the time saving that should be experienced when the system is running smoothly, it should be possible to **re-allocate the work being done by the part-time finance assistant to the Finance Manager** and thus make further cost savings. This work largely relates to the reconciliation and coding of the supporting vouchers for credit card transactions. The credit card is held by the Director and used largely to pay for flights booked on-line or via the travel agency.

EJN acknowledges, and I fully support, the need for **monthly financial reporting against budget**. With the implementation of the recommendations above, such reporting should be available from the Pastel accounting records in 2008 but, until then, an interim solution, using spreadsheets, needs to be implemented. In addition:

- A **monthly financial reporting timetable should be established** so that all parties involved in the relevant processes are aware of the deadlines that will allow monthly management reports to be prepared, reviewed and issued in time for appropriate action to be identified and taken.
- **Entry of a new year’s financial transactions should not be delayed** awaiting (completion of) the audit. As long as a back-up of the records is taken at the point when a trial balance is provided to the auditors, the accounting year on the Pastel software can be moved forward and transactions for the new year posted in the normal way. Once the audit journals are available (that bring the last year’s accounting records into line with the audited financial statements), they can be posted as “prior year” journals.

3.4. Finance (policies and procedures) manual

Although **there are operational financial policies, they have not necessarily been systematically written down (and approved) and/or communicated to staff members**. This means that there is no manual that staff members can refer to in order to find out what particular policies and procedures and no manual that can be given to new staff members as part of their induction. We recommend that **EJN considers purchasing (and adapting, where necessary) a generic finance manual that would cover all major areas of finance policy and procedure**. Once reviewed and adapted to comply, where appropriate, with existing EJN policy, the manual could then be systematically adopted and periodically reviewed. Some of the policies and procedures that would

be included are referred to in Appendix 3 to this report as areas where EJN's existing finance policies, and the systems and procedures that give effect to those policies, need, in my view, to be revised and strengthened.

3.5. Sources of funding

Apart from a small amount of interest, **EJN is completely donor funded** and is almost entirely dependent on grants from European development agencies. It is fortunate to have core funders as well as funders who support particular programmes. I therefore recommend that, as stated in section 1.3 above, the Steering Committee sets in motion work that will result in a **strategy for achieving greater financial sustainability** that will address not only the types of income that EJA can attract/generate but also the sources of income, so that there is, over time, less reliance on European development agencies.

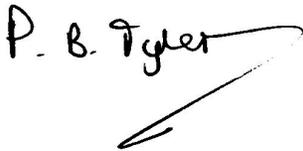
4. Other matter - increasing the capacity of EJA through interns

The value of interns to the organisation is acknowledged and organisational capacity could be increased by the **agreement of a formal memorandum of understanding with a suitable academic institution** that would recognise a mutually beneficial relationship between the 2 organisations and would give EJA access to students who could undertake research linked to the programme priorities of EJA. The School of Government at the University of the Western Cape was mentioned as a possible "partner".

Please do not hesitate to contact me if you require any further work to be carried out or if you have any questions on the contents of this report, which I hope you will find helpful.

With kind regards

Yours sincerely

A handwritten signature in black ink that reads "P. B. Tyler". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Paul Tyler

Appendix 1

Terms of reference for a systems audit of EJV

After the joint meeting between NCA/Diakonia and EJV a number of issues concerning EJV surfaced, namely:

- The lack of adequate internal systems and routines for financial and program management.
- Issues of leadership and ownership, in the relationship between FOCCISA and EJV, EJV and ecumenical partners.

Internal management systems and routines

Background

There has been a steady increase in the level of funding, particularly from NCA, to the organisation as well as the proportionate rise in the number of projects over the past few years. This suggests that in terms of programs and profile, EJV has developed to a higher level. However, there is little to suggest that the program and financial management routines of the EJV office have developed at the same pace. There is a concern that the hard-earned reputation of EJV as a legitimate and respected church-based actor on issues of economic justice can be quickly lost, if the basics concerning financial and program management are not improved.

The 2006 Audited Financial Statement has revealed serious inaccuracies in reporting on project funds from NCA and once again, budget comparisons have not been provided as required by NCA and Diakonia. According to NCA and Diakonia requirements, these annual financial reports are due the 30th of March for the previous financial year.

The 2006 narrative report has improved somewhat over early reports. It is now easier to see the main programs of EJV reflected in the report – Budget Monitoring, Trade, Food Security and SADC. However, the report focuses largely on activity reporting (as opposed to results) and remains weak on analysis and reporting on causes of deviations between plans and reports.

Generally, proposals have been late and poorly developed and one gets the impression that EJV is constantly running to catch up with deadlines, as it seems that there are no clear internal deadlines set for tasks such as financial and narrative reporting, proposal writing and so on.

At a recent meeting at the offices of EJV, the organizational structure of the EJV office was discussed. It seems that at present there is no clear delegation of responsibility for development of such management systems and routines. This function may not have been so important in an earlier stage of EJV's development, but the organization has developed to a level where this is now a pressing need.

There is a need to map the gaps in the management systems and routines of EJV. A suggestion is to do an initial systems audit, the outputs from which would be a report highlighting the areas that, in our opinion, need improvement, together with recommendations as to how that could be achieved. The degree to which improvement is eventually forthcoming within the organisation, depends on the availability of resources, including skills, to implement the agreed changes.

It must be pointed out that NCA and Diakonia as ecumenical partners, are committed to assisting EJV through this process as we view EJV as one of our most strategic partners on issues of Social and Economic Justice in Southern Africa. NCA and Diakonia are willing to fund this internal systems review and support EJV in following up the recommendations where necessary.

Terms of reference for a review of financial management and reporting systems:

The consultant will **review** aspects of EJV's management and reporting systems, in order to:

- identify internal management gaps in a fairly precise way; and

- identify and prioritise some practical first steps to strengthen internal management systems and routines.

The areas to be covered by the review will include:

Effective legal structure and organisational governance

1. Determine the objectives of the organisation (mission statement, workplans etc.).
2. Review the organogram of the reporting structure to the director and job descriptions of staff (full-time, part-time) and volunteers.
3. Ensure compliance with legislation affecting the legal structure (e.g. submission of documents to Registrar of Companies, maintenance of register of members and directors and of minute books, annual reports to the Director of Non-profit Organisations etc.).
4. Review the financial reporting to the board and back donors (to include a balance sheet, income and expenditure comparison to budget and cash flow). Determine if there are links from one set of financial reports to the next.

Organisational management and planning and monitoring

1. Review of how lessons learned from previous reports are integrated into the planning for the following year.
2. Review annual workplans and systems of monitoring their progress through the year.
3. Determine the extent to which knowledge and information are recorded and disseminated to relevant stakeholders.
4. Review routines and deadlines for annual programme planning and reporting.
5. Review the extent of regular staff appraisals and the bases on which performance is evaluated.
6. Review the summary of the most recent external evaluation.

Financial review

1. Review the most recent set of audited financial statements and the accompanying management letter from the audit firm.
2. Review the current approved organisational budget and the breakdown of the budget by activity and/or by funder where applicable.
3. Review the budget setting process and its link to organisational planning.
4. Review the internal monthly, quarterly and annual financial reporting timetables.
5. Consider the current accounting system that is in use and the “chart of accounts” that is being used within it.
6. Review documented finance policies and procedures.
7. Review the sources of funding, of income generated and of other resources to determine the “spread” of sources of resource generation.
8. Determine if income tax exemption has been obtained.

Anticipated product of the review

A written report that provides:

- A) An overview of the identified gaps in the current management systems and reporting routines of EJN.
- B) Recommendations on follow up of the identified gaps and the order of priority.

Scope of work

It is anticipated that approximately four days, including document review, meetings with EJN staff and report writing will be needed to complete the review. In addition, the consultant will need to set aside one day, to be agreed upon, in order to provide feedback and to discuss the findings with EJN and the relevant stakeholders i.e. NCA and Diakonia.

Appendix 2

Additions to existing Financial Guidelines (Programmes and Projects) - Working Document -

(July 2007)

1. Aim of this document

The contents of this document are for strengthening the existing EJM programmes and projects finances guidelines. It is work in progress.

They are aimed at addressing issues that have been negatively impacting on tracking of expenditure and budgets of projects' finances.

Issues that need to be incorporated in the existing finances guidelines are:

- i) A development of a manual with procedures for comparative financial statements.
- ii) Procedures to guide the Director, Programme Officer, Auditors, Financial Officer and Projects Officers on their roles regarding projects finances.
- iii) Creation of projects financial information that can be used as a building block in formulating monthly, quarterly and annual financial statements.
- iv) To create comparative financial statement for projects specific work and finances for updating projects funders on what has been done (activities) and use of finances (budgets).

2. Tasks and Responsibilities

The following tasks and responsibilities can improve EJM's operations. Different tasks and responsibilities will be done and allocated to different departments. Some of the tasks will be done internally and others will be done by donor organisations and EJM accountants. Tasks and responsibilities will be allocated as follows

Budget Related Tasks and Responsibilities Allocation				
Budget Columns	Tasks	Responsible Personnel		
		EJM Departments		External
		Main	Assistant	
Project	Compilation of projects proposals	Programme Officer	Director	
Activities and Budget	Choosing campaign/ event activities to be used as budget line items	Programme Officer	Director and Projects Assistants	
Codes	Setting of line items/ activities codes	Finance Officer		Accountants
Approved Budget	Approving project proposal budget	Director		Donor organisations
Expenditure	Complete Requisitions and Forms	Programme Officer	Projects Assistants	
Prepare Documentation	Monitoring and recording line items balance	Finance Officer	Programme Officer	
Prepare Accounts	Prepare Accounts			Accountants

Comments	Commenting and reporting on reasons for variance per line item	Programme Officer	Director and Projects Assistants	
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3. Activities implementation and monitoring

The project financial guidelines will further incorporate issues of activities implementation, supervision and reporting as follows:

Project Activities Tracking and Reporting				
Tasks		Responsible Personnel		
		EJN Departments		External
		Main	Assistant	
1.	Monitoring of project tasks implementation schedules and progress.	Director	Programme Officer	
2.	Decision-making delegation in relation to projects tasks and activities and due dates.	Director	Programme Officer (in absence of Director)	
3.	Compilation of project tasks implementation schedules as per funding contract obligations	Programme Officer	Project Assistants	
4.	Overseeing implementation schedules of projects activities as per funding contract obligations	Director		
5.	Reporting projects implementation schedules as per funding contract obligations	Programme Officer	Director	
6.	Approving projects milestone benchmarks for release of further project funds			Donor organisations

4. Conclusion

The proposed amendments to the project finances guidelines will be done thoroughly at each segment of project activities. These guidelines will be followed for all future projects proposals and budgets. Timeframes for each budget related activity will be set and observed as per funding proposal agreement with a donor organisation. Spending on budget line items (codes) will adhere to the codes created for each project activity. Each budget line items will include an open line item (miscellaneous) to enable parts of project finance to cover emergency expenses that might occur during the execution of the tasks of projects activities. The allocation of project budget to miscellaneous expenses will be featured in the original project proposal that will be sent to the donor organisation for approval.

Appendix 3

Further recommendations regarding systems, procedures and other accounting matters

1. Cash flow and foreign currency management

1.1. Approval of expenditure commitments

Although EJV has considered, at a workshop, the **implementation of an ordering system for all goods and services**, such a system is not currently in place. I recommend that such a system is implemented as soon as possible in the light of:

- The delegation of responsibility for managing budgets.
- The need to ensure that, before any commitment to expenditure is made, there is:
 - an approved budget line
 - funding available for that budget line
 - sufficient cash on hand
 - a current need for the goods/services concerned

Orders to third parties should be sequentially numbered and authorised by the relevant budget holder before the order is placed (which is when the expenditure is committed to). In the case of **conference and travel costs**, I recommend that a **sequentially numbered “budget sheet” should be prepared for each occasion/event** and that this should be authorised as the commitment to the relevant expenditure. As each component cost related to the “budget” is committed, a third party order is completed and signed when authorised and a copy of the authorised “budget” should be attached to the supporting documentation.

1.2. Responsibility for cash flow management

It is acknowledged that **responsibility for cash flow management is not currently clearly assigned**. I recommend that a **monthly cashflow projection is prepared by the Finance Manager**, updated and considered, together with reports of income and expenditure against budget, as part of management team meetings so that informed decisions can be taken as to:

- The need to call for funds due from funders; and
- The **depositing of funds, for a good rate of interest**, that exceed, say, 1 month’s expenditure.

I also noted that:

- There is a small balance on a deposit account that is no longer used that could be transferred so that the account can be closed; and
- There is a deposit account in which R50,000 must be held as collateral for the organisational credit card. However, as a result of capitalisation of the interest that has been earned, an additional amount of over R18,000 remains in that account that could be used for the general purposes of EJV. I recommend that this is transferred to EJV’s general deposit account.

1.3. Foreign exchange risk management and payments

EJV is exposed to exchange rate fluctuations as it has to work with foreign currency, both in terms of some incoming grant funding and in terms of its expenditure in support of National Council of Churches’ Economic Justice Desks. There is little that can economically be done to manage that risk other than using the existing informal relationship that exists with contacts at EJV’s bankers to hold back (up to a maximum of a working week) any foreign currency receipts/payments if there is the possibility of a more favourable exchange rate arising in that time. In order to support EJV’s management of this risk, **the finance policies and procedures manual should document a suitable exchange rate policy approved by the Steering Committee** and the authorisation to implement that policy.

EJN experiences difficulty and frustration in attempting to make foreign exchange payments to its network partners through the Reserve Bank. The processes and documentation requirements are necessarily strict and precise but it appears, at least to the programme staff members, that they vary according to the types of payment/transfer. I recommend that EJN:

- Establishes contact with other organisations that need to make similar payments/transfers (such as the Institute for Justice and Reconciliation and the Electoral Institute of Southern Africa) to **compare the ways in which they deal with the Reserve Bank requirements**; and/or
- **Asks its bankers to facilitate a meeting with the Reserve Bank** at which the requirements can be explained and the necessary procedure(s) documented.

2. Electronic banking

Although the constitution of EJN requires signatories “of at least 2” on cheques and other banking or financial documents, the current system of electronic banking provides for only one person to input, verify and release electronic payments and to set up new beneficiaries. This means that electronic payments, subject to the daily limit of R50,000, are less secure than cheque payments and require the relevant “signatory” to be rigorous in ensuring that, for every electronic payment, not only are all the supporting documents available and properly authorised but also the beneficiary’s bank account name and number can be confirmed against a genuine document from that beneficiary (payee).

As a **matter of urgency**, I recommend that:

- Discussion is held with ABSA, the organisation’s banker, in order to **identify and obtain the most suitable electronic banking package available that would require 2 signatories** respectively to verify and release each electronic payment.
- An **EJN staff member (other than a “signatory”) is trained to enter all electronic payment transactions** so that the 2 signatories perform only a checking function
- A **third “signatory” is identified to provide back-up if one of the 2 principal signatories is unavailable**. This could either be another senior staff member or a trusted external “volunteer” (perhaps someone on the staff of, or associated with, the Cathedral) who could be inducted into the relevant systems and controls of EJN.
- All **new or changed beneficiary details are checked and authorised by two signatories** against proper third party notification and that the checking of the beneficiary bank account details must be evidenced on the appropriate paperwork.

3. Cheque payments

EJN currently has only 2 authorised signatories, which not only makes it difficult to make payments when the Director is travelling but means that, should anything unforeseen happen to one signatory, it would not be possible to make further cheque payments. This risk would be reduced if the **Steering Committee authorises the addition of a third signatory** (see the third recommendation under paragraph 2 above).

4. “Payment runs”

Staff members currently work with a “timetable” that provides for the making of payments on a Tuesday and Thursday of each week. This is more frequent than in many other organisations and yet still seems to create tension with those who need immediate payments to be made. I would encourage EJN, through good use of planning and communication, to **reduce the number of “payment runs” in a month to perhaps 2** and to supplement this with an **“emergency procedure”** that ensures that, where there is a genuine requirement for an urgent payment, this can be carried out with the approval of the Director. In addition, consideration of an “emergency procedure” could be extended to procedures and controls for the use of the credit card, when the Director is not available, for flight bookings, accommodation costs and so on.

5. Fixed asset register

EJN currently has a listing of “fixed” assets. I recommend that this **listing is worked on to provide a “tool” for ensuring that EJN’s assets can be regularly checked and reconciled to the accounting records.** This will require:

- The labelling (in as permanent a form as possible) of each asset with a unique reference number.
- The setting up of a spreadsheet that records, for each asset:
 - the unique reference number to match the existing description
 - the make/model and any serial number permanently attached to the asset (particularly for computer equipment)
 - the date of purchase, the supplier and the cost (certainly for new assets but also, where possible, for existing assets)
 - the date on which the asset is authorised to be sold or scrapped (and the sale price where applicable).

This will ensure that periodic spot checks can be carried out to ensure that the assets still exist in good condition and, once the cost of all assets has been included, that the cost price agrees to the cost of fixed assets shown in the general ledger.

6. Insurance

Because of the nature of EJN’s “business”, it is on occasions necessary for staff members to carry considerable amounts of cash/travellers’ cheques. This is avoided, where possible, by receiving reimbursement claims and transferring the amounts concerned electronically. Where this is not possible, and cash reimbursement is the only way that payments can be effected, there needs to be **insurance** in place to cover:

- The **fidelity of the staff members** required to carry the funds.
- The **risk of theft by third parties.**
- The **risk of injury, disabling or death of the employee concerned.**

7. Security of computer data and of physical records

I have not attempted to test the procedures in place for backing up computer data but believe that they should ensure that the maximum exposure to loss of computer records is the current week’s work. The procedures do rely on the care and attention of each user and I recommend that the computer support company is asked to:

- Inform EJN as to whether there is a **“log” that can be referred to that shows whether data from all linked computers has, indeed, been backed up** during the relevant week. If so, the log could be reviewed and any missing back-ups followed up.
- **Test, periodically, that data stored on the data network storage drive can be recovered and worked on.**

With regard to important/confidential physical documentation, I recommend that **access is obtained to a fire-proof safe** for such documents.

8. Control over floats and advances

I understand that cash advances or floats for workshops and other purposes are not recorded until the float/advance is accounted for by way of documentation and, where appropriate, change returned for banking. I recommend that, so as not to hold up the completion of a month’s accounting records, all **floats and advances should be entered into the accounting records in balance sheet control accounts** which would then be cleared when the supporting documentation (and any change) is provided and the expenses are properly accounted for. This could be done **by “event/activity” or by staff member.** I recommend keeping the record by staff member, as this ensures that responsibility for the amount of cash is not lost and enables the discipline of not authorising a new advance/float until the previous one is accounted for by the relevant staff member to be put in place.

9. Numbering, filing and control of supporting documentation to payments

At present, all supporting documentation for current banking account transactions, both income and expenditure, is filed in date order behind the relevant month's bank statement. Because the numerical sequencing of documents is key to ensuring the completeness of transactions processed (and to the "audit trail" that links transactions in the accounting records to the supporting documentation), I believe that it is **important to separate out, and file in separate sequences, the different types of transaction** (principally cheque payments, electronic funds transfers and receipts).

I therefore recommend that EJN:

- **Enters transactions into the accounting system on the basis of the source documents** (rather than the bank statement) so that the entry of all relevant transactions can be ensured (using the range of sequence numbers) and that the bank reconciliation process is a true reconciliation.
- **Uses (part of) the cheque number entered on cheque requisitions** to ensure that all cheques have been accounted for, including cancelled cheques.
- Ensures that **all cancelled cheques are entered into the accounting system** (with nil value) and that they are spoiled and filed with the relevant cheque requisition in numerical sequence.
- **Uses a separate numerical sequence for electronic payment requisitions**, generated from a simple spreadsheet log that would record the basic details of each electronic payment against the sequence number allocated to it. This would also include the payment of expense claims which are also not given sequential numbers at present.
- **Files returned cheques with the relevant requisitions**, after ensuring that payment was made to the correct creditor.

The standard of supporting documentation is good, although a number of requisitions reviewed did not contain any authoring signatures. In addition to ensuring that all payment requisitions are signed as approved by the relevant budget holder, I recommend that:

- A **method of "cancelling" supporting documents when payment is made against them should be agreed and implemented** (eg. use of a "PAID" stamp; applying the signatures of the 2 authorisers to the supporting documents etc.). This prevents the same documents being re-submitted for payment in error or as fraud.
- Wherever possible, National Councils of Churches (and any other bodies to which funds are transferred by EJN) should be required to **return an acknowledgement of funds received that not only confirms the safe receipt of the funds but also confirms an understanding of the purpose for which the funds can be used.**
- The **expense claim form is amended** to include:
 - a box for the relevant cheque or electronic payment reference number;
 - a column in the section "Details of Expenses" where a sequential reference number on all relevant supporting documentation could be entered; and
 - a space, under the "Signature of Claimant", where the authoriser of the expense claim can also sign.

10. Petty cash float reimbursements

The petty cash system needs to be strengthened by ensuring that **requisitions for payments to "top up" the petty cash float should be authorised by an appropriately authorised official**, who thereby confirms that all payments from the float have been properly authorised and supported and who should, from time-to-time, spot check the petty cash balance to ensure that, when the amounts paid out (per the supporting vouchers) are added to the remaining cash balance, the full float amount of R500 is accounted for. I also recommend that the **amounts paid out from the petty cash float are analysed and entered into the accounting records by expenditure type** so that the income and expenditure account does not contain an expenditure line called "petty cash expenses".

11. Separation of duties and independent checking

With the current staff complement of the organisation, it is difficult to separate sufficiently the duties of:

- Control of the physical assets (money, fixed assets etc.)
- Bookkeeping; and
- Authorisation.

However, I recommend that every **effort is made to separate these duties as much as possible**, especially to separate authorisation the control of assets.

Because separation cannot be complete, there should be **regular, systematic and independent checking of the accounting records** (in addition to the strengthening of controls outlined in other sections of this report). This can either be carried out by another EJN employee competent to carry out this checking, by a competent external “volunteer” or by an external service provider. This independent review would include:

- Checking the monthly bank reconciliation for the current bank account to the original bank statements and the cash book.
- Reviewing the analysis of all balance sheet accounts.
- Reviewing monthly financial reports and the “detailed ledger” to ensure that all transactions are not only appropriate but are correctly recorded in the accounting system.

All work of reviewing and checking must be evidenced on the relevant documentation.

12. Salary processing

It is important that salaries paid to staff members are correct and are fully supported by authorised documentation and that staff members are aware of their current terms and conditions of employment. To this end:

- **The monthly payroll, once processed, should be reviewed against the previous month’s payroll and the relevant supporting documentation by the Director and formally signed off** before the net salary payments are made; and
- **Formally authorised and updated contract letters and annual confirmations of salary need to be issued to staff members** and to be used to support the payroll.

13. Deduction of income tax from payments to individuals

The Income Tax Act gives full responsibility to employers to determine whether an individual is an employee or an independent contractor. Although I did not review any contract that may exist with the person concerned, I do feel that **your “Bookkeeper” is a part-time employee and payments to him should be taxed** as such. Similarly, I noted one instance of an untaxed honorarium paid to a speaker at an EJN conference. **An honorarium is included in the definition of “remuneration” in the Act and should therefore also be subjected to tax.**

My recommendation is that, unless there is clear and unambiguous evidence that enables EJN to be satisfied that individuals who receive payments for their time and expertise are “independent contractors” under income tax legislation, **tax should be deducted at 25% from all such payments and paid over to SARS.** When this is done, it will also be necessary to keep a record of all such payments and tax deductions so that the relevant documentation can be issued to the individuals concerned and to SARS at the end of each tax year.