PREFACE

A key area of financial governance is financial management, which entails the planning, organising, controlling and monitoring of the financial resources. At the core of this, is financial control, which is where the financial resources of an organisation are being used correctly and effectively.

Financial control occurs when systems and procedures are established to make sure that the financial resources of an organisation are being properly handled.

This can only happen if the relevant financial policies and procedures are in place.

This manual is the documentation of those policies and procedures.

➢ A policy sets out principles and guidelines for a key area of activity and it removes any questions about how important resources are used.

➢ A procedure describes the steps for carrying out the guidelines in a policy. They often include a requirement to complete standard forms to gather data and authorisation for actions.

Reasons for good financial management:

➢ More effective, efficient & economical use of financial resources in order to achieve our objectives and fulfil commitments to stakeholders.

➢ Improvements in the 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.

➢ Enable personnel to make better decisions on the use of funds.

➢ Sustainability of the missions through improved financial planning and budgeting.

➢ Increase 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.

➢ Gain the respect and confidence of funding agencies, partners and beneficiaries.
<table>
<thead>
<tr>
<th><strong>Title</strong></th>
<th>Mission Finance Manual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Document Type</strong></td>
<td>Finance Policies &amp; Procedures</td>
</tr>
<tr>
<td><strong>Version &amp; Date</strong></td>
<td>Version 1.0</td>
</tr>
<tr>
<td></td>
<td>01-Apr-2016</td>
</tr>
<tr>
<td><strong>Previous Versions &amp; Dates</strong></td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Distribution to the Partner Governing Bodies</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Africa Province</strong></td>
<td>District Leaders of East, South Central &amp; West Africa Districts</td>
</tr>
<tr>
<td><strong>India &amp; Oceania Province</strong></td>
<td>Province Leaders</td>
</tr>
<tr>
<td><strong>Latin America Region</strong></td>
<td>Regional Leader</td>
</tr>
<tr>
<td><strong>Edmund Rice International</strong></td>
<td>Board of Directors</td>
</tr>
<tr>
<td><strong>Transition Support Team</strong></td>
<td>Congregation Leadership Team</td>
</tr>
<tr>
<td><strong>Produced in collaboration by:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Edmund Rice Development &amp; Edmund Rice Foundation Australia</td>
</tr>
<tr>
<td><strong>Owner of Global Policy &amp; Procedures</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Edmund Rice Development &amp; Edmund Rice Foundation Australia</td>
</tr>
<tr>
<td><strong>Responsibility for Local Policy &amp; Procedure Compliance</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>East Africa District Leader</td>
</tr>
<tr>
<td></td>
<td>South Central Africa District Leader</td>
</tr>
<tr>
<td></td>
<td>West Africa District Leader</td>
</tr>
<tr>
<td></td>
<td>India Province Leader</td>
</tr>
<tr>
<td></td>
<td>Oceania Province Leader</td>
</tr>
<tr>
<td></td>
<td>Latin America Regional Leader</td>
</tr>
<tr>
<td></td>
<td>Edmund Rice International Executive Director</td>
</tr>
<tr>
<td></td>
<td>Transition Support Team Project Manager</td>
</tr>
<tr>
<td><strong>Next Review Date</strong></td>
<td>Apr-2017</td>
</tr>
</tbody>
</table>
# Contents

Chapter 1 Introduction .............................................................................................................. 7
Chapter 2 Reporting Structures ............................................................................................... 11
  2.1 AUTHORITY, RESPONSIBILITY AND ACCOUNTABILITY FUNCTIONS ........................................ 11
Chapter 3 Internal Control Policies ......................................................................................... 13
Chapter 4 Accounting Systems ............................................................................................... 18
  4.1 CASH BOOKS .................................................................................................................. 18
  4.2 DOCUMENTATION .......................................................................................................... 18
  4.3 BOOKS & RECORDS ....................................................................................................... 20
  4.4 ACCOUNTING SYSTEM ................................................................................................. 21
  4.5 MONTHLY PROCESSES ................................................................................................. 22
  4.6 YEAR END PROCESS .................................................................................................... 23
  4.7 BUDGET MONITORING ................................................................................................. 23
  4.8 FUNDS REQUESTS ......................................................................................................... 25
  4.9 ACCOUNTING PRINCIPLES .......................................................................................... 26
Chapter 5 Cash ......................................................................................................................... 29
  5.1 CASH POLICIES ............................................................................................................. 29
  5.2 PETTY CASH ................................................................................................................. 29
  5.3 FLOATS .......................................................................................................................... 30
  5.4 CASH POLICIES DOCUMENTATION ......................................................................... 30
  5.5 RECONCILIATION’S & VERIFICATION ....................................................................... 31
Chapter 6 Banking Systems .................................................................................................... 32
  6.1 BANKING POLICIES ...................................................................................................... 32
  6.2 CHEQUES ...................................................................................................................... 32
  6.3 ONLINE BANKING AND BANK TRANSFERS ............................................................... 33
  6.4 BANK RECONCILIATIONS ............................................................................................ 34
  6.5 BANK FEES .................................................................................................................. 34
Chapter 7 Budgeting ................................................................................................................ 35
  7.1 BUDGET PREPARATION – GENERAL .......................................................................... 35
  7.2 MULTIPLE DONORS & FUNDING ALLOCATION ....................................................... 36
  7.3 BUDGET PREPARATION TEMPLATE .......................................................................... 37
  7.4 BUDGET MONITORING ............................................................................................... 38
Chapter 8 Procurement ........................................................................................................... 39
  8.1 BASIC PRINCIPLES ...................................................................................................... 39
  8.2 PROCUREMENT PROCEDURES .................................................................................. 41
  8.3 APPROVAL / AUTHORISATION ................................................................................. 42
  8.4 SPECIFIC PROCUREMENTS ...................................................................................... 43
  8.5 FRAMEWORK AGREEMENTS ..................................................................................... 43
  8.6 DONATIONS IN KIND ................................................................................................. 43
Chapter 9 Personnel ................................................................................................................ 45
  9.1 APPOINTING PERSONNEL ......................................................................................... 45
  9.2 SALARY SCALES ......................................................................................................... 46
  9.3 PERFORMANCE APPRAISALS .................................................................................... 46
  9.4 RELATIONS OR INTERESTED PARTIES ..................................................................... 47
  9.5 PAYROLL ...................................................................................................................... 47
  9.6 TRAVEL, SUBSISTENCE & INSURANCE ..................................................................... 47
Chapter 10 Audits ...................................................................................................................... 48
# APPENDICES

Appendices' numbers are linked to chapter sections, however not all sections have appendices.

<table>
<thead>
<tr>
<th>Appendix 2.2a</th>
<th>Roles &amp; Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendix 4.2a</td>
<td>Finance Forms 2015</td>
</tr>
<tr>
<td>Appendix 4.3a</td>
<td>Audit Trail Guidelines</td>
</tr>
<tr>
<td>Appendix 4.4a</td>
<td>Cashbook Accounts 2015 02</td>
</tr>
<tr>
<td>Appendix 4.5a</td>
<td>Month End Procedures</td>
</tr>
<tr>
<td>Appendix 4.7a</td>
<td>Budget v Actual Template</td>
</tr>
<tr>
<td>Appendix 4.9a</td>
<td>Fixed Asset Register</td>
</tr>
<tr>
<td>Appendix 5.1a</td>
<td>Cash_Bank_Procurement Levels</td>
</tr>
<tr>
<td>Appendix 6.2a</td>
<td>Sample Bank Ac Opening Letter</td>
</tr>
<tr>
<td>Appendix 7.1a</td>
<td>Donor Proposal Budgeting Tool</td>
</tr>
<tr>
<td>Appendix 7.1b</td>
<td>Budget Template</td>
</tr>
<tr>
<td>Appendix 8.2a</td>
<td>Procurement Procedures</td>
</tr>
<tr>
<td>Appendix 8.2b</td>
<td>Authorisation Matrix</td>
</tr>
<tr>
<td>Appendix 8.3a</td>
<td>Procurement Forms 2015</td>
</tr>
<tr>
<td>Appendix 9.1a</td>
<td>Excel Practical Test Questions</td>
</tr>
<tr>
<td>Appendix 9.1b</td>
<td>Excel Practical Test Excel Questions</td>
</tr>
<tr>
<td>Appendix 9.1c</td>
<td>Excel Practical Test Solution</td>
</tr>
<tr>
<td>Appendix 9.3a</td>
<td>Performance Appraisal Form</td>
</tr>
<tr>
<td>Appendix 9.4a</td>
<td>Conflict of Interest Form</td>
</tr>
<tr>
<td>Appendix 9.5a</td>
<td>Payroll Procedures</td>
</tr>
<tr>
<td>Appendix 9.6a</td>
<td>Personnel Entitlements</td>
</tr>
<tr>
<td>Appendix 10.1a</td>
<td>Year End Procedures</td>
</tr>
</tbody>
</table>
**List of Acronyms**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLT</td>
<td>Congregation Leadership Team</td>
</tr>
<tr>
<td>DIK</td>
<td>Donation in Kind</td>
</tr>
<tr>
<td>ERD</td>
<td>Edmund Rice Development</td>
</tr>
<tr>
<td>ERFA</td>
<td>Edmund Rice Foundation Australia</td>
</tr>
<tr>
<td>ERI</td>
<td>Edmund Rice International</td>
</tr>
<tr>
<td>OWITF</td>
<td>Our Way into the Future</td>
</tr>
<tr>
<td>PB</td>
<td>Province Bursar</td>
</tr>
<tr>
<td>PM</td>
<td>Project Manager</td>
</tr>
<tr>
<td>PRF</td>
<td>Payment Request Form</td>
</tr>
<tr>
<td>TST</td>
<td>Transition Support Team</td>
</tr>
</tbody>
</table>

**List of Definitions / Terminologies**

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation</td>
<td>Shared Costs that can be allocated to two or more projects and/or donors.</td>
</tr>
<tr>
<td>Budget Holder</td>
<td>The person who is responsible for managing a project</td>
</tr>
<tr>
<td>Co-funding</td>
<td>Where two or more donors (funders) fund the same project</td>
</tr>
<tr>
<td>District</td>
<td>The Africa Province is broken into 3 Districts (East, South Central and West)</td>
</tr>
<tr>
<td>Governing Body</td>
<td>The body within the ER Mission who has ultimate responsibility for a project or group of projects and who holds the contract with the donor.</td>
</tr>
<tr>
<td>Ministry</td>
<td>Edmund Rice Project in a particular location.</td>
</tr>
<tr>
<td>Organisation</td>
<td>There are two entities that are set up as companies being Edmund Rice International and Transition Support Team</td>
</tr>
<tr>
<td>Province</td>
<td>There are 5 Christian Brother Provinces: Oceania, India, Africa, North America and Europe</td>
</tr>
<tr>
<td>Region</td>
<td>Latin America is a Region under the North American Province</td>
</tr>
<tr>
<td>Shared Costs</td>
<td>These are support costs that are ‘shared’ among all activities and projects. They are generally overhead / administration costs but they are not only these as they can include personnel costs and equipment purchases.</td>
</tr>
</tbody>
</table>
Chapter 1 Introduction

1.1 Congregation of Christian Brothers & Edmund Rice Mission

The Christian Brothers are a Catholic Religious Institute founded in 1802 in Ireland by Blessed Edmund Ignatius Rice. The wider Edmund Rice Network includes Edmund Rice People, Organisations and Communities worldwide who support the work of the Brothers. Through the ‘Our Way into the Future’ [OWITF] project, the Congregation and the wider network are committed to working with those made poor to tackle the root causes of poverty. The Congregation has five Provinces (Africa, Europe, India, North America and Oceania) and one Region, Latin America.

Sites of Edmund Rice Mission throughout the world:

![Map of Sites of Edmund Rice Mission](image)

Independent and autonomous governing bodies own and govern Edmund Rice mission projects and resources, in specific areas of the Congregation. These governing bodies are responsible for multiple projects and are each the ultimate authorities to which the development and funding agencies relate. These governing bodies are independent and they collaborate to achieve the development and sustainability goals established in Our Way into the Future.

Edmund Rice Development (ERD) and Edmund Rice Foundation Australia (ERFA) work in partnership with the following governing bodies:
- East Africa District
- South Central District
- West Africa District
- India Province
- Latin America Region
- Oceania Province
- Edmund Rice International
- Transition Support Team

ERD and ERFA recognise the independence and autonomy of these governing bodies. The governing bodies in turn respect the authority and responsibility of ERD and ERFA to set policy and standards in relation to the funding they provide.
1.2 Development of Mission Finance Manual
Edmund Rice Development (ERD) and Edmund Rice Foundation Australia (ERFA) have collaborated to produce this Mission Finance Manual. ERD and ERFA operate in the context of international models of good practice in development and support the Edmund Rice Mission to be sustainable. ERD and ERFA recognise the high standards now required by donors especially government agencies and other institutional funders. Projects in the field, from application to execution, must demonstrate best practice in development planning, financial governance, effective monitoring and evaluation and reporting. Ensuring these standards are met is essential to achieve long term, sustainable funding for Edmund Rice Mission activity.

This finance manual sets out the financial policies, systems and procedures required at project level in order to receive funding from ERD or ERFA.

- Procedures and protocols specific to each governing body are detailed in the appendices.

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

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

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

- **Managing scarce resources**
  Governing bodies 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. funds being withdrawn, an office fire or a fraud). Risks must be identified and actively managed in an organised way to limit the damage they can cause.

- **Managing strategically**
  Financial management is part of management as a whole. This means managers must keep an eye on the ‘bigger picture’ – looking at how the whole Organisation is financed in the medium and long term, not just focussing on projects.

- **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 decide if the project is on target to achieve its objectives within agreed time scales and budget. The learning from the review stage is then taken forward to the next planning phase, and so on.
1.4 Financial Management Tools

To achieve good practice in financial management and control, the following tools under four headings are available and will be described further in the manual:

1. **Planning**
   This is basic to the management process and involves looking ahead as possible for the future. In the course of putting a plan together managers will consider several possible alternatives and make a number of choices or decisions. Planning must always precede the doing.
   
   **Tools:** Strategic plan, business plan, activity plan, budgets, work plans, cash-flow forecast, feasibility study...etc.

2. **Organising**
   The resources - personnel and volunteers, vehicles, property, money – have to be co-ordinated to ensure implementation of the overall plan. It needs to be clear what activities and responsibilities are to be undertaken, when and by whom.
   
   **Tools:** Constitution, organisation charts, flow diagrams, job descriptions, Chart of Accounts, Finance Manual, budgets...etc

3. **Controlling**
   A system of controls, checks and balances are essential to ensure proper application of procedures and resources during project implementation.
   
   **Tools:** Budgets, delegated authority, procurement procedure, reconciliation, internal and external audit, fixed assets register, vehicle policy, insurance etc

4. **Monitoring**
   This involves producing regular and timely information for managers and stakeholders for monitoring purposes. Monitoring involves comparing actual performance with plans to evaluate the effectiveness of plans, identify weaknesses early on and take corrective action if required.
   
   **Tools:** Evaluation reports, budget monitoring reports, cashflow reports, financial statements, project reports, donor reports, audit reports, evaluation report etc.

Note that the common tool across all four headings above is: **BUDGETS**
Chapter 2 Reporting Structures

2.1 Authority, Responsibility and Accountability Functions

The finance reporting structures of the governing body in each area of the Congregation varies but all have the following **functions**:

![Diagram showing the reporting structures]

2.2 Roles & Responsibilities

It is policy that all roles in the Governing Body have job descriptions and that anyone being selected for the role should have the requisite experience or qualifications.

This table below describes the major financial responsibilities for each function above that must be present in any project receiving support from ERD and ERFA. Personnel who have these functions as allocated as part of their role will have detailed job descriptions as part of their roles and responsibilities as outlined in Appendix 2.2a. These are generic descriptors and each governing body will have its own specific structures that have been agreed between themselves and ERD and ERFA for achieving these functions.

---

1 Each Governing Body must either hire or have access to an Accountant to ensure these functions are fulfilled as prescribed.
The descriptors are designed to describe the structure that might be required in a large complex set of projects under one governing body. While all the functions described need to be performed for every project, in a small project multiple functions could be performed by one individual e.g. the management team, coordinator and project manager might be performed by the same person.

<table>
<thead>
<tr>
<th>Function</th>
<th>Role/responsibilities in financial reporting</th>
</tr>
</thead>
</table>
| **Resource Function Development Agencies ERD & ERFA** | • Source funds from institutional and private donors.  
• Report on project outcomes and finances to donors.  
• Enter funding agreements with project managers and governing bodies.  
• Set policies and protocols controlling the allocation of funds to projects.  
• Monitor and evaluate project implementation according to agreed contracts. |
| **Governance Function Governing Body of a Project / Projects** | • Enter contractual agreements with the Development Agencies to receive funds for projects.  
• Ensure compliance by all projects and personnel with the policies and protocols of ERD & ERFA.  
• Establish specific structures within their entity to achieve the required management and governance functions and have the effectiveness of these structures agreed by ERD & ERFA.  
• Appoint appropriately qualified, experienced and capable personnel within the project management teams and provide for their ongoing training and development.  
• Oversee at governance level the conduct of the projects. |
| **Management Function Management Team for a Project of set of Projects** | • On behalf of the governing body manage, monitor and evaluate projects in compliance with policy and protocols and consistent with the project objectives and funding application.  
• Validate the budgets and financial and narrative reports from projects and provide to the Governing body and Development agencies.  
• Proactively monitor and evaluate the project execution and outcomes and the performance and competence of staff.  
• Identify risks and apply appropriate strategies to reduce those risks to the project work undertaken by the entity. |
| **Co-ordination Function Mission Co-ordinator for a group of projects** | • Establish internal processes and systems to ensure the full and thorough communication of information between the projects and the management team.  
• Set up the schedules and timelines for reporting and ensure that reports are received, complete, adequate and submitted to funders.  
• Identify any shortfalls in specific project management and recommend solutions to the management team.  
• Having oversight of a group of projects, seek ways to maximize the use of resources and expertise where possible.  
• Monitor and evaluate specific project outcomes, capacity, performance and compliance of the project to the details of the policies and protocols set in the funding contract. |
| **Project Management Function Project manager of a specific project** | • Implement the specific project based on the project management / business / strategic plan which was the basis of funding applications.  
• Ensure staff are competent and trained and supervise them in the execution of the project.  
• Ensure that all policies and protocols controlling the project are met and proactively advises the coordinator about emerging problems risks or shortfalls.  
• Prepare reports according to schedules and requirements. |
Chapter 3 Internal Control Policies

Introduction

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 and operating information.

It is important to emphasise that internal controls are designed to prevent or identify inadvertent errors as much as they are intended to prevent the deliberate theft or misuse of funds. 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.

An effective control system ensures that procedures are in place that meets the following objectives:

1. Adequately safeguard the cash, property and other assets of an office / project / ministry.
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 overriding 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. Appointing or retention of dishonest or incompetent personnel is a major cause of the loss or misuse of assets.

Definition: Personnel in the context of this manual are defined as Brothers, Employees and Volunteers who have an active role in a project.
The key policies which are expanded further in Chapter 9 Personnel are as follows:

- Appointing procedures need to be focused on ensuring that personnel are hired on an unbiased basis, so that candidates are selected based on qualifications and experience and conflicts of interest are avoided or minimized.
- Personnel can only fulfil the requirements of their position if these requirements are clearly communicated. Every personnel must have an up-to-date job description, which clearly states his or her duties and responsibilities.
- A standard performance evaluation process will recognize good performance but it must also identify under-performing personnel and ensure that the required corrective action is taken to improve performance or remove the personnel.

3.1.2 Segregation of Duties

In order to minimise potential fraud, error and other irregularities it is essential that different tasks in financial processes are divided up to the extent possible and 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:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Request</td>
<td>to purchase</td>
</tr>
<tr>
<td>2. Approval</td>
<td>to proceed with the purchase</td>
</tr>
<tr>
<td>3. Execution</td>
<td>making the purchase, receiving the goods/services and making the payment to the supplier</td>
</tr>
<tr>
<td>4. Recording</td>
<td>accounting for the transaction</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Person who:</th>
<th>Should not:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepares vouchers</td>
<td>Approve vouchers</td>
</tr>
<tr>
<td>Prepares cheques</td>
<td>Sign cheques</td>
</tr>
<tr>
<td>Has access to blank cheques</td>
<td>Post payments to the ledger</td>
</tr>
<tr>
<td>Receives cash</td>
<td>Record cash receipts</td>
</tr>
<tr>
<td>Prepares bank deposits or records cash receipts</td>
<td>Prepare bank reconciliation</td>
</tr>
<tr>
<td>Is responsible for the physical security of assets</td>
<td>Perform the physical inventory of assets</td>
</tr>
<tr>
<td>Maintains the vendor list</td>
<td>Authorise the final selection of a supplier</td>
</tr>
</tbody>
</table>

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 expenditures or the use of other assets.

> Responsibilities and authority levels must be specifically defined, documented and structured to reflect the knowledge and responsibility levels of the various positions within the structure of the Governing Body.

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.

**Chapter 8 Procurement** deals with the approvals, the processes and the procedures for purchasing and Appendix 8.2b is “The Authorisation matrix”.

Personnel assigned the authority to approve and/or authorise commitments or expenditures 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 expenditures.
- Depending on authority level, be knowledgeable of any specific donor
conditions related to procurement or expenditures they are signing for.

3.1.4 Documentation & Record keeping standards

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

Typical documents are:
Invoices, Receipts, Bills, Purchase Orders, Goods Received Notes, etc.

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.
- As a general rule of thumb a minimum retention period of seven years is recommended.

Filing & Archiving:
An appropriate filing system &/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 section 4.3 in Chapter 4.

Field Offices:
It is imperative where there are remote field locations in operation or where project offices close down, that all the supporting documentation from those field locations are returned to the main office.

Paid Stamp on PRFs / Invoices:
Every payment must be stamped with a “paid” notation on it to ensure that there is no possibility of duplicate payments.
3.1.5 Project site visits & Independent 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.

-Managers / Coordinators will make visits to project offices on a regular basis but other team members must also make periodic visits and during those visits they must as a matter of course:

- Perform surprise cash counts ensuring the cash counted agree to the books and records.
- Check stock / inventory counts to accounting records.
- Review performance evaluations which are required for all personnel.
- Monitor progress of project activities.

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 a safe or online and responsibility given to a specific person to manage this.

3.1.8 Procedures reviews

To ensure policies and procedures are kept up to date with any changes in the Governing Body, this manual will be reviewed annually and amended as necessary – see the table on page 2 for the responsible persons for this.
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.

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

Regardless of the actual accounting package in place, which will be discussed in the next section, 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 as it is NOT recommended for transactions / vouchers to be accumulated to be input weekly or longer as it can lead to reconciliation problems and this is a control measure.
➢ Cash counts are reconciled to these cashbooks at a minimum weekly and banks are reconciled monthly depending on the account type.
➢ Reviews are done by senior personnel on a regular basis.

4.2 Documentation

All transactions (payments and receipts) related to cash and bank requires a minimum level of documentation.

The forms, discussed below in detail, and their completion instructions are found in Appendix 4.2a

➢ Training takes place on these forms at inductions of new personnel, with refresher training occurring for all personnel annually.
4.2.1 Payment & Receipt Forms

All transactions whether payments or receipts must be documented and then accounted for i.e. “posted” / processed to an accounting system.

- The documentation is an internal request form which must be filled in for either payments or receipts.
- There can be many types of requests for payments (and receipts) and these are all standardised, explained and attached in Appendix 4.2a.
- The most common one used is a “PRF” being a Payment Request Form.
- Appropriate supporting documentation will always be attached to a PRF and if there is none, then an explanation should be written on the PRF.

A summary of these forms is as follows:

<table>
<thead>
<tr>
<th>Request Forms</th>
<th>Finance Forms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment Request Form (PRF) including Float Request</td>
<td>Journal Voucher</td>
</tr>
<tr>
<td>Float Accountability Form</td>
<td>Bank Charges/Write off Form</td>
</tr>
<tr>
<td>Daily Labour Form</td>
<td>Cash Control Sheet</td>
</tr>
<tr>
<td>Per Diem Form</td>
<td>Cash Count Sheet</td>
</tr>
<tr>
<td>Trainings / Events Form</td>
<td>Bank to Cash Transfer Form</td>
</tr>
<tr>
<td>Receipt Income Form</td>
<td></td>
</tr>
</tbody>
</table>

- 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.

Receipt Forms
- In the event of cash receipts arising, they must be acknowledged through the receipts voucher form as per Appendix 4.2a 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.
4.2.2 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 automated by a computerised accounting system or a manually produced reference number.

For example, create a simple system by simply putting the year, the month, the bank number and a sequence of numbers starting at 001. Therefore, for October 2015 Bank1 vouchers, the numbers would start at 15/10/B1/001; 15/10/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.

4.3 Books & 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 field 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.

To ensure a good audit trail is provided on all transactions Appendix 4.3a provides further detail and a summary of the key controls from this Chapter.

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, 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 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

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

4.4 Accounting System

The Accounting system in place will be at a minimum an Excel Spreadsheet which produces Cashbooks and Accounts. Otherwise a financial software package will be in place, for example Quickbooks, Greentree, Tally, Sage, Pastel, MYOB etc.

These systems maintain the following controls:

- 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) 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 4.4a.

A manual for an automated accounting package may be attached as Appendix 4.4b.

4.4.1 Chart of Accounts

All transactions are recorded in the books of account and categorised according to the Chart of Accounts.

In an accounting system numeric codes are set up to categorise income and expenditure as well as to categories donors and also projects.

The purpose of the codes is to be able to produce reports for internal and external purposes that identifies 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

A chart of accounts (COA) is a complete listing of those codes. It is essential that coding structures are set up properly from the start and applied rigidly for every transaction.

It is essential to devise one set of codes and apply them 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 4.4c.

For example:

1. **Donor Code**
   Each donor has a unique donor code which is listed in the COA. For example: MC – Misean Cara; EU – European Union.

2. **Project Code**
   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

3. **Account Code**
   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

As many account codes should be set up to facilitate donor reporting and budget monitoring – i.e. each budget line should have a separate account code. 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.

**4.5 Monthly Processes**

Monthly management accounts will be produced to provide timely and accurate financial information to management and project personnel.
It is important that all offices have a clear month end process that is understood by all personnel.

4.5.1 Month-end Accounting timetable

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 tasks to finance personnel. All work should be checked by the appropriate supervisor.

Month End Procedures are attached as Appendix 4.5a and include the following headings:

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

4.6 Year End Process

The financial year is 1 January to 31 December and after the end of each financial year an external audit firm must be contracted to conduct the annual audit.

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 Appendix 10.1a.

4.7 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:

- Analyse the performance of their project and make appropriate management decisions.
- Control their budget so that expenditure does not exceed limits set by the donor.
- Identify errors.

4.7.1 Key Reports

The most important budget monitoring exercise is the comparison of the actual expenditure to the budgeted expenditure for the same period. This report is known as the Budget Monitoring Report (BMR) and detailed procedures of how to set one up is contained in Appendix 4.7a. The table below shows how this appears.
4.7.2 Advice for budget holders

Before looking at the reports, consider what is currently happening in the project and try and develop some expectations about the costs. This will help to identify unexpected figures, e.g. if a project has been active but there are few costs in the most recent period, then this should raise some questions.

4.7.3 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.

<table>
<thead>
<tr>
<th>Possible reasons</th>
<th>Possible actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget is inaccurate and needs re-phasing or revising because of timing differences (project slower/ faster than expected, started early/ late, costs are delayed in being paid and take time to process. etc.)</td>
<td>Re-phase/ revise budget.</td>
</tr>
<tr>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td>Overspends might occur because costs are not being controlled effectively.</td>
<td>Examine the reasons e.g. poor tendering, excessive waste, foreign exchange losses or unexpected additions to the project.</td>
</tr>
<tr>
<td>Issue</td>
<td>Action</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>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.</td>
<td>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 to reallocate resources from underspending budget lines to those overspending.</td>
</tr>
<tr>
<td>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 to reallocate resources from underspending budget lines to those overspending.</td>
<td>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.</td>
</tr>
<tr>
<td>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.</td>
<td>Fluctuation of local currency against donor currency. Review and follow donor guidelines for reporting and dealing with award gains &amp; losses. Where FX fluctuation results in significant overspends discuss with the manager the opportunity for additional resources from other parts of the project.</td>
</tr>
</tbody>
</table>

4.8 Forecasting

After the monitoring exercise, comparing of the actual to the budget, a revision of the budget may be necessary and this is known as a Forecast.

This can become a quarterly reporting exercise updating actuals for the month and reforecasting for the months that are remaining in the year.

Try not to be overly optimistic and involve relevant parties e.g. team members and finance personnel early to assess realistic lead times on contracting and payments, as well as pattern of payments.

A key mistake is to look at the remaining budget amount and divide by the number of months remaining. This is not advised.
4.9 Accounting Principles

4.9.1 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 will normally be recorded on a cash basis; (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 accruals 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.

- **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.

4.9.2 Allocations policy

Then there are support costs which are costs not easily identifiable with a specific project, but which are, nonetheless, necessary to the operation of a project or projects. These costs are “shared” among all activities and projects. Examples of these are:

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

Therefore, they are not just overheads or administration costs but they do include overhead / administration costs.

To determine how to charge donors for support costs the policy is to allocate support costs based on the number of personnel in each field location.

4.9.3 Foreign Exchange Policy

- **Functional Currency:** The main reporting currency will be USD, Euro, Australian Dollars, Indian Rupees or the Local Currency i.e. the operating
currency for the year-end financial statements, management accounts and the functional 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 transaction exchange rate for that month i.e. the prior month-end closing rate. Where the donor agreement stipulates an alternative exchange rate policy in the donor agreement, this must be confirmed prior to signing of the contract. This should be avoided where at all possible, as it will lead to significant additional work for donor reporting.

### 4.9.4 Fixed Assets Policy

Fixed Assets that are owned by the Governing Body are capitalised over a certain value. 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 4.9a along with the policy on the level of capitalisation.

<table>
<thead>
<tr>
<th>Fixed Asset Register</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset No</strong></td>
</tr>
<tr>
<td>ABC123</td>
</tr>
<tr>
<td>ABC124</td>
</tr>
</tbody>
</table>

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 that are capitalised 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 and should be depreciated on a straight line basis accordingly:

<table>
<thead>
<tr>
<th>Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles</td>
<td>3 years / 33.33% p.a.</td>
</tr>
<tr>
<td>All other equipment</td>
<td>5 years / 20% p.a.</td>
</tr>
</tbody>
</table>

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.
Chapter 5 Cash

Introduction

Cash is the most liquid of assets, and is therefore the easiest to be misappropriated. For this reason, establishing basic internal controls over cash receipt, maintenance of cash and cash disbursement is critical.

Risks with cash are:
1. Theft or loss of cash.
2. Disbursement of cash without proper document or authorisation.
3. Incorrect charging of receipts/disbursements, (incorrect source codes or accounts).
4. Disbursements that do not comply with donor regulations.

5.1 Cash Policies

- Bank accounts will be set up in all locations where there is a permanent office.
- The use of cash will be minimised by
  - utilising the banking system and cheques or electronic transfers as much as possible, and
  - limiting the use of cash to petty cash and float expenditures.
- Cheques will be issued for all payments to suppliers >$300\(^2\)
- Where possible, no advance payments will be given to suppliers.
- Cheques or bank transfers will be issued for all wages to employees.
  - One-off exceptions must be requested from the approver in Appendix 5.1a.
- The maximum amount of cash to be held in any office is $1,000
  - 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 then it is accepted that those offices will have to operate mainly with cash.
  - In those circumstances the maximum amount of cash to be held in any office is $5,000 but the limit for withdrawals from the bank remains at $1,000 per transaction.
- Cash over $500 will be kept in a safe in the office.
  - The safe will be bolted to the floor
  - There will be 2 key holders to the safe – one person who manages the safe daily and one as a backup.

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 $500.

\(^2\) Or the equivalent in the operating currency based on an average current year exchange rate
5.3 Floats

Floats are amounts of cash issued to personnel for expenditures that are not 100% known or where there are “unanticipated” expenditures.

The policies for floats are:

- Floats are limited to $200 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 completely 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.
- Overspending on floats is not permitted.
- Floats should be tracked by finance 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 before the month end and where practical close them on a weekly basis on a Friday / the last working day before the weekend. A float should not be outstanding for more than a month.

The procedures for floats is detailed in the Finance Forms Appendix 4.2a

5.4 Cash Policies Documentation

Documentation for all cash and bank payments is discussed in Chapter 4 and the forms are found in Appendix 4.2a

Aside from the PRF and the Float Accountability Form the other cash specific forms are:

5.4.1 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.

5.4.2 Receipt Forms

- In the event of cash receipts arising, they must be acknowledged through the receipts voucher form as per Appendix 4.2a 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.
5.4.3 Cash Count Sheet

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

5.4.4 Bank to cash form

- When cash is required in the office then this form to transfer the cash from the bank must be filled out and approved.
- When the cash is brought back from the bank the denominations are filled out on this form and signed by the recipient in the office of the cash.

5.5 Reconciliation’s & Verification

Standard reconciliation’s and independent verification are essential to maintaining the integrity of control over cash.

- Cash is 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.
- Other personnel conduct surprise cash counts on a regular basis.
- All cash counts are documented.
Chapter 6 Banking Systems

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

6.1 Banking policies

- The Governing Body always sets up bank accounts in all locations where there is a permanent Ministry.
- 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.
- The bank account should be in the name of The Christian Brothers or the Project Name. Bank accounts should not be set up in the name of an individual.
- Bank accounts should be in the currency in which the country office will undertake expenditure transactions.
- All bank accounts are setup with a minimum of two signatories.
- Where there are only two signatories, one of these must be the Governing Body Leader or their delegate as stated in Appendix 5.1a and the Leader must then sign the Appendix.
- All cheques / withdrawals must be signed by two of the signatories (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.

6.2 Cheques

- It is strictly 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.
  - They should also check the sequence of cheques 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.
The 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 should 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. For example, agree with the bank that cheques made payable to ‘the Bank’ can be cashed by certain named individuals (e.g. the cashier) on production of their identification.

**Cheques to Suppliers**
Cheques should not be given to personnel to give to a payee. Cheques should be distributed as follows:
- To the individual / identifiable, authorised representative of the Organisation who has come to office to collect the cheque. The individual should sign to confirm receipt.
- By post, if there is a reliable postal service.
- If it is not possible to use the methods above, then the custodian of the cheques 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.

**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 and bank transfers**
On-line 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 5.1a and the Leader must then sign the Appendix.
- Balance and transaction reporting should be setup only initially.
- 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.
6.4 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. This is an audit requirement in many locations.

**Procedure for 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. It is often the case that the two balances are not the same, and differences could be for a number of reasons:

- Outstanding cheques – a supplier has been paid by cheque and reduced the cashbook / accounts 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
- Outstanding deposits - 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
- Payments from the bank that were not known about e.g. bank charges.
- Bank mistakes.
- Mistakes in entering information into the accounting system / cashbook.

6.5 Bank Fees

A written agreement outlining fees or 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.
Chapter 7 Budgeting

Introduction
In Chapter 1 the financial management process was discussed involving:
1. Plan
2. Do
3. Review

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

A budget is necessary for planning a new project, so that an accurate idea of the project’s costs can be built up.

It is essentially an activity plan expressed in financial terms.

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 fund it.)

➢ Developing a Project
Projects are developed in response to identified local needs.

➢ Sourcing Project Funds
Sourcing of funds is from a variety of sources e.g. local communities, donors (private, schools, international governments), local government etc.
  ▪ Funding applications for international donor funds must be applied for through ERD/ERFA.

➢ Project Names
The names “Edmund Rice” and “Christian Brothers” may not be used or applied to any ministry or endeavour without the approval of the Governing Body Leader nor may they be used for fundraising purposes of any sort without the approval of same.

Where possible, these names are to be legally registered in all civil jurisdictions in which they operate.

7.1 Budget preparation – General
Planning requires a budget to be developed for a project. 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 missions and it is crucial that input is sought from those involved in the project implementation and project beneficiaries.
  ➢ In preparing the budget it is important to allow sufficient time to prepare a detailed budget with the relevant personnel.
  ➢ A standard budget preparation template that provides a framework for all budget workings is attached in Appendix 7.1b
Budgets should not be calculated in lump sums but based on actual amounts.
- The budget template provides for this by looking for unit amounts and monthly costs.
- The detail is kept in the workings and what is presented to the donor is the summary i.e. keeping the budget simple for donor reporting.
- The template also has a comments column which provides future personnel with detail on how the budget figures were calculated in the event of changes in personnel managing the budget.

7.2 Multiple Donors & Funding allocation
When a project has more than one donor this can be challenging to ensure that all costs are allocated correctly to each donor.

7.2.1 A Funding Grid
A funding grid is a special 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 below 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.

**Funding Grid Example**

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Account Codes</th>
<th>TOTAL BUDGET</th>
<th>Donor A</th>
<th>Donor B</th>
<th>Donor C</th>
<th>Own Funds</th>
<th>Subtotal</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>2001-2010</td>
<td>62,500</td>
<td>30,000</td>
<td>22,500</td>
<td>5,000</td>
<td>5,000</td>
<td>62,500</td>
<td>0</td>
</tr>
<tr>
<td>Direct Programme Costs</td>
<td>2020-2029</td>
<td>124,500</td>
<td>54,500</td>
<td>20,000</td>
<td>35,200</td>
<td>14,800</td>
<td>124,500</td>
<td>0</td>
</tr>
<tr>
<td>Distribution Costs</td>
<td>2030-2039</td>
<td>35,200</td>
<td>10,300</td>
<td>5,600</td>
<td>8,800</td>
<td>10,500</td>
<td>35,200</td>
<td>0</td>
</tr>
<tr>
<td>Monitoring &amp; Evaluation</td>
<td>2040-2049</td>
<td>25,000</td>
<td>12,500</td>
<td></td>
<td>12,500</td>
<td>25,000</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Equipment purchases</td>
<td>2050-2059</td>
<td>12,000</td>
<td>6,000</td>
<td>6,000</td>
<td></td>
<td>12,000</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Travel costs</td>
<td>2060-2069</td>
<td>45,900</td>
<td>12,500</td>
<td>10,700</td>
<td>13,000</td>
<td>9,700</td>
<td>45,900</td>
<td>0</td>
</tr>
<tr>
<td>Overheads</td>
<td>2070-2079</td>
<td>28,700</td>
<td>11,300</td>
<td>7,130</td>
<td>6,800</td>
<td>3,470</td>
<td>28,700</td>
<td>0</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td><strong>333,800</strong></td>
<td><strong>124,600</strong></td>
<td><strong>78,430</strong></td>
<td><strong>74,800</strong></td>
<td><strong>55,970</strong></td>
<td><strong>333,800</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>
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.

7.3 Budget preparation template

The budget preparation template and tool completion notes can be found in Appendices 7.1a and 7.1b (A word and an excel document)

The budget template has the following sections for completion:

- Budget narrative
- Budget summary
- Personnel
- Direct project costs
- Equipment costs
- Travel costs
- Overhead costs
- Visibility and Monitoring & Evaluation (M&E) costs

Discussed below are the two most important sections.

7.3.1 Direct Project Costs

These are the costs that are clearly identifiable with a project and where the cost only occurs due to the new or existing project. Examples are as follows:

- Building materials for a construction project e.g. a school
- Labourers hired to build the school
- Salary of a project manager hired 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 in the section known as Direct Project Costs.

7.3.2 Support Costs

As discussed in 4.9.2 shared costs are those which are not easily identifiable with a specific project, but which are, nonetheless, necessary to the operation of the project. These costs are “shared” among all activities and projects. Examples of these are:

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

Therefore, they are not just overheads or administration costs but they do include overhead / administration costs.

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 for these costs.
100% and not recovering any income from donors for them. Donors accept they should pay for some of these costs.

However, it is very important to ensure that the donors are not paying ‘more than their fair share’ or paying more for the indirect/support costs than they benefit from. Therefore, that proportion of costs charged to donors must be ‘fair’ and essentially be in line with actual cost or as close to possible to actual cost.

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.

Allocation process for support / shared costs

To determine how to charge donors for shared / support costs the policy is to allocate them based on the number of personnel in each field location.

The reasoning for this basis is that headcount can be a more reasonable indicator of the amount of support costs required / used by a location i.e. if a location has a higher number of personnel they will invariably need more support in terms of administration.

Steps to allocate:
1. Calculate the support costs amount for each line i.e. for administration personnel, office rent, communications costs etc.
2. Work out the headcount for the project.
3. Divide the headcount for the project over the total headcount to get the % for allocation.
4. Multiply the % to each support cost line in 1 above

7.4 Budget Monitoring

Once a budget is approved it must be clear as to who the ‘owner’/ manager of that budget is, referred to as the ‘Budget holder’. The Budget holder is responsible for the management of the budget not specifically finance personnel.

As described in Chapter 4 – section 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.

It is also advised that finance personnel and budget holders meet regularly to discuss the expenditures against budgets and any issues arising.
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 you 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 price and that there is documentation of the goods that are purchased.

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 translates into an obligation on all purchasers to, as a minimum, investigate local vendors.
- In all cases fair competition must be the overriding principle for awarding orders.
- Best Value for Money should always be a key factor when executing procurement taking into consideration all factors such as costs, benefits, risks and resources over the entirety of the product or service life-cycle.

Price alone is not necessarily determinative of Best Value for Money.
The levels of authorisation for purchasing as specified in the approval/authorisation matrix must be adhered to in all cases.

- As a rule, a minimum of three quotes must be obtained for all purchases of goods over $1,000 prior to confirming any order.

Documentation relating to the procurement function must be retained for a minimum of 7 years for auditor, donor, and host government purposes.

### 8.1.1 Ethics in procurement

- All suppliers must be dealt with fairly and equally.
- Purchasing personnel must never use their positions for personal gain and should refuse any gifts that are offered to them by suppliers.
- 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 Conflict of interest

A conflict of interest occurs when a person’s private interests, such as outside professional relationships or personal financial assets, interfere or appear to interfere with the proper performance of his or her professional functions or obligations as an official.

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.

Personnel are prohibited from any involvement in a procurement action with a vendor in which they have a financial interest.

In cases where a conflict of interest could occur, such conflict should be reported to the person’s manager, who should review the facts and decide whether the member should carry out the procurement.

If personnel violate any of the standards of conduct contained in the above, they will be subject to disciplinary procedures.
8.1.3 Donor considerations

The rest of this chapter are the Governing Body’s policies and procedures, however all personnel should ensure to check any donor agreements for specific rules they might impose on a project or in general. Donors will always insist on the stricter of the Organisation’s rules or the donor’s being applied in any given situation.

8.2 Procurement Procedures

There are three purchasing procedures applied by the Governing Body to ensure transparency in the purchasing process and to secure best value for money which are detailed step by step in Appendix 8.2a and summarised as follows:

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

It is very important that all personnel involved in purchasing are knowledgeable in this Appendix.
8.2.1 Key considerations and definitions

Splitting Contracts

It is never acceptable that purchases are split with a view to evading 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 so that 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 correctly analyse and compare the tenders received from suppliers a document known as the "Bid Analysis" or “Comparative Bid Analysis” is used.
- This document is a spreadsheet where all bids are presented in a comparable format and each bid is rated (scored) based on a system of setting criteria.
- Examples of criteria that can be used are delivery time, references from other customers, price, qualifications of the supplier etc.
- As stated before, price alone is not necessarily the best determinative of best value for money.
- An example of this document is contained in Appendix 8.3a Procurement Forms 2015.

8.3 Approval / Authorisation

A commitment is defined as:
- to exchange money or property,
- currently or in the future
- from or to the Governing Body,
- or to perform services

which would require the expenditure of money or use of the Governing Body's resources.

Whenever a commitment is being made therefore it must be approved by a nominated person from the approval matrix in Appendix 8.2b
It is imperative that this is followed in all instances of procurement.

8.3.2 Tracking Orders

It is imperative that the person in charge of procurement installs a system of tracking all purchase requests from personnel. A spreadsheet sample is provided in Appendix 8.3a – this can be expanded as required to provide more information but it
is recommended not to make this too complicated. This aims of the tracking sheet are as follows

- To provide the procurement personnel with a track of their work and orders impending and to be acted on
- To provide information to requestors quickly as to the status of their orders
- To provide historical information regarding suppliers (the filter function can be easily used for this) and prices

It is recommended that this tracking sheet is made available to personnel who are waiting for orders to pre-empt questions on procurement status’.

8.4 Specific Procurements

8.4.1 Consultant Rates

Consultants should be tendered, with their proposed rate included in their bid. Consultant rates should be based on local standards. In some cases, this will be by salary history, and in others, specific government guidelines may be provided. Consultants should show relevant contracts for past work and the daily rate should not be more than 10% of their most recent similar contract.

When a consultant has completed their work it should be evidenced by way of a certificate of completion report before they are paid, a sample of which is provided in Appendix 8.4a.

8.4.2 Air Travel

Travel agents should be selected by going through a once off bid analysis and setting up a framework contract as discussed in section 8.5 below.

8.5 Framework Agreements

A Framework Agreement / Contract is an on-going supply, service or works agreement between the Governing Body and a vendor that clarifies the terms that will apply to a set of orders or contracts to be awarded during a given period.

- 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 for vehicle parts with one supplier.
- 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. blankets, training materials), labour on a project, transport, and professional services (e.g. consultancy).
Key points

- DIKs need to be recorded as received and will require supporting documents to a reasonable amount e.g. it is not practical to value and account for all volunteer hours but where they are substantial, they should be recorded.
- There should be an up to date DIK schedule detailing items received and distributed, as well as identifying their value. This schedule may be requested by the auditors at year-end, who will check not only the schedule but also the supporting documents closely.
- The Governing Body will recognise the revenue of donated goods and services only when distributed (i.e. have reached end-beneficiaries), with an equal amount being included as expenses (recorded in donor currency).
- There should be a quarterly reconciliation of stock records (receipts, distributions, in stock) to a DIK schedule and accounting records, with differences investigated.
- Any losses of DIK must be fully documented and should only be written off when appropriately authorised.

Responsibilities

The Governing Body Leader is ultimately responsible for ensuring that DIKs are recorded in a timely and accurate manner, and that all the required documentation is retained. They may delegate out this responsibility to another person.

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

Pre-receipt Considerations

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, 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, if available and these can be filed with the DIK documentation as proof of value.
Chapter 9 Personnel

Introduction

The Governing Body's Personnel Policy is to:

- Recruit personnel who are committed to meeting the aims and objectives of the organisation.
- Retain and develop committed and high quality personnel who perform in accordance with the project’s objectives and who meet the requirements of the long-term development of the organisation.
- Ensure that the Governing Body is an equal opportunities employer.

9.1 Appointing Personnel

The appointing of personnel must be approved by the Governing Body Leader.

It is the policy of the Governing Body to:

- Have up to date job descriptions for all personnel that reasonably describe the responsibilities and requirements of the position. Both the personnel taking the position and their manager sign and date them.

- Adequately advertise all vacancies and short listed by personnel in charge of the appointments.

- Interview potential employees by at least two personnel — the employee's supervisor and another personnel e.g. Leader.

- Document the results of the interviews in writing. Interview notes for successful candidates are kept on file.

- Focus the interviews on the profile of the job and the tasks and responsibilities as documented on the job description.

- Always obtain Curriculum Vitae (CVs) and references are always requested and investigated. Background checks are conducted for positions where employees will have access to assets such as cash, stock, vehicles etc.

- Test practical skills where possible e.g. computer tests are performed to determine actual skill levels.
  - Finance personnel will always undertake a practical excel test which is contained in Appendices 9.1a-c.
To issue written contracts for all “employees” which must be signed and dated by the person representing the Governing Body as the employer and the employee.

- All contracts are reviewed by the local counsel.

These controls are not intended to supersede local labour laws.

9.2 Salary Scales

The Governing Body Leader will assign the responsibility of periodically, at least annually, reviewing local salary levels and the benefits package provided to the local employees to determine whether they comply with current local law.

Personnel loans and advances policies

Where possible, advances on salaries and loans must not be paid to staff.

9.3 Performance Appraisals

Each year, all personnel will be appraised so that his or her performance, i.e. outputs and abilities, will be reviewed, discussed and assessed through an open, transparent and documented process.

The appraisal process will also give 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.
- Highlight strengths and weakness of their output and/or attitude.
- Identify constraints to increased outputs as well as measures to correct any problems or grievances or to remove obstacles.
- Offer advice, coaching, constructive criticism and feedback.
- Agree future training and development needs.
- Agree and set targets for year ahead.

Each appraisal will take the form of review between the person’s direct line manager, the person and at the either’s request, the Governing Body Leader.

- The person should be given at least one week’s notice of the appointment for appraisal and should be given the appraisal format in advance in order to prepare.

- It is the appraiser’s obligation to document all elements of the review and write up the appraisal notes as per the format. The appraisee will then be given the opportunity to review the appraisal notes as written by their line manager, and he/she may add any comments as they feel appropriate. It is
the appraisee’s right to assert and express in writing their agreement or disagreement with the appraisal.

All personnel should have the opportunity for an appraisal once a year. A sample is provided in Appendix 9.3a. The Governing Body Leader or their delegate(s) are to review the annual performance appraisals and identify any personnel that have not received an appraisal within a reasonable amount of time; the managers should be notified and requested to complete all appraisals that are outstanding.

9.4 Relations or interested parties

In the rare circumstances where there are related personnel, the policy is that a person should not directly supervise anyone that they are related to i.e., an employee should not directly supervise his or her spouse, parents or children or their immediate family members such as uncles, aunts, sons or daughters in-law, etc. Personnel should not directly supervise anyone with whom they are in a relationship with outside the work environment.

All personnel should sign a disclosure of interests form on commencing employment. A sample is provided in Appendix 9.4a. This details the requirement for them to notify the Organisation in the case of any potential conflict of interest in any part of operations e.g. procurement from a relative or acquaintance, interviewing of a relative or acquaintance, in advance. It should be noted that a conflict does not automatically disqualify the occurrence happening, however advance notice of a potential conflict of interest, means that management can ensure that the conflict can be mitigated to avoid accusations of conflicts e.g. bid analysis performed by someone other than the manager who has the conflict, interview not held with that manager or ensure sufficient alternative arrangement is made.

9.5 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 9.5a.

9.6 Travel, Subsistence & Insurance

Details of all entitlements for personnel are specified in Appendix 9.6a.
Chapter 10 Audits

10.1 External Annual Audit

The financial year is 1 January to 31 December and after the end of each financial year an external audit firm is contracted by the Governing Body to conduct the annual audit.

The following key points are recommended:

- It is best practice to rotate auditors every 3 years
- Ensure to employ a firm with an internationally recognised qualification.
- 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 (eg 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

10.1.1 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 Appendix 10.1a where necessary.
10.1.2 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.

10.2 Donor audits

Donors reserve the right to conduct audits of both head offices and at field 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 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 ERFA 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 etc.)