អង្គការមូលនិធិទ្រទ្រង់កុមារកម្ពុជា

Cambodian Children's Advocacy Foundation Organization

Internal Financial Procedure

Introduction

Corruption is a serious social illness with negative impacts, which undermines our domestic values, destroys the trust and confidence of our people toward their leaders, hampers economic growth and development of the nation and creates social injustice[1].

The Cambodian Children's Advocacy Foundation adhere the value, code of ethics of the organization. We commit to participate in Good Governance and ensure the financial management is implemented properly. The Internal Financial Procedure is developed as a monitoring tool for the staff members and managers of the Cambodian Children's Advocacy Foundation usage.

Part I
Budget Control[2]
(Theory)

DEFINITION

Budgetary control compares actual costs, revenues and performances with the budget so that, if necessary, corrective action can be taken or revisions made.

PRINCIPLES OF CONTROLE

The five principles of control are:

1. *plan* what needs to be achieved;
2. *measure* regularly what has been achieved;
3. *compare* actual achievements with the plan;
4. *take action* to correct deviations from the plan; and
5. *feed back* results to amend the plan as required.

APPLICATION TO BUDGETARY CONTROL

The application of these principles to budgetary control requires the following:

1. A *budget* for each cost center which sets out under each cost heading (to which a cost code will have been attached) the budgeted expenditure against whatever activity levels have been built into the budget.
2. A system of *measurement* or recording which allocates all expenditures to the current cost code and cost center and records the activity levels achieved.

---

[1] *Center for Social Development-Conference Proceedings-2-3 March, 1995*
[2] *Management Techniques-Michael Armstrong (3rd Edition)*

3. A system for *comparison* or reporting which set out actuals against budgets and indicates the positive and negative variances that have occurred. This system of comparison must ensure that performance reports are available quickly to the right person and are presented in such a way that variances are immediately identifiable.
4. A procedure for *acting* on the control information received. This requires reports to higher management on what is being done to deal with variances.
5. A procedure for *feeding back* changes in activity or performance levels or revised forecasts so that the budget guidelines can be amended and budgets updated.

BENEFITS

Budgetary control is the only basis on which performance can be monitored and, consequently, improved. It will not work effectively, however, unless:

1. the budget is based on adequate assumptions and forecast;
2. the budget is realistic – the targets are not so high as to be unattainable or so low as to be meaningless;
3. control information clearly specifies deviations or variances;
4. control information goes to the right people, who are responsible for the results and will analyse variances and can take action; and
5. steps are taken by higher management to ensure that variances are analysed and reported on and that corrective action is planned, implemented and successful.

Part II
Request-Cash Flow-Report Procedure
(Practical)

Step 1: Request Procedure

- Staff in charge submits request to the Unit Officer (UO).
- UO checks requests and gives approval before his/her subordinate submits the request to Admin.& Finance Officer (AFO).
- AFO accepts request that only when signed and approved by UO.
- AFO checks the requests, prepares, and submits to CEO or authorized staff for approval.
- CEO checks throughout the requests and approves it, or returns to AFO, or makes double check with UO if needed.

Step 2: Cash Flow

- AFO issuance cash advance to staff.
- UO signs the receipt, and receives the money from AFO.
- UO hands full a mount of money to staff.
- AFO can issue the money to staff, if UO is absent.
- Staff receives money from AFO and AFO who issues the money must sign on the cash in-out book.

Step 3: Reports

- Every Thursday, staff who has received cash advance prepares receipts/reports for clearance.
- Receipts and reports are submitted to UO for signature and for approval prior staff in charge submits receipts, reports to AFO.
- Receipts/Invoice will have signature from UOs, percipience and signature of sellers (three signatures in the receipts)
- AFO accepts receipts/reports when each receipt has signatures as above statement.
- AFO prepares the account report, and cash count reports to CEO.
- CEO checks and signs the account, and cash count reports.
- All reports will have approved signature from CEO at the end of the month.

Part III
Procurement Procedure & Inventory Control

1. Procurement Procedure[3] (Theory)

DEFINITION

Procurement buys the materials needed by an organization. It is responsible for all activities involved in acquiring materials and moving them from suppliers into the organization.

[3] *Management Techniques-Michael Armstrong (3rd Edition)*

AIMS OF PROCUREMENT

Many organizations use the terms 'purchasing' and 'procurement' to mean the same thing. Generally, though, purchasing refer to the actual buying of materials, whereas procurement has a broader meaning and can include purchasing, contracting, expediting, materials handling, transport, warehousing and receiving goods from suppliers. The purpose of procurement is to make sure that materials needed to support operations arrive from suppliers at the time they are needed. In more detail, procurement aims to:

- Find reliable suppliers, work closely with them and develop good relations;
- Buy all the materials that are needed for operations;
- Make sure these materials have reliably high quality;
- Negotiate good prices from suppliers;
- Keep inventory levels low, by buying standard materials, and so forth;
- Expedite deliveries when necessary;
- Work closely with user department, understand their needs, and get the materials they need at the right times;
- Keep informed about price increases, scarcities, and so forth.

PURCHASE CYCLE

We can look in more detail at the work done in procurement by considering a typical purchase cycle. This has many variations, but usually includes the following steps:

In the user department:

- The person needing the materials makes an initial request;
- This request is checked against budgets;
- A purchase request is prepared and sent to procurement.

Then procurement:

- Receives and analyses the purchase request;
- Verifies and checks its details;
- Check current stocks, alternative products, and so forth;
- Makes a shortlist of possible suppliers, from regular suppliers and/or those who are known to be reliable;
- Sends a request for quotations to this shortlist.

Then the supplier:

- Examines the request for quotations;
- Sees how it could best satisfy the order;
- Sends an offer back to the organization, with prices, conditions, and so on.

Then procurement:

- Clears up any points with potential suppliers;
- Chooses the best supplier, based on their product, delivery, price, and so forth;
- Discusses and finalizes details with the supplier;
- Issues a purchase order.

Then the supplier:

- Receives and processes the purchase order;
- Makes or assembles the order;
- Ships the order and sends an invoice.

Then procurement:

- Does any follow-up to make sure the materials are delivered;
- Expedites late deliveries;
- Receives, inspects and accepts the items;
- Updates inventory records, notifies the purchasing department;
- Approves the supplier's invoice for payment.

Doing all the steps in this cycle can take a lot of effort, so short cuts are usually taken when:

- The item is of low value;
- There is only one possible supplier;
- There is already a successful arrangement with a supplier;
- There is not enough time for extended negotiations;
- The organization has a policy of internal supply.

The whole supply-chain management is important for a successful organization, and this is particularly true of procurement. Many people may not see it as a particularly glamorous job, but it is certainly essential for the smooth running of operations. All materials are purchased somewhere and mistakes in procurement can lead to poor quality, interrupted operations, late deliveries, wrong quantities, high costs, and poor customer service. A typical organization spends 60 per cent of its income on purchases, so this is also an area where good management can bring substantial savings. With a profit margin of 10 per cent, a 1 per cent reduction in the cost of purchased goods can increase profits by 6 per cent.

Practical
The Implementation Procedure of the Cambodian Children's Advocacy Foundation

- UO will never buys any items.
- Staff who is authorized for purchasing for his/her section must schedule with UO before buying.
- The invoice/receipt must:
  - has 3 signatures: 1) buyer, 2) seller, supervisor, receiver
  - has shop name, seller, buyer, and receiver name
  - name of each item must state clear.
- AFO will never issue cash advance to staff without approval from his/her UOs.
- Purchasing must follow the request, which is approved by CEO.

2. Inventory Control[4]
(Theory)

DEFINITION

Stocks are supplies of goods and materials that held by an organization. They are formed whenever the organization's inputs or outputs are not used at the time they become available. An inventory is actually a list of items held in stock, but this is often used in the same general sense as 'stock'.

REASONS FOR HOLDING STOCKS

All organizations hold stocks of some kind. The main reason for doing this is to give a buffer between variable and uncertain supply and demand. They allow operations to continue smoothly and avoid disruptions. Other reasons for holding stock include:

- To act as a buffer between operations;
- To allow for demands that are larger than expected, or at unexpected times;
- To allow for deliveries that are delays or too small;
- To take advantage of price discounts on large orders;
- To buy items when the price is low and expected to rise;
- To buy items that are going out of production or are difficult to find;
- To make full loads and reduce transport costs;
- To give cover for emergencies.

These stocks can be classified as:

- Raw materials – the materials, parts and components that have been deliverd to an organization but are not yet being used.
- Work-in-progress – materials that have started but not yet finished their journey through the process.
- Finished goods – goods that have finished the process and are waiting to be shipped out to customers.
- Spare parts – for machinery, equipment, and so forth.
- Consumables – such as oil, fuel, paper, and so forth.

COSTS OF CARRYING STOCK

The traditional approach to stock control uses an independent demand system with forecasts giving the expected demand for an item. Then inventory control is used to design policies which minimize the cost of inventories. These costs come from four main sources:

- Unit cost – the cost of acquiring one unit of the item. It may be fairly easy to find by looking at quotations or recent invoices from suppliers, but it is more difficult when there are several suppliers offering slightly different products or different purchase conditions. If a company makes the item itself, it may be difficult to give a reliable production cost or set a transfer price.

[4] *Management Techniques-Michael Armstrong (3rd Edition)*

- Reorder cost – the cost of placing a repeat order for an item. It might include the cost of drawing up an order, correspondence and telephone costs, receiving, checking, supervision, use of equipment and follow up. Sometimes costs such as quality control, transport, sorting and movement of received goods are included in the reorder cost.

- Holding cost – the cost of holding one unit of an item in stock for a unit period of time. This money is either borrowed – in which case interest is paid – or it is cash that the organization could put to other use – in which case there are opportunity coast. Other holding costs are due to storage space, loss, handling, administration and insurance. Typical annual holding costs are around 25 per cent of the value held a year.

- Shortage cost – the cost that occurs when an item is needed but it cannot be supplied from stock. In the simplest case a retailer may lose direct profit from a sale, but the effects of shortages are usually much more widespread and include lost goodwill, loss of reputation, and loss of potential future sales. Shortage of raw materials for a production process can cause disruption and force rescheduling of production, retiming of maintenance periods, and laying-off of employees. These costs are inevitably difficult to find but they can be very high.

APPROACHES TO INVENTORY CONTROLE

An important point about inventory costs is that some rise with the amount of stock held, and others fall. The holding cost is higher when there is more stock, but the shortage cost will be lower. Inventory control must balance these competing costs and suggest policies that give the lowest overall costs. To do this it must answer three basic questions:

- What items should be stocked? No item, however cheap, should be stocked without considering the costs and benefits.

- When should an order be placed? This depends on the inventory control system used, type of demand (high or low, steady or erratic, known exactly or estimated), value of the item, lead time between placing an order and receiving it into stock, supplier reliability, and a number of other factors.

- How much should be ordered? If large, infrequent orders are placed, the average stock level is high but the costs of placing and administering orders is low. If small, frequent orders are placed, the average stock level is low but the costs of placing and administering orders is high.

Practical
The Implementation Procedure of the Cambodian Children's Advocacy Foundation On Stock/Inventory Control

- Suppliers meet with AFO before delivery goods to receiver.
- The payment must be made after staff received material.
- Staff record items in the stock record sheet.
- Staff informs his supervisor about the material he received.
- No material is taken from the store without permission from supervisor.
- Staff prepares the report (monthly, semester, yearly), and submits to UO and CEO.
- AFO and CEO may check stock record if needed.
- Inventory Code sticker must be placed on the all property of the organization.
- Inventory control will be implemented annually.

-END-