

# BUDGET MANUAL

## CHAPTER II OF OPERATIONS & MANAGEMENT MANUAL

**With Effect from 01 April 2017**



## Introduction

Over the past years, Transparency International Bangladesh (TIB) has significantly grown both programmatically and institutionally. We have the distinction of being the largest chapter of TI in the world implementing multi-dimensional and robust programmes. This means that we are handling larger and newer resources, projects, staffs, partner and vendors. With this growth, the policies and procedures related to Budget have required updating and amendments to ensure the high standards of transparency and accountability that TIB is known for, and is expected to be. Our main objective is to ensure that our budgeting procedure and all actions, decisions and activities related to it represent highest standards of economy, efficiency and effectiveness.

What follows here is the amended and updated version of TIB Budget Manual approved by the Board of Trustees of TIB at its 91st meeting held on 29 March 2017. All relevant members of the staff at all levels and locations are expected to be conversant with the provisions of this manual and to fully comply with the same. The Board and management hope that the policy will be fully enforced without any exception so that the underlying responsibility and accountability framework are strictly observed.



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**Executive Director**

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## **Section I: Budgeting Procedure**

### **1. Introduction**

TIB being a Trust and its current projects are funded by donors would like its fund to be used in the most efficient way and to its maximum potential for bringing optimum results.

Budget is a tool and a standard for appraising operational efficiency and results. In simple terms, budget is a financial and quantitative statement prepared and approved prior to a defined period of time, of the policy to be pursued during that period, for the purpose of attaining a given objective.

### **2. Budgeting Procedure**

As an organization TIB needs to prepare its annual budget which should include budget of its different projects. It starts with the overall objectives, major thrusts and action plans of the divisions for attaining their objectives in part or in full during a 12 months period. Project budget may be prepared for long term period at a time. As in practice, budget is expressing use of fund in figures typically set up the same the way as the accounts in TIB's accounting system.

The figures as estimated in the budget for the divisions/departments/units for carrying out their activities must be matched to be sure that they are mutually consistent and combined in the applicable budget heads and cost centres and result must be examined in terms of overall activities. Some adjustment may probably be necessary to obtain such a balanced program. Budget should also reflect priorities; inter coordination of activities and correction of deviations. A compare of the actual results with the estimates may point out significant difference calling for corrective actions. Thus budget becomes a standard for appraising operating results of the divisions.

It is, therefore, important as to how the budget is prepared, how actively divisional heads and Managers are participating. A reflection of their work plan, decisions and design in setting spending and extent of achievement in the budget will make them confident in controlling expenses and achieve their target. Budgeting will thus give them a unity and direction to targeted operations. Preparing budgets for subsequent years if for the same goal may take an incremental budget approach or a compromise of incremental and zero based budget.

### 3. Budgetary Control

The spenders are required to make effective use of fund with expenditure being up to and not beyond the limit. They may need considerable direction and motivations. Thus a control, and the aspect of budgeting known as responsibility accounting, can be established. The control consists of techniques concerned with responsibility of those in-charges of spending at the cost centres and those supervising them. They should be given considerable discretion with the budget thus decentralizing responsibility. They will conduct periodic review of work, achievement and budget subject to savings or over expenses and prepare a revised plan and budget including suggestion of source of fund within the project. Explanation should be asked for explaining any serious deviation i.e. variance from the expected cost.

During the implementation of programme activities, event based Budgets will be approved by the officials as per Table of Authority.

In some cases, the variance may be unavoidable and relate to matters outside the control of TIB. Sometimes expenses of a division may go beyond the budget and the Directors, Managers and spenders in the division may come under pressure to minimize expenses. Side by side with controlling measures, the importance of the division, the service they deliver should also be taken into consideration.

Thus the budget will serve the purpose of planning, organizing, supervising, coordinating and understanding the constraints and the inroads causing variance.

### 4. Establishing Budget Structure

For an effective budgetary control it is necessary to set up a budget structure with the following elements and tools for TIB as a whole and separately for individual project. Close coordination and functional relationship between the lateral positions across the divisional/departmental/unit boundary is an important aspect of budgetary control and should be encouraged.

- ❖ Program/Project
- ❖ Non programme but planned activities
- ❖ Location
- ❖ Cost Centre
- ❖ Chart of Accounts
- ❖ Organization Chart

## 5. Preparing Budget

### 5.1 Project Budget

Before preparing budget, the divisional/department/unit heads may sit together and finalize their divisional work plan. Considering financial implications of the program implementation, a budget should be prepared for the specific period.

The Director-Finance & Administration is the budget controller of TIB, who shall then prepare a budget guideline and budget formats where to put and arrange the estimated figures and send those to the budget holders i.e. to the division/department/unit heads and designated Officials at field level. The formats are prepared as such to fit in the budget structure i.e. the program, location, the description of transactions and the budget code numbers, the components of program budget and core budget so that when figures are jotted down in the blank squares of the format by the spender, a budget and control measures come up.

The formats duly filled in should then be forwarded to the divisional heads, who shall check and review the estimates, and in turn forward those to the Finance & Administration Division. The Director-Finance & Administration may examine and evaluate the divisional budget estimates and if there is any scope for adjustment and making the budget more consistent, may discuss those points again with the divisional heads and, if necessary, also with the real budget holders down the ladder.

The budget for the allocated fund for CCC activities to be prepared (ref: CCC Finance Manual) by the CCC and field staff following the instruction and formats of TIB.

The Director-Finance & Administration then shall edit and compile the budget proposal for review of the Executive Director/Deputy Executive Director and approval of the Board. The Management shall along with the budget proposal submit a note defining the targets, visualizing the results and justifying the cost. The Board will approve the project budget before commencement of accounting year of the specific project of TIB. The Board will approve the Project Budget within the 3<sup>rd</sup> month of 4<sup>th</sup> quarter of each project accounting year. If board meeting is not held before commencement of the project accounting year, it will be adopted in the next board meeting. The approved budget must reach the division heads and the budget holders before the budget period starts.

## **5.2 Organizational Budget**

Once project budget is prepared by the divisions/units based on project accounting year, preparation of annual organizational budget will be the task of Finance & Administration Division. Project budget will have quarterly break-up based on project accounting year. Designated Manager-Finance & Accounts shall compile the project budget to fit the project budget in the annual budget of TIB.

The Director-Finance & Administration will check the compiled annual budget and forward to Executive Director/Deputy Executive Director for review. After review of Executive Director/Deputy Executive Director, the budget will be presented to the Board for approval. The Management shall along with the budget proposal submit a note defining the targets, visualizing the results and justifying the cost.

The Board will approve the annual budget of TIB within the 3<sup>rd</sup> month of 4<sup>th</sup> quarter of TIB's accounting year. If board meeting is not held before commencement of accounting year, it will be adopted in the next board meeting.

## **6. Budget Monitoring**

The Director-Finance & Administration shall be responsible for preparing budget variance report and in the process shall closely monitor the budget and oversee the schedule and progress of work and expenses, prepare monthly accounts, compare the actual line item-wise expenses with the budgeted figures and prepare a variance report clearly showing the extent of variations and suggesting corrective measures. Copies of variance report should be sent to the Divisional Directors for taking corrective measures, giving the spenders guidance and to motivate them. The Directors, where appropriate, may ask for explaining the reasons for variations and for future adjustments. A copy may also be forwarded to the Executive Director/Deputy Executive Director. A quarterly/periodic budget variance report will be placed before the Board. If asked for, a budget variance report showing justifications, environmental changes and factors beyond control may be sent to the donors in the format prescribed by them, no more frequently than once in a quarter. The monitoring of the CCC/field level allocated budget will be done following the instruction of Chapter IV (CCC Finance Manual).

### **6.1 Budget Monitoring Meetings**

The Director-Finance & Administration and Divisional/departmental/unit heads may from time to time hold budget-monitoring meetings with the budget holder, at the locations and obtain their

agreement to the remedies postulated by the Finance & Administration Division. While monitoring budget, the management must consider the changes in price index and other social and environmental changes that might have taken place during the budget period.

## 7. Budget Cycle

Generally, the budget Cycle of TIB shall be in line with accounting year of the organization and the budget cycle of any project of TIB shall be in line with accounting year of the respective project.

In case of budget of any project of TIB, a budget guideline will be issued in the 1<sup>st</sup> month of 4<sup>th</sup> quarter of each project accounting year by the Director-Finance & Administration. The all units/departments/division (including CCC/field offices) will prepare the budget and send the draft budget to Finance by the 2<sup>nd</sup> month of the 4<sup>th</sup> quarter of each project accounting year. Finance will review and compile the same and prepare the draft yearly budget of the project. The draft then be shared with the Board and finalized within the 3<sup>rd</sup> month of the 4<sup>th</sup> quarter of each project accounting year.

In case of budget of TIB, Finance & Administration division will prepare the draft budget of TIB by the 2<sup>nd</sup> month of 4<sup>th</sup> quarter of each accounting year and will submit to the Executive Director/Deputy Executive Director for review and to the Board for approval. Draft budget of TIB will be finalized within the 4<sup>th</sup> month of 4<sup>th</sup> quarter every year. The yearly budget shall be adopted by the board meeting before commencement of accounting year of TIB. If board meeting is not held before commencement of accounting year, it will be adopted in the next board meeting.

## 8. Budget Code

In order to facilitate preparation and monitoring of budget, the major heads of expenditure i.e. the description of transactions and further split ups of those into line items need to be codified. The Director-Finance & Administration will numerically codify project and location wise the major heads of expenditure, the line items, in a format and shall remain in-charge of re-designing and changing the format and code numbers as and when necessary.

## **Section II: Cost Sharing**

### **1. Charging of Costs to Projects**

TIB shall implement multiple projects at a time. Each project shall have specific budget as details as possible to ease charging costs of the specific project to that project. There may have few common costs, which need to be charged to all projects based on reasonable ground of cost sharing. There may have cost items which shall not be allowed by Donors as well as TIB based on conditions of allowability of costs.

#### **a. Segregating Unallowable from Allowable Costs**

Finance & Accounts unit shall check cost items to be satisfied on allowability of cost at the time of reviewing procurement process documents/payment request before processing payment. Donors may have a list of unallowable costs, which shall be considered for segregating unallowable from allowable costs. Considering Donors requirement, TIB may also create list of unallowable costs time to time to avoid charging unallowable costs to any project.

#### **b. Allowable, Allocable, and Reasonable Costs**

The concepts of allowability, allocability, and reasonableness of costs shall address directly the legitimacy of a cost that will be charged against a specific project grant. Determination of allowability, allocability, and reasonableness of a given expense shall be based on specific guidelines of the donors and according to the provisions laid down in this section. Finance & Accounts unit shall ensure that all costs charged to a specific project are allowable and allocable.

#### **❖ Allowability of Costs**

##### **Costs must meet the following general criteria in order to be allowable:**

- The cost shall be necessary and reasonable for the performance of the grant award and shall be allocable thereto under these principles.
- The cost shall conform to any limitations or exclusions set forth in this manual as to types or amount of cost items.
- The cost shall be consistent with policies and procedures that apply uniformly to both grant awards and other activities of TIB.
- A cost shall not be assigned to a grant award as a programme activity cost if any other cost incurred for the same purpose in like circumstances has been allocated to grant award as programme operation cost.
- The cost shall be adequately documented.

❖ **Reasonable Costs**

A cost shall be reasonable if, in its nature and amount, it will not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the project or the proper and efficient performance of the grant award.
- Market prices for comparable goods or services for the geographic area.
- Whether TIB significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the grant award's cost.

❖ **Allocable Costs**

A cost shall be allocable to a particular grant award or other cost objective if the goods or services involved shall be chargeable or assignable to that grant award or cost objective in accordance with relative benefits received. This standard shall be met if the cost:

- Shall be incurred specifically for the grant award;
- Will benefit both the grant award and other work of TIB and can be distributed in proportions that may be approximated using reasonable methods; and
- Will be necessary to the overall operations of TIB and will be assignable in part to grant awards.

Any cost allocable to a particular grant award shall not be charged to other grant awards to overcome grants deficiencies, to avoid restrictions imposed by the donors, regulations, or terms and conditions of the grant awards, or for other reasons.

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

**c. Direct Costs**

Direct costs shall be the costs that will clearly be associated with specific activities or projects. This types of costs are easily identifiable and shall directly be charged to that activity or project. These costs shall not be charged as core cost/overhead cost.

**d. Indirect and Joint Costs**

Indirect costs shall be the costs that will not directly be associated with a single activity or project. Such costs shall frequently be aggregated into an overhead cost pool and allocated to various activities or projects based on allocation/distribution method.

Apportion (i.e. share out) of core costs to each project or activity that are implemented by TIB shall be good practice. This will help to work out the total cost of running each specific activity.

**e. Indirect Cost Rate**

**Indirect cost rate** shall be a tool for determining the proportion of **indirect costs** each project should bear. It shall be the ratio (expressed as a percentage) of the **indirect costs** to a **direct cost** base. Ratio of indirect cost to be shared by projects shall be determined time to time considering standard method of sharing costs.

**f. Allocation of Core Costs**

'Core costs' shall be the central administrative costs that TIB has to pay to run the organization.

**There are various strategies for allocating core costs to projects, which may be as follows:**

- ❖ **An accurate budget for core costs shall be prepared.** This will help keep them to a minimum and show exactly how much funding will be need.
- ❖ **Core cost shall be allocated as much as possible to specific projects.** For example, a shared vehicle making journeys for a specific project, or a shared photocopier making copies for a particular project activity. This will reduce core costs, by re-classifying them as project costs.
- ❖ **Any money that donors may provide for core costs shall be claimed.** Donors may allow claiming a certain amount for 'administration', 'core costs' or 'management fees'. This amount shall be claimed as per budget allocation of the specific project and proportioned core cost shall be charged to that project.
- ❖ **Specific sources of funding for core costs shall be identified.** This may be tough but this shall be beneficial when donors funding will not be available for a certain period.
- ❖ **Unrestricted funding may be used to pay for core costs.**

**g. Apportioning Core Cost**

Total costs of each project shall be equal direct costs plus a share of core costs. Core costs may be apportioned to different projects in a number of ways. For example, split by the relative size of:

- ❖ Project staff hours
- ❖ Project budget
- ❖ Estimated use, e.g. office space (for rent).

Appropriate method shall be used to share core cost to projects.

## **Section III: Partnership Policy**

### **1. Introduction**

Transparency International Bangladesh (TIB), a Trust formally established in 1996 to combat corruption in the manner set out in the Trust Deed is the accredited national chapter of the Berlin-based Transparency International. It is an independent, non-government and non-partisan organization with a mission of catalyzing a sustained and effective demand and a social movement in Bangladesh against corruption. In order to receive foreign donations, TIB was subsequently registered under the NGO Affairs Bureau of the Government of Bangladesh. TIB is committed to the:

- **Vision** of Bangladesh in which government, politics, business, civil society and the daily lives of the people are free from corruption;
- **Core values** of democracy, justice, rule of law, transparency, accountability, integrity, courage and equal right of every individual irrespective of age, sex, religion, culture, ethnic origin or any other marker of identity; and
- **Mission** to catalyze and strengthen a participatory social movement to promote and develop institutions, law and practices for combating corruption in Bangladesh and establishing an efficient and transparent system of governance, politics and business having regard to gender equality and a policy of non-discrimination on grounds of religion, race, caste or place of birth.

### **2. Guiding Principle**

With full commitment to strictly adhering to the above vision, values and mission, TIB has adopted the following Partnership Policy. In this regard TIB is guided by:

- the Trust Deed which declares that TIB shall cooperate with approved institutions and bodies for the purpose of enabling transparency; and the Governance Manual and Code of Ethics adopted on February 25, 2005 having regard to institutions and bodies approved by regulatory authorities and the TIB Board of Trustees.

### **3. Scope of Partnership/Cooperation**

The term “Partnership” or “Cooperation” here indicates relationships or arrangements ranging from participation in, and collaboration with, and/or joint organization or co- sponsoring of, specific events and/or programmes to common platform, forum, coalition and/or other forms of institutional

arrangements that would promote and/or strengthen a social movement against corruption and towards increased demand for accountable and transparent governance in Bangladesh.

#### 4. Terms of Reference

- a. TIB shall participate in, and/or facilitate and develop institutional and/or programmatic or issue-based partnerships with all such organisations and/or initiatives that are registered under relevant laws of Bangladesh and that would promote TIB's vision values, mission and objectives. Status as a legal entity in Bangladesh and commitment of partner organizations to transparency and accountability are to be considered as minimal requirements.
- b. All partnerships shall be on equal footing, and with due recognition of all partner's contributions-organizational, technical, financial and/or otherwise.
- c. The use of TIB name and logo in connection with any partnership/cooperation shall be only on the basis of approval of TIB, and shall be limited to the purpose and duration of the partnership only.
- d. All partnerships shall be on voluntary basis having no implication of imposition in terms of objectives, ideas and policies, and organizational, technical and financial capacity.
- e. TIB shall not take part in any partnership that may impair or constrain TIB's:
  - ❖ independence in pursuance of its own goals and activities;
  - ❖ anti-corruption values and goals;
  - ❖ governance, management and financial independence and self-reliance; and
  - ❖ freedom to pursue its activities in accord with its mission
- f. TIB shall not engage in any partnership that may:
  - ❖ bring TIB into disrepute or impair the credibility of TIB by giving an impression that such partnership is fostering ideas or policies or promoting individuals or institutions in a manner that is not consistent with TIB's values;
  - ❖ facilitate or bring favours or benefits in private life of any individual or institution involved;
  - ❖ promote any partisan objective, ideas, belief or position, or interfere with the non-partisanship and neutrality that are the hallmarks of TIB; and
  - ❖ influence the prospect of present or future employment, business, financial or any other forms of material interest.
- g. TIB shall not undertake any partnership that may be detrimental to the terms of its accreditation with Transparency International.
- h. Before entering into partnership/cooperation with any approved institution or body, TIB shall undertake due diligence on the intending partner-institution or body. Towards that end TIB shall determine:
  - ❖ whether that intending partner-institution has the legal capacity to undertake the particular activity under its own charter, governing document, etc.;

- ❖ whether that intending partner-institution has the legal capacity to enter into a partnership consistent with TIB's objectives as set out in the Trust Deed and its other governing documents;
- ❖ whether the disclosures made by Trustees or Members of the Governing Board of the intending partner-institution, by whatever name called, have made disclosures on matters as have been made by TIB's own Trustees;

*Provided that*

- ❖ Where TIB's Board of Trustees are of the opinion that a partnership may be fostered for a specific purpose or purposes for a short period of time, Clause 13.8 a, Clause 13.8 b, Clause 13.8 c above and Clause ii below need not be strictly applied.
- ❖ Upon such due diligence, TIB may itself verify the findings with its own criteria for transparency and accountability.

## **5. Termination**

- a. TIB shall retain the right to suspend or terminate any partnership arrangement at any point of time when it deems appropriate in the interest of TIB.
- b. In case at any time during or after TIB's partnership with any institution or body it is proven that the partner(s), body (bodies) or individuals involved have by their acts of commission or omission brought TIB to disrepute or attempted to do so, TIB shall disown such partnership and shall never again be involved in any partnership with these institution(s) or body (ies) or individual(s).

## **Section IV: Amendment Process**

### **1. Amendment Process**

The Executive Director is authorized to interpret and clarify any provisions of this policy and develop/design/amend process, procedures, forms and formats required for smooth implementation of policy.

Any gross amendment of this manual shall be made by the Board. If any change is needed in these areas, Director Finance and Admin will propose to modify existing policies through Executive Director and upon approval of the Board of Trustees, they will be amended. Director-Finance & Administration will communicate the changes to the employees as and when they occur.

**END**