EDMUND RICE

Mission Finance Manual

VERSION 4.0

Edmund Rice DEVELOPMENT

Edmund Rice FOUNDATION

Liberating Lives Through Education

PREFACE

A key area of financial governance is financial management, which entails planning, organising, controlling and monitoring financial resources. At the core of this is financial control. Financial control occurs when systems and procedures are established to make sure that the financial resources of an organisation are being properly handled. This requires the relevant financial policies and procedures to be in place.

This Mission Finance Manual (2026) is the documentation of these policies and procedures. As part of the Capacity Development Project, this manual was updated by Edmund Rice Development (ERD) with input from Edmund Rice Foundation (ERF) and Partner Governing Bodies.

Development projects that receive ERD or ERF funding MUST be in compliance with this manual.

The Mission Finance Manual (MFM) details accounting principles, minimum standards and procedures in line with Generally Accepted Accounting Principles (GAAP). Donors expect these standards to be in place. **In order to manage finances in line with these international standards and donor requirements, a qualified finance manager must be available on a full-time or part-time basis to each development project in receipt of funding from ERD and ERF.**

Each chapter of this manual includes a policy or explanation and then sets out the procedure(s) or refers to an appendix where the procedure is detailed.

- **A policy** sets out the principles and guidelines for a key area of financial activity
- **A procedure** describes the steps for carrying out the guidelines in a policy. This often includes a requirement to complete standard forms to gather data and authorisation for actions.

Reasons for good financial management include:

- More **effective, efficient & economical** use of financial resources in order to achieve our objectives and fulfil commitments to stakeholders.
- Improved **efficiency and transparency** of financial systems.
- Increased confidence in the ability of each mission to **comply with external and donor audits**.
- Minimisation of the opportunity for fraud, theft and abuse of resources.
- Enabling personnel to make better decisions on the use of funds.
- Providing sustainability of the missions through **improved financial planning and budgeting**.
- **Increased standardisation of finance policies and procedures** which will, in turn, mean greater organisational capacity to support missions remotely or through transfers of congregation personnel and co-workers from one location to another.
- Gaining the **respect and confidence** of funding agencies, partners and beneficiaries.

This manual is intended for all Edmund Rice Mission development projects, and it is ultimately the responsibility of the Governing Bodies to ensure that the Heads of Development Projects have day-to-day oversight of a qualified finance person implementing the standards set out in the MFM in each development project.

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List of Acronyms

DIK	Donation in Kind
ERD	Edmund Rice Development
ERF	Edmund Rice Foundation Australia
ER	Edmund Rice

List of Definitions / Terminologies

Allocation	The process of sharing costs that are allocated to two or more projects and/or two or more donors.
Budget Holder	Once a budget is approved, it must be clear who the 'owner' of that budget is. This person is the 'Budget holder' (often the project manager).
Cheque Custodian	The person in a project who is assigned the responsibility for holding cheques.
Co-funding	Where two or more donors (funders) fund the same project
Development Project	An Edmund Rice Development Project is an entity under the governance of an ER Governing Body. ER development projects work to enable transformation and provide a sustainable future for marginalised communities.
Direct Costs	A cost that can be directly related to producing specific goods or performing an activity or service.
Governing Body	The body who has ultimate responsibility for a development project or group of development projects and who holds the contract with the donor. The body has responsibility for good governance, which involves putting in place systems and processes to ensure that organisations meet their objectives and are managed in an effective, efficient, accountable and transparent way.
Head of Development Project	The most senior person responsible for the overall management of an Edmund Rice Development Project (e.g., Project Manager, Director or Chief Executive).
Mission Coordinator	The person responsible for coordinating projects on behalf of their Governing Body in line with agreed ER mission policies and procedures. Responsibilities include: managing the Mission Development Office, overseeing projects and developing financial and human resources.
Mission Development Office	A Mission Development Office is a structure set up coordinate ER development projects in a particular region to maximise impact. The MDO must have four essential elements (the 4 Ps): effective people, processes, participation and pace.
Programme	ERF defines programmes as overarching development approaches and initiatives that set priorities and guide project outcomes, results and activities. Programmes can comprise ministries or entities. In this manual, the ERF definition of programme has the same meaning as and Edmund Rice Development Project, as defined above.
Shared Costs	These are costs that are 'shared' among all activities and projects that can encompass direct and indirect costs. They are generally administration or overhead costs but can also include personnel costs and equipment purchases.
Support Costs (Indirect Costs)	These are costs that result from having and maintaining an organisation (also referred to as indirect costs). They cannot be directly attributed to a specific outcome, but are incurred to provide the necessary support and infrastructure for the achievement of an overall project. These costs are of an overhead and administrative nature. Overheads like rent and utility bills are primary examples of support costs.

Chapter 1 Introduction to Financial Management

1.1 FINANCIAL MANAGEMENT

Financial management entails planning, organising, controlling and monitoring the financial resources of an organisation to achieve objectives.

Financial management is an important part of project management and we should not see it as a separate activity left to finance personnel. It is not just about keeping accounting records.

In practice, financial management is about taking action and not leaving things to chance. This will involve:

Managing strategically

Financial management is part of management as a whole. This means keeping an eye on the 'bigger picture' – looking at priorities and all resources and how projects and the entire organisation are financed in the medium and long term, not just focussing on projects.

Managing scarce resources

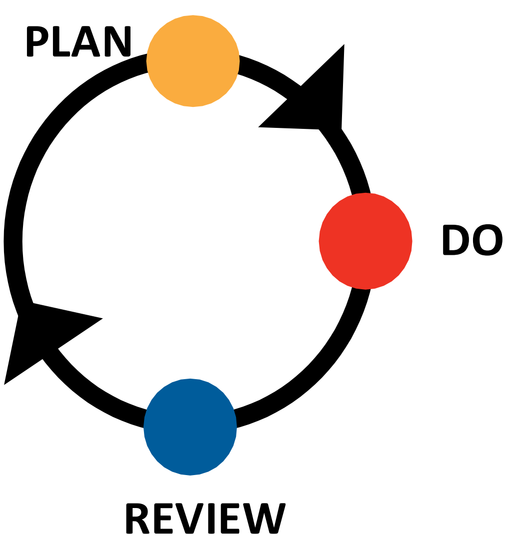
Governing bodies must ensure donated funds and resources are used in accordance with the donors' guidelines and the terms of the funding contracts, and are used as effectively and efficiently as possible.

Managing risk

We face internal and external risks which can threaten operations and even survival (e.g., donor withdrawal, an office fire or a fraud). Risks must be identified and systematically managed to limit the damage they can cause. The manual is a tool for mitigating risk and should be part of the Governing Body and the development project's risk management tools.

Managing by objectives

Financial management involves close attention to project and organisation objectives. The financial management process – Plan, Do, Review – takes place on a continuous basis as follows:



When a project starts up, it sets its objectives and planned activities. The next step is to **prepare a financial plan** for the costs involved in undertaking the activities and where to obtain funds.

Having obtained the funds, the **activities are implemented** to achieve the goals set out in the planning stage.

The **actual situation is compared with the original plans**. Managers can then assess if the project is on target to achieve its objectives within agreed time scales and budget and if not, make appropriate decisions and take correct action.

The learning from the review stage is then taken forward to the next planning phase, and so on.

Chapter 2 Authority and Responsibility for Financial Management

2.1 INTRODUCTION

Good governance involves putting in place systems and processes to ensure that organisations meet their objectives and are managed in an effective, efficient, accountable and transparent way. The Governing Body has ultimate responsibility for leadership and for ensuring that proper controls, including financial controls, are in place for ER development projects.

Governance is different from **management** (coordinating the work of a development project) and **operations** (carrying out the day-to-day activities).

2.2 GOVERNANCE AND COORDINATION OF ER DEVELOPMENT PROJECTS

What is the role of the Governing Bodies in Financial Management and Control?

Each Edmund Rice development project is governed by a registered legal entity. **That legal Governing Body is ultimately responsible for financial management and control.**

2.3. FINANCIAL ROLES AND RESPONSIBILITIES

In line with principles of good governance, ERD and ERF require that clear role descriptions and reporting structures are in place for members of the Governing Body, staff and volunteers. The table below summarises the major financial responsibilities of Governing Bodies and personnel involved in financial management.

Governing Body	• Overall responsibility for financial management and control • Establish appropriate local structures for effective governance and management of development projects. • Appoint appropriately qualified, experienced and competent finance and project management personnel, including a dedicated finance manager for development projects. Provide for the ongoing training and development of these managers. • Ensure appropriate financial controls are in place in development projects to manage and account for funds and other assets. • Review and approve development projects' annual budgets. • Ensure that development projects have the resources necessary to deliver annual work plans. • Review and approve development projects' proposals for external donor funding. • Enter and fully understand contractual agreements with donors to receive funds for projects. • Ensure development projects comply with project proposals and with contracts, policies and protocols of donors including permitted budget variances and overall reporting. It is up to the governing body to formally sign off on all of these documents. • Ensure systems are in place to regularly monitor development projects' progress against plans and budgets by reviewing finance and narrative reports **at least quarterly**. • Evaluate projects' progress and their compliance with this finance manual at least annually. • Identify risks and apply appropriate strategies to reduce those risks. • Ensure financial audits of development projects are conducted annually. • Review Audit Report and Management Letter and ensure an action plan is developed to address any internal control issues raised in the audit report.

Mission Coordinator	The Governing Body may appoint a mission coordinator to support coordination of development projects in their region. The mission coordinator may be delegated financial duties on behalf of the Governing Body (outlined below). However, ultimate responsibility for financial management and oversight remains with the Governing Body. • Monitor project implementation in line with annual plans and budgets and report to Governing Body at least quarterly highlighting concerns e.g., under or overspending patterns. • Review development projects' monthly financial reports and review variances, forecasts and ensure corrective action is taken where needed. • Conduct monitoring visits to development projects quarterly (undertaking unscheduled cash counts, asset and transactions spot checks etc.). Provide written reports to Governing Body. • Support development projects to prepare funding proposals and approve proposals for submission to Governing Body • Ensure compliance with donor and audit requirements. • Set reporting schedules for donor reporting to ensure projects' reports are available for review by governors in a timely manner. • Review reports to donors and approve for submission to Governing Body • Provide monthly financial reports for MDO to Governing Body • Cooperate with Governing Body and project managers to ensure that audits are conducted annually. • Liaise with Governing Body and finance managers to monitor implementation of the MFM, to capture lessons learnt and to coordinate finance training as needed.
Head of Development Project	Working in collaboration with the Finance Manager: • Implement project based on budgets and plans agreed with Governing Body and in line with contractual agreements with funders. • Ensure that all systems are implemented locally in compliance with this manual and audit requirements. Advise the mission coordinator and Governing Body immediately of any deviations or emerging risks. • Review budget v expenditure monthly with Finance Manager taking corrective action as needed including budget amendments, reallocation requests and exchange rate requests to donors with approval from the governing body. • Prepare regular reforecasts as part of budget monitoring. • Produce monthly finance reports and provide at least quarterly reporting to Governing Body. • Prepare reports according to schedules and requirements. • Ensure compliance with Government laws • Delegate operational roles appropriately to ensure effective and efficient operations.

Finance Manager	• Provide financial guidance and analysis to the Governing Body to improve results. • Maintain an adequate system of accounts and keep books and records on all transactions, including donations in kind and assets and ensure to fulfil audit requirements. • Prepare and analyse accurate monthly financial and management reports, including income statement, balance sheet, budget and variance, projections and forecast, and cash flow. • Prepare proposal budgets and periodic reports for donors as required. • Ensure compliance to all aspects of the MFM and donor specific requirements. • Assist in the overall management of grants reporting, compliance, audit and reconciliation.

See *Appendix 2.1* ERM Coordinator Role Description

Chapter 3 Internal Control Policies

A system of internal controls consists of all measures used by an organisation to safeguard its resources and ensure accuracy, efficiency and reliability in accounting information and preventing fraud.

Internal controls are imperative to prevent or identify inadvertent errors as well as intentional fraud, corruption, terrorism financing, money-laundering and violation of sanctions by governments of donor organisations. Without an appropriate system it is not possible to assure the safety / control of resources or the reliability and integrity of the records or reports generated by an office.

Each Development Project must have an effective control system with procedures in place to meet the following objectives:

1. Adequately **safeguard** the cash, property and other assets of an MDO or development project.
2. Ensure that all financial transactions are appropriately **documented and approved** by authorised personnel.
3. Confirm funds are expended in accordance with **donor requirements** and limits.
4. Ensure that financial **reporting is accurate** and timely.

The ultimate objective of all of the controls described in the manual is to cost-effectively reduce the risk of loss or misuse of funds or property.

3.1 INTERNAL CONTROLS

This section details the basic policies and procedures inherent in internal control systems and identifies minimum requirements for the major types of activities.

3.1.1 Personnel

Competent, trustworthy personnel are essential for an effective control system. Appointment, retention or transfer to other programs of dishonest or incompetent personnel is a major cause of the loss or misuse of assets. All personnel should sign a code of conduct and a disclosure of interests form on commencing employment. A sample of an Employee Declaration-of-Interest form is provided in *Appendix 3.1.*

3.1.2 Segregation of Duties

In order to minimise potential fraud, error and other irregularities it is essential that different duties in financial processes are assigned to different personnel i.e., essential to the control system is the policy of segregation of duties. Every financial transaction involves four steps as follows:

1. Request	.. to purchase
2. Approval	.. to proceed with the purchase
3. Execution	.. making the purchase, receiving the goods/services and making the payment to the supplier
4. Recording	.. accounting for the transaction

For example, financial transactions must be prepared by one person and reviewed by another; one person cannot be responsible for authorising a purchase, making the purchase and paying for it. The table below includes other examples of the appropriate segregation of duties:

There must be segregation of duties so that no one person has control of the whole of any financial process.

Person who:	Should not:
Prepares vouchers	Approve vouchers
Prepares cheques	Sign cheques
Has access to blank cheques	Post payments to the ledger
Receives cash	Record cash receipts
Prepares bank deposits or records cash receipts	Prepare bank reconciliation
Is responsible for the physical security of assets	Perform the physical inventory of assets
Maintains the vendor list	Authorise the final selection of a supplier
Prepares online bank transfer	Approve online bank transfer
Is a bank signatory	Perform bank reconciliation
Prepares payroll	Approve payroll and/or pay it

For Small Projects or Ministries:

In cases where resources are limited or projects are of such a size that segregation of duties is not fully possible the following compensating controls must be in operation:

- Increased management checks (physical checks / visits)
- Analytical review of monthly statistics
- Rotation of duties of personnel
- Internal audits

3.1.3 Authorisation Levels

Control systems can only function effectively when all personnel know who has the responsibility and authority to initiate or approve expenditure or the use of other assets.

Responsibilities and authority levels must be defined and documented to reflect the responsibility levels within the project and the Governing Body.

At a minimum, there must be at least two authorisers for all transactions. While the requirement is for two authorisers, projects should have 4-5 authorisers in place to cover when some are out of office. Expenditure is not only when a payment is being made but includes commitments placed. *For example:* entering into employment contracts, service or maintenance contracts or when an order for goods is formally placed with a supplier. Therefore, planned expenditure also needs authorisation at the appropriate level.

Personnel assigned the authority to approve and/or authorise commitments or expenditure must:

- Be given written notification of their authority levels and limits. (This may be included in their job description or by giving them the procurement matrix)
- Be fully aware of the required procedures and documentation that is needed before approval can be given to commitments or expenditure.
- Depending on authority level, be knowledgeable of any specific donor conditions related to procurement or expenditure they are signing for.

Chapter 8 Procurement deals with the approvals, the processes and the procedures for purchasing.

3.1.4 Documentation and Record Keeping standards

A key element of strong internal control is the documentation of transactions. Every transaction must be backed up by an externally provided supporting document as evidence that the transaction has taken place. This is critical in enabling systems to comply with audit requirements.

typical documents:

- *Invoices*
- *Receipts*
- *Bills*
- *Purchase Orders*
- *Goods Received Notes*

The Governing Body is responsible for accounting to donors and management for the use of its funds and other assets. This accountability involves proving that donor funds were utilised as effectively as possible and within the terms of the funding agreement. Project reports and data provide part of this information. However, a major portion of this proof must come from the documents supporting the financial/accounting records.

Documentation of accounting entries would be considered complete if the following condition is met: Assuming a complete turnover of personnel, and one year of time has elapsed, an auditor could review the documentation and find that it fully supports the transaction. No additional information should be required.

Time periods:

Documentation must be retained for the appropriate period of time depending on local and government legislation. A minimum retention period of seven years is recommended.

Filing & Archiving:

An appropriate filing system and/or storage system for current and historical records must be in place to ensure the required documents can be located when required. There are standard guidelines in this regard which are detailed in *Chapter 4.3 and Chapter 10.4.*

Office Closures:

It is imperative when project offices close down that all the supporting documentation from those offices is returned to the Governing Body.

Paid Stamp on PRFs / Invoices:

Every payment must be 'marked paid' or 'recorded as paid' to ensure that there is no possibility of duplicate payments.

3.1.5 Project Site Visits and Reviews

The previous control features are all used in day-to-day processing of activities and accounting. However, regardless of how good a system is, errors will be made and circumstances will change that could require changes in the control system. Therefore, periodic independent reviews must be performed. It is the responsibility of the Governing Body to ensure project visits are occurring and that they receive and review reports timely. Members of the Governing Body can conduct project visits, or they can ask a representative (manager, mission coordinator, external consultant) to do it. Project visits should occur on a regular basis (at least half yearly).

Project Visits must check:

1. Are cash counts performed regularly, documented and signed off? Perform an onsite cash count.
2. Are stock/inventory checks carried out regularly, documented and signed off? Perform an onsite stock/inventory check.
3. Are asset checks carried out regularly, documented and signed off? Perform an onsite asset check.
4. Are Donations in Kind (DIK) recorded and all documents in place? Perform an onsite check of a sample of DIKs.
5. Are personnel contracts on file? Are personnel performance appraisals carried out and filed? Perform onsite check on a sample of personnel files.
6. Are procurement procedures carried out? Check a sample of medium to high value procurement e.g., laptop purchases etc.

Also consider adding some additional points to guide monitoring:

- Are all personnel/staff contracts valid?
- Are monthly payroll records signed off?
- Has the bank account and transaction approvals two signatories?
- Are bank reconciliations signed off by finance and supervisor?
- Are budgets reviewed and variances analysed? Are budget reforecasts carried out?
- Are donor reports fully completed and submitted on time (interim and final)?
- Are success stories from the beneficiaries gathered?

3.1.6 General Risk Management – Legal and Taxation Advisors

It is advisable to have retainer agreements with some local legal and taxation advisors as this enables immediate access to advice in the event of any problems arising.

3.1.7 Access to Information - IT

Office IT systems must ensure that financial information is retained as securely as possible. There must be password controls on all PCs in all offices and periodic IT security reviews should be done by the Leader of the Governing Body or their delegate. All financial information on PCs/Laptops must be backed up by an external hard-drive which is stored securely, ideally in an online cloud storage (e.g. Google Drive, Dropbox) and responsibility given to a specific person to manage this. Personal Laptops should only be used for work purposes in exceptional circumstances.

3.2 CORRUPTION AND FRAUD

Corruption is a misuse of entrusted power for private gain. This includes financial corruption such as fraud, bribery and extortion and also non-financial forms such as the diversion of funds, allocation of resources in return for favours and preferential treatment for family and friends. These practices may be associated with intimidation of staff or beneficiaries who decline to participate in corruption.

Fraud cases suspected or proven should be reported to the CEOs of ERF and/or ERD. All projects MUST have an Anti-Fraud and Anti-Corruption policy in place, and key staff must be trained regularly.

Fraud is the theft or misuse of funds or other resources which may or may not also involve misstatement of financial documents or records to conceal the theft or misuse. Bribery is the act of offering a benefit to another person or causing a benefit to be provided or offered to another person, where the benefit is not legitimately due to the other person.

Fraud includes:

- Theft of funds or any other property
- Falsification of costs or expenses (or DIKs)
- Destruction or removal of records
- Forgery or alteration of documents as well as destruction or removal of records
- Inappropriate personal use of assets
- Any person (employees, volunteers or directors) seeking or accepting any benefit from others in exchange for favour e.g., a commission
- Blackmail or extortion
- Collusion among tenderers and falsification of quotations
- Intentionally paying excessive prices or fees to third party contractors
- A dishonourable or irresponsible or deliberate act against the Organisation’s interests

Fraud happens when the perpetrator identifies an opportunity, has a motivation to commit fraud and feels able to justify their actions. An organisation's internal controls must be robust (as set out in *Chapter 3.1*) to reduce the possibility of fraud. All offices and programme sites are encouraged to display clear, visible signs stating they are 'Corruption-Free Zones,' reinforcing the organisation's zero-tolerance policy toward bribery, fraud and corruption.

The Fraud Triangle

Governors and heads of development projects must ensure that the risk of online fraud is identified and mitigated with appropriate policies and procedures to ensure the safeguarding of funds and resources. Examples may include, but are not limited to, limiting the number of people accessing online financial and banking records, evaluating the security features of online systems before adopting them, keeping PIN numbers safely, avoiding public internet and verifying payee details before making payments.

Responsibility for the Detection & Prevention of Fraud

- The Governing Body, heads of development projects and employees at all levels are responsible for exercising due diligence and controls to prevent, detect and report acts of fraud.
- As part of induction and training, all employees must be provided with relevant policy training and Staff Code of Conduct should be signed.
- Policies and processes should clearly identify definitions, roles and responsibilities, internal/external auditing, complaints handling, reporting and investigation processes and remedial actions.
- Develop a standard investigation protocol tool, which ensures that all allegations of misconduct such as fraud, corruption, harassment or policy violations are handled **consistently, fairly, confidentially and in compliance** with legal and organisational standards.
- Where resources are available, undertake internal audits and spot check to mitigate fraud. This will help identify vulnerable areas such as procurement, finance, and donations to flag irregular transactions and patterns.

Fraud can come to light through internal and external audits, staff changes, technology, accidentally, whistleblowing and confessions. If you suspect a fraud:

- Act quickly to find out what has happened
- Document the details clearly and factually
- Report it to your Line Manager or Leadership.

Do not:

- Ignore your concerns
- Delay reporting the matter
- Remove documentation
- Try to investigate it yourself
- Discuss the matter with colleagues or friends
- Approach or accuse any individuals directly

Fraud cases suspected or proven should be reported to the CEOs of ERF and/or ERD. Every ERD/ERF partner project must have a fraud policy. If you receive ERF funding, the project's Anti-Fraud and Anti-Corruption policy must be in compliance with ERF's Anti-Fraud and Anti-Corruption policy. Additionally, projects in receipt of ERF funding MUST comply with ERF's Counter-Terrorism policy

Chapter 4 Accounting Systems

Accounting systems are the series of tasks and records by which transactions are processed as a means of maintaining financial records.

4.1 CASH BOOKS

The "Cash Book", which is also referred to as a Bank Book or Cash Analysis Book is the main primary book of account for recording bank transactions or cash transactions i.e., for recording all payments and receipts.

<u>Separate cash books are maintained for each bank account as well as type of cash holding e.g., USD and local currency.</u>

Regardless of the actual accounting package in place (see section 4.4 below) the cash books form the basis for all accounting systems and at the very minimum an excel cash book for each bank account and cash holding must be maintained.

In addition, the following policies apply:

- Transactions are inputted **daily** as much as possible but at the very least weekly to ensure regular reconciliation and to minimise problems.
- Cash counts are reconciled to these cashbooks at a minimum weekly and banks accounts are reconciled monthly depending on the account type.
- Reviews are undertaken by senior personnel on a regular basis with at the very least a monthly review.

4.2 DOCUMENTATION

All transactions (payments and receipts) related to cash and bank require a minimum level of documentation. The forms, discussed below in detail, and their completion instructions are found in *Appendix 4.1.* Training must take place on these forms at inductions of new personnel, with refresher training occurring for all personnel annually.

<u>4.1.1.</u> Payment and Receipt Forms

ALL transactions, whether payments or receipts, must be documented and then accounted for i.e., "posted" – this means processed to an accounting system.

- The required documentation is an **internal request form** which must be filled in for both payments and receipts.
- There can be many types of requests for payments (and receipts) and these are all standardised, explained and attached in *Appendix 4.1*. The forms for each local situation can be amended as appropriate (e.g., remove tenders if it is not applicable).
- The most common form used is a "PRF" – a **Payment Request Form**.
- Appropriate supporting documentation must be attached to a PRF. If there is none, then an explanation should be written on the PRF.
- All transactions must have an external receipt.
- In the event that no official external receipt is available from a supplier, a duplicate receipt is allowable for transactions under $10. In this case, a standard duplicate receipt book should be purchased or a receipt created in a word document and printed. This should include supplier name, address, phone number, date, amount, description of good/service (quantity and details) and signature of supplier and staff purchasing and should be filed with PRF.
- If there are more than 5 transactions a month without an external receipt, the head of development project must consult and receive approval from their Governing Body.

A summary of forms is as follows:

Request Forms
Payment Request Form (PRF) including Float Request
Float/Activity Accountability Form
Daily Labour Form
Per Diem Form
Trainings / Events Form
Receipt Income Form

Finance Forms
Journal Voucher
Bank Charges/Write off Form
Cash Control Sheet
Cash Count Sheet
Bank to Cash Transfer Form

- Forms must be signed by the person receiving the cash/cheque.
- The appropriate supporting documentation will be discussed in section 4.3 Books & Records below.

Receiving Cash

- When offices receive cash (i.e., income or donation), that income must be acknowledged through the receipts voucher form as per Appendix 4.1, recorded on the cash safe sheet with signatures by the receiving person on the form and the sheet and lodged to the bank.
- This cash should be deposited as soon as possible in a bank or if no banking facilities are available, they are accounted for separately in a cash receipts ledger and stored in a locked safe.
- Cash received as income should never be used as petty cash funds.

4.1.2. Cashbook Referencing

As discussed above all transactions whether payments or receipts must be documented on an internal request form and backed up where necessary. These request forms or "vouchers" are given a unique reference number, whether it is a number generated by a computerised accounting system or a manually produced reference number. *For example,* create a simple system by putting the year, the month, the bank number and a sequence of numbers starting at 001. Therefore, for October 2025 Bank1 vouchers, the numbers would start at 25/10/B1/001; 23/10/B2/002 etc.

- This enables easy audit trail to find documentation from the transaction reports.
- The reference is put on the top right-hand corner of the voucher / payment or receipt request form.
- All vouchers are filed in sequence with the first referenced voucher at the back of a folder and the following ones placed on top as they occur so the latest voucher is at the top of the folder.
- There should be one folder for each bank or cash book.
- As far as possible, use the same system for creating invoice numbers, receipt numbers, etc.—this makes the system more transparent.

4.2. BOOKS AND RECORDS

The following books and records must be maintained in each country for a **minimum of seven years** (if in-country legislation requires longer retention, this must be complied with). All finance data must be stored in a safe place, clearly labelled and in an orderly manner to enable easy retrieval of information for audit purposes.

Minimum Requirements:

1. All payment vouchers (cash, bank & journals), appropriately supported with goods received notes, and tender documents as below
2. All tender documentation (*i.e., 3 quotes, tender procedures carried out in each case, minutes of same, bid analysis, explanation of decisions, copies of failed bids, progress reports re works completed, and authorisation of stage payments*)
3. Schedule of personnel signatures and signing authority
4. Rental contracts
5. All internal cash & bank transfer documents (*e.g., cash delivery from one location to another, or receipt of cash in-country*)
6. Bank statements
7. Bank reconciliations (signed, dated)
8. Bank mandates
9. Cash counts (signed, dated)
10. Other journals posted and approval signed off (*e.g., Allocations, adjustments, along with clear narrative and supporting documents for the transaction*)
11. Personnel employment contracts
12. Amendments to the above – i.e., changes in rates of pay
13. Salary scales
14. Documentary evidence to support personnel payments & benefits not detailed in personnel contracts (*e.g., memos, management meeting minutes, or other supporting document for rates of per diem, overnight allowances, overtime rates etc.*)
15. Payroll calculations

The following may also be required, if applicable:

16. Fixed asset registers (with all fields completed)
17. Inventory records – stock cards detailing: commodities, donor, movements, and closing stock
18. Local procedures manuals
19. Evidence for beneficiary selection, identification, & proof of aid delivery to same – photographic / video evidence, beneficiary listings
20. Any Workshop or Trainings supported by an agenda, signed participant list and report on the event.
21. All Consultant Reports for programmes, monitoring & evaluation etc., must be obtained and filed.
22. Sub-agreements with local partners
23. MOU's & agreements with government departments or agencies

To ensure a good audit trail is provided on all transactions *Appendix 4.2* provides further detail and a summary of the key controls from this Chapter.

4.3. ACCOUNTING SYSTEM

An Accounting system <u>must</u> be in place for any development project or mission development office.

At a minimum, the accounting system can be an Excel Spreadsheet which produces Cashbooks and Accounts. However, it is **HIGHLY** recommended that a financial software package be in place, for example QuickBooks, Greentree, Tally, Sage, Pastel, MYOB, Xero, etc. The accounting system MUST be backed up (ideally in the cloud or with a physical hard drive), and records should not be stored solely on an individual's laptop.

An accounting system includes the following controls (referenced in previous sections):

- Cashbooks either automated in a system or controls in spreadsheets.
- Bank and cash reconciliations completed every month.
- Coding of all transactions to categories (and donors for reporting purposes) which provides for analysis of all transactions each month and year to date.
- Accounts produced by the system each month.

A sample of the Excel Cashbook and Accounts system with the instruction notes is provided in *Appendix 4.3.*

<u>4.3.1.</u> Chart of Accounts

All transactions must be recorded and categorised according to the Chart of Accounts (COA), which is a complete listing of numeric codes that are set up to categorise income and expenditure as well as to categorise donors and also projects.

The purpose of the codes is to be able to produce reports for internal and external purposes that identify income and expenditure for certain periods as well as the status of the balance sheet.

These codes are usually 4 digits *e.g., salaries = 2001; office rent = 2070 etc.* and must be set up in groups as follows:

- Asset codes
- Liability codes
- Income codes
- Expenditure codes

It is essential that coding structures are set up properly from the start, applied rigidly for every transaction and applied consistently across the organisation.

Each payment and receipt then must be given appropriate codes when being entered on the accounting system. A chart of accounts that is standard for the Governing Body may be attached as *Appendix 4.3.*

For example:

1. Donor Code	**2. Project Code**	**3. Account Code**
Each donor has a unique donor code which is listed in the COA. *For example*: MC – Misean Cara; EU – European Union.	A unique project reference number must be used for each project. They should be setup sequentially and follow a logical sequence. *For example*: PG1 – Project 1; PG2 – Project 2	The account code is applied to each transaction and identifies the category of income or expenditure. *For example*: 1001 – Grant Income; 2001 - Salaries; 2070 - Office Rent

Each donor and each budget line should have a separate account code, which facilitates donor reporting and budget monitoring. The primary budget holder should be consulted at the commencement of a project to ensure sufficient expenditure codes are setup for the project management and reporting. A COA cannot be altered or expanded during a budget cycle. If the need arises to update the COA, it must be done between budget cycles.

4.4. MONTHLY PROCESSES

Monthly management accounts must be produced to provide timely and accurate financial information to management and project personnel. This enables monitoring and timely decision making. Therefore, it is important that all projects have a clear month end process that is understood by all personnel. Ideally management account should be finalised and submitted by 10th of the following month.

Timely and accurate closing of the month-end accounts is critical in ensuring all subsequent finance activities for the month are completed. It is recommended to have month-end accounting timetables, assigning specific duties to finance personnel. All work should be checked by the appropriate supervisor.

Month End Procedures are attached as *Appendix 4.4* and include the following:

- Cashbooks close off
- Bank reconciliations
- Journal Entry
- Control Accounts
- Management Accounts completion

4.5. YEAR END PROCESS

After the end of each financial year, an <u>external audit firm</u> <u>must be contracted</u> to conduct the annual audit if required. *Chapter 10* provides further details about the preparation that must be completed for the auditors and where there are detailed year end procedures for the accounting system these will be specified in the documented local year-end financial procedure.

4.6. BUDGET MONITORING

Budget monitoring reports will be produced at a minimum each quarter. The purpose of regular budget monitoring is to assist budget holders to:

1. Analyse the performance of their project including variance analysis and regular reforecasts of expenditure so as to make appropriate management decisions.
2. Control their budget so that expenditure does not exceed limits set by the donor.
3. Identify errors.

Budget monitoring should be done in excel and through the accounting system, where approved budgets are uploaded in the accounting system.

4.6.1. Key Reports

The most important budget monitoring exercise is the comparison of the actual expenditure to the budgeted expenditure for the same period. Ensure budgets are monitored at organisational level and also at individual project level. Cashflow projections should be done at the outset of project budget in collaboration with the project manager to assess cash needs over the project duration. This will facilitate cash requests. Ideally cashflows should be updated quarterly alongside budget monitoring. This report is known as the Budget Monitoring Report (BMR) and detailed procedures of how to set one up is contained in *Appendix 4.5*.

4.6.2. **Interpretation of Variances**

Having identified overspends and underspends, it is necessary to understand possible reasons and actions arising from these. Examples of reasons and actions arising from these are given below. This is not an exhaustive list and the actions may not be appropriate in all situations, or alternative actions may be preferable.

Possible reasons for variances	Possible actions
Budget is inaccurate and requires a 'No-cost Extension' because of timing differences (project slower/ faster than expected, started early/ late, costs are delayed in being paid and may take time to process).	If donor-funded and the project is significantly behind schedule, then the project must request the Donor's formal approval of a '**No Cost Extension**' via ERD/ERF.
Budget is inaccurate and requires revision due to rare and extreme cases e.g., natural disaster, pandemic such as COVID-19, etc.	If a full budget revision is required due to expected variances that are allowable by the donor because of exceptional circumstances, then the project must request the Donor's formal approval of a '**Budget Revision**' via ERD/ ERF.
Expenditure has been incorrectly coded and so has been wrongly included/ is missing. This should not happen often as budget holders should code all expenditure.	**Investigate possible mis postings** with finance personnel. These could relate to expenditure that should not be included in a particular expenditure line/code or which is missing from a particular expenditure line/code, but which is included in the overall budget.
Overspends might occur because **costs are not being controlled effectively**.	**Examine the reasons** e.g., poor tendering, excessive waste, foreign exchange losses or unexpected additions to the project. To rectify then perhaps reduce the level of activities although this is not ideal or advised. Therefore, discuss with managers the opportunity for additional resources from other parts of the Project.
Underspends might occur due to unplanned event or changes in the planned activities.	**Examine the reasons** e.g. reduced participants, cancelled activities, lower costs due to savings or devaluation of currency. This must be clearly explained stating details of changes and units. For example, 'only carried out 8 of the 10 training sessions as our trainer become sick and was unavailable for sessions.' Aim to utilise the underspend on other relevant activities. Obtain approval by donor beforehand if required.
The **project is being implemented differently** with the result that there are variances on different lines.	Liaise with the manager to make a written **request to the donor for reallocation of resources**.
Cost estimates in the budget were not accurate or were completely unbudgeted. Look at the budget assumptions.	Liaise with the manager to make a written **request to the donor to reallocate resources** from underspending budget lines to those overspending. *If a forecast for general funds suggests that your full budget allocation will not be spent, then discuss reducing the budget so that resources can be redistributed to other parts of the project.*
Fluctuation of local currency against donor currency.	Review and **follow donor guidelines for reporting** and dealing with award gains & losses. Where FX fluctuation results in significant overspends discuss with the manager the opportunity for additional resources from other parts of the project.

4.7. FORECASTING

Budget monitoring is essentially an exercise **comparing the actual spend to date against the original budget** provision for that period. It involves assessing variances, explaining them and taking corrective action which includes revising the original forecast of expected monthly income and expenditure for the project. A forecast is similar to a cash flow and if accurate can be used to request fund transfers for projects to meet their immediate cash needs for the next 1-3 months. When you forecast (estimate) your monthly income and expenditure for the project duration, it should align with the monthly planned activities i.e., the activity work plan as well as the payment for those activities (which may occur before or after activities depending on contracts).

In summary, a forecast should be a realistic assessment of what you estimate you will spend over a given project period once you have taken into account all of the significant risks that your projects may face. It will show estimated monthly spend on all budget categories.

4.8. GENERAL ACCOUNTING PRINCIPLES AND UNDERLYING ASSUMPTIONS

4.8.1. Elements of Financial Statements

Elements of Financial Statements Financial reports, except for cash flow information, should ideally be prepared using accrual basis of accounting, however, in some instances this may be waived in favour of mixed basis or cash only basis if a smaller project and agreed with / approved by the donor. Elements of financial statements are assets, liabilities, income /donations, expenses and reserves. These elements provide the overall financial status of an organisation and programme.

Income and Expenditure recognition

The following basic accounting principles will be followed in recognising income and expenditure:

- Expenditure Recognition: In the monthly accounts and monthly donor reports, expenditure may be recorded on **an accrual or cash basis** as appropriate for the project; (when there are material accruals that impact on donor reporting, there is scope to include them in these reports depending on donor rules). The annual financial statements for audit show expenditure recorded in the financial year on an accrual basis.
- Income Recognition: Income in general will be accounted for on a cash basis, however under very specific circumstances income is accounted for on an accruals basis where donor grants are received in country and need to be monitored and tracked. All income from sale of products or service delivery as well as income generating activities are to be recognised on accrual basis.
- Accruals: An over-riding principle is that donor funded expenditure is incurred in the timeframe of the project. Accruals for expenditure after the project timeframe may be made in accordance with donor rules and regulations. Most donors will allow costs to be incorporated in their reports if the expenditure is "committed" before the end of the timeframe and paid within a restricted period after the expiration of the contract. A "commitment" is usually in the form of a signed contract or purchase order dated before the end of the project contract period but should never be the actual last day.
- Reserves: Operating reserves are essentially the accumulation of unrestricted cash surpluses (i.e., rainy day fund) and are available for use at the discretion of an organisation's Governing Body. The presence of an operating reserve increases an organisation's ability to take mission-related risks and to absorb or respond to temporary changes in its environment or circumstances, such as the unanticipated event of significant unbudgeted increases in operating expenses and/or cuts in donor fundings to sustain projects while alternative funding is raised for the longer term. One cannot assign unused or under spent 'restricted donor funding' to the operational reserve account. Only internally generated revenue can be allocated to reserves. This can include income generated in the project by sale of goods or services.

4.8.2 Allocations Policy

An allocations policy is required when there are costs that are not easily identifiable to specific projects. These may include support costs such as overheads, administration costs and management staff as well as a direct project cost such as a vehicle whose running costs is shared between donors of the project (or a field vehicle shared among 2-3 projects). The allocations policy must be determined and documented by the development project, signed off by the Governing Body and kept on file for audit purposes. This is further discussed in *Chapter 7.*

4.8.3 Foreign Exchange Policy

Functional Currency: the operating currency for the development project's year-end financial statements, management accounts and the currency of the accounting system. Transactions in any other currency should be translated using the prior month closing exchange rate. The rate is set using the rate provided by a local bank at month-end. For clear audit trail and internal control purposes, the exchange rate should be issued on the headed paper of the local bank.

Donor Reporting: For non-functional currency grants, donor financial reports should be converted to the donor currency using the accounting system's exchange rate for that month i.e., the prior month-end closing rate. Where the donor agreement stipulates an alternative exchange rate policy, this must be confirmed prior to signing of the contract and adhered.

ERD and Misean Cara Guidance

All project costs presented in proposals must show amounts in Euro. For example, if original invoices or estimates refer to amounts in local currency, then projects must ensure that the documents they submit to Misean Cara (proposals and budgets) refer to the exchange rate between the local currency and euro at the proposal submission date.

For reports and associated documents, Misean Cara stipulate that the **weighted average exchange rate** must be used. In the example, the weighted average calculation of the foreign exchange rate is 7.660, which would then be used for the donor expenditure reporting against the original budget. Any actual foreign exchange gain or loss should be reported to the donor for clarity. While donors will not compensate for foreign exchange losses, they will recoup substantial foreign exchange gains. See specific guidelines from Misean Cara on foreign exchange gains and losses and how to recoup gains above a certain threshold.

Calculation of Weighted Average Exchange Rate

Total Funding for Project $50,000

Date	Instal Amt	Rate	Total (BOB)
Aug-24	$20,000	7.5	150,000
Jan-25	$20,000	7.7	154,000
June-25	$10,000	7.9	79,000
	$50,000		383,000
		*	7.660

Exchange Rate when reporting = 7.660

* 7.66 equals BOB 383,000 / $50,000

ERF Guidance

ERF requires submission of financial reports in local currency utilising approved budget templates. (ERF reporting templates allow complete conversions as required).

ERF monitoring reports require the following (all in local currency):

- Budget vs actual for the period utilising reporting template
- Profit & Loss
- Extract of trial balance sheet
- Extract of general journals/ledgers
- Quarterly management accounts
- Cash forecast for the next period

ERF annual acquittal requires: approved budget template submitted with income and expenditure actuals in local currency, and annual audited financial statement for the year together with a management letter.

4.8.4 Fixed Assets Policy

Fixed Assets that are owned by the Governing Body are capitalised over a value of $500. This means that the asset was purchased with the Governing Body's funds and therefore title and ownership rests with them. These assets are recorded on a Fixed Asset Register, a sample of which is provided in *Appendix 4.6* along with the policy on the level of capitalisation.

The table below shows a sample of a simple asset register, however, refer to the *Appendix 4.6* for a more extensive version of an asset register with all key headings of data required for assets above the $500 threshold:

Fixed Asset Register							
Asset No	**Description**	**Original Cost**	**Date of Purchase**	**Serial / Model / Registration No**	**Location**	**Condition**	**Supplier Name**
ABC123	Printer	$354	20-Feb-25	XYZ4568932	Nairobi	Excellent	FG Merchants
ABC124	Desk	$410	15-Mar-25	None	Eldoret	Good	TX Supplies Ltd

In the case of donor funded assets, they are expensed against the donor budgets and as such they appear as an expense on the monthly accounts; however, they should still be recorded on an asset register. In general, project buildings (offices, personnel accommodation etc.) constructed by the Governing Body will not be considered as assets of the Governing Body, as the beneficial ownership of these will ultimately rest with the local community, and they cannot usually be transferred to another use.

Assets will be insured by reputable insurance companies and where insurance policies are prohibitive, a file note will be written to document that the Governing Body has assessed the risk against the benefits and decided to accept the risk and consequences.

Depreciation Policy

Assets above the threshold of $500 that are capitalized are recognised in the financial statements at Net Book Value (NBV) at year-end. NBV is cost less accumulated depreciation. Assets are deemed to have the following useful lives (table) and should be depreciated on a straight-line basis or reducing balance basis accordingly. Please refer to local audit reporting requirements and choose the appropriate rates that will suit the type and nature of your development project. Once decided it is important to remain consistent with the chosen method for all assets. Any other class of asset not listed in the table above should be depreciated as per the recommended national / international rates.

Asset Item	Guide depreciation rate
Furniture & fittings	12.5%
Motor vehicles below 3 tonnes	25%
Computers, photocopiers, scanners	30%
Permanent buildings	10%

The decision to dispose of any asset shall be taken based on the donor's procedures for this action. In the absence of the donor prescription, the assets shall be disposed of at the ruling market price to be determined through a competitive bidding process. All asset disposals/sales should be documented and appropriately authorised.

Chapter 5 Cash

Introduction

Cash is the most liquid of assets, and is the easiest to be misappropriated. For this reason, establishing basic internal controls over cash receipts, maintenance of cash and cash disbursement is critical. The thresholds in this manual are set in USD Currency. Governing Bodies must determine local threshold limits but they must not exceed the limits in this manual. Anything above these thresholds, must be approved by ERD and ERF.

Risks with cash are:

1. Theft or loss of cash.
2. **Payments** of cash without proper document or authorisation.
3. Incorrect charging of receipts/ disbursements, (incorrect source codes or accounts).
4. Expenditure payments that do not comply with donor regulations.

5.1 CASH POLICIES

- Development projects must have a bank account (their own project account or the MDO account).
- Minimise the use of cash by:
  - o utilising the banking system and cheques or electronic transfers as much as possible, and
  - o limiting the use of cash to petty cash and float expenditure.
- Cheques or EFTs will be issued for all payments to suppliers >$300 US. If this is not possible, approval is needed.
- Where possible, no advance payments will be given to suppliers (the maximum advance should be 30%).
- Cheques or bank transfers will be issued for all wages to all employees.
  - o One-off exceptions must be requested from the approver in *Appendix 5.1*.
- The maximum amount of cash to be held in any office is $500 US.
  - o This is also the maximum amount that can be taken out of the bank account in one transaction.
- Where banks are not available or where the banking system is inadequate, and the need exceeds $500 US, the threshold limit must be approved by ERD and ERF.
- See Appendix 5.1 which is to guide projects on maximum thresholds; however, projects can reduce limits / thresholds as appropriate to their project contexts.
- Cash over $200 US will be kept in a safe in the office.
  - o There will be 2 key holders to the safe: one person who manages the safe daily and one as a backup.
  - o The safe will be bolted to the floor

5.2 PETTY CASH

Day to day petty cash expenditure is made from a petty cash box, retained in a locked drawer of senior personnel during the day. This box is locked away in the safe at close of business and has a maximum limit of $200 US.

5.3 DEBIT CARD PAYMENTS

Debit cards may be used for eligible transactions by designated personnel so that they can make purchases on behalf of the office without needing to spend money out of their own pocket. Eligible expenses should be determined and clearly communicated to debit card holders. Each debit card should be registered on a master list comprising debit card number, location, name, limit and expiry.

- Appropriate expenditure limits must be set for payments made by debit card.
- Some transactions that may eligible: travel costs, office supplies and other work-related approved purchases.
- A written request should be completed and approved before payment is made using the card.
- Debit cards can only be used for transactions authorised by the designated leader or line manager (in advance).
- The cards are to be kept securely by designated persons who have responsibility for them or in a safe if not in use.

- Card pins should never be written on the card or on an envelope, where the card itself is enclosed. It must be written with the card clearly identified and saved in a secure location which can be accessible if needed.
- Payment vouchers are to be raised for each transaction with corresponding receipts and accounts attached for proper documentation and access.
- All debit card statements should be reconciled monthly with expenditure/receipts.
- All cards are to be handed-over at points of transition when a person takes up a new role.

5.4 FLOATS

Floats are highly risky in relation to fraud. The Governing Body must determine their policy on the allowance of floats, and must have rigorous systems to approve and follow up on those transactions. If the Governing Body allows floats, the policy is:

floats also known as **advances** are cash issued to an individual when the exact cost is not known or it's for unanticipated expenditure

- Floats are limited to a maximum of $200 US per personnel.
- Only one float may be issued to each person i.e., no-one can have two or more floats out at any one time.
- It is forbidden for personnel to swap floats amongst themselves – if a float is not required then it should be returned in full.
- All floats have to be approved in advance and signed off on their return by a senior staff member.
- Personal money spent will not be reimbursed unless it's pre-approved.
- Floats should be tracked by the finance manager to ensure it is known at any one time how much is out in floats.
- It is recommended that the policy on closing floats is to close them weekly, and that a reconciliation occurs every month.

The procedure for floats is detailed in the Finance Forms *Appendix 4.1.*

5.5 CASH POLICIES DOCUMENTATION

Documentation for all cash and bank payments is discussed in *Chapter 4* and the forms are found in *Appendix 4.1.* Aside from the PRF and the Float/Activity Accountability Form the other cash specific forms are:

5.5.1 Safe Ledger / Cash Control Sheet

- A cash control sheet is used to record all transactions in and out of a safe for all currencies in the safe.
- This is completed by the person in charge of finances, with the recipient signing and dating at the time of receiving the funds.
- Cash collected from the bank for the safe must also be recorded by a person of authority.

5.5.2 Receipt Forms

- In the event that cash is received, it must be acknowledged through the receipts voucher form as per *Appendix 4.1* and recorded on the cash safe sheet with signatures by the receiving person on the form and the sheet.
- Cash receipts are not used as petty cash funds and are deposited as soon as possible in a bank or if no banking facilities are available, they are accounted for separately in a cash receipts ledger and stored in a locked safe.

5.5.3 Cash Count Sheet

- This is the standard sheet used to record the cash counts as described below in *section 5.5.*

5.5.4 Bank to Cash Form

- This form is filled out and approved when cash is required from the bank.
- When the cash is brought back from the bank the denominations (coins and bank notes) are filled out on this form and signed by the recipient in the office of the cash.

5.6 RECONCILIATIONS AND VERIFICATION

Regular reconciliations and spot checks are essential to maintaining the integrity of control over cash.

- Cash must be counted, at least weekly and balanced to the ledger or cash book balance. The physical cash on hand, plus any floats outstanding, should be equal to the cash book balance.
- Spot checks must be conducted periodically without notice by other personnel (e.g., Governing Body representative, ERD/ERF monitoring representative, senior non-finance project staff).
- All cash counts must be documented, dated and signed off by the counter and supervisor.

Chapter 6 Banking Systems

As discussed in *Chapter 5*, cash must be kept to a minimum and the banking systems must be utilised as much as possible to minimise risks associated with keeping large amounts of cash.

6.1 BANKING POLICIES

- The Governing Body must set up bank accounts in all locations where there is a development project.
- Accounts should be held at a branch of an international bank where possible. In the absence of an international bank, it may be necessary to utilise a local bank.
- The Governing Body Leader must approve the opening / setting up of a new bank account.

Funding for a development project must be in a bank account authorised by the Governing Body. It must be possible to track all funding (income and expenditure) to a specific development project.

Bank accounts must not be set up in the name of an individual.

- Bank accounts should be in the currency in which the project undertakes expenditure transactions.
- Bank accounts must be setup with a minimum of 2 signatories (ideally, 3-4 signatories of which 2 must sign). Old signatures must be removed.
- Where there are only two signatories, one of these must be the Governing Body Leader or their delegate as stated in Appendix 5.1 and the Leader must then sign the Appendix.
- There must be two signatories required for each bank transaction (cheques, EFTs, cash withdrawals) (where online banking is used see Section 6.3 below as the same rules apply).
- There should be NO overdraft facilities or loan accounts. It is strict policy that the Governing Body is not indebted to financial institutions.
- All bank balances must be reconciled monthly with the balance in the finance system and differences resolved promptly. The person performing the reconciliation must not be a signatory on the account.
- Bank accounts should be closed when no longer required.

6.2 CHEQUES

- It is prohibited for bank signatories to pre-sign cheques.
- All cheques should be pre-numbered and only one cheque book per bank account should be in use at any one time.
    - The cheque custodian should track the remaining supply of cheques and order cheques from the bank in time to ensure an adequate supply is always on hand.
    - The sequence of cheques must be verified immediately on receipt of new cheque books from the bank.
- Cheque books must be treated similarly to cash and retained in the safe when not in use.
- All cheques must be fully accounted for. Cancelled cheques should be kept attached to the cheque stub and "cancelled" written on their face.
- Cheques must never be issued from a bank account with insufficient funds (bouncing cheque). It can seriously tarnish an organisation's reputation.
- The cheque custodian should also review the sequence of cheques monthly to ensure no cheque has been taken from further down the book.

Cheques to Cash

Cheques must not be made out to "cash". For the purposes of topping up the cash in the safe, the appropriate arrangements should be made with the bank.

Cheques to Suppliers

Cheques should be distributed by the cheque custodian as follows:

- In person: handed to the payee (person or company being paid) or their identifiable, authorised representative who has come to the office to collect the cheque. The individual should show identification and sign to confirm receipts.
- By post, if there is a reliable postal service.
- If it is not possible to use the methods above, then the cheque custodian should deliver the cheque to the payee in person. They should bring the PRF for the recipient to sign to confirm receipt of the cheque.
- Cheques should not be given to anyone (third party, project colleague) other than the payee.

Cancelled / stopped cheques

Spoiled or cancelled cheques should be retained for audit purposes.

- Any signature on the cheque should be blacked out or torn off.
- They should be kept attached to the cheque stub and "cancelled" written on their face.
- If a cheque issued is lost or stolen the bank should be contacted immediately to stop payment.

Cheques should only be reissued if there is evidence that the previous cheque has been cancelled or stopped without being cashed (i.e., the cancelled cheque has been recovered and marked "cancelled" or there is written confirmation from the bank that the cheque has been stopped).

6.3 ONLINE BANKING, MOBILE BANKING AND BANK TRANSFERS

Online banking should be initiated where this service is offered. Approval for online banking setup must be obtained from the Governing Body Leader or their delegate as stated in *Appendix 5.1* and the Leader must sign the Appendix.

- Balance and transaction reporting should be setup
- For payment processing (electronic bank transfers / EFTs), the same policy for non-electronic payments will apply i.e., two named signatories must approve a payment online and this should be documented.
- Development projects in some countries use mobile banking to make payments. When mobile banking is used the project must have a specific registered SIM card for mobile banking transactions. Full guidance on mobile banking transactions is contained in *Appendix 6.2*

6.4 BANK RECONCILIATIONS

A bank reconciliation compares the balance at the bank, as shown on the bank statement, with the balance at the bank as recorded in the accounting system / the 'cashbook' at the same date. This is an audit requirement.

Procedure for bank reconciliations

Bank reconciliations must be prepared at a minimum monthly on receipt of bank statements from the bank. Whilst online bank statements can be used for interim and initial month-end reconciliation, hard copy bank statements must be received monthly and placed on the month-end accounting file. It is often the case that the two balances are not the same, and differences could be for a number of reasons:

- <u>Outstanding cheques</u> – a supplier has been paid by cheque and the cashbook / accounts reduced accordingly. However, the supplier has not yet taken the cheque to the bank or it has not yet cleared the bank, so the money is still included in the bank statement balance.
- <u>Outstanding deposits</u> – funds have been received by the finance office and recorded on the accounts system but have not been lodged to the bank and so are not included in the bank statement balance.
- Bank charges, bank mistakes or mistakes in entering information into the accounting system / cashbook.
- **Bank reconciliations must be signed off monthly by the Governing Body or their delegate.**

6.5 BANK FEES

A written agreement outlining fees / fee schedule detailing the fees to be charged for different types of transaction should be in place for all bank accounts. Every effort should be made to obtain preferential rates.

Where a bank charge is deducted from an international payment, the total sum must be recorded in the accounts as received with the bank charge expensed. E.g. where €3,000 is sent from ERD and €2,980 is received due to a €20 bank charge the total payment of €3000 must be recorded as received and the bank fee expensed.

Chapter 7 Budgeting

Introduction

In *Chapter 1* the financial management process was discussed involving:

1. Plan
2. Do
3. Review

A **budget** is necessary for project planning so that an accurate projection of the project's costs can be built up.

As well as calculating the costs it is important is to determine when (month by month) and how the expenditure will be funded (which donor will pay for it.)

This Chapter will discuss number one, the planning process and the steps involved.

Organisational and project budgets

ERD and ERF require that an annual organisational budget is prepared for each ministry/programme, which must be approved by the Governing Body.* This annual budget includes all the costs of discrete development projects, as well as organisational staff and operating costs.

Once the organisational budget is approved and finalised, any new project or activities can only be introduced during the year with approval from the Governing Body and confirmed donors. ERD and ERF require that project budget planning must be in line with the principles of Results Based Management. Applications to donors for discrete development projects are informed by the organisational budget.

**Please note:* ERF's budget application for the following financial year is open June 1st to 30th each year.

Sourcing project funds

Projects receive income from a variety of sources e.g., local communities, private donors, schools, international governments, local government etc. All of those sources must be recorded in the overall annual project budget, and tracked accordingly as spent and received. This is the basis of tracking funding throughout the year.

7.1 BUDGET PREPARATION – GENERAL

The budget acts as a framework for the financial management of projects. It is essential that great care is taken in the preparation of budgets for development projects and it is crucial that input is sought from those involved in the project implementation and project beneficiaries. Sample budget templates are available in *Appendix 7.1.*

- In preparing the budget it is important to allow sufficient time to prepare a detailed budget with the relevant personnel.
- The budget must be aligned with the proposal narrative and log frame.

Budgets will be set using the **Zero-Based Budgeting** method, which is the process of creating a budget from scratch on the basis of planned activities without using the prior year's budget or spending numbers.

- Budgets should not be calculated in lump sums but based on actual amounts.
  - Unit costs and quantities should be clearly identified.
  - Comments/notes should be utilised to clarify how figures were calculated in the event of changes in personnel managing the budget.
- The budgeting process should start with identifying the outcomes, outputs and activities for every specific project that an organisation wishes to run.
- Then projects budgets must be developed with shared costs such as overheads & personnel costs apportioned to each development project appropriately (either depending on the size of the project in terms of budget of the organisation or through any other appropriate criteria).
- Refer to ERF's Log Frame & Budget Template 2026 on SmartyGrants**.**

7.2 MULTIPLE DONORS AND FUNDING ALLOCATION

It is acknowledged that when a project has more than one donor, it can be challenging. Great care should be taken to ensure that all costs are allocated correctly to each donor.

- If possible, avoid splitting costs of one output across multiple donors.
- Make sure the full cost of any item of equipment is assigned to one donor.
- Overhead costs must be distributed proportionately across all donors.

7.2.1 A Funding Grid

A funding grid is a table which provides an overview of which donor is funding what parts / lines / activities of the total annual budget.

- It must be completed annually.
- It is an internal planning tool which should be updated regularly as new information becomes available or new donors are found.
- It is also useful for re-negotiating funding agreements and identifying fundraising needs.

A sample is provided in *Appendix 7.2* and the following procedure must be followed:

- The overall budget is detailed in the column "Total Budget."
- Donor budgets are entered in the next columns with own funds being the last column and a Subtotal provides the confirmed total funding.
- The final column "Balance" is calculated as the difference between the Total Budget and the Subtotal and this identifies if there are any issues as it should always balance to zero.

7.2.2 Co-funding

Many institutional funders want to avoid dependence on them as sole funders. Therefore, they require applicants to provide additional sources of funding to cover some of the project costs. This is known as co-funding. For example, a project to build a school where the total budget amounts to $100,000, the donor may provide $70,000 and expect $30,000 to be provided from alternative funding sources. If co-funding is proposed in the budget and not received, this risks donor funding. If less co-funding is received than anticipated, the main donor may reduce funding. In this example, only receiving $15,000 in co-funding might reduce the donor grant to $35,000.

7.3 BUDGET PREPARATION FOR DONORS

- Donor budget proposals must be in line with the overall annual budget of the development project.
- Prepare the budget in the precise donor format and donor currency.
- Ensure all budget lines are accurate and the same across all tabs in the excel format.
- Include all project costs
- Note any donor specific ineligible costs
- Ensure any co-funding whether cash or DIK is the required percentage and committed.
- Ensure any DIK contribution is recorded and evidenced.

Refer to *Appendix 7.3* for further detail on the budgeting process for donors. Discussed next are the two most important sections.

7.3.1 Direct Project Costs

These are the costs that are directly attributed to the specific project. This is a cost that can be directly related to producing specific goods or performing a specific activity or service. Examples are as follows:

- Building materials for a construction project e.g., a school
- Labourers hired to build the school
- Salaries of staff working to deliver the project activity for the project
- Vehicle rental where a vehicle is hired specifically dedicated to this project

These costs are easily identified for inputting into the budget and are put into the section Direct Project Costs. Certain other costs such as depreciation and administrative expenses are more difficult to assign and are not considered direct costs. These are indirect costs.

<u>7.3.2</u> Support Costs (indirect costs)

Support costs, also known as indirect costs, are costs that result from having and maintaining an organisation. They are very essential to ensure the effectiveness of a development project. Overheads such as central office supplies, utility bills and rent are primary examples of support costs. Expenses incurred in delivering activities not directly associated with the project such as mission development office staff support are also considered support costs. Support costs are not easily identifiable with a specific project, but which are, nonetheless, necessary to the operation of the project.

A detailed **support cost budget** must be prepared on an annual basis.

This budget is then used as the basis for all budgeted support cost figures in donor budgets, using a % determined by the allocation process.

It is important to ensure that these costs are included in budgets being submitted to external donors as otherwise the Governing Body ends up paying 100% for these costs. Donors accept they should pay for some of these costs. However, it is very important to ensure that the donors are not requested to pay 'more than their fair share' or more for the indirect/support costs than they benefit from. Support and shared costs should be allocated according to the Governing Body's allocation policy (see below).

<u>7.3.3</u> Shared Costs

Shared costs are costs that are shared among donors and/or projects, and can encompass direct and indirect costs. Examples of these are:

- Administration personnel
- Office rent
- Vehicle fuel (cars, trucks, motorbikes)

Allocations policy

An allocation policy is required when there are costs that are shared between a number of projects (e.g., support from the Mission Development Office) or more than one donor. These may be support costs or direct project costs such as a vehicle shared between development projects or a running cost shared between the donors of the project. Follow donor guidelines to allocate for support and shared costs. In the absence of donor guidelines, the Governing Body must determine a local policy for allocating costs.

The policy should be documented and signed off by the Governing Body. To determine how to fairly charge donors for support costs, the policy could be determined to allocate costs based on the budget for the year or the number of personnel in each location.

<u>Example of Cost Allocation:</u> There are 3 Projects in the region: P1 Budget $20,000, P2 Budget $50,000 and P3 Budget $30,000, so an overall budget for the year of $100,000. If the central office rent is $20,000 for the year, then Project 1 contributes 20% at $4,000, Project 2 contributes 50% at $10,000 and Project 3 contributes 30% at $6,000 for the year. Depending on how the rent is paid monthly, quarterly, 6-monthly, this percentage allocation will be applied to each payment P1 - 20%, P2 - 50% and P3 - 30%.

7.4 BUDGET MONITORING

Once a budget is approved it must be clear as to who the 'owner' of that budget is as they are referred to as the 'Budget holder'. The Budget holder is often the head of the development project. The Budget Holder is responsible for the project management. The Finance Manager is responsible for providing monthly reports on the expenditure against the budget to the Budget Holder. As described in *Chapter 4.7* a budget monitoring tool must be in place to provide the information to the budget holders at a minimum on a quarterly basis, but it is advised that the Finance Manager and Budget Holder meet monthly to discuss the expenditure against budgets and any issues arising. **<u>Quarterly Reports must be provided to the Governing Body for review and approval.</u>**

See *Appendix 7.4* for Donor Compliance and Reporting.

Chapter 8 Procurement

Introduction

Buying goods or services is called procurement or purchasing. A procurement method is the way in which materials and goods and services are purchased. There are different requirements for how to purchase any product or service depending on the value of these products or services. These methods are required to ensure that projects are purchasing at the best possible value for money and that there is documentation of purchases. **Transparency and proper codes of conduct must be ensured at all times in procurement.**

> The Governing Body supports the ethical procurement policy developed by *Oxfam* which states that it will strive to purchase goods and services that:
> - are produced and developed under conditions that do not involve the abuse or exploitation of any persons.
> - have the least negative impact on the environment.

Categories of Purchase

It is a common mistake to define purchasing exclusively in terms of physical things. In reality, there are three categories of purchase to be considered:

- **SUPPLIES:** This refers to the physical items such as computers or construction materials.
- **SERVICES**: This refers to advisory or consultancy contracts carried out including financial audits, surveys, monitoring and evaluation or technical assistance for trainings.
- **WORKS:** This refers to infrastructural works such as the building of a school.

8.1 BASIC PRINCIPLES

- The Governing Body aims to support the local economies of the areas in which it is operational. In practice this means an obligation to purchase from local vendors when possible.
- Due diligence of service providers is a critical process to ensure that the vendors, contractors, consultants, and other external partners meet our organisation's legal, ethical and operational standards. This may include use of SAM search.
- In all cases, fair competition must be the overriding principle for awarding orders.
- Best Value for Money should always be a key factor when purchasing, taking into consideration all factors such as costs, benefits, risks and resources over the entirety of the product or service life-cycle. <u>Price alone does not necessarily determine best value for money.</u>
- The levels of authorisation for purchasing are specified in the authorisation matrix (see *Appendix 8.2*) and must be adhered to. A minimum of three quotes must be obtained for all purchases over $1,000.
- Documentation relating to procurement must be retained for a minimum of 7 years for auditor, donor, and host government purposes. See *Appendix 8.1* for stock management forms.

8.1.1 Ethics in procurement

- All suppliers must be dealt with fairly and equally.
- The Suppliers' list and prequalification should ideally be reviewed annually.
- Purchasing personnel must never use their positions for personal gain and should refuse any gifts that are offered to them by suppliers.
- Obtain an annual declaration of conflict of interest from all personnel.
- Once quotations have been received and evaluated a decision on the best quotation must be made. Cheap quotations that are received late should not be considered.
- The confidentiality of bids and quotations should be respected. Suppliers should not be told the names of others quoting as this could encourage price fixing. Equally, information about quotations received from one supplier should not be conveyed to another.
- If a quotation is for information purposes only, then this must be declared on the enquiry form.
- If a vendor participates in developing specifications, then these must be as generic as possible to avoid unfair advantage to this vendor.
- Purchasers should be conscious of the need for good and reliable suppliers and should approach relationships with suppliers in a spirit of partnership. They should at all times avoid causing needless expense and inconvenience to suppliers when requesting quotations.

8.1.2 Employee Declaration of interest

A **Conflict of interest** occurs when, in performing formal duties, an employee can be – or appears to be – influenced to make a decision that benefits them personally. For instance, receipt of a gift from a vendor by an employee in the procurement department may demonstrate a conflict of interest. See *Appendix 3.1*.

A conflict of interest may also arise in situations where a person is seen to benefit, directly or indirectly, or allow a third party, including family, friends or someone they favour, to benefit from the member's decisions. This includes personal interests (such as past/future employment/volunteering or associations with family/friends); reputational risk; and financial gain. Any decision based on, or affected by influences, other than the best interests of the project must be avoided.

Personnel are prohibited from any involvement in a procurement action with a vendor which may represent an actual, potential or perceived financial or non-financial conflict of interest.

In cases where a conflict of interest could occur, an employee should report to their manager, who should review the facts and decide whether the employee should carry out the procurement. If personnel at any level, including senior staff, violate any of the standards of conduct contained in the above, they will be subject to disciplinary procedures.

8.1.3 Donor Considerations

Donors may have additional procurement requirements, and projects need to ensure they are complying with those requirements in addition to the requirements in this manual.

8.2 PROCUREMENT PROCEDURES

There are three purchasing procedures to ensure transparency in the purchasing process and to secure best value for money. These are detailed step by step in *Appendix 8.2* and summarised below. It is very important that all personnel involved in purchasing are knowledgeable of these procedures. While procurement thresholds must not be exceeded, they can be reduced as appropriate to suit the local context.

	Procedure Type/ Name	Value/Level for Goods	Value/Level for Services & Works	Method to apply
I	**Single Quote**	<$1,000	<$5,000	This method requires that **only one quote** or offer be obtained prior to the confirmation of an order/contract.
II	**Negotiated Procedure**	$1,001 to $10,000	$5,001 to $25,000	This requires that a **minimum of 3 quotes/offers** be obtained by contacting vendors individually and requesting offers.
III	**National Tender Procedure**	> $10,001	> $25,001	This requires that **all interested vendors** be allowed to submit offers following publication of a **National Tender Notice.**

An exception may be granted in extenuating circumstances where 3 quotations are genuinely not available in the market. In this instance, the Governing Body can waive the 3 quotations to 2 or 1 quotation with justification ensuring that the cost is a fair value for the goods / services required. This waiver stating the justification must be signed off by the Governing Body and attached to the Payment Request Form (PRF) with other documents as evidence for the audit trail.

<u>8.2.1</u> Key considerations and definitions Splitting Contracts

It is never acceptable that purchases are split to evade particular procurement procedures. For example:

- 10 printers at an estimated cost of $300 each would equal a combined value of $3,000.
- This means from the above table that a negotiated procedure should be followed and 3 quotes sought.
- It would not be acceptable to plan to purchase them separately and to only get one quote.

However, reasonableness must always prevail. If there are different items on a purchase order that are clearly not the same category of purchase then the individual items on the purchase order will determine the value to be applied.

Bid Analysis

To analyse and compare the tenders received from suppliers “Bid Analysis” or “Comparative Bid Analysis” is used.

- This is a spreadsheet where all bids are presented in a comparable format and each bid is rated (scored) based on a system of pre-set criteria.
- Examples of criteria that can be used are knowledge, experience and qualifications of suppliers, price, product quality, location, delivery time, references from other customers, licenses etc'.
- As stated before, price alone is not necessarily the best determinant of value for money.
- An example of this bid analysis is contained in *Appendix 8.3* Procurement Forms 2023.

8.3 APPROVAL / AUTHORISATION

Confirmed funding must be available before entering into any agreement. Any commitment to spend money on goods or services must be approved by the Governing Body. Therefore, whenever a commitment is being made, it must be approved by a nominated person from the authorisation matrix in *Appendix 8.3*. It is imperative that this is followed in all instances of procurement.

<u>8.3.2</u> Tracking Orders

It is imperative that the person in charge of procurement installs a system of tracking all purchase requests. A sample spreadsheet is in *Appendix 8.4* – this can be expanded as required to provide more information but it is recommended to keep it straightforward. This aims of the tracking sheet are as follows:

- To track orders and provide information on their status.
- To provide historical information regarding suppliers (the filter function can be used for this) and prices.

8.4 SPECIFIC PROCUREMENT

<u>8.4.1</u> Works or Services including Consultant Rates

Tendering for any works or services including consultant rates should be based on local standards, and specific government guidelines may be provided. All parties (for potential contracted works or services) must show relevant licenses, qualifications, certifications and related contracts showing past reputable work to ensure suitability, as part of due diligence. Any contract or agreement must avoid making advances and should arrange to pay the first instalment when that value of works or services are completed at a first stage. This must be evidenced and approved by the Project Manager prior to payment. However, in an event when an advance is negotiated, it must not exceed 30% of the total contract and must be approved by the Governing Body. No further instalment must be paid until the first stage of the work or service is completed to the value of the initial advance.

Note that the daily rate for consultants should not be more than 10% of their most recent similar contract. When a contract for works, services or consultants have completed their work they must provide a certificate of completion of services report before they are paid, a sample of which is provided in *Appendix 8.5*. ERF requires that all projects comply with their Anti-Corruption and Anti-Fraud policy and their Counter-Terrorism policy, which stipulates that details of all contractors, key staff and board members are provided to ERF for checking against international databases.

8.4.2 Air Travel

Travel is usually more efficient when booked well in advance as there will be more cost-effective route options with shorter layovers available. Therefore, when required VISAs should be obtained well in advance to enable the purchase of cost-effective flights. Prior to booking any flight, three route options should be explored and evidenced as part of the payment document (attach the printout of all three flight options with stated cost). The most cost-effective option should be selected (within reason given attention to timing, route and layovers).

If booking through a travel agent, they should be selected through a procurement process: obtaining three quotations and undertaking a bid analysis for final selection. Thereafter, a framework contract can be set-up as discussed in *section 8.5* below. Note that Travel insurance should be obtained to address any unforeseen circumstance that may arise while overseas (falling ill or being injured while abroad can be costly).

8.5 FRAMEWORK AGREEMENTS

A Framework Agreement is essentially a preferred vendor or supplier contract that is for an on-going regular (monthly or quarterly) supply of goods, services or works between the Governing Body or a development project and a vendor or supplier. It clarifies the terms that will apply to placing orders, deliveries, invoicing and payment.

- For example, if it is known in advance that there is likely to be a regular requirement for vehicle parts over a given period, a Framework Contract could be established with one supplier. To set this up, you must obtain three quotations with the various terms of cost, expectations, service delivery and so on, evaluate them in a bid analysis and select the successful vendor who then becomes your preferred vendor or supplier. The Framework Contract will be established stating the specific services to be provided, the rate per hour, terms and costs per part etc., and that payment will be made monthly on submission of an invoice (where costs must match the framework agreement).
- As long as certain conditions are met and the requirements don't change, this will commit all orders for vehicle parts to this supplier over the agreed period and will ensure that the best available price based on its total requirements over that period are secured.

8.6 DONATIONS IN KIND

A Donation in Kind (DIK) is a non-cash in-kind donation of goods or services. Examples include food items, non-food items (e.g., books, medical items, equipment such as a laptop or printer), substantial labour on a project, transport, and professional services (e.g., consultancy).

Key points

- DIKs need to be recorded as received and require supporting documents for substantial donations (e.g., it is not practical to value and account for all volunteer hours but when substantial, they should be recorded).
- DIKs need to be recorded when they are received (just like cash income as it has value), including the name, address and contact number of the donor. All DIKs being of reasonable value will require supporting documents as evidence for project co-funding, where permitted by the overall project donor. Small value items such First Aid kit or 1-2 days of labour hours would not need to be included. The donation of substantial volunteer hours by any one person, donations such as 10 medical boxes worth $10 each or a new laptop worth $600 need to be recorded. Note: second-hand items must be valued at the second-hand cost of that item. It cannot be valued as new as it would be considered fraud.
- There must always be an up-to-date DIK schedule detailing items received and distributed, as well as evidence confirming their value that support the schedule of DIKs. This schedule may be requested by the auditors at year-end, who will check the schedule and the supporting documents closely.
- The Governing Body will recognise the income value of donated goods and services on the Accounting System (through a journal entry), only when the goods have been distributed to the final end-beneficiaries. On the Accounting System, an equal amount will be included showing the expense thus matching the income with an overall nil balance. An example: where 12 new beds are donated to an Emergency Project in April, the donation must be recorded as above including its market value. However, this will be recorded only on the Accounting System when the beds are distributed to the beneficiaries in June.

- There should be a quarterly reconciliation of stock records of all DIKs (receipts, distributions, in stock) to the DIK schedule and accounting records, with any differences investigated timely.
- Any losses of or damage to DIKs must be fully documented and the write off of same must be approved and authorised by the Governing Body in advance.

Accounting Treatment

On receipt, DIKs are recorded in both the DIK schedule, and the stock schedules. However, they are not accounted for in the finance records as receipts or income until they are distributed and the accounting entries to them are as follows: On transfer to beneficiaries (or a partner) the same amount which will be the [valuation multiplied by the number of items distributed]

- Dr Expense
- Cr Revenue

EXAMPLE A:

- When the non-profit receives the in-kind donation, they have to record donation revenue. The in-kind donation can be the fixed assets or goods or services, and it depends on the donor and the items received.
- If the donor donates fixed assets to the non-profit, the entity has to record in-kind donations by debiting fixed assets and crediting in-kind donations.

Account	Debit	Credit
Fixed Assets	$4,200	
In-kind Donation		$4,200

- The transaction will increase fixed assets on the balance sheet and the donation income on the income statement.

EXAMPLE B:

- If the donor donates services such as rent, accounting services, and other services to the entity. They need to record expenses and revenue at the same time. It will not impact the bottom line of the entity. The journal entry is debiting expense and credit in-kind donation.

Account	Debit	Credit
Expense (rent, accounting services)	$5,000	
In-kind Donation		$5,000

- The transaction will create both revenue and expense on the income statement.

Pre-Receipt Considerations

Only accept a DIK when the donation is of value to the project. Before a DIK is received, it is important to fully consider that the Governing Body can cover any costs associated with the donation that will not be covered by the donor. Examples include warehousing, import tax, freight, distribution etc.

Valuations of DIKs

The valuation should be the price that the Governing Body would have to pay in the open market for an equivalent item.

- Where possible a valuation should be obtained from the donor.
- In addition, a valuation certificate should be received and signed and dated by both parties where possible.
- Where the valuation certificate cannot be obtained then the next best valuation is to go to the local market and obtain written quotations for similar items or source the price/value on the internet and print the page to support the value, if available and these can be filed with the DIK documentation as proof of value.

8.7 STOCK MANAGEMENT

Project Office stores typically contain items required for ongoing project use (e.g., medical supplies for a medical project) or items for once-off distribution to beneficiaries (e.g., non-food Items (NFIs) such as blankets or plastic sheeting). In all cases the same stringent levels of control that govern the management of cash should also govern the management of stock in stores. Emphasis is placed on the documentation to be used such as recording the stock items into the store, setting up the stock card per individual item of stock and thereafter, documenting, recording (by signature) and monitoring movements of stock out and also into the store location. The store should be secured and locked with the keys held by the assigned responsible party who records all authorised stock movements. All stock out must be signed for by the relevant Project Manager/Staff. The transparent and strict controls of stock movements is imperative and must be recorded, authorised and signed for every time. Any stock items missing through loss or misappropriation must be reported (as with cash!) and investigated.

Disposal and write off of any stock items must be with the express written permission of the Governing Body along with donor approval where relevant. See *Appendix 8.1* for stock management forms. Digitalisation of stock management is recommended to increase efficiency, in particular for large projects. Software options include: Xero, Odoo, Zoho, SAP, Navision

Chapter 9 Personnel

9.1 RECRUITMENT, CONTRACTING AND INDUCTIONS

Good selection procedures which use appropriate internal controls support the attraction and appointment of personnel who are qualified and suited to the job. A competitive and transparent recruitment process is required and records must be retained to evidence the process and selection of all new employees. Due diligence of new employees is a critical process to ensure that personnel meet the organisation's legal, ethical and operational standards.

It is the responsibility of the Governing Body:

- To ensure fair competition throughout all recruitment processes and to document process.
- To have a job description outlining the responsibilities and qualifications, experience and skills required.
- To interview fairly and consistently all candidates shortlisted for interview by at least two personnel.
- To select and hire candidates who are committed to meeting the aims and objectives of the organisation.
- To assess the level of contact with children or adults at risk and ask specific safeguarding questions during the interview and reference/police checks. *Please refer to ERD and ERFA's safeguarding policies for full compliance requirements.*
- To make job offers subject to reference checks.
- To reference check candidates (post acceptance of offer) with at least two or three prior employers in writing followed up by verification before signing the approved contract.
- Where possible, to conduct background checks for positions where employees will have access to assets such as cash, stock, vehicles etc.
- That the formal appointment of personnel be approved by the Governing Body Leader.
- To issue written (legally reviewed) contracts for all 'employees' which must be signed and dated by both parties.
- To adequately induct all new employees especially on the organisation's policies and procedures.
- To ensure that new employees will sign off the declaration of interest form as part of their contract.

9.2 PERFORMANCE APPRAISALS

At least annually, all personnel will be appraised so that an employee's performance is reviewed, discussed and assessed through an open, transparent and documented process. The appraisal process also gives both the appraiser and the appraisee the opportunity to discuss issues, events or problems which may have been encountered throughout the year that may have helped or hindered the person's ability to do their job.

The objectives of each person's appraisal include:

- Recognition of their achievements including improved skills in performing their duties.
- Highlighting of strengths and areas for growth of their output and/or attitude.
- Identification of any constraints to achieving objectives or outputs as well as taking measures to correct any problems or grievances or to remove obstacles.
- Offering advice, coaching, constructive criticism and feedback.
- Agreeing future support, training and development needs.
- Agreeing and setting objectives / targets for the year ahead.

Each appraisal will take the form of review between the person's direct line manager, the person and at either's request, the Governing Body Leader. The Governing Body Leader or their delegate(s) is to review the annual performance appraisals ensuring they are completed for all personnel and any agreed actions are followed up. More guidance on performance appraisals can be found in the ER Governance Manual.

9.3 PAYROLL

Payroll is an area with potential for fraud. There are a variety of methods employed and controls must be put in place to minimise such risks.

The major risks associated with payroll are:

- Overpayment to legitimate employees,
- Payment to fictitious persons (dummy employees),
- Misappropriation of payroll funds,
- Under or over withholding taxes,

Payroll procedures and processes are contained in *Appendix 9.1.*

9.4 SALARY SCALES

Every Governing Body should establish a clear and formulated staff salary scale and benefits policy for their team to ensure reasonable market salaries as well as consistency and equity across the various development projects and finance staff. The short policy should outline the various grades and the starting salaries with a range of step increases per annum which maybe be between 5-10 steps.

It should also outline the staff benefits such as medical, life insurance, any special allowances (for example year-end bonuses as provided for by local law) and any other relevant benefits.

Sample Salary Scale - Annual - Excluding Benefits *(State Forex rate to Euro)*

	Step 1	**Step 2**	**Step 3**	**Step 4**	**Step 5**	**Step 6**	**Step 7**	**Step 8**	**Step 9**	**Step 10**
G1	37,120	38,976	40,925	42,971	45,120	47,376	49,744	52,232	54,843	57,585
G2	25,600	26,880	28,224	29,635	31,117	32,673	34,306	36,022	37,823	39,714
G3	19,200	20,160	21,168	22,226	23,338	24,505	25,730	27,016	28,367	29,786
G4	12,800	13,440	14,112	14,818	15,558	16,336	17,153	18,011	18,911	19,857
G5	6,400	7,680	8,960	10,240	11,520	12,096	12,701	13,336	14,003	14,703

Grades

a. GH1: Senior Manager and Similar
b. GH2: Mission Coordinator
c. GH3: Project Manager and Similar
d. GH4: Assistant Managers, Finance Officers, Coordinators and Similar
e. GH5: Admin, Assistants and Similar

9.5 ADVANCES

Salary advances are not recommended. However, in an emergency situation, the Governing Body may approve a partial salary advance not exceeding one month's salary. Loans to staff are not allowed.

9.6 PER DIEMS

Per diem is the allowance, or reimbursement, given to employees, partners or consultants for business related travel for lodging, meals and incidental expenses. Every Governing Body should have its own per diem policy that outlines the daily rates allowable for accommodation (maximum), meals and incidentals for national and international travel. Sometimes different rates may apply for specific locations (cities may have higher per diem rates than rural towns). Where possible accommodation should be booked prior and paid directly by the office. A per diem is not intended to be a supplementary payment to staff. Prior to travel, a travel advance request form must be completed with a budget attached approved according to the local policy. Reference *Appendix 4.1* Finance Forms for 'Per Diem form.'

Chapter 10 Audits

10.1 A SUMMARY OF THE AUDIT PROCESS

Summary steps:

a. **Ensure that there is an Audit Engagement Letter in place outlining the relationship** (following the competitive procurement and hire of auditors)
b. **Be clear on the Audit process and steps involved with the hired auditors –** reviewing financial statements prepared by the finance person approved by the Board, reviewing effectiveness of internal controls, sample transaction testing, field visits which may include stock checks, project site visits etc.
c. **Be informed to contribute to and understand 'The Audit Report.'** The Audit Report must be accompanied by:
d. **The Audit Management Letter (with the Management Response included) –** this is a key document to review to get a sense of operations on the ground. It will often be sought by current and potential donors and funders.

10.1.1 Audit Engagement Letter

The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client organisation and the form of any reports. An engagement letter is a written legal agreement that describes the contracted relationship to be entered into by an auditor and a new organisation. The letter details the scope of the agreement, its terms, and costs and should be finalised before the audit commences for every audit. The purpose of an engagement letter is to set expectations on both sides of the agreement. It should include all the agreed terms based on the auditing standards and it should help to avoid or at the very least minimise any misunderstandings. It will be drafted by the Auditors and should be based on the TOR (Terms of Reference) provided by the Project Lead. Note with regard to scope – the Project Lead needs to be specific in the TOR when they are undertaking an annual audit and must consult with the finance person and governors. It will be particularly important when they want Auditors to review specific projects in detail or by donor and must ensure this is included in the TOR and subsequent engagement letter.

Projects can make the most of the opportunity of an annual audit (and ensure Value for Money). Projects can request that an audit includes a section for specific donor funds such as Misean Cara and account for the funds separately but still be a part of the Audit Report. There may be an extra fee, but it will not be as much as a separate audit. Projects can also request a review/assessment of any compliance requirements stating the donor specific requirements and for the auditors to asses that they are happening in practice. The Auditors should be given the MFM 2023 as part of conducting the Annual Audit and reference any findings or concerns with non-compliance.

10.1.2 The Audit Process

The Audit process usually starts **from the appointment of auditors until the issuance of the audit report**. There are many audit steps categorised into the main stages of audit, including the planning stage (appoint auditors, plan audit, understanding client and risk assessment), audit evidence-gathering stage (test controls, substantive testing, review Financial Statements prepared by the Project FM) & completion stage – the issue of the final audit report.

A definition:

A set of actions and procedures to control an organisation. They aim to test and prove that processes are being conducted effectively and follow due control mechanisms. They also aim to detect opportunities for improvement in the audit process.

In fact, audit is a procedure that organisations should use often because an audit process is quite effective in finding bottlenecks and wastes, helping to continuously improve productivity and effectiveness in an organisation. It's clear that often their focus is on finding vulnerabilities and risks in an organisation, not necessarily with the intention of uncovering guilty parties, but finding solutions.

See sections 10.2 and 10.3 below to outline the detailed preparation required for external and donor audits.

10.1.3 The Audit Report

How to Read an Auditor's Report

Your organisation's financial statement audit report can give you a clean bill of health or the auditor's report may state that your financial statements are misleading and should not be relied upon. There are 3 main types of opinion, as follows:

- **The clean (unqualified) opinion:** If the auditor finds no serious problems, the Audit firm gives your organisation's financial statements an unqualified or clean opinion, which it expresses in a three-paragraph report. If it doesn't specifically state 'unqualified' but states 'it gives a true and fair view of the organisation's financial position' without exception then it is considered a clean report or unqualified report.

- **The qualified opinion**: If the audit report is longer than three paragraphs, it's never good news. For example, the auditor's report may point out an error or weakness in the organisation's financial statements and consequently determine the report is 'qualified'. In this case it would not be a fatal error as that would require an adverse opinion.

- **The adverse opinion:** In some cases, the auditor may see unmistakable signs that an organisation is in deep financial waters and may not be able to convince its creditors and donors to give it time to work itself out of its present financial difficulties. If an auditor has serious concerns about whether the organisation is a going concern, these doubts are spelled out in the auditor's report.

The threat of an adverse opinion almost always motivates an organisation to give way to the auditor and change its accounting or disclosure to avoid getting the kiss of death of an adverse opinion. An adverse audit opinion says that the financial statements of the organisation are misleading. Donors and funders may suspend funding where an organisation received an adverse opinion from its CPA auditor. The audit report is crucial as it contains the auditor's true and fair opinion on the financial statement of the organisation. However, the external audit comes with another crucial document, which most organisations often tend to overlook- the audit management letter.

10.1.4 Audit Management Letter

The International standards of auditing require the external auditors to communicate in writing with the top management or those in charge of governance at the organisation. This communication is made through the audit management letter in which the auditor writes to the senior leadership about the material weaknesses or significant deficiencies in the internal controls and suggestions to improve those weaknesses. They will rate the risk level as low, medium or high.

The audit management letter also includes (amongst other things) information about the audit approach and scope, details of any adjustments to the figures that the auditor identified during the audit, information about the financial risks highlighted during the process, and any likely changes to the audit opinion.

The Management response to issues raised by the Auditor letter is very important and must then be completed including the action, the responsible individual and implementation date. This is required to finalise the Audit Management Letter. Audit Reports should not be finalised without the Management response part completed.

The opportunity should also be used for clarifications so as to clear up any misunderstandings so that same can be removed from the audit management letter e.g., if a missing document has since been provided and the issue resolved or where there is an issue of a financial amount that is too immaterial to include agree with the Auditors to remove it.

Note: Donors and funders will mostly look for 3-years of audit reports before funding and will have particular interest in the audit management letters, as they give further insight to financial operations, functioning of internal controls and any pending issues on the ground.

10.2 EXTERNAL ANNUAL AUDIT

After the end of each financial year, an external audit firm is contracted by the Governing Body to conduct the annual audit.

- Auditors must be rotated every 3 years where possible and practical and given the availability of local professionals
- Partner projects must engage a reputable, independent audit firm that complies with internationally recognised auditing standards
- Financial statements for audit must be prepared in accordance to the local regulatory requirements.

The following key points are <u>recommended:</u>

- Ask other organisations who they have used in the past and who they would recommend.
- Ask firms if they have experience of working with other similar organisations, and obtain references which can be contacted.
- Follow any donor regulations regarding choice of auditors (e.g., a donor might specify that only international audit firms are sufficient).
- Draw up a list of potential audit firms and seek quotes according to the procurement policy.
- There must be a written agreement/contract, often referred to as an engagement letter, which should include:
    - The terms of reference
    - The fee payable (ideally a fixed fee rather than a rate per hour) and conditions of payment
    - Names of the staff who will carry out the audit
    - Dates when the audit will start and finish
    - Date by which the report will be received

An audit report is an opinion of the auditor on his analysis after reviewing all the company's financial statements. An audit report is used by the auditor to convey his opinion on the accumulated results obtained after evaluating the financial statements of a client. It is the final product given at the conclusion of the audit proceedings. No audit proceeding can be concluded successfully without the submission of audit report from the auditor's end e.g. Annual Audited accounts. An audit report is signed by the auditor and presented at the AGM or equivalent.

An Audit Report or Audit Certificate is required for any project with a total budget value above €50,000 or at the requirement of the donor.

10.2.1 Annual Audit Preparation Pre-Year End

- **Stock takes**: Full stock counts must be conducted at all locations, performed by senior managers. Storekeepers should not participate in year-end stock counts. Plans should be made in advance to enable timely completion of the stock counts. Stock should be valued using the most recent price list.

- **Cash counts:** Full cash counts of all cash on hand / in the safe(s) must occur on the last day of the financial year and be verified by someone other than the cashier.

- **Donations in kind**: For statutory reporting purposes it is essential that the DIK figure is fully supported by documentation (goods received notes etc.) and valuations (either market price or donor valuations). The DIK value is incorporated in the statutory accounts as both an income and expenditure item.

- **System close off**: Where an accounting package is in place there will standard procedures to close off the year-end and these will be detailed in the documented local year-end financial procedures.

- List of **outstanding invoices** for the development project that have yet to be paid, list of **income** from donors that has yet to be received and **Bank certified balances** at the end of the accounting period. Ideally, all invoices should be processed and paid for before the year-end

10.2.2 Areas of Review

The approach to the audit will vary, depending on the terms of reference. Common areas reviewed by auditors are as follows:

- Finance, logistics and administration documentation (procedures manuals, invoices, contracts, tender documents, payroll etc.)
- Project documents such as:
  - Contracts with personnel
  - Partner (sub-grantee) contracts
  - Financial and narrative project reports
  - Monitoring and evaluation reports
  - Beneficiary data
  - Performance measurement data
  - Donor reports submitted during the period, and supporting documentation
  - Partner reports (financial and narrative project reports).

The auditors may interview responsible staff, such as project managers and finance personnel. Managers should be prepared to explain project activities performed in the period of review, and the audit may involve evaluation of managements' ability to manage projects. Normally the audit will be held at the main office but may also involve audit visits to and review of selected partners and sub-office sites. Sub-office managers should be available to support visits.

See *Appendix 10.1* for specific Misean Cara MMG audit requirements.

10.3 AUDIT CERTIFICATE

An audit certificate may be obtained where projects have a funding timeline that is not aligned with the annual audit timeframe e.g. MMG July YYY1 to June YYY2. It is a statement given by an auditor providing confirmation about the accuracy of specific information sought to be verified by the client. The auditor does not give an opinion or estimate about the accuracy. The auditor certifies the accuracy of particular information and therefore legal liability is attached to the auditor. The audit certificate is given for specific portion of the financial transactions e.g. a project or projects (not all the books of account). An audit certificate is prepared based on actual facts where the auditor guarantees correctness of the facts. An audit certificate has no specific format which needs to be adhered to except in few statutory cases. An auditor is independent to form his audit certificate as he finds reasonable. Always obtain quotations in advance of requesting the audit certificate, similar to the annual audit process above.

10.4 DONOR AUDITS

Donors reserve the right to conduct audits of both head offices and at project level up to seven years after the end of the grant. It is essential that the activities can stand up well to intense donor audit scrutiny. The same areas of review in *Chapter 10.1.2* above can apply to donor audits as well.

If a Governing Body is notified of an impending donor audit directly, they must inform ERD or ERF immediately. It is essential to be adequately prepared for audits and if support is required this must be sought without delay.

Before an audit commences an agreement with the Terms of Reference (ToR) for the audit as set out by the donor auditors must be obtained. There are a number of steps that can be taken to prepare for an audit to make the process as efficient as possible as follows:

- Circulate the ToR to all relevant personnel in advance so they know the objectives of the audit and areas they may be required to assist with.
- Brief all personnel that the auditors are coming, what they will be doing, the purpose of the audit, and the importance of providing honest, polite assistance if required.
  - Audits can cause staff to feel apprehensive and concerned so it is very important to address these concerns by providing a full explanation of the purpose of and requirement for the audit.
- Request the auditors to provide in advance a list of the documents and records they will want to review, and have these ready.
- Review all documents to ensure they are properly referenced, all supporting documents are attached, the audit trail is clear etc.
- Free some time in the calendars of key personnel to work with the auditors.
- Set up opening and closing meetings with the auditors and key personnel.
- Ensure logistical arrangements have been made (e.g., there is a room/ seating for the auditors, security briefings, vehicle arranged for project field visits etc)

10.5 DIGITAL MANAGEMENT OF ACCOUNTING RECORDS

Filing provides a means for preservation of organisational records. Organisational correspondence and records must be saved or managed systematically so they are available when needed. It is essential for legal and accounting requirements as certain documents must be retained for future requirements.

Every Governing Body must set-up or have access to a secure cloud or shared folder system, to safeguard all their donor, financial and project records thereby ensuring adequate knowledge management. It is not sufficient to have files only on a single laptop. Cloud and Shared drives such as Google drive are used because they have many organisational benefits, for example:

- digital information is easily accessible to those who need to refer to it, and can be easily reused
- digital information is backed up and recoverable in the event of a system failure – this would include individual staff automatic backups of work files so if an office computer is damaged or a laptop is lost, stolen or damaged a back-up is available on the cloud/shared file server.
- Users can refer to documents in a central location rather than managing or emailing duplicate copies, saving storage space and minimizing internet blockages from sending large files.
- All hard copy transaction records, especially receipts, must be converted to a soft copy. All records must be legible, scanned/photographed and filed in an electronic format.

Some key steps necessary to set up a robust cloud/shared file management system:

1. The first stage is mapping out what the main folders will be e.g., funders, projects, finance, HR, admin etc and then the sub-folders will be under the main folders e.g., HR – Payroll, Finance – Bank Reconciliations. There needs to be a logical and clear train of thought so that anyone needing to search/access files can easily find the files they are looking for.
2. A designated lead e.g., Mission Coordinators should work with the team to determine the filing name convention e.g., a much-used format starts file names with the date YYMMDD for ease of finding files in order 'YYMMDD_documentname_version e.g., 230810_MC_Finance Report3_v1. It is important to have well labelled folders and file names that are understandable and not cryptic.
3. Each position should upload files with the correct file name conventions to the right folder and sub-folder on the cloud/share drive.
4. The designated lead should ideally spot check the filing system and ensure it is up to date and that laptop and computer backups are carried out at least monthly if not automatic.