

October 25, 2017

**The Executive Secretary
APAARI
FAO RAP Annex Building,
Larn Luang Road, Pomprab, Sattrupai
Bangkok 10100**

Sub: Review of Financial Accounting System and Recommendations

Dear Sir,

This has reference to SSA dated October 18, 2017. The report on Review of Financial Accounting System and Recommendations are appended below for your kind consideration:

Existing Financial Accounting system

Keeping in view of the information needs of both internal and external stakeholders the current chart of accounts is incomplete. In addition to unlisted cost elements, there is no classification of direct and indirect costs to enable reporting and negotiation of indirect cost rate with donor agencies. Costs are being charged to a general pool and direct costs cannot be identified and matched with revenue to monitor progress and submit reports as per donor contracts. The system in vogue is a setback for project managers and senior management as the desired financial information is not available for preparation of financial statements, budgeting, monitoring, decision making and control. APAARI financial and other policies and procedures are to be documented. The financial information required on periodic basis by project managers and senior management will need to be determined, reports customised and information disseminated accordingly.

To achieve effective financial oversight, reporting, proper disclosure and control the following is recommended:

1) Financial Accounting System

An organisations financial accounting system is the foundation for a financial information system. Keeping in view the information needs of internal and external stakeholders we will need to setup an accounting system to provide accurate, relevant, compliant and comparable financial information. The following is suggested in this regard:

(i) Revised Chart of Accounts (COA):

COA is a listing of every account in the accounting system. These accounts appear as line items in the financial statements, budget and other financial reports. It is suggested that the COA be revised to consist of line items for revenue income, direct cost, indirect cost, assets, liabilities, reserves and surplus. This classification will enable identify under separate line items the gross revenue and related direct costs for service to members, grants and projects. The classification of direct and indirect costs is also pivotal for charge of cost elements to relevant cost objects, reporting to donors and will aid in cost determination for negotiating of indirect cost rate agreements with donor agencies. It is suggested that departments be set up as directorate, technical staff, administration & finance, facilities and depreciation for indirect cost breakout. The departments suggested are in alignment with APAARI organisation structure. Chart of Accounts is attached for your kind perusal and consideration please.

(ii) Financial Accounting and SAGE Time System Software:

The existing financial accounting software will need to be reviewed with the vendor for customisation of system generated reports for both internal and external stakeholders. Phased budgets will need to be loaded into the accounting software to enable periodic variance analysis. We may if required consider the procurement of an alternate low cost and easy to use comprehensive accounting application inclusive of payroll and procurement modules to enable integration of business processes.

In the case of technical staff it is essential that a time distribution system be maintained for recharge of staff costs to various projects/activities. SAGE Time System Application is suggested for the same. In the alternative MS Excel could be used to maintain details for calculation of recharges.

(2) Financial Management:

(a) Budgeting & Budgetary control:

Currently an annual revenue budget is prepared. It is suggested that we prepare a revenue budget including project budgets for the relevant year along with plans for the following two years. The relevant year budget will enable monitor and control and the plans will demonstrate the desired direction of change in the medium term. A semi-annual budget reforecast for the current year budget will be useful as more information becomes available during the year. Revenue budget for the current year should be phased for comparison with actuals on a monthly basis. Capital expenditure budgets be prepared based on requirement if any. Draft revenue budget as discussed is attached for further necessary changes please.

(b) Cash Flow Statement:

Preparation of projected cash flow statements for the residual year will help to discern the timing of cash inflows, outflows and adequacy of funds for operations.

(c) Reconciliations

Submission of monthly bank, cash and balance sheet reconciliations. This will assure that all transactions have been recorded and only valid items are held.

(d) Financial & HR Policies:

We may frame financial and HR policies in the following areas for operational convenience, to guide in decision making, reimbursement of staff expenses and the communication of compliances expected:

- Collaborators
- Procurements
- Staff Expenses
- Preservation and Archival of documents/records
- Recruitment
- Leave
- Email Etiquette

(e) Financial Reporting and Management Information System:

(i) Management Accounts:

Management accounts are to be prepared on a monthly basis to enable timely decisions and also to evaluate, assess and control operations. Management accounts will consist of the income statement, department schedules, gross project profit statement, account receivables, key operating ratios and a commentary thereon. Format as per draft budget statements submitted.

(ii) Project Reports:

Monthly project financial reports facilitate in project management. The project financial reports include the gross project profit with actual, phased budget and variance for each project, collaborator advances, staff time utilisation and reports to donor as per contract. These reports will help ascertain the progress of projects in comparison to the periodic activity plan/donor contract.

(iii) Annual Financial Statements:

The annual financial statements comprises the balance sheet, profit and loss statement and cash flow statement. These statements are prepared for both internal and external stakeholders information and regulatory compliances.

(iv) Any other financial information as required by management to aid in monitoring, decision making and control.

Submitted please,

Many thanks,

Consultant-Finance.