GOOD PRACTICE GUIDE TO BUDGET MANAGEMENT FOR ASSOCIATIONS

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BUDGETS ARE THE FINANCIAL MANIFESTATION OF A PLAN FOR ACTION. IN ANY GIVEN YEAR THEY CAN SERVE AS WORK PLANS TO GUIDE DECISIONS AND BENCHMARK OPERATIONS AGAINST EXPECTATIONS AND PREVIOUS YEARS' PERFORMANCE. EFFICIENT BUDGET MANAGEMENT IS A KEY FACTOR IN DETERMINING THE EFFICIENCY OF AN ASSOCIATION.

WHAT IS BUDGET MANAGEMENT?

Budget management is the proper drafting and the periodic analysis of an association budget. The association's budget should be compared with the actual expenses so that deviations can be identified in an early stage and an analysis of reasons for discrepancies can be made. A comparison with the association's revenue needs to be done, and receivables and doubtful debts need to be identified. This periodical analysis will allow to better plan and budget the following year.

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WHO IS RESPONSIBLE FOR BUDGET MANAGEMENT?

The Board has financial accountability: drafting the annual budget, monitoring expenses and revenue, monitoring the association's financial status/ extraordinary expenses and presenting the budget and accounts to the association membership at the AGM. The Board can delegate budget management to the Treasurer or an audit committee.

PROCESS TO FOLLOW WHEN DRAFTING A BUDGET

All association representatives with authority to spend funds - such as committee chairs - should provide a budget proposal to the Treasurer four months before the beginning of the financial year. This proposal should explain any activities that those with spending authority would like to carry out.

The Treasurer should then review each proposal and evaluate if this proposal is in line with the association's strategic goals. Expenses should be prioritised if they exceed income. (Some associations distinguish between 'must have' and 'nice to have' items.)

The Treasurer would then compile these proposals and submit a total budget to the Board for approval. This budget should include a comparison with the current year's actual figures and year-end estimates.

Last but not least, the Board would then submit the budget to the Annual General Meeting (AGM) for formal approval.

CONSIDERATIONS TO BE TAKEN INTO ACCOUNT IN DRAFTING A WELL-STRUCTURED BUDGET

+ Objectives for the forthcoming year should be defined clearly and prioritised.
+ Costs related to each approved objective should be estimated.
+ Revenue should be carefully forecast, in particular membership dues which could change according to the economic market situation (downturn, growth, stability) or members' circumstances (cash flow issues, bankruptcy, or mergers, for example.)
+ Expected revenue should then be compared to the estimated costs. If discrepancies are found, the association should consider either looking for alternative revenue sources (such as from publications, registration fees, or sponsorships,) and could also look at cost cutting or goal prioritisation.

WHAT CONSTITUTES GOOD PRACTICE IN BUDGET MANAGEMENT?

Transparent revenue and cost structures, professional reporting and internal control systems contribute to higher efficiency.

TRANSPARENCY

+ In terms of revenue, transparency means setting up clear membership dues structures (based on fixed amounts, or variable depending on market shares) and clear calculation methods (based on market size or capacity for example.) Alternative revenue sources outside of membership dues should also be considered; these sources could include direct company financing of specific projects.
+ In terms of expenses, transparency means clear cost assessment on the part of committees and for each individual issue, with potential measurement of the association staff members' involvement for each activity.

PROFESSIONAL REPORTING

+ The quarterly production of a Profit and Loss Account (P&L), Balance Sheet and Cash Flow statements are all recommended for tracking purposes although this is not legally compulsory.
+ An association Treasurer can act as a bookkeeper, but outsourcing this to an accounting firm is a popular choice.
+ Tailored software which takes into account the specific needs of the association is also important.

INTERNAL CONTROLS

Associations should adopt an internal control system which is overseen by the Treasurer, unless the Treasurer is responsible for the bookkeeping, in which case another Board member should be responsible for internal controls in order to ensure compliance with sound accounting principles.

Based on Kellen Europe's experience, the following are some examples of internal controls:

+ Accounts Payable: Only original suppliers' invoices should be paid.
+ Accounts Receivable: In order to avoid bad debt, pre-payment to events should be made compulsory both for participants and sponsors or issue reminders - after 30 days, with involvement of the Treasurer after 60 days.
+ Cash transactions should be avoided as much as possible to reduce loss of funds.
+ Credit Cards: Only the three major credit cards should be accepted and the information must be kept in a safe place, particularly if credit card payments are stored electronically.

A PERIODICAL ANALYSIS WILL ALLOW TO BETTER PLAN AND BUDGET THE FOLLOWING YEAR

Even if no audit is required, good practice in budget management is fundamental to ensure that any activity of the association is in line with the annual work plan. In this way the association can justify to its membership that the dues paid by members are efficiently used to best advantage.