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UGANDA DEVELOPMENT BANK
Inspiring Development

# The third pillar of business sustainability:

# ACCOUNTABILITY

# Accountability for your business success

## Why every business – small or large - needs proper accountability systems specifically - internal controls, working capital management & compliance.

*"A leaking container cannot hold water for too long", Mustapha B Mugisa*

***A personal story***

Is your business growing at the rate it should or it is stagnating? I mean, have you ever run a business where you kept on working hard and harder with no tangible results?

Me too!

When I started a consulting business on 20th June 2004, I felt on top of the world being my own boss. I thought succeeding as entrepreneur was all about starting a business. I was naïve. Running a business is not easy as I later found out. The good thing is it helped me face reality and understand it takes hard work, persistent and resolve to make it. But that is not enough. You need strong mastery of the fundamentals or pillars of business success. One such pillar is establishing strong accountability systems.

Unfortunately, many would be entrepreneurs lack the staying power needed. They give up easily on encountering the slightest of obstacles. When such obstacles find a business built on a weak foundation, it easily gives way.

Others start businesses when they have not properly planned. I am a victim of the latter.

As a Chartered Accountant, when I resigned from my first job as an Internal Auditor in a bank, the easiest business to join was consulting. I thought "I could make money helping people improve their business success."

The good thing with Internal Auditing is that it involves meeting all the people in the company and reviewing all operations company-wide then writing reports for the board and management attention. This gives the auditor exposure and good experience about how to help others to grow. With this background, I thought I had the skills and experience needed to be on my own as a business consultant. I was wrong.

People in business were already smarter. They needed role models with reputable names like the 'big 4' audit firms not the newbie consultants that had no experience in managing their own businesses.


I spent over seven months plying Kampala streets looking for consulting projects unsuccessfully. It was tough. I had to think of plan B, but it was not easy. I needed capital, which I did not have, and without a job and collateral no bank was willing to give me money. Keep in mind that I had resigned at a time when I was still having a bank loan outstanding. To make matters worse, I had used the loan to buy a car out of peer pressure. Here I was, with office rent to pay, home rent to pay, monthly loan repayments and of course running bills like fuel and eats. Without any income, I was becoming desperate. I needed money and I needed it urgently.

To make matters worse, I got an irresistible offer from the owner of a restaurant I used to frequent for lunch. "I have noticed you love this place. I am looking for a business partner what if I gave you an offer?" I said sure, I would love it. He said "I am giving 20% shares in the restaurant for Ugx 10m (US $4,000). I told him that "let me think about it." The truth is I did not have that kind of money. I tried calling few friends for a loan in vain. I tried banks, but without a full time job and collateral no bank was willing to give me money.

On the 15th August 2004, I boarded a taxi heading to Kireka, where I used to live. In the taxi I sat next to an old man. He had an Obote like haircut and looked well educated. I just sat quietly beside him on my right. As we were approaching Spear motors junction, after a 10 minutes' drive, the old man tapped on me and said: Hi, young man. What do you do? I looked at him and said: "I am a consultant. I help people solve their problems." He looked at me in the eyes for some seconds, and quickly replied: "you look worried, why not fix your own problems first?"

I said I need capital but no bank is willing to give me the money.

The old man said to me: "don't neglect to do this. Go, write down the top four things you are good at and focus on how to use them to raise capital." He added: "once you do it, use the principle of positive float –always think about your strengths."

For long, I thought I needed capital when in fact I had the capital. I was the capital.

When I reached home, I got a paper and a pen and wrote down my personal strengths. I don't know why it was tough writing my personal strengths. And come to think about it, I had never looked at what I was good at. I always ▶▶

looked at problems.

Writing down my strengths helped me discover that I was good at writing, healthy and a Chartered Accountant!

I thought, what about visiting Universities and trying to teach accountancy on part-time. I tried three training institutions in vain. Reluctantly, I tried the fourth one. Thank God they had a department of professional programs and they welcomed me with two hands.

Now, I had a part time job as a lecturer paying me Ugx. 150,000 (US $ 60) weekly.

Finally I had some little income to help me pay my expenses.

I also realized from my Girlfriend, now my wife, that as a consultant, my capital was my brains. What if I offer free consulting services to the restaurant in exchange for the 20% shares offer. The next day, I went to the restaurant and met the entrepreneur and told him how I could offer professional advice to turnaround his restaurant. "With this kind of setup, you don't think it needs capital to grow. You need ideas, and I am willing to put in my best."

He promised to get back to me the following day. And on 3rd September 2004, he called me to join him as a co-director. I will never forget that day. I was very excited.

Somehow, I was naïve. I did not like to be committed, so I didn't bother signing any agreement of the partnership. I wanted to first prove myself. With hindsight, that was another mistake I made. But that is life.

You learn from mistakes.

The first day I visited the restaurant my first task was to understand the business – which as consultants we call – current state assessment. I got to realize that my partner had a full time job. He had entrusted all the affairs of the restaurant to the General Manager, a tall guy who always had jeans, to run the restaurant. That was good. The bad thing is I noticed lack of proper supervision and poor accountability for stock and meals.

From my chat with the manager and one of the waiters, I noticed that basic but critical business processes for this kind of business like documentation, record keeping, stock take, banking all cash sales intact, payroll, tax returns, etc were not in place. I requested for the daily sales book and the manager said it had been misplaced. He promised to avail it the next day. I asked for a copy of the asset register, they told me they were just writing one. It was so surprising that the restaurant was always full but reported no profits.

I decided to study the restaurant operations – kitchen processes including procurement, standard measurements and serving. Of course, the manager was getting tired of my presence. I noted lots of wastage of food and utilities. Worst of all, the manager would sell own stock in the restaurant and take the profit.

The more I probed, the more I noted a lot of challenges. I discovered several outstanding debts with food suppliers, utilities and outstanding taxes. I also got to understand that the manager would give free food to some of his two brothers who worked in the vicinity.

Overall there was general lack of checks and balances in the business. The restaurant lacked a good team and a proper strategic outlook to grow it. The restaurant was struggling because it was having several business leaks. For example:

i.Daily sales were not deposited to the bank account intact. Money collected was being used without first banking it.

ii.No system for recording daily sales was in place.

iii.The costs of providing food were not being computed. I realized that the food pricing was not realistic. The food was being sold cheaply.

iv.The person buying food from the market would inflate the prices. That was a leak.

v.There were several instances were some 'customers' would eat food and disappear without paying. That was another revenue leak.

vi.The manager's friends and family would enjoy free eats. That was a leak.

vii. Power would be left on lighting the whole night, with the cooler on, even when was empty. That was a leak.

viii.It was normal to find in the morning water flowing, because during the day when it had disappeared, they opened the taps and forgot to close them before departing home at the end of the day. That was another big leak.

ix.And of course, some staff would not turn up to work on the pretext of being sick yet they would be paid for a full month. That was another leak.

x.The business had over eight staff, yet it had no payroll and NSSF compliance!

xi.The restaurant had no documented plan on how it intends to grow and remain competitive in future. There was no plan and strategy to provide a course of action.

xii.Staff would first boil tea in the morning, serve themselves and then start working. That was another leak!!

Let me ask you a question:

When it comes to your business, how do you ensure that there are no leaks? What scale do you use to know whether you are improving or declining?

After about two months, I documented all the findings and my recommended suggestions to improve the business.

I suggested that we relieve the manager of his duties as he lacked basic business skills. In my own assessment, he was a good cook, not manager. I also suggested we introduce fast foods which are more profitable as they are easy to make and the fact that our location near a University gave us huge University students' potential market who are not yet minding about their health i.e would eat any kinds of food. That also meant that we needed a new chef! This meant that we needed two people – a new chef to make fast foods and a general manager.

I said, once we have those people, I would work with them to fix all other issues like documenting a plan, systems and controls. My partner, and majority shareholder, rejects the idea of a new general manager. ▶▶

*" GO, WRITE DOWN THE TOP FOUR THINGS YOU ARE GOOD AT AND FOCUS ON HOW TO USE THEM TO RAISE CAPITAL, ONCE YOU DO IT, USE THE PRINCIPLE OF POSITIVE FLOAT –ALWAYS THINK ABOUT YOUR STRENGTHS."*

However, we agreed to introduce fast foods. All we did was to invite just three beautiful ladies to always come to spend their time at the restaurant especially during lunch for free eats.

I documented a 10 pages finance manual – covering the critical operations of the business especially procurement, sales, bank recompilations, management reports and introduced quick books into the business.

And it worked. By the end of 2005, we were making Ugx. 3 million net revenue monthly from loss making. We were planning to register the business with URA as the business was growing.

We then started on the plan of opening a second outlet.

Unfortunately, my partner had other ideas. He saw the business was expanding and thought I am going to get rich on his money.

He started avoiding picking my calls. He said he wanted to pay me Ugx. 2m and get back his shares, and that he was helping me since we had not signed. I told him how I had put a lot of time and commitment to prove myself to which he suggested I could as well start my own restaurant.  I was short of words and I decided to take the money. I wanted to reject it, but remembered my grandpa's words: never leave any money you deserve behind! I took the Ugx. 2m and went back to my consulting.

Thank God I continued doing the part time lecturing.

With more time on my hands, I put more effort into consulting but it was not easy.

Without a strong brand name, no prospect wanted someone to learn on their business. Almost every prospect I met would ask the following questions:

*Which other clients have you worked with?*

*What is the biggest contract you have handled in the last one year?*

And then the dreaded last words:

*"We have no money for this."*

There is a particular prospect who kept me hoping for a deal that never came.

That year to November 2005, I moved from company to company trying to find something to do in vain. Even the people who had told me while I was still working in a bank that they would give me projects if I were a consultant, did not want even to meet me. You would call someone and make an appointment, only for them to send you an SMS an hour to the agreed time that something urgent had come up!

With disappointments from my restaurant partner, no business in consulting, I started to rethink my career growth options. My main worry was;

"How will I be in the next ten years if things continue like this? What do I need to do to adjust?"

I had no clear answers.

The truth is the quality of the people you work with can make or break your business. So, which kind of people are you working with? Are you sure they are genuine?

Don't neglect to do this: try to do some background check on the key people you want to do business with. If someone has a history of lack of untruthfulness, they will probably let you down.

Two years later, I was told the restaurant had closed down due to mismanagement. Apparently, the Uganda Revenue Authority discovered that the company had never registered for taxes.

But I had moved on. That will be another story.

**Exercise 1:** In the space below, write the amount of money you think your business loses annually to fraud?

**Exercise 2:** State below five fraud schemes by which you think the money is lost in your business…


*finance manual covering the critical operations of the business*

**Fact:**
Do you know that your business loses about _______________ of its annual revenue to fraud and other revenue leaks yet you don't make as much in annual profits? And you wonder why your business never grows as it should. All the profits are lost to wastages, inefficiencies and frauds.

**Note this carefully:**
A leaking container cannot hold water for long. If your business is leaking, it won't grow.

*Source: Internet photo.*

If your business has any kind of leaks, it will take you too much effort to get it to the next level.

As a business manager or entrepreneur, how do you ensure that you have a sound sleep at night without being worried about your business?

What measures have you put in place to ensure that your business is not having unnecessary leaks?

**Exercise 3:** In the space below, list your top five business assets/ resources (or what are the top 5 things in your business, if they are not there, you would close?)

**Exercise 4:** In the space below, list the controls you have in place to ensure that your top business assets are safe from loss – accidental or intentional.

**Reducing business leaks**

Every business needs a system of internal controls – methods put in place to handle everyday risks of mistakes, confusion or fraud. Controls also protect staff from any pressure to misuse resources (money and other assets) and from the suspicion of wrong-doing.

As a business owner, you want and must ensure that the right things happen, and the bad things don't. You must minimize loses or wastages and ensure you maximize revenue or profits. If you don't, your business will start having leaks slowly, which will keep expanding until you start noticing – most of the time you will get to notice when it is too late.

*Let's go to the golden rule of business:*

**Assets = Liabilities + Owners Equity.**

What are your assets? In your business, do you have any of the following?

1. Property, plant and equipment?
2. Furniture and fittings?
3. Motor vehicle/ motorcycles
4. Goodwill (you've been in business for too long, and so you have a good image in the market and people come to buy because of your credibility and good name?) if yes, you have goodwill.
5. Stock or inventory
6. Debtors
7. Investments in other businesses or in securities on the stock market
8. Cash in the bank (positive balance on your bank account)
9. Cash in hand (money you have in your till or pocket).

**What are your liabilities? In your business, do you have any of the following?**

1. Outstanding bank loan and interest?
2. Shareholder loan or loan from friends and family evidenced by an agreement?
3. Outstanding taxes (you collected Vat on sales and you have not yet paid it to URA)?
4. Trade creditors or payables? You got on credit stock from your suppliers and you are yet to settle them?
5. Other liabilities like unpaid staff salaries, unpaid rent, and other unpaid bills?
6. Unearned revenue (revenue received in advance for services/ goods you are yet to deliver?).

***And finally:***

*How much capital did you put into the business? What exactly do you own in the business?*

1. Startup capital: how much money did you start with? In my restaurant example, I injected my brains. That is my equity or my share of the business (although I did not formalize the legal documents to protect my business interests. That was a good lesson).
2. Has the business made any losses or profits? If you make a profit, your share value will increase in proportion of your capital contribution. If you make a loss, it will be reduced. You must ensure that you don't allow making a loss at all costs.

In simple terms:

The primary objective of starting a business is to increase the owner's equity – your equity.

This can only increase if your business is well managed and profitable so that you sell products or services which have buyers in a way that your customers are willing to buy from you at a higher price than you are putting in to run the business.

That is:

| | | |
|---|---|---|
| Selling price | = | 2,000 |
| Less costs of sales | = | 1,500 |
| Profits | = | 5 00 |

***Summary***

**Exercise 5:**
***Business objectives***

a) Write down your top three business objectives? Why are you in business?

1.To grow your business _____________ _______________________________________

2.To manage _____________________________ in the business well

3.To grow or increase owner's _________ __________________________________________

To achieve the above stated objectives, you must establish a system of internal controls and train people how to use it.

You must put in place a system of checks and balances to ensure that your business grows; and also remains in existence even after you retire.

Great businesses are built on a foundation of strong internal controls.

**What are internal controls?**

See page 12, above.

Without a proper system of internal controls, it is difficult to minimize leaks in your business. If you don't minimize or remove the leaks, your bank account won't get full. You will not have enough money to run your business. You will have increasing liabilities and your shareholders equity will decline. Your business will struggle in which you must get a loan or work too hard with minimal results.

That is the price of not putting in place a system of checks and balances. Your business risks closing.

Just like my restaurant, I got to know too late of the business leaks. I learnt that, when it comes to business success: only trust after putting in place adequate controls.

Internal controls are designed to ensure:

1.Your company assets are safeguarded

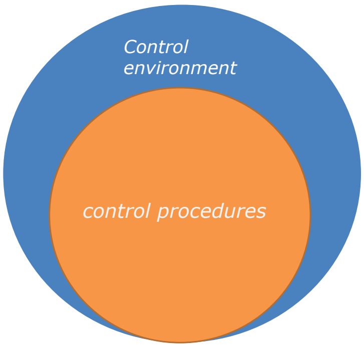
2.Any fraud or error or leakage is detected as soon as possible, and prevented

3.All business records, especially accounting records are accurate, complete and up-to-date, so that you make right decisions for your business

4.The business is compliant with all relevant laws and regulations; so that it is not closed down

5.Employees are protected - from themselves and each other; so that there are good working relationships.

There are two important aspects of an internal control system: the control environment, and the control procedures that take place within that environment.




**Exercise 6:**

What is your control environment? On a scale of 1 to 5, score yourself or company. 1 for very bad, 2 bad, 3 fair, 4 good, and 5 very good.

1.How do you live by example in your company?

2.Do you recruit and pay your staff fairly or you practice discrimination?

3.Are your company policies and procedures written down and communicated to all your staff?

4.Do you give priority to induction, staff training and audit?

5.What are your company values? Do all staff know them?

Your total here: ___________________ out of 25.

Good control environment starts from the top – with the business owner or entrepreneur, then to the Board of Directors, the Managing Director, Senior Management Team (SMT) and the General Staff.

If your score is below 20, your business has a high risk of business leaks or fraud.

**Control procedures**

Internal control procedures include following:

***1. Physical verification*** – cash counts, asset verification and stock counts.

- Do you do surprise cash counts?
- Have you engraved your company assets to make it difficult to steal or easily sale?
- How do you verify asset ownership? Is your car in your names?
- How do you reconcile your stock?

"In my restaurant, I realized that staff would 'steal the plates' and claim that they had broken. In which case we had to replace them, thereby losing money."

If you fail to continuously verify your assets, you risk losing them to fraudsters. This will derail your business success.

***2.Limited access*** – locks, passwords and bank signatories

- To prevent theft, keep your key assets and key and lock
- Protect your company or mobile phone with a password
- Keep all your bank cheques and statements under lock
- Store your money in a safe place under lock
- Airtime is highly liquid, store it carefully

If you let everyone freely gain access to your money, password s or bank statements, you are increasing your risk of loss of money.

***3. Standard documents*** – standard formats for receipts, payment vouchers, requisitions, local purchase orders, stock control sheet, mobile money registers, etc.

***4. Checks and balances*** – Balancing the manual cashbook, double entry controls over accounting records, reviewing the bank reconciliation.

***5. Approval and authorization*** – budget holders' approval of payments, Board authorization for asset disposal etc.

***6. Segregation of duties*** making sure not one person can carry out a transaction from beginning to end, no self-review or self-authorization.

***7. Reconciliation*** comparing bank statement and cashbook, agreeing a statement from a supplier to your own records

Other internal controls to consider:

***Accounting***

Transparent book keeping is an important control against fraud.

***Budgeting***

Checking the budget before making payments is an important control over spending

***Reporting***

Reviewing financial reports is an important control to detect errors and inconsistencies

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I learned the following lessons

1. Most people think capital is a challenge to their business growth. That is not correct. The biggest challenge you have is lack of clients or customers. You must find creative ways of getting customers. Your first source of capital is you, then your relatives, then your friends, etc... and the bank will come in only when you are successful. Seriously, don't try to use bank money before you make some mistakes using your own money!

2. Many businesses lack proper working capital management. As you will learn in the next session in addition to what you have already learnt, you must be able to balance your current assets and liabilities well.

3. Always trust after controls. In this case, I should have trusted my business partner after signing a shareholders agreement. I spent a lot of my time working hard for something I had no legal ownership. Always ensure you have legal protection.

4. If your business is leaking, it won't grow. Take this message seriously. Ensure you put in place 'ideal' business processes and systems. Balance your controls so that they don't impede business growth and not too weak to make you lose money.

5. Take time off to think aloud what is it you want to achieve. And always chose your business partners carefully.

6. Lead by example. Don't expect people to come to work at 7:00am when you arrive at 10:00 am! You must be accountable to your team regardless of your status.

7. Always be compliant with regulatory authorities – Tax, NSSF and Local council.

*Regardless of your business size, you need to establish strong foundation for your business growth. Specifically, you need the Six Pillars of Business Sustainability – a PLANT. Legal compliance. Accountability. Networking. Teach it and saving. To learn the other pillars, visit www.mustaphamugisa.com and www.summitcl.com.*

*For help with formulating or reviewing your strategy and work plan or business plan, contact us at:*

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