FINANCIAL STATEMENT, REPORTING SYSTEM AND POLICY GUIDE FOR NON-PROFIT ENTITIES

By Ogunsanya Idowu

About Child and Youth Protection Foundation

Child and Youth Protection Foundation is an autonomous **not-for-profit, Non- Governmental, Non-political Non- religious** organization that was established in June 2008, by a concerned citizen of Nigeria. The visionary, through his personal life experience had a passion for the proper development of children and youth. He is being mandated by God to build the Nation by positively affecting the environment and attitude of the children and youth. Child and Youth Protection Foundation is recognized as a movement working with government, religious organizations, schools, communities and individuals to create an enabling environment and opportunities for the proper development of the Nigerian child and youth as stated in its vision.

OUR VISION

A society which respects the rights of children and youth: a society which promotes positive and enabling environment for children and youth to grow and develop into responsible adults; a sanitized society.

OUR MISSION

Is laying the foundation for a good future for children and youth in the society and empowering them to be responsible citizens of the Nation. Ensuring that children are not in any way exploited, thereby creating an enabling environment for proper growth and development.

Author's Note

OGUNSANYA IDOWU is a graduate of Accounting from the Ekiti State University, who is currently the finance Officer with Child and Youth Protection Foundation, a non-governmental organization that promotes the right of children and create an enabling environment for children and youth to develop to their full potential. In the past months working in the non-profit organizations, I observed some gaps in the accounting structure of some organizations and how this would affect their operation or has affected their operation and opportunity at getting grants and executing projects. This birthed the idea of writing this book as a guide for non-profit entities. I want to use this medium to thank my colleagues and the senior program officer of CYPF in person of **Mr. Kolawole Olatosimi** and **Dr. Mrs. Agatha Kolawole** for their continuous support and encouragement.

This book would help Organizations strengthen their account structure in other to prevent fraud or other fraudulent activities.

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INTRODUCTION

Under the Company and Allied Matter Act(CAMA)2004, the commonly used structures for incorporating nonprofit organizations are companies limited by guarantee and incorporated trustees and the procedures for registration are provided for under CAMA.

A non-profit organization is a legal and accounting entity that is operated for the benefit of the society as a whole, rather than the benefit of the sole proprietor or a group of partners or shareholders. the main objectives may be social, educational, religious, and charitable and they take the form of clubs' societies and charitable bodies and so on.

The part 2 of CAMA 2004 section 26(1) defines a Company Limited by Guarantee as,

"Where a company is to be formed for promoting commerce, art, science, religion, sports, culture, education, research, charity or other similar objects, and the income and property of the company are to be applied solely towards the promotion of its objects and no portion thereof is to be paid or transferred directly or indirectly to the members of the company except as permitted by this Act, the company shall not be registered as a company limited by shares, but may be registered as a company limited guarantee".

Section 26(4) also provides thata company limited by guarantee shall not be incorporated with the object of carrying on business for the purpose of making profits for distribution to members. The interpretation of this provision does not mean a Nonprofit company cannot involve in business activities, it can do so, as long as the purpose is to fund its program activities and not for distribution among members. It is healthy for non-profit companies to get involved in business activities in other to fund their programs and not only relying on donor's fund.

A Non profit company that really wants to have result based programs in its communities of intervention need to have a source of income purposely to fund its program activities and not for distribution. Non profit companies involving in business activities will reduce mismanagement of donor's fund by it's executives and management. It is believed that the income of these business subsidiaries is subject to income tax and should be rightly so reported, accounted and disclosed in it is financial statements. This will, however, require Nonprofit to separate the accounts of their business subsidiaries, where applicable, to satisfy the requirements of different regulatory authorities. Though it is a fact that a Non profits may have assets and even be profitable, the accruing funds are expected to be used to further pursue its goals and not to create wealth for the owners. With loose or no regulations on financial accountability, many of these centers are being seen as money-spinning business empires for their founders. In some economies where record keeping is entrenched, donations to Nonprofits are well documented not only for record purposes, but also to ensure that the sources of those funds are known and to prevent such organizations from becoming a warehouse of laundered or stolen funds.

A nonprofit entity entering into any commercial activities should have it in its financial policy.

NGOs are referred in many ways:

·Non-Profit Organizations or Not - for- profit

·VOs or Voluntary organizations

·CSOs or Civil Society Organizations

·CBOs or Community Based organizations

·Charitable Organizations

·Third Sector organizations (The other two sectors are state or government sector or public and the market or commerce or private sector)

Principles to be aware of and follow in bookkeeping

Accounting Method

Accounting method refers to the rules a company follows in reporting revenues and expenses. Like for business-oriented companies, nonprofit bookkeeping relies on choosing an accounting method to record incoming and outgoing money. Non-profits must record all incoming revenue and outgoing payments with an organized accounting system. The two primary methods are accrual and cash method. There is also what is called the hybrid (modified cash basis).

·**Accrual Method**

The method records revenues when they are earned rather than when the cash is received and expenses when they are incurred rather than when they are paid. The accrual method is intended to give a more accurate picture of a company's true financial position.

·**Cash Method**

The Cash basis of accounting recognizes revenues when cash is received, and expenses when they are paid. This method does not recognize accounts receivable or accounts payable.

This method is simple and easy for small business but does not reveal the true condition of the financial statements.

·**Modified Method**

This is a method that combines the principles of accrual and cash basis method together to get the best out of both.

Comparison of Cash method and accrual method

You have 3 students that subscribe for your online class. Two people pay for the class on credit for N500 each. The other student pays his N500 in cash. You incur the following costs:

·N150 for Conference Room rental

·N20 in travel costs

·N30 for handouts

·

N100 in paper and markers

You also incur the following expenses during the year the business:

·N50 for newspaper advertising

·N175 for online advertising

·N100 payment for business card receipts and office supplies

Sample 1. **Accrual Method**

	N	N
Sales		1,500
Cost of sales/Direct costs:		
Conference Room	150	
Travel Costs	20	
Handouts	30	
Paper and Markers	100	
Total Cost of Sales		300
Gross Profit		1,200
Expenses:		
Newspaper Ads	50	
Online Ads	175	
General expenses	100	
Total expenses		325
Net profit		875

Sample 2. Cash Method

	N	N
Sales		500
Cost of sales/Direct costs:		
Conference Room	150	
Travel Costs	20	
Handouts	30	
Paper and Markers	100	
Total Cost of Sales		300
Gross Profit	200	
Expenses:		
Newspaper Ads	50	
Online Ads	175	
General expenses	100	
Total expenses		325
Loss		(125)

Observations from the two method

-Accrual method considered both the cash paid and service offered on credit.

-Cash method considered only the cash paid and left service offered on credit out from the book.

-Accrual method gives out the full details within the period.

-Cash method makes the book look weak.

Accounting Golden Rules

They are guidelines that bookkeepers, accountants and someone in charge of your financial records need to follow to have a good record keeping.

Record everything that you do: You have to keep an 'audit trail'. That means that another person must be able to follow all of your accounts just from what you have recorded, with no additional explanation.

Be Organized: Make sure that all documents are properly filed, and all procedures properly followed.

Be Consistent: If you do things one way in one month, then do them the same way in the next month (unless there is a good reason for changing them).

Keep the books up to date: Do not let them go for more than a week without making sure that they are up to date. Try to fill in all the proper books as the transactions happen, without letting a backlog build up.

Do not get stuck on one point: If one thing is being very difficult, then make a simplifying assumption that will allow you to move on. Make a note of it, and discuss it with your manager or an accountant as soon as possible.

Financial Year/Period/Accounting Year

This is a period of 12 months business operation of any organization. However, the beginning of the accounting period differs according to the jurisdiction. For example, one entity may follow the regular calendar year, i.e. January to December as the accounting year, while another entity may follow March to February as the accounting period.

PRESENTATION OF FINANCIAL STATEMENTS OF NON-PROFIT ENTITIES IN NIGERIA

Globally, there is a paradigm shift in the governance and accountability processes of organizations including non-profit organisations as they are equally corporate citizens just like other profit-making corporate entities. Moreover, because nonprofit organizations usually source for funds externally, it behooves them to keep accurate records and meet disclosure requirements expected of them either from the regulators or their sponsors.

There are still issues in the financial reporting system of Non profit entities in Nigeria as a result of lack of a unique reporting system in presentation of financial statements and reporting system as we have International Financial Reporting Standard (IFRS) for business-oriented organizations. Financial Accounting Standard Board (FASB) in USA and Accounting Standard Board in UK have made effort to make sure there is a Financial Reporting system for Non profit entities operating under FASB and ASB to have a unique reporting system since International Accounting Standard Board (IASB) is yet to come up with International financial Reporting System for Nonprofit entities that will serve as a general guidelines for it members which Nigeria is part.

In a bid to standardize the practice of financial reporting and accounting of nonprofit organizations in Nigeria, the Financial Reporting Council (FRC) of Nigeria drew up a guide for preparing financial reports and accounts for these institutions. FRC is a federal government agency established by the Financial Reporting Council Act, No. 6, 2011 and under the supervision of the Federal Ministry of Trade & Investment. The FRC is responsible for, among other things, developing and publishing of financial reporting standards to be observed in the preparation of financial statements of public entities in Nigeria; and for related matters. In line with the powers conferred on it by the Act, and in a bid to foster accountability in the non-profit sector, the FRC formulated the Statement of Accounting Standards (SAS) No. 32; an accounting system that applies to non-profit organizations in the country including faith based organizations which requires them to report financial transactions periodically with effect from 1st July, 2011. Non-profit organizations are equally expected to comply with the provisions of the International Financial Reporting Standard (IFRS) with effect from 1st January, 2013. The statement of Accounting Standards no. 32 prescribes a uniform accounting and financial reporting system and among other provisions, stipulates that financial statements for nonprofit entities shall include; statement of activities, statement of financial position and cash flow statement.

In my opinion the current practice of financial reporting system for nonprofit entities established by FRC in line with SAS 32 cannot capture or fully represent the transactions of nonprofit entities in Nigeria. Most of our local nonprofit entities are now being recognized by international funders and making grants available for them to finance their program activities.

There is need for a new financial reporting system for nonprofit entities in Nigeria such as FASB and ASB that will be suitable for preparation of financial statements and reporting system to meet up with the demands of these international founders.

FINANCIAL RECORDS OF NONPROFIT ENTITIES IN LINE WITH FRC

Nonprofit entities are also required to prepare financial statements at the end of accounting period to show how their funds have been used to users of their accounting information such as donors, government, contributors. Four major financial records to prepare and report will be discussed down here first while other records that serve as support or that show organization transactions will be discussed after.

a)Receipt and Payment Account

It is the summary of cash and bank transactions which helps in the preparation of Income and Expenditure Account (statement of activities) and the Balance Sheet (statement of financial position). The Nonprofit entities usually prepare the Income and Expenditure Account and a Balance Sheet with the help of Receipt and Payment Account. It is prepared at the end of the accounting year on the basis of cash receipts and cash payments recorded in the cash book.

The features of receipt and payment account are

-It is a summary of cash and bank transactions.

-It starts with opening cash and bank balance and ends with closing cash and bank balance.

-All receipts are recorded on the debit side and all payments are recorded on the credit side.

-It records all receipt irrespective of the period they belong to. Thus it records receipts and payments of past, current and future period.

-It records all receipts and payments irrespective of the nature i.e. records both revenue and capital receipts and payments.

It does not record any non-cash transaction.

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Sample 3. Receipt and Payment Account for the year ended 31st December, 2019

RECEIPT	₦	₦	PAYMENTS		₦	₦
			PROGRAM ACTIVITIES:			
Opening Balance:			Community Impact program			XX
Cash	XX		Awareness Creation Program			XX
Bank	XX	XX	Capacity Building Program			XX
Donations		XX	Women Empowerment			XX
Grants		XX				
Contributions		XX	**NON-PROGRAM EXPENSES:**			
Rent Income		XX	Salaries		XX	
Proceed from Training offered		XX	Electricity		XX	
			Rent		XX	
			Printing		XX	
			Purchase of investment		XX	
			Fuel/Deasil		XX	
			Repairs		XX	
			Telephone/Internet		XX	
			Closing balance:			
			Cash	XX		
			Bank	XX	XX	(XX)
		XXX				XXX

b)Income and Expenditure Account/Statement of Activities

It is the summary of income and expenditure for the accounting year. It is just like a profit or loss account prepared on accrual basis in case of the business organizations. It includes only revenue items and the balance at the end represents surplus and deficit. The expenses and losses are on the expenditure side while incomes and gains are on the income side of the account.

It shows the net operating result in the form of surplus (i.e. excess of income over expenditure) or deficit (i.e. excess of expenditure over income), which is transferred to the capital fund shown in the balance sheet.

Features of Income and Expenditure Account

-It is prepared by matching revenue against expenses for the period concerned.

-All expenses are shown on the left-hand side (Debit side)

-All revenues are shown on the right-hand side (Credit side)

-All cash and noncash items e.g. depreciation is considered

-All capital expenditures and incomes are excluded

-Only current year's income and expenses are considered.

-If income are more than the expenses it is known as surplus and if expenses are more than income it is known as deficit

XYZ FOUNDATION

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED DECEMBER 31ST, 2019

Dr	₦	₦		₦	CR
EXPENSES			INCOME		
Program Expenses:			Donation	XX	
Community Impact Program		XX	Grants	XX	
Awareness Creation Program		XX	Contributions	XX	
Capacity Building Program		XX	Rent Income	XX	
Women Empowerment		XX	Proceed from Training	XX	
Non-Program Expenses:					
Salaries	XX				
Electricity	XX				
Rent	XX				
Printing	XX				
Purchase of Investment	XX				
Fuel/deasil	XX				
Repairs	XX				
Telephone/Internet	XX	XX			
Change in Net Assets		XX			
		XXX			XXX

c)Statement of Cash Flows

The statement of cash flows for a nonprofit organization is similar to that of a for-profit business. It reports the organization's change in its cash and cash equivalents during the accounting period. The statement of cash flows consists of three sections:

Net Cash from Operating Activities: The operating section reports the amount spent on program activities other than those reported in the investing and financing sections

Net Cash from Investing Activities: The investing section of the statement of cash flows reports the amounts spent to purchase long-term assets such as equipment, vehicles and long-term investments. The investing section also reports the amount received from the sale of long-term assets.

Net Cash from Financing Activities: The financing section of the statement of cash flows reports the amounts received from borrowings and also any repayments. While the statement of cash flows, or cash flow statement, may be a bit difficult to prepare, it is an important financial statement to be read.

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STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31ST, 2019

	2019		2018	
	₦	₦	₦	₦
ASSETS				
<u>CURRENT ASSETS:</u>				
Cash and cash equivalents	XX		XX	
Account receivable	XX		XX	
Pledges receivable	XX		XX	
Prepaid expenses	XX		XX	
Total current assets		XX		XX
<u>PROPERTY AND EQUIPMENT:</u>				
Furniture and equipment	XX		XX	
Computer software	XX		XX	
Less: accumulated depreciation	XX		XX	
Property and equipment, net		XX		XX
Total assets		X XX		XXX
LIABILITIES AND NET ASSETS				
<u>CURRENT LIABILITIES:</u>				
Account payable	XX		XX	
Accrued Payroll	XX		XX	
Deferred membership dues	XX		XX	
Total Current Liabilities		(XXX)		(XXX)
NET ASSETS		XXX		XXX

d)Balance Sheet (Statement of Financial Position)

The statement of financial position of nonprofit concerned is prepared on the same principles as the statement of financial position of a profit seeking business. It is a statement of all assets and liabilities of the business. It may be prepared either in the order of liquidity or in the order of permanence. It is prepared to calculate the Net asset of a nonprofit entities rather than owner's equity in a business oriented.

Non Profit Organization Sample

Income, expenses and balance of Publicity, promotion, research and development funds

for the year ended December 31,

	2010	2009
Income		
Special contributions	170,977	167,597
Financial aid	187,621	392,367
Others	10,681	3,789
	369,279	563,753
Expenses		
Administration		
Joint plan committees	50,301	76,017
Office supplies	1,726	2,291
Parm	3,340	2,468
Others expenses, promotion	6,035	8,472
Valorisation initiative	5,729	5,843
University PAU	2,469	2,307
Quality program	35,894	30,310
	105,494	127,708
Projects		
Certification sem	9,860	6,326
Hydro	10,678	
Nema	18,200	
Micro	28,000	
Virus	44,331	
DAQC nema	2,790	217,558
Invoices project	188,772	60,829
Extra buying project		59,585
Sectorial reorganisation	35,692	26,909
RIH studies	41,542	15,017
Healthiness program		3,776
	379,865	390,000
	485,359	517,708
Net Income (loss)	(116,080)	46,045
Net assets - beginning	(17,920)	(63,965)
Net assets - ending	(134,000)	(17,920)

Aside from the above stated four financial books, there are still some other records to be kept by a non profit entity that shows the detailed transactions of program expenses. they are discussed below.

e)Cashbook Account

This account shows the details of your transactions over a period of time. It is used to record all your receipts and payments and captures all your transactions over an accounting period. It records the basic information used to build up a complete set of accounts. It is not advisable for any organization to run a cashbook account as it gives room for fraud activities to occur. All nonprofit entities new or existing should avoid cash transactions. A bank account should be opened for your nonprofit and all cash receive inform of; contributions, donations, grants, income and from any source should be banked.

The following details should be entered in the cashbook for each transaction:

- The Date
- Description
- The Reference Numbers
- The Account Codes and
- The Amount

The sheet 'Cashbook' shows the cashbook for a new field project. It has receipts on the left and payments on the right. Your cashbook lay out format can be in different form. Cashbooks can be set out differently, for instance with receipts and payments amounts columns next to each other, and a running balance column. However, they always contain the same basic information.

Sample 4. How it works:

There is a cash donation of #20,000 naira to your nonprofit on Jan 1, another cash contribution of #10,000 was giving to your nonprofit on the 5th of Jan, a grant cash of #20,000 was giving on the 10th of Jan. on the 12th of Jan you started a project with the release of following payments to fund your project; on the 13th of January you paid out a sum of #30,000 for materials distributed at IDP camp, on the 14th of Jan you spent #5000 to move your staffs and materials to the camp and on the 15th of Jan you donated a small laptop to the LEA inside the camp which cost you #10,000. The project ended 15th Jan. Your nonprofit had a cash of #10,000 at hand as at Jan 1.

In the solution down I will ignore some of the format features because this is just an illustration.

Cashbook a/c

DATE	Details	Amount/ Receipt	Voucher no	Date	Details	Amount/ Receipt	Voucher
JAN 1	Balance brought down	10,000	001				
JAN 1	donations	20,000	002	JAN 13	Payment For Materials	30,000	001
JAN 5	contributions	10,000	003	JAN 14	Transportation	5000	002
JAN 10	grants	20,000	004	JAN 15	Payment For laptops donated	10,000	003
				JAN 15	Balance C/D	15,000	004
TOTAL		60,000				60,000	

At the end of the project you are having a sum of #15,000 as surplus to be transferred to the payment side of your receipt and payment account as balance carried down of your cash account and also appear in your statement of financial position as part of your current assets items.

f)Bankbook Account

A bank book account is prepared in the same way with cashbook account. It contains all the transactions carried out, the receipt and payment that occurs in the bank. The only difference with a cashbook account is that it has an extra column to record cheque number. It is the best f or all nonprofit entities new or existing to have all its transactions through a bank account. our bankbook account makes it easy for you to reconcile your book when necessary.

Sample 5. How it works:

Your nonprofit operates a bank account to record the details of bank transactions which goes thus: On Jan 1 you have a balance of #30,000 in your account and on the 15th of Jan you started a project with following receipts and payments: donation of 50,000 on Jan 6th, grant #20,000 received on Jan 7th, support for program # 10,000 on the 9th of Jan. On Jan 16th payment of #5,000 each for hotel bookings for 2 facilitators for your program, you spent #30,000 on community impact program on 17th of Jan, on Jan 18th you spent #20,000 on advocacy visit, 19th of Jan you spent #40,000 to empower community women.

DATE	Details	Amount/	check no	Voucher	Date	Details	Amount/ payments	check no	Voucher no
JAN 1	Balance b/d	30,000	001		JAN 16	hotel booking for facilitator	10,000		
JAN 6	donations	50,000	002		JAN 17	CIP	30,000		
JAN 7	grants received	20,000	003		JAN 18	Advocacy payment	20,000		
JAN 9	grants	10,000	004		JAN 19	Women's	40,000		
					JAN 20	Balance b/d	10,000		
TOTA		100,000					100,000		

Just like the treatment for cashbook account, your balance carried down in your bank account is taken to receipt and payment account on the payment side and also add to current asset items in your statement of financial position.

g)Payment Vouchers

In a cashbook, each transaction is given a reference number. For payments, this is normally done using payment vouchers. Every payment should be given its own payment voucher. You write down details about the payment on the payment voucher. This provides a handy summary of the transaction. It also assigns a unique reference number to each payment. The reference number makes it easy to track records from the cashbook to the supporting documents. It is often necessary to do this, especially when problems crop up.

What payment vouchers should show?

-Unique number for the payment voucher (numbered sequentially)
-Date of the payment
-Payee (the person receiving the payment)
-Description
-Amount of the payment and
-Accounts code

What should be attached to the payment voucher?

Every payment must also be supported by a receipt and an invoice where available. The receipt is the proof that payment really happened and that the goods or services were really bought. The invoice describes the goods or services that were actually received. When there is no invoice, the goods or services received should be described on the receipt. Receipts should be filed.

h)Receipt Voucher

Any income received should be documented on a receipt voucher which should be produced in triplicate. This must state: its own unique number (numbered sequentially), the date of the receipt, the name of the person or organization giving the money, a description, the amount and the accounts code. The person giving you the money should be given one copy, signed by whichever individual received the money. This is their proof that the money has gone to your specific organization. The second copy should be filed in the accounting records (with any supporting documents attached if necessary), third should be left in the book. Books of unused receipt vouchers should be stored in a secure place. Be careful to use them in order and make sure none are missing. Otherwise, anybody could use them, apparently receiving money in your organization's name.

Supporting Documents
All transactions must be recorded in cashbooks or bankbooks. However, each transaction must also have supporting documents filed for it, as well. Supporting documents include internal documents like vouchers and requisition or authorization forms, as well as external documents like receipts or invoices from suppliers, and bank statements. These files of supporting documents are a crucial part of any set of accounts.

i)General Ledger

A nonprofit's transactions are recorded in accounts in the general ledger. A listing of the titles of the general ledger accounts is known as the chart of accounts.

Chart of accounts is a listing of all accounts used in the general ledger of an organization. The chart is used in the accounting book to aggregate information into an entity's financial statements

The accounts in the general ledger and in the chart of accounts are organized as follows:

*Statement of Financial Position Accounts
-Asset accounts
-Liability accounts
-Net asset accounts

*Statement of Activities Accounts
-Revenues and gains
-Expenses and losses

The number of accounts in a nonprofit's general ledger could range from 30 to 1,000 or more. The number of accounts depends on the number of programs that the nonprofit has, the types of revenues it earns, and the level of detail required for planning and control of the organization. For example, a nonprofit is likely to have a separate general ledger account for each of its bank accounts. It may also have 50 general ledger accounts for each of its major programs, plus many accounts under its fund-raising and management and general expense categories. The detail in the general ledger accounts will always be available for management's use. However, all of the account balances will be summarized into a few totals that are presented in the financial statements.

INTERNAL CONTROL SYSTEM

a)A Written Financial Policy

Developing and adopting a written financial policy is a valuable practice for any not-for-profits organization, no matter how small or large. Financial policies clarify the roles, authority, and responsibilities for essential financial management activities and decisions. In the absence of an adopted policy, staff and board members are likely to operate under a set of assumptions that may or may not be accurate or productive.

Boards of directors have a fiduciary duty to ensure that the assets of a charitable not-for-profits are used in accordance with donors' intent, and in support of the charitable mission. One way to ensure prudent financial management is for the board of directors to adopt financial policies. Perhaps the most important financial policy for any charitable nonprofit is a conflict of interest policy

-Five Essentials for Financial Policies

The purpose of the financial policy is to describe and document how the board wants financial management activities to be carried out. In order to accomplish this, every financial policy needs to address five areas:

1.Assignment of authority for necessary and regular financial actions and decisions, which may include delegation of some authority to staff leaders

2.Policy statement on conflicts of interest or insider transactions

3.Clear authority to spend funds, including approval, check signing, and payroll

4.Clear assignment of authority to enter into contracts

5.Clear responsibility for maintaining accurate financial records

-Developing and Approving a Financial Policy

Financial policy is intended to be short and simple to address some of the basic elements of a good policy. Some non profits develop more comprehensive and detailed policies that incorporate more specific responsibilities and add more detail. The most important action is to create and adopt a policy that meets your organization's needs.

There are some helpful steps you can take to make the policy as helpful as possible:

1. Discuss policy needs with your treasurer and finance committee or executive committee
2. Conduct an informal risk assessment
3. Draft the financial policy, followed by review and discussion by staff and board leadership
4. Present to board for adoption
5. Train staff on policy
6. Review at least bi-annually

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b)Whistle blower Protection Policy

Not-for-Profit organizations financial policy could contain a whistle blower protection policy to prevent any form of fraud activities. A whistle blower policy encourages staff and volunteers to come forward with credible information on illegal practices or violations of adopted policies of the organization, specifies that the organization will protect the individual from retaliation, and identifies those staff or board members or outside parties to whom such information can be reported.

c)Boards and Governance

The board of directors is the governing body of a nonprofit. Individuals who sit on the board are responsible for overseeing the organization's activities. Board members meet periodically to discuss and vote on the affairs of the organization. At a minimum, an annual meeting must occur with all board members present. Additional meetings are likely to take place throughout the year so board members can discuss and make other necessary decisions. Board memberships are not set up to be permanent positions; most organizations have terms set up for board members, which typically fall between two and five years.

Requirements of Board Members

·Ideally, a nonprofit's governance is different from its management (paid staff). While many small non profits (especially those in the startup phase) have board members serving in management positions, the ultimate goal is to have board members separate from paid staff. The board of directors, as a governing body, should focus on the organization's mission, strategy, and goals. Staff members are responsible for the implementation of the mission. Having dual-capacity board members can often lead to problems.

·Though officers are typically board members, there are no guidelines or requirements that suggest an organization cannot elect an individual outside the board to be an officer for the organization (unless the officer roles described in the organization's bylaws state otherwise). It is possible for an individual to hold two separate offices.

·It is best practice to find individuals within the community who have passions and experience that aligns with the nonprofit's mission. There are no guidelines in place to determine who is certified to be on a board; any individual can become a board member. There are guidelines, however, that help public charities avoid inurement.

·A board is needed to incorporate a nonprofit, to get it tax exemption, to apply for a bank account, to properly file annual reports, and to do most important transactions. This is so because the principal roles of the board of directors are to represent the public (or membership) interests in the organization and to represent the organization as its legal voice.

Organizations also have officers, typically from among the board members, who are given a higher level of responsibility compared to other board members. Initial officers are elected by the board; this vote usually takes place during the organization's first meeting. Much like board members, officers usually serve terms. Typically, a nonprofit has three officers serving the role of President, Secretary, and Treasurer. Officer roles and their terms should be specifically defined in the organization's bylaws (constitution).

i.Roles/Duties of the President/Chairman of the Board

The President heads up the board and supervises all of the business and affairs of the board. While the President can also serve as the CEO of the organization, keep in mind that these two roles are separate; an individual cannot be compensated to hold an officer position.

ii.Roles/Duties of the Board Secretary

The Secretary keeps the minutes of the board of directors. Additionally, the Secretary is responsible for keeping track of the organization's activities to make sure the actions of the organization are in accordance to the organization's Bylaws (constitution). The Secretary usually keeps track of the board members' contact information in order to inform the board about meetings and updates on the organization.

iii.Roles/Duties of the board Treasurer

The Treasurer keeps account of the receipts and disbursements in the organization's books. Additionally, the Treasurer is responsible for keeping track of the organization's financial condition. This is an important role because it keeps the other officers and board members informed about the financials.

iv.Board Composition

There are no guidelines in place to determine who is certified to be on a board; any individual can become a board member. There are guidelines, however, that help public charities avoid inurement.

There is a growing need for nonprofit and non-governmental organizations (NGOs) throughout the world to be more effective and productive. One of the many ways they are achieving this is by broadening and strengthening the constitution of their Boards. An increase in the effectiveness of NGO board itself has been achieved by bringing together organizations and leaders with a shared interest in the work of boards; building capacity by training; and developing management and governance tools.

marriage, business partner, and family.

Having a good and effective NGO Board provides a basis for successful management of its organization; familiarizes its target constituents with the activities of the NGO; help in better understanding the organizational structure of the NGO, and also assists in distributing responsibilities among the team members within the NGO organization

v.Qualification and Criteria for Selection

There exist different qualifications and criteria's that should guide an organization in the selection of board members. It is important and organizations should take this into account in order to have an active board. Thus they include

-Board members should possess an understanding of the scope of work of the NGP/NPO and opportunities it presents.

-Have experience and responsibility to carry out tasks and roles of the Board.

-They should also have a minimum number of years in front-line NGO work. Not compulsory, but is of benefit to the board and NPO.

-An ability and capacity to communicate and network effectively and broadly (for example, they must have functioning communications linkages such as telephone, fax, computer and email).

-Have the ability to represent and promote the NGO publicly.

-Ability to act within a team setting, including capacity to think and work strategically.

-Have linkages to an organization that can facilitate communication and liaison; and provide consultation and support

-Independent board: board members must be unrelated to the business, by marriage and family

vi.Responsibilities

Board members also have their roles and responsibilities and they include

-Approve the Organizations budget.

-Keep records of its activities

-Review of financial and tax documentation

-Review, sign, and assure submission of annual reports

-Review and authorize personnel policies relevant to hiring, promotion, dismissal, compensation, whistle blowers, independent contractors, key employees, sexual harassment, and fairness to the disabled and other groups.

-Safeguard assets and ensure funds used properly

-Meet annually and as needed, even if only electronically.

-Review and approve plans of reorganization, growth, and contraction.

-Review and approve the organization's plans to do major borrowing.

-Review and approve the organization's investment policy and plans to open banking and other financial accounts.

-Review and approve amendments to the bylaws.
-Discharge and replace its members for reasons authorized by the bylaws.
-Set up committees within the board and approve consultants
-Require accountability, transparency, loyalty, and conformity by key employees, and protect the identity and integrity of the organization.

d)Donation

Donations are the life blood of non profits that help them survive and fulfill their missions. Proper accounting of donations helps an organization understand where its support is coming from and the value of that support. Almost anything of value can be donated to a nonprofit, from old clothing, cars, services, time and, of course, money. The nonprofit must assign an acceptable value for the donation. Essentially, fair market price is what mostly use to assign price for an item (non-cash) donated which the price is not known especially donation of a used materials. Donations of cash are counted as income on financial statements. Cash can be listed as either restricted or unrestricted. Restricted means that the donor gave the money to support a specific program or aspect of the charitable organization and the money cannot be used for any other purpose unless the donor agrees to the changes. Unrestricted funds can be used for any purpose the nonprofit deems necessary.

-Tracking of Donation

Keeping a thorough and accurate accounting of donors helps a nonprofit keep track of who is donating to the organization. Every individual and business that provides goods, services or money to an organization should be placed into a database listing names, addresses, contact information and the value and frequency of their donations.

e)Conflict of Interest or Duality of Interest Policy

An “interest” is a commitment, obligation, duty or goal associated with a particular social role or practice. By definition, a “conflict of interest” occurs if, within a particular decision-making context, an individual is subject to two coexisting interests that are in direct conflict with each other. Typically, this relates to situations in which the personal interest of an individual or organization might adversely affect a duty owed to make decisions for the benefit of a third party. Such a matter is of importance because under such circumstances the decision-making process can be disrupted or compromised in a manner that affects the integrity or the reliability of the outcomes.

Nonprofits board need to write and approve a conflict of interest policy because it helps to fulfill their fiduciary duties. Board directors must fulfill their duty of loyalty by avoiding conflicts of interest and putting the interest of the non-profit above their own.

Why Does A Nonprofit Board Need A Conflict of Interest Policy?

·It prevents board directors from benefitting in any way from board service. A conflict of interest policy fulfills legal requirements and prevents unexpected penalties.

·Board directors should not benefit financially, personally or otherwise from board events or activities. A conflict of interest policy prevents directors with conflicts from participating in discussion, reporting or voting on any issue where there is a real or perceived conflict.

f)Monthly Account Reconciliation

When an organization reconciles its business bank account, it compares its internal financial records against the records provided to you by your bank. This reconciliation should be carried out monthly and its importance includes;

- It helps you detect any unusual transactions that might be caused by fraud or accounting errors
- To reduce fraudulent activities
- To reconcile a list of all the deposits and withdrawals you think you made for the month with your bank statement
- To know the exact bank account balance, you think you should have as of the same date as the bank statement
- Better manage cash
- Generate monthly financial statements

g)Administrative Costs

Administrative costs are indirect costs an organization incurs to achieve its main organization goals. Some are avoidable to keep your total cost low while some are not avoidable such as salaries to your staffs, electricity bills, paying office supplies, etc. Your administrative costs should be kept lower than your program activities costs which are why you are doing what you are doing. Many non profits find their proposals rejected by donors because of what they see in their administrative costs from the financial statements they submit along their proposals even when they have a very solid proposal.

Jonathan Howell shared what he witnessed on the administrative costs of a particular organization he had interview with.

"I once interviewed for a job with an organization in Atlanta that sold coupon booklets door-to-door to support a children's wheelchair basketball league. It sounded like a worthy cause, until I asked what percentage of sales actually went to the league. The answer was 7%. Ninety-three percent of the proceeds went to pay salaries and overhead for the organization doing the selling"

That sounds pretty terrible and not a good practice. Though there is no standard mandated maximum percentage of total expenses that may be spent on administrative items, and different types of non profits will naturally incur admin costs at different rates. But your administrative costs should not in any way close to your program costs.

Program costs are why you exist as a nonprofit; the term denotes the money that you spend to further your mission. It doesn't matter if your mission is educating your members about the artwork in your museum, providing scholarships for children to attend your school, or buying warm coats for homeless families; when you spend money on those activities, you're justifying your own existence by improving your community. Administrative costs, on the other hand, are how you exist as a nonprofit. Admin costs are incurred as you direct and control the organization itself. Employee salaries, purchasing office supplies, and paying the electric bill so the lights keep working are all examples of the admin costs that you incur in the process of remaining a going concern.

Both your internal and external stakeholders should be focusing on your admin costs. Obviously, your board should compare admin costs with program costs to ensure you're properly fulfilling your mission. Additionally, in this age of sluggish economies, savvy donors (not the mention granting agencies!) are keeping a close eye on the percentage of total expenses that non profits spend on admin, to ensure they're getting the most “bang for their buck” when it comes to making a difference in their communities. Your organization should be able to generate, on demand, a Statement of Functional Expenses that clearly segments and analyzes admin costs.

h)Loan Practice in Nonprofit

Because of the nature of nonprofit entities, part of their income is not supposed to be used for loan to executives, staffs and anyone in and outside the organization. Giving out of loan in this type of business will result in tying down their income meant for program and it could also be seeing as a means of defrauding the business. These followings should be followed when they feel it is necessary to give out loans to assist members:

-Best not to provide loans to directors, officers or trustees

-When necessary to provide loans, the terms to be approved by the board

-Should be stated in the financial policy

i)Payment of Travel Expenses

Payment of traveling expenses are money giving out to staffs going out on official duties that involves traveling such as the; transport fare, flight ticket, per diem and other allowances important. No staffs traveling for official duties should see or use this as an opportunity to make money from the business. Your nonprofit should make provisions for necessary things needed for your staffs traveling for official purpose and make personal traveling allowance available as it is stated in your financial policy.

-Establish written policies on travel expenses

-Ensure travel expenses are documented and receipts provided

-Ensure not be lavish or extravagant under the circumstances. There must be reasons for traveling on first class flight

-Do not pay for non-reimburse travel expenditures for accompanying individuals (including family members) if they are not conducting business

-Ensure cost - effective manner of travel on behalf of nonprofit

j)Petty Cash Account

A petty cash book which is created for the small payments of an organization i.e. taxi fare, bus fare, carfare, postage and stamps, stationary wages tea and coffee etc.

-Establish policies

-Keep in locked box or drawer

-Choose petty cash custodian

-Require receipts for petty cash expenditure

-Make the petty cash custodian accountable for disbursement before re-imbursement

-Have a request form

-If you like you like you can set a certain amount for your petty cash

TAX LAWS FOR NON-PROFIT IN NIGERIA

The income of nonprofit organizations in Nigeria is exempted from tax deduction, so long as the income or profits are not derived from trade or a business undertaking. It is compulsory for them to have their companies registered with tax authority and there is need to be filling returns with tax authority. Some of these may be charged with VAT on goods purchase for personal consumption while VAT is removed from them when goods are purchased for programs by presenting their tax clearance certificate.

THE COST OF FRAUD IN NON-PROFIT ORGANIZATIONS

Beyond the immediate financial loss, however, an even greater potential cost of fraud to non profit organizations is the reputational damage that can occur. Because most non profits depend on support from donors, grantors, or other public sources, their reputations are among their most valued assets. In addition, fraud in nonprofit settings often garners unrelenting negative media attention.

-Not-For-Profit Vulnerability to Fraud

Non profits can be particularly attractive targets for fraudsters. Executives who are passionate about their agencies and their missions are naturally trusting of others who share their interest, or who pretend to. Moreover, board members and executives who are dedicated and talented in their particular fields may not be well versed in financial issues and internal controls.

In addition, non profits of all sizes may have only limited resources available to address internal controls. This makes them vulnerable to an employee who could recognize this lack of controls and use it as an opportunity to commit fraud.

It has been noted over the years through many fraudulent activities that had occurred, "that Fraud cannot occur unless an opportunity is present. Opportunity has two aspects: the inherent susceptibility of the [organization's] accounting to manipulation, and the conditions within the [organization] that may allow a fraud to occur." In addition, the opportunity for fraud is also affected by an organization's culture, a factor that is often overlooked. The very nature of some non profits also makes them tempting targets. Many non profits distribute grants, scholarships, awards, or other types of financial aid to outside agencies or individual recipients. This opens yet another door for theft or fund misappropriation and requires even more oversight to make sure funds are not being misappropriated. In addition, non profits tend to have large amounts of cash and checks coming in from various sources, making them vulnerable to skimming (when an employee accepts payment from an outside party but does not record the sale and instead pockets the money) or cash larceny (Larceny is a crime involving the unlawful taking or theft of the personal property or another person business).

-How Fraud Occurs and Why

While nonprofit organizations present particular temptations to fraudsters, the actual fraud schemes they might face are common to all types of organizations. Fraud schemes in non profits can include check fraud, embezzlement, ghost employees, expense fraud, misappropriation of funds for personal use, fictitious vendor schemes, kickbacks from unscrupulous vendors, and outright theft of cash or assets—to name a few.

One area in which nonprofit organizations seem particularly vulnerable is billing schemes, in which an employee fraudulently submits invoices to obtain payments he or she is not entitled to receive.

-Anti-Fraud Principles

·Have an effective internal control system in place

·All cash incomes, supports, donations, contributions should be banked at the appropriate bank

·Avoid cash transactions

·Develop a requisition form for purchase of any item and authorization form before money is released for projects and must be signed by the appropriate authority

·Develop a whistle blower policy to report any suspicious act of fraud

·Form an effective and empowered Audit Committee

·Develop a response plan in case deterrence fails

·Confront the issue openly and directly

As important as it is to respond quickly to fraud, avoiding the situation in the first place is the best plan of all. Although it is unrealistic to expect to completely eliminate the risk of fraud, the governing board and executives in a nonprofit organization can take effective steps to minimize the risk. By establishing an environment in which ethical behavior is expected, closing gaps in internal controls, and developing a proactive fraud identification and response program, non profits can significantly reduce the financial and reputational risks associated with fraud.

BUDGETING

A key component of financial sustainability is the commitment of board and staff to financial management that includes timely review of financial reports and advance planning. One way that board and staff plan for income and expenses in the future is by creating a budget. Approval of the annual budget is one of the fundamental building blocks of sound financial management. Creating the annual budget is initially staff's responsibility, but board members (usually those on the "finance committee" and/or "executive committee") often review the proposed budget and the full board usually adopts the budget at a full board meeting. The approved budget then serves as a guide for financial activity in the months ahead as well as assess its current financial health. Budgets should not be "written in stone" because the financial position of the nonprofit may change during the year.

It is quite common to periodically review the budget as well as compare it to the actual cash flow and expenses, to determine whether they are playing out as expected during the course of the year. It may also become necessary to amend the budget during the year.

It is likely that the nonprofit's budget will be referred to many times throughout the year - by staff and board members who play different roles within a nonprofit. Budgets may even be requested by parties involved in financial transactions with the non profits, such as banks, or by donors/grant makers considering a gift to the nonprofit. If and when you share the organization's budget outside the organization, make sure to stress that the budget is reviewed periodically throughout the year and revised as needed - not cast in stone.

CONCLUSION

The presentation of financial statements and reporting system of nonprofit entities in Nigeria as discussed above still need to be updated and review by Financial Reporting Council of Nigeria to have a common reporting system for nonprofit entities just like FASB in United State and ASB in the United Kingdom have developed financial reporting system for nonprofit entities separated from financial reporting system of business entities. It is also time for FRC to pay more attention to activities of non profits in Nigeria as many are using the opportunities of donor's fund to steal money and through the development of a good reporting system their activities will be properly checked.

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