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Association For Peace In Ethiopia, APE

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Financial Rules, Principles for Budget Code Structures and
Implementation Guidance Manual



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፩) Abstract

This is a comprehensive and excellent that thinking and making budget codes early in our organization's journey. Developing a robust budget code structure is crucial for financial transparency, accountability, and effective management, especially for a civil society like our organization, APE.

This detailed budget code structure provides a strong foundation for "Association For Peace in Ethiopia" to manage its finances effectively, ensure accountability, and meet its reporting obligations from day one.

፪) Introduction

Given the Ethiopian financial jurisdiction, we'll aim for a structure that aligns with common NGO accounting practices while being adaptable to local reporting requirements. Ethiopia often uses a programmatic/functional budgeting approach for NGOs, meaning we'll categorize expenses based on the activities or departments they serve, and then by their natural (economic) classification.

Let's break down the budget code development process, keeping our organization's structure and the four accounting concepts in mind.

1) Core Principles for Budget Code Structure:

1.1) Hierarchical:

Codes should be structured to allow for aggregation (e.g., all "Program Management" costs) and disaggregation (e.g., "Program Management - Salaries").

1.2) Logical & Intuitive:

Easy to understand and apply by staff.

1.3) Scalable:

Can accommodate future growth or new programs/departments without major overhauls.

1.4) Unique:

Each code identifies a specific type of expense or revenue.

1.5) Aligned with Reporting Needs:



Facilitates internal reporting, donor reporting, and potentially government reporting.

1.6) Reflects Organizational Structure:

Directly links to our departments and functions.

1.7) Integrates Accounting Concepts:

Allows for tracking of transactions (invoices), proper timing (accruals), and payments (disbursements).

2) proposed Budget Code Structure (Ethiopian Context):

We'll use a multi-segment code, typically separated by hyphens or dots. A common structure for NGOs is:

[Department/Function Code] - [Activity/Program Code] - [Natural/Economic Account Code]

3. Segment:

Let's define each segment:

Segment 3.1: Department/Functional Area (2-3 Digits)

This segment directly maps to our organizational structure. It allows us to track costs incurred by each department.

100 - Executive Director / General Management

200 - Advocacy and Policy Research Department

300 - Program Management and Research Department (Consider consolidating with Implementation or splitting further if distinct)

400 - Program Management and Implementation Department (If distinct from 300)

500 - Communications and Outreach Department

600 - Finance and Administrative Department (Often includes HR, IT, Logistics)

700 - Monitoring and Evaluation Department

Note: If "Program Management and Research" and "Program Management and Implementation" are very closely intertwined or operate as one cohesive unit, we might



consider merging them under a single "Program Department" code (e.g., 300 for all Program-related activities) and then using the next segment to differentiate. For now, we'll keep them separate as we've listed them.

Segment 3.2: Activity/Program/Project Code (3-4 Digits)

This is crucial for NGOs. It allows us to track expenses related to specific programs, projects, or even specific advocacy campaigns. Initially, we might have just one or two core programs, but this segment allows for growth.

000 - General/Overhead (Costs not directly attributable to a specific program, but to the organization as a whole)

101 - Peacebuilding & Conflict Resolution Program (Example)

102 - Community Dialogue & Reconciliation Project (Example)

201 - Policy Advocacy Campaign - Human Rights (Example)

301 - Research Initiative - Root Causes of Conflict (Example)

401 - Capacity Building for Local Leaders (Example)

Recommendation: As we secure grants, we might assign specific project codes that sometimes align with donor grant numbers for easier reporting.

Segment 3.3: Natural/Economic Account Code (3-4 Digits)

This segment describes the type of expense (e.g., salaries, rent, travel). This is where the Ethiopian financial jurisdiction comes into play, as these categories are often aligned with standard accounting charts of accounts.

Common NGO Expense Categories (Aligned with Ethiopian Accounting Practices):

A) Personnel Costs:

5100 - Salaries - National Staff

5110 - Benefits & Allowances - National Staff (Pension, Health Insurance, Housing, Transport)

5120 - Overtime/Temporary Staff Wages

5130 - Staff Training & Development

5140 - Recruitment Costs



B) Operating Costs (Office & Administration):

5200 - Office Rent

5210 - Utilities (Electricity, Water, Internet)

5220 - Office Supplies & Consumables

5230 - Office Equipment Purchase (Below capitalization threshold)

5240 - Office Equipment Maintenance & Repair

5250 - Communication Costs (Phone, Mobile, Postal)

5260 - Bank Charges & Fees

5270 - Audit Fees

5280 - Legal Fees

5290 - Insurance (Office, Property, Liability)

5300 - Depreciation Expense (For capitalized assets)

C) Travel & Transportation:

5400 - Local Travel & Per Diem (Staff)

5410 - International Travel & Per Diem (Staff)

5420 - Vehicle Fuel & Maintenance

5430 - Vehicle Rental



D) Program/Activity Specific Costs:

5500 - Workshop/Training Costs (Venue, Materials, Refreshments)

5510 - Consultancy Fees (Program specific)

5520 - Printing & Publication Costs (Program materials)

5530 - Research & Survey Costs

5540 - Materials & Supplies for Activities

5550 - Grants/Sub-grants to Partners/Beneficiaries (If applicable)

5560 - Public Awareness & Outreach Costs

5570 - Event Costs

E) Other Expenses:

5600 - Miscellaneous Expenses

5610 - Contingency

E) Revenue Accounts (Equally important for tracking income):

4000 - Donor Grants - Restricted

4010 - Donor Grants - Unrestricted

4020 - Local Fundraising

4030 - Interest Income

4040 - Other Income

3.4. Putting It Together - Examples of Budget Codes:

Let's use the proposed structure:

A) [Department] - [Activity/Program] - [Natural Account]

Executive Director's Salary (General Overhead):

100 - 000 - 5100

(Executive Dept - General Overhead - Salaries)

Advocacy Department's Travel for a Policy Meeting:

200 - 201 - 5400

(Advocacy Dept - Policy Advocacy Campaign - Local Travel)

Printing Costs for a Program Management & Implementation workshop on Peacebuilding:

400 - 101 - 5520

(PM&I Dept - Peacebuilding Program - Printing & Publication)

Finance Department's Office Supplies:



600 - 000 - 5220

(Finance & Admin Dept - General Overhead - Office Supplies)

Consultancy Fee for a Research Initiative by M&E Department:

700 - 301 - 5510

(M&E Dept - Research Initiative - Consultancy Fees)

4) Integrating the Four Accounting Concepts:

The budget codes provide the classification. How they interact with the accounting cycle:

4.1) Invoices Generate Transactions:

When an invoice is received (e.g., for office rent), the accountant assigns the appropriate budget code (e.g., 600-000-5200).

This invoice is recorded in the General Ledger (GL) as a debit to the expense account (using the budget code) and a credit to Accounts Payable.

Budget Code Role: Ensures the expense is categorized correctly from the moment it's recognized.

4.2) Accruals Ensure Proper Timing of Recognition:

If we receive a utility bill in January for December's consumption, we would accrue the expense in December.

The accrual journal entry would use the relevant budget code (e.g., 600-000-5210 for Utilities) to record the expense in the correct period, even if the invoice hasn't arrived or isn't paid yet.

Budget Code Role: Essential for accurately reflecting expenses in the correct reporting period, regardless of cash flow. This is crucial for donor reporting on specific program periods.

4.3. Disbursements Track Actual Cash Payments:

When the invoice (or accrued amount) is paid, the disbursement is recorded.

This entry typically debits Accounts Payable (or the expense account directly if no prior accrual) and credits Cash/Bank.

Budget Code Role: While the primary classification happens at the invoice/accrual stage, the budget code ensures that the payment is linked back to the correct expense category, allowing



for cash flow analysis against budget lines. Our financial system will automatically link the payment to the initial transaction coded with the budget code.

4.4. General Ledger:

The GL is the central repository where all these transactions (from invoices, accruals, disbursements) are recorded.

Each transaction line in the GL will carry the full budget code, allowing us to generate reports by department, by program, or by natural expense type.

Budget Code Role: The backbone of our financial reporting system, enabling detailed analysis and reconciliation.

5. Implementation Steps & Recommendations for Ethiopia:

Develop a Detailed Chart of Accounts (COA): The "Natural/Economic Account Code" segment is essentially a part of our COA. We'll need a full COA that includes asset, liability, and equity accounts, in addition to revenue and expense accounts. Ensure it aligns with Ethiopian accounting standards (e.g., IFRS/IPSAS adoption for NGOs).

5.1. Financial Software:

Invest in accounting software (e.g., QuickBooks, Xero, or NGO-specific software like SAGE Intacct, or even a robust Excel system initially) that can handle multi-segment budget codes. This is critical for managing the complexity.

5.2. Policy & Procedures:

Develop clear financial policies and procedures that detail how budget codes are to be used, who is responsible for assigning them, and the approval process for expenditures.

5.3. Training:

Train all relevant staff (program managers, finance team, procurement) on the budget code structure and its importance.

5.4. Regular Review:

Periodically review your budget code structure. As our organization grows and programs evolve, we may need to add or refine codes.



5.5. Donor Requirements:

Be prepared to adapt your reporting to specific donor requirements. Our comprehensive budget codes will make this easier, as we can often map our internal codes to donor budget lines.

5.6. Ethiopian Context - Tax & Regulatory:

Ensure your expense categories are granular enough to support tax compliance (e.g., separating taxable income from grants, tracking withholding taxes if applicable).

While budget codes are primarily for internal management and donor reporting, having a well-structured COA that underpins them will help in preparing financial statements that meet Ethiopian accounting and reporting standards.

Consult with a local Ethiopian accountant experienced with NGOs to finalize your Chart of Accounts and ensure full compliance with all relevant regulations (e.g., Charities and Societies Agency - CSA requirements).

